
Mobile Banking System in Nigeria: Challenges and the Way Forward

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Abstract : *Although the glories associated with cashless banking have proven to be vast and they are rich. Aside from reducing the risk of carrying cash, cost of printing currencies along with saving opportunities for government; the benefits of cashless policy are not limited to monetary policy but also, it also plays an important role in fighting corruption, money laundering and the like. Nigeria introduced cashless banking in 2011 and the experiences so far have generated mixed feelings. The challenges of persistent network instability and mobile banking illiteracy have posted greater challenges in Nigeria. Against this background, the paper aims at sorting-out the feelings of Nigerians on whether or not should the Nigerian government go ahead with the full-pledge implementation of the policy. Using descriptive statistics, our result revealed to a large extent that Nigerians are not comfortable with mobile banking because of illiteracy and the persistent internet instability.*

Keywords: Cash-less policy; Cash-based system; E-payment; Mobile banking

1.0: Introduction

The growth of innovations in technology in the last few decades particularly in the global communication sector had gone beyond making the availability of modern computers, mobile phones and internet for their own purposes, but was also found relevant and useful especially in the banking sector all over the world. Moreover, if the satellite picture of Africa is particularly considered, Nigeria stands to be the largest market in the continent and one of the most preferred destinations in the world for the exportations of mobile phones, computers and other electronic devices that use the internet. As at today, it will not be mistaken to proclaim that virtually, over 90% of Nigerians owns a mobile phone not primarily for luxury but beyond that, it is a necessity. On the other hand, the model of E-banking system in itself is value loaded. Its advantages are not only limited to reducing the operational cost of cash management in banks but also will speed up the development of communication sector; reduced transportation cost and enhance accessibility to the global markets (Olawale, 2013). The Nigerian Central Bank

(CBN), in 2014 had demonstrated its commitments towards moving away from cash-based economy to cashless. But the public reaction seems like it is not a welcoming idea in spite of the glories associated with the system (Lara, 2014).

The aim of this study is to examine the degree of public acceptance, anticipated challenges and whether or not the CBN should move towards full-pledge implementations of cashless system.

1.1: Organization of the Paper

The paper is divided into four sections; this section introduced the paper. It also comprises the definition of cashless economy and brief overview of electronic payment system evolution. Section two presents theoretical framework and the reviewed of related literature. Data and methodology are in section three while result, conclusion and recommendation are in section four.

1.2: Meaning of cashless economy

The term cashless economy does not mean the total absence of cash in circulation but; it is a system where emphasis is given to electronic payment in business transaction either by individual, company and organizations (Grace, 2011). Some of the advantages of E-payment system include the following:

1. It reduces the cost of printing currencies
2. It reduces the risk of carrying cash
3. It reduces transportation cost
4. It allows monitoring of all financial transaction
5. It reduces opportunities for stealing
6. It accelerate exchange of goods and services

But in spite of those benefits associated with E-payment system, it is however a model that completely depends on internet. Nigeria is one of the few African countries that experience frequent internet fluctuations, poor mobile communications network along with poor leadership in the sector. With these identifiable factors, how would E-

payment system produce the anticipated results in Nigeria?

1.3: Evolution of E-payment in Nigeria

In the Nigerian context, since the deregulation, commercialization and privatization of Nigeria's communications industry in 2007 during Obasanjo's regime, the sector had received mass amount of glories to all players in the market as well as for all Nigerians. Prior to the privatization periods, to own a cell phone in the country was a luxury and only few Nigerians had that opportunity; but today the ownership of mobile phone has moved from luxury to necessity. As reported in the work of (James & Adetunji 2013), Since the Global System for Mobile Communication was introduced into Nigeria over ten years ago, the face of communication in the country has been transformed. Today, with the development of the technologies in mobile communication, virtually every aspect of human relationship is being impacted upon. Today mobile phones virtually function just as handheld personal computers in their own rights and that the cheapest cell phone today has enough computing power to become a digital "mattress" and digital bank for the poor'. Mobile phones are today used to send and receive electronic mails (e-mails), bank's alert, purchased of credits, credits transfer, and mobile phone numbers are used for identity and for security. The functions of mobile phones not long ago were found to do more than the task of communications, credit purchases and credit transfer but it will be used also to facilitate payments electronically. This was what led to the idea of mobile banking; today mobile banking policy is a worldwide phenomenon, almost more than 60% of countries of the world have converted their means of payment from tradition cash-based system to cash-less.

According to Odumeru *et al.* (2013), the number of mobile transactions in South Korea for example, rose on a daily average to 287,000 in 2005 up to 104% increased today. The number of registered users also increased by 108% from 2004 to date; In the US, 30% of household is projected to bank using m-banking in 2010 alone. The number of mobile banking users in China increased by 150% between 2010 and 2011; In Europe, many bank customers are willing to pay extra for utilizing mobile banking. Since the launch of Kenya's (M-Pesa) mobile money accounts, more than 13 million Kenyans are using their phones to pay for goods, get cash from Automated Teller Machines (ATMs), receive payments and hold savings, in a wave that has seen more than half the population now using financial services.

Nigeria today has over 90 million active mobile subscriptions making the country a fertile ground for the use of m-banking. This perhaps informed the decision of the Central Bank of Nigeria (CBN) to licensed 16 mobile money operators to carry out a pilot of a mobile financial services system for a period of four months to demonstrate that the system can work in the country. It started with Lagos, Abuja and Port-Harcourt in the late 2013. Today almost all the Nigerian states have went cash-less; but not in its full-fledged because many Nigerians are still not comfortable with the e-payment system. The questions that arise at this juncture are: why the panic? What are the factors influencing public denials? Because for this policy make significant impact to Nigerian economy, it must have the enabling environment, that cannot be possible if those factors affecting confidence in the country are not identify and to be address, to identify those factors, is what informed the desire to conduct this study.

The structure of the paper is as follows: The next section presents the review of literature. Then, an overview of the employed research method is provided in section three. The fourth section discusses the results of the answers to the research questions set above, and the final section concludes the paper summarizing the key findings.

2.0: Literature Review

This section is divided into two, in the first is the theoretical framework underpinning the glories of cash-less policy over the traditional cash-based system followed by a review of empirical studies on challenges experience during the introduction of the policy in other countries and the adjustment taken thereafter in having enabling environment.

2.1: Theoretical Framework

For anything to serve as money as a means of payment and for facilitating business, transaction must be generally acceptable in addition to legal tender; the world now is taken a fresh dimension with regard to the continuing use paper currencies. It is not unlikely that the face of paper money would soon disappear from view and for facilitating payments for business transactions as a result of continuing transitions by many countries of the world moving from cash-based to cash-less payment system. The new cash-less policy has many instruments like the credit card, point of sales terminal (POS), and the use of mobile phones. If these instruments are to be considering as money, from the technical points of view, they possessed

almost all the qualities of money associated with paper currencies. But where the problem lies is public confidence in the system. No system can be made sustainable no matter the amount of glories it has for as long as there is no confidence. This suggests that the E-payment system recently introduced in Nigeria can only be maintained and sustain if there is public confidence.

2.2 Review of Empirical Literature

Costa and De Grauwe (2001) provided a definition that is analogous to that of cashless economy. To these authors; cashless economy is an economy where there exist no notes and coins issued by central banks but by private financial institutions. Better put, a cashless society is a regime in which currency issued by the central bank has ceased to exist. All the money is private money issued by banks in the form of deposits, or some fancier e-money issued by institutions that are not necessarily banks. Cashless economy does not refer to an outright absence of cash transactions in the economic setting but one in which the amount of cash-based transactions are reduced to the barest minimum

Yang (2009) examined some factors associated with adopting and resisting mobile banking technologies among university students in Taiwan. Some of these factors include the belief that mobile banking helps fulfil personal banking needs, provides location free conveniences and cost effective. His result shows that the bank customers' apprehensions to mobile banking are associated with the problems of network fluctuation, system configuration security and basic fees that could be charge for transactions by network companies.

Kim *et al.*, (2012) Investigates the mechanisms associated with the initial formation of public trust in mobile banking and the intention to use the service. Their study examined the effects of four antecedent variables (structural assurances, relative benefits, personal propensity to trust and firm reputation) on shaping a person's initial trust in mobile banking and its usage intention. The survey data were analyzed using structural equation modelling. The analysis showed that three variables (relative benefits, propensity to trust and structural assurances) had a significant effect on initial trust in mobile banking. Also, the perception of initial trust and relative benefits was vital in promoting personal intention to make use of related services. However, the reputation as a firm characteristics variable failed to attract people to mobile banking.

Thomas and Khan (2013) examined the role of mobile banking system in promoting economic

growth and development in Kenya. Their objectives were to identify all stimulating factors from the E-payment system that encourages economic growth. Their variables of choice include daily tracks of banking transactions from few selected banks during the periods of cash-based transactions and periods of E-payment transaction; change in national consumption, and the real GDP. Using mathematical differentiation method, elasticity linear and multiple regression model for econometric analysis, their results revealed that banking transactions on daily basis after the adoption of e-payment system was two times the period of cash-based system by 50% differentials, and the growth of GDP was positive but highly insignificant.

Obinna (2012) examines Nigeria's journey to a cashless society, which is basically aimed at reducing the use of cash in the country despite some hiccups suffered by the cashless policy since its introduction in Lagos. There is a general consensus that Nigeria's transition to a cashless society is essential for the country's economic transformation. This, according to experts, will bring about efficiency in the payment system. The experts, who spoke at a two-day conference tagged: 'Nigeria Transiting to a Cashless Society: Possibilities and Challenges,' expressed optimism that the cashless policy will go a long way in bringing a lot of people into the banking system.

James and Adetunji (2013) 'examined whether the age of Nigerian social and economic standard would accommodates E-banking system using Rogers's diffusion of innovation theory'. Their objectives were to capture the most likely challenges the system might encounter along the processes. These areas consist the following: perceived relative advantages, complexity of the system and compatibility. As for their method of analysis, the author administered a total of two hundred copies of questionnaires to two hundred bank customers in Lagos. Their result revealed a supportive response of about 98% of respondents; only 2% were pessimistic around the question of network instability in the country and illiteracy especially in the rural areas would poise a setback to the system.

3. Data and Methodology

The study uses primary data extracted from the 600 questionnaires administered to bank customers in three largest States in the northern Nigeria; these include Kano, Kaduna and Katsina States. As for the method of data analysis, descriptive statistics was employed particularly the percentage and

ranking method. The research hypotheses are based on the assumptions as follows:

Table 1.1: Format of Structural Questionnaire Administered

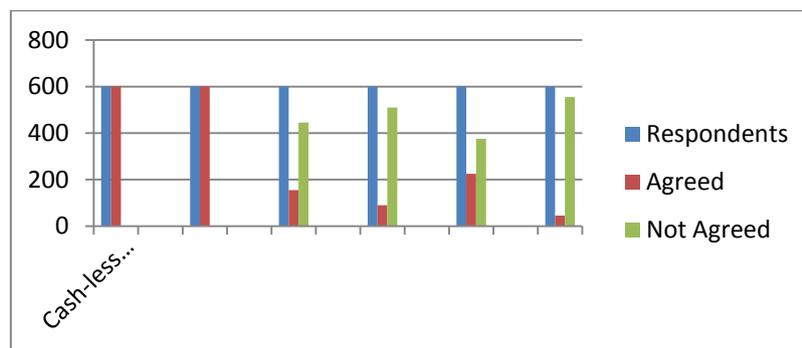
| S/N | Sample of Questions |
|-----|--|
| 1 | All Nigerians are aware of the transition from cash-based to cashless payment system |
| 2 | All Nigerians knows what E-payment system is |
| 3 | E-payment is a better system than Cash based |
| 4 | E-payment system will help in the fight against money laundering |
| 5 | Internet fluctuation is frequent in Nigeria |
| 6 | Internet fluctuations cannot undermine E-payment in Nigeria |
| 7 | All Nigerians are in support of E-payment system |

4.1: Result :

Table 1.2: Summary Statistics

| S/N | Responses | Agreed | Not Agreed |
|-----|--|----------------------|----------------------|
| 1 | All Nigerians are aware of the transition from cash-based to cashless payment system | 193 or 32.16% | 407 or 67.83% |
| 2 | All Nigerians knows what E-payment system is | 111 or 18.5% | 489 or 81.5% |
| 3 | E-payment is a better system than Cash based | 55 or 9.16% | 545 or 90.83% |
| 4 | E-payment system will help in the fight against money laundering | 7 or 1.16% | 593 or 98.83% |
| 5 | Internet fluctuation is frequent in Nigeria | 600 or 100% | 0 or 0% |
| 6 | Internet fluctuations cannot undermine E-payment in Nigeria | 0 or 0% | 600 or 100% |
| 7 | All Nigerians are in support of E-payment system | 253 or 42.16% | 347 or 57.83% |

Chat 1.1: Description of Results



The possible explanations for the table 1.2 and chat 1.2 above revealed that majority of Nigerians still do not subscribe to the idea of mobile banking are against its full-fledge implementations. For example, all our respondents believed that internet instability is a Nigerian phenomenon and will certainly undermine the glories associated with the

system. In addition to that, 57% or 347 of our respondents are of the view that Nigerians do not support E-payment system at all. The lesson is that public confidence on the system is weak, possibly because of internet problem, illiteracy and money laundering.

4.2: Conclusion & Recommendations

On comparative scale, the advantages of E-payment system over cash based are absolutely unmatched. E-payment system in Nigeria will help in fighting against corruption like sorting out ghost workers, monitoring of money transactions etc. It will also reduce cost of transportation, cost of printing currency and the risk of carrying cash and most importantly, it will accelerate business transactions, economic growth and development in the country. Nigeria cannot stand to benefit from these glories without providing enabling environment for the system to succeed. The study recommends the followings; firstly, there should be mass awareness and campaign of E-payment literacy. Secondly the problem of internet instability should be urgently addressed because that will restore confidence in the system. Thirdly Nigeria needs to improve to global standard and should not be left behind among its peers. Finally the need to move from cash based to cashless is necessary, but it is also necessary to rectify bedevilling factors that could take away the glories associated with the system.

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