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"E–Banking in Nigerian Banking Industry: Challenges and Prospects"

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Abstract

The study dealt on challenges and prospects of electronic banking in Nigeria. The adoption of e – banking has greatly improved banking activities globally. The absence of a proper legal and regulatory framework, consumer protection and systems and infrastructure failure has continued to pose major challenges for the smooth operation of e–banking in Nigeria. The aim of this study is to critically evaluate the problems and prospects of electronic banking in Nigeria using descriptive survey. It was observed that Electronic Banking when properly adopted will contribute substantially to the increase of accessibility and profitability of bank customer. However, the study recommended that The migration of our normal banking system to electronic banking system would require some reform and a lot of effort and sensitization especially for low income customers, who are currently deeply rooted in using cash and see it as a convenient and easy way of receiving and making payments any point in time.

Keyword*:* Profitability, ATM, Masters Card, POS, Electronic Banking.

Introduction:

Electronic banking also known as e – banking is an improved system of banking which has gradually taken over from traditional system of banking in Nigeria and other economies with effect from 20th century. The concept of electronic banking systems began when the first automated teller machines (ATM's) were installed in the 1970's. The concept behind ATM machines gave rise to smart cards, intranet and internet banking, EFT (Electronic Funds Transfer), point of sale systems, phone banking and other electronic services (Ibrahim, 2009). E – Banking refers to the effective deployment of Information Technology (I.T) by banks. But the fact that a bank uses computers is not enough to qualify it as an e–banking. E–Banking is about using the infrastructure of the digital age to create opportunities both local and global. According to Anyalenkeya (2010), e–banking can also be defined as the automated delivery of new and traditional banking products and services directly to customers through electronic, interactive communication channels and other technology infrastructure. Nwaorgu and Okonkwo, (2006) in writing on framework for e–banking business in Nigeria defined e–banking as the totality of the development of modern information technology and communication systems to record financial services to the customers. With e – banking, customers need not to carry cash about except their cards. The risk of theft or robbery on the way is totally removed because the key too fraud and robbery is usually motivated and opportunity. E–Banking also reduces fraud. The beauty of e–banking products as against cash is the traceability of transactions. Cash is so anonymous that it encourages fraud. With use of cards transactions can be traced and this will discourage fraud to a large extent

E–Banking Tools/Channels

According to Morufu and Taibat (2012), the tools/channels use in executing e–banking include plastic cards (debit cards, credit cards, prepaid cards), personal computers, telephone, mobile phones, internet, automatic teller machines (ATM's), point of sale or point of interaction machines. The description of the above mentioned tools/channels are as follows:

Debit cards: - Debit card is a banking card enhanced with automated teller machine and point of sale (POS) features so that it can be used at merchant locations. Debit cards allow you to spend only what is in your bank account. It is a quick transaction between the merchant and your personal bank account. A debit card is linked to an individual's checking account, allowing funds to be withdrawn at the ATM and point of sale without writing a cheque. When using a debit card to pay for goods and services, the purchase amount is deducted from the cardholder's checking account. The types of debit card include online debit card and offline debit card. With offline debit card, debit is not made immediately. Befits of using a debit card include making the payment process at the checkout counter quicker and more convenient, eliminating the need to carry a cheque book and a lot of cash, using it at locations where personal cheques are not accepted, and reducing the possibility of loss or theft of cash.

Prepaid debit cards: - These are debit cards not usually linked to a customers' account. They must be funded before being used by cardholders. Prepaid debit cards are indentified with such names like cash cards, value cards, and Naira cards etc. prepaid cards can be used as gift cards students ID cards, Government payment card, payroll card, Bursary card, insurance cards, travel cards etc.

Credit Cards: - A credit card is different from a debit card in that it does not remove money from the user's account after every transaction. In the case of credit cards, the issuer lends money to the consumer (or the user) to be paid to the merchant. A credit card allows the consumer to revolve their balance at the cost of having interest charged. The parties involve in a credit card transaction include cardholder, card issuing bank, merchant, acquiring bank, independent sales organization, merchant account, credit card association, transaction network, and affinity partner.

Automated Teller Machine (ATM):- This is a computerized telecommunications device that provides the customer of a financial institution with space to financial transaction in a public space without the need for a human clerk or bank teller. Using an ATM, customers can access their bank accounts in order to make cash withdrawals and check their account balance. ATM's rely on authorization of a financial transaction by the card issuer or other authorizing institution via the communications network. Many banks charge ATM usage fees for transactions. In Nigeria, ATMs are charge no fee (know as ON – US Transactions) while they are charged between N100 and N150 when they use other banks ATM's (Not-on-us transaction).

Features of ATM service include cash withdrawals, balance inquiry, mini-statement request, funds transfer, and purchase. The benefits of ATM's to banks include avoiding robbery, attraction and retention of customers, increase of profit from customer charges, provides convenient service for customers, reducing the amount of bad cheques, saving branches lots of hidden costs and tellers are freed from small value transactions.

Point of Sale (POS):- Point of Sale is referred to as a retail shop, a checkout counter in a shop, or the location where a transaction occurs. POS machines are electronic devices deployed at retail outlets to facilitate the exchange of value between a cardholder and a merchant. They are used to perform a variety of basic banking and financial transactions like payment for purchases, balance enquires, mini statement printing etc. it eliminates the numerous issues related to regular cash transactions. The benefits of POS to all the parties involve are improving operational efficiency, ensuring transaction security and integrity, eliminating needs to carry large amounts of service beyond banking hours, increasing income from transaction fees and float, providing a simple, more efficient and convenient payment system etc.

Mobile Banking:- Mobile banking also known as M-banking or SMS banking is a term used for performing balance checks, account transactions, payments etc. through a mobile banking products such as a mobile phone. Mobile banking products provides basic banking services to customers from their mobile phones. It is a SMS driven platform which facilitates access to banking services using cell phones. The services available on the mobile banking product include mini statements and checking of account history, alerts on account activity or passing of set thresholds, monitoring of term deposits, domestic and international fund transfers, micro-payment handling, bill payment processing, portfolio management services, status of requests for credit, including mortgage approval and insurance coverage, cheque book and card requests, ATM location, general information such as weather updates, news and location based services.

Internet Banking: - Internet banking is an online platform through which customers of the bank can access their account and accomplish financial transactions using the internet. With internet banking customers can view account balance, transfer fund between sister accounts, transfer funds in favour of third parties.

Telephone banking: - Telephone banking is a service provided by a financial institution which allows its customers to perform transactions over the telephone. Mostly, telephone banking uses an automated phone answering system with phone keypad response or voice recognition capability. To guarantee security, the customer must first authenticate through a numeric or verbal password or through security questions asked by a live representatives. Telephone banking offers cash withdrawal and deposit services as well as other services which include account balance information, electronic bill payments, funds transfer between a customer's accounts etc.

Types Of E–Banking Risk.

A lot of risks are involved in e-banking. The risks are as follows:

Strategic Risk:- E-banking is relatively new and as a result there can be lack of understanding among senior management about its potential and implications. People with technological but not banking skills can end up driving the initiatives. E-initiatives can spring up in an incoherent and piecemeal manner in firms. They can be expensive and can fail to recoup their cost. Furthermore, they are often positioned as loss leaders (to capture market share), but may not attract the types of customers that banks want or expect and may have unexpected implications on existing business lines.

Business Risk: - Business risk are also significant in e-banking. Given the newness of e-banking, nobody knows much about whether e-banking customers will have different characteristics from the traditional banking customers. They may well have different characteristics e.g. I want it all and I want it now. This could render existing score card models inappropriate, thus resulting in either higher rejection rates or inappropriate pricing to cover the risk. Banks may not be able to assess credit quality at a distance as effectively as they do in face to face circumstances. It could be more difficult to assess the nature and quality of collateral offered at a distance, especially if it is located in an area the bank is unfamiliar with (particularly if this is overseas).

Operational Risk: - The three main types of operation risk face by banks are volume forecasts, management information systems and outsourcing. Under e-banking accurate volume forecasts have proved difficult. Banks find it difficult to predict and manage the volume of customers that they will obtain. When a bank has inadequate systems to cope with demand it may suffer reputational and financial damage and even companies in security if extra systems that are inadequately configured or tested are brought on-line to deal with the capacity problems.

Security: - Security issues are sources of concerned for everybody more especially as it concerns banking industry. E – banking are prone to security breaches such as fraud, theft of commercially sensitive or financial information, defacement of web sites or denial of service and flaws in system design and/or set up leading to security breaches. All these security breaches have potentially serious financial, legal and reputational implications.

Reputational Risks: - Banks are too keen about their reputation. Banks operating e-banking are too exposed to reputational risk. This is as a result of rapid dissemination of information through the internet.

Challenges of E – Banking In Nigeria.

Eze and Nwankwo (2012) states the following as the challenges posed by e-banking in Nigeria:

Legal and Regulatory framework: - The absence of a proper legal and regulatory framework for internet constitute one of the major challenges of e-banking in Nigeria. The existing banking laws do not address the issue of e-banking as a new banking system.

Consumer Protection: - Another major challenge of the development of e-banking is the issues of adequate protection for consumers of banking products from the various risks to which they are exposed to. The risks include financial loss, malfunctioning of terminals or cards as well as the possibility of unauthorized disclosure of information without the consent of the consumer. The challenges here range from customer details being stolen from the vendors files to the selling up of a fraudulent website by fake customer to deceive other innocent customers.

Loss of Audit Trail: - Another challenge of e-banking is the loss of audit trail as business processes continue to change with internal banking, personal computer and telephone banking. Audit trail basically allows for the tracing of transactions through banking environment facilitates the work of supervisors in ascertaining the reliability or otherwise of the information contained in the master file.

Security of Financial Transactions: - There are numerous threats to the security of internet banking. One of such threats is the fear of insecurity and trust associated with on-line banking which can only be tackled by a good online developer that can put in place the required firewalls whereby only the authentic users can gain access. Security breaches in e – banking are most frequently discussed in terms of the dangers that hackers may intercept messages, misuse the information on modify the content of the message.

Money Laundering and other Financial Crimes: - Another major challenge is that under e – banking the financial system is prone to criminal abuse such as money laundering and other financial crimes. Money laundering and other financial crimes are easily facilitated through e

– banking. This has given a lot of work to monetary authorities which have continued to work to see that the activities of the money launderers and fraudsters are bought under control.

Systems and Infrastructure Failure: - Systems and infrastructural failure have also a lot of effect on e – banking. Failure results to loss of data. System failure can be caused by software failure either at the entity or at an organization used for outsourced functions. Infrastructure failures are mainly caused by power failure. The system and infrastructural really given a lot of set back to development e – banking in Nigeria.

The Potential Risks of E – Banking: - Electronic delivery and payments systems involve a wide range of potential risks. The use of an electronic channel to deliver products and services introduces unique risks due to the increased speed at which systems operate and the broad access in terms of geography, user group, applications database and peripheral systems. The potential risks bring by the e – banking has a lot of implications for the safety and soundness of the nations banking system.

PROSPECTS OF E – BANKING IN NIGERIA:

Electronic banking has become a must in Nigeria banking system especially as a result of increasing competition among banks and non banks financial institutions both locally and internationally (Olorunsegun, 2010). A lot of prospects have been recorded in E – banking in Nigeria considering some developments in banking industry in recent times. Some developments in support of e – banking in Nigeria are:

The efforts of regulatory / supervisory authority aimed at improving and encouraging sound corporate Government in banks. The banking regulatory authorizes have continued to encourage banks to adopt good employment policy which ensures that staff recruited are people of integrity and high moral probity.

The banking regulatory / supervisory authorities have equally set up a committee which will design on appropriate policy for the effective and efficient operation of e – banking in Nigeria.

The Government is also working seriously hard to ensure that adequate infrastructural facilities especially in area of communication and electricity are put in place. For example, the privatization of the licensing of the GSM business and on going Government effort to privatize Power Holding Company of Nigeria (PHCN) are all aimed at development of e – banking in Nigeria.

The constant monitoring and attention, of the authorities to money laundering with the money laundering act which requires financial institution to disclose to regulators / supervisors and the National Drug Law Enforcement Agency (NDLEA) any single transaction lodgment or transfer of funds in excess of certain amount.

The up grading of the supervisory capacity of regulatory authorities in Information Technology (IT) and skills to an acceptable standards through continuous training and development to staff. These efforts are designed to ensure that all bank examiners are IT literate, is to enable them achieve competencies and necessary skills in auditing through computer – based systems so as to create the desired framework for e–banking surveillance.

Conclusion:

E– Banking is a welcomed development in Nigerian banking system. E–Banking reduces bank robbery activities, and safeguards customers. It also eliminates reconciliation challenges that comes with manual transaction processing and promotes operational efficiency. There are some challenges which pose threat to e–banking. However, a lot of prospects have been recorded in Nigeria banking system through e–banking which should be encouraged. Observation on this study shows that Electronic Banking when properly adopted will contribute substantially to the increase of accessibility and profitability of bank customer. The new technology in the banking system is highly appreciated.

Recommendations

With regards to the above findings, the following recommendations were made:

1. The migration of our normal banking system to electronic banking system would require some reform and a lot of effort and sensitization especially for low income customers, who are currently deeply rooted in using cash and see it as a convenient and easy way of receiving and making payments any point in time.
2. That the CBN adopts the test and learn approach to developing further regulation regarding electronic banking. It is also important therefore, to ensure that it is relatively straight forward amend regulations.
3. A good principle to apply is minimum law, maximum regulation; so that the laws on which the regulations are based do not have to be changed so often.

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