

## AN ASSESSMENT OF CASHLESS POLICY IN NIGERIA

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### ABSTRACT

The paper assessed the implication of the implementation of cashless policy introduced in 2010 on the economy of Nigeria with its antecedent challenges.

Cashless policy entails the process whereby a larger proportion of payment in an economy are carried out without the use of physical cash but the use of various electronic instruments such as debit cards, credit cards, transfer and other electronic banking devices.

Primary data were sourced through the instrument of questionnaire served on respondents. The data were analysed using simple percentages and the formulated hypotheses were tested with the aid of t – test and chi – square ( $\chi^2$ ).

It was found out from the analysis that the cashless policy was embraced by the populace as a better alternative in cash transactions and management and has impacted positively on the Nigerian economy amidst some challenges.

The researcher therefore recommends that the monetary authorities and the service providers to gear up in providing security alertness and other infrastructural facilities like information technology, power supply among others in order to enhance the smooth implementation of cashless policy in Nigeria.

**Keywords: Cashless policy, Service Providers, Electronic Device, E- payment, Information Technology, Cash Transaction**

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## INTRODUCTION

Consecutive government of Nigeria over the years have invested several efforts to improve the Nigerian financial system. This is in recognition of the crucial role played by the financial system of any economy. One of such efforts by the Nepean monetary authorities is the introduction and adoption of cashless policy.

Cashless policy is a policy that is stipulated by the Central Bank of Nigeria aimed at reducing the amount of physical cash in circulation and encouraging more electronic based transaction. It is the process whereby a larger proportion of payments are carried out without the use of physical cash but the use of various electronic instruments such as debit card, credit card, transfers and other electronic banking devices (Ojo, 2010).

Today, like any other economies of the world, there are several electronic payment channels in Nigeria. They include among others; Automated Teller Machine (ATM), Points of pay terminals, the web internet banking device, Inter – bank electronic payment system etc. This is in any case does not indicate a complete end to the circulation of money in the economy, but it is intended to keep operation and transaction by cash to the bearest minimum (Alawiye, 2012).

However, despite the efforts by the Central Bank of Nigeria and other financial institutions to make the policy effective, Nigeria is still far behind in e – payment adoption, and this might be as a result of its underdeveloped infrastructure such as power, internet services, transportation, security etc.

Therefore, the paper is out to assess among others

- i. Whether the cashless policy in Nigeria has curbed the incidents of cash theft, fraud and misappropriation of funds which were assumed to have emanated through excessive cash transactions;
- ii. To verify the impact of infrastructural decay on the cashless implementation in Nigeria and to assess the impact of the cashless policy on the Nigerian economy as a whole.

## THEORETICAL FRAMEWORK

### Meaning of Cashless Policy

Cashless Policy is an economic policy in which transactions are not done predominantly in exchange for actual cash. It is an economic setting in which goods and services are bought and paid for through electronic media.(Ojo, 2010).

According to Alawiye (2012), a cashless economy simply illustrate a gradual or a radical movement of the entire payment systems of an economy from the use of physical cash to a systemic adoption of other non-physical cash mode of payments in settlements of all types of transactions including all commercial, homes, personal, local and international trade, both in public and private life within the economy.

In a cashless system, how much cash in your wallet is practically irrelevant. You can pay for your purchases by any one of a plethora of credit cards or banks transfers. Some aspects of the functioning of the cashless economy are enhanced by e – finance, e – money, e- brokering and e – exchanges. (CBN, 2011).

### Advantages of Cashless Policy to Nigerians

As proposed by the CBN (2011), and as also identified by Ernest and Fadiya (2012), the advantages accruable to the implementation of cashless policy in Nigeria are as listed below:

- i. Reduction in the high cost of cash handling – There has been a high cost of producing and managing cash along the value chain from the CBN and the banks to corporations, traders which they claim needs to be reduced. Everyone within the chain bears the high costs associated with voluminous cash handling (Mundu, 2010).
- ii. Reduction in the High Risk of Handling Cash – Cash carrying encourages thefts and other related crimes. It has led to colossal losses in the case of fire and flooding incidents in cash storage and management centres within the chain. It is hoped that all these menaces will become a thing of past with the implementation of cashless policy.
- iii. Reduction in High Subsidy in Cash Management – Central Bank of Nigeria (2011) showed that only 10 percent of daily banking transactions are above N150, 000 but the 10% accounts for majority of the high value transactions. This suggests that the entire 90% volume of lower value banking transactions by the majority populace subsidizes the costs that the tiny minority 10% incurs in terms of high costs of cash usage,. This trend is assumed to be stopped.

- iv. The need to recapture and recycle the larger proportion of funds outside the banking system back into the banking system – The funds outside the formal system have limited the effectiveness of monetary policy in managing inflation and encouraging economic growth since the volume of money in circulation cannot be ascertained accurately by the Nigerian monetary authorities.
- v. Curbing Inefficiency and Corrupt Practices –High cash usage enables corruption to thrive, through multiple systemic leakages, money laundering among other related fraudulent practices. With the adoption of cashless policy, it was opined that less funds will be available for the money handlers to mismanage (Ojo, 2010)

However, some disadvantages have been listed by Oleka (2009) against the cashless policy in the country, such as

- i. Loss of valuable deposit resources which may ultimately affect the profitability of Nigerian banks
- ii. Forceful implementation of the policy may lead to depressions on the part of the low income earners which may be forced to open bank accounts by their employers.
- iii. More commercial and traders' funds may fly out of the banking sector. Many businessmen may prefer to seek alternative methods of preserving their cash, rather than agree to pay a penalty for seeking a legitimate withdrawal of their money from banks.
- iv. Since most transfers and settlements will be done electronically, there is fear that banks may lay off some of the staff who are normally involved in teller processing job.
- v. The large number of illiterates may be discouraged.
- vi. Arbitrary withdrawal of cash may be experienced. As observed by Ayodele (2014), un-operational days like Saturdays and Sundays when banks are not in operation are always accompanied with excessive withdrawals with the use of Automated Teller Machine (ATM) to withdraw money for excessive spending on ceremonies and other cultural and social activities. This would not have been without the cashless policy being introduced and implemented.

## METHODOLOGY

The research method adopted for this paper was the survey one. Primary data were collected from respondents in the industrial, banking, commercial and education sectors. The data were

collected with the aid of questionnaire served on 100 respondents in which 84 were filled and returned. So the analysis was based on the 84 received number of questionnaire.

**Data Analysis**

Simple Percentages were used for the analysis of the data and t- test, and chi –square ( $X^2$ ) were used to test the formulated hypotheses as shown below

Table 1: Respondents’ distribution on the basis of place of work

Place of Work	Frequency	Percentage	Cumulative Percentage
Industrial Sector	22	26.2	26.2
Banking Sector	23	27.4	53.6
Commercial Sector	20	23.8	77.4
Education Sector	18	22.6	100.0
Total	84	100.0	

**Source: Field Survey, 2015.**

From table I, it can be seen that 22 respondents (26.2%) were from the industrial sector, 23 respondents from the banking sector, 20 from the commercial sector and 19 respondents (22.6%) were from the education sector. This indicates that the respondents represent important sectors of the economy.

Table 2: Respondents’ distribution on whether the adoption of cashless policy by banks can reduce daily cash handling and cash transaction.

Option	Frequency	Percentage	Cumulative Frequency
Disagree	13	15.47	15.47
Neutral	25	29.76	45.23
Agree	11	13.10	58.33
Strongly Agree	35	41.67	100.00
Total	84	100.00	

**Source – Field Survey, 2015.**

From the table 2, 41.67% (almost half) of the total respondents strongly agreed that the adoption of the cashless policy can reduce the daily cash handling and transaction. Only 13 representing 15.47% disagreed.

Table 3: Respondents' distribution on whether improved infrastructural facilities will contribute to the success of cashless policy

Option	Frequency	Percentage	Cumulative Frequency
Agree	21	25	25
Strongly	63	75	100
Total	84	100	

Source: Field Survey, 2015.

The data in table 3 shows that 75% of the total 84 respondents consulted strongly agreed that improved infrastructural facilities would aid the successful implementation of cashless policy in Nigeria. 25% also agreed to this while nobody disagreed.

Table 4: Respondents' distribution on whether the cashless policy will have positive effect on the Nigerian economy

Option	Frequency	Percentage	Cumulative Frequency
Disagree	04	4.76	4.76
Agree	36	42.86	47.62
Strongly Agree	44	52.38	100.00
Total	84	100.0	

Source – Field Survey, 2015.

The information in table 4 above shows that 52.38% of the total respondents strongly agreed that the adoption of cashless policy would have positive effect on the Nigerian economy. 42.86% also agreed to the statement while only 4.76% disagreed.

### Hypotheses Testing

Two hypotheses were tested using the t – test and the chi – square ( $X^2$ )

Hypothesis I

$H_0$ : The level of theft, fraud and corruption cannot be curtailed through implementation of cashless policy in Nigeria.

**Table 5.1 Paired Samples Correlation**

	N	Correlation	Sig.
With a successful implementation of cashless policy, theft, fraud and corruption can be controlled.	84	0.837	.000

Source: Authors' Computation SPSS version 20

**Table 5.2 Paired Sample Test**

	Paired Differences					T	df.	Sig. (-tailed)
	Mean	Std. Deviation	Std. Error Mean	95% confidence interval of the Difference				
				Lower	Upper			
With successful implementation of Cashless policy, theft, fraud and corruption can be controlled	.51190	.64926	.07084	.37101	.65280	7.226	83	.000

Source: Authors' Computation SPSS, version 20

From table 5.1 above, the correlation between the implementation of cashless policy and the production in financial crimes is very high at 0.837. The paired sample test from table 5.2 above shows that the t – value was 7.226 which is higher than the t –table value of 1.98. Therefore, the null hypothesis ( $H_0$ ) is rejected and the alternative one ( $H_1$ ) accepted. Therefore, the study concludes that the level of theft, fraud and corruption can be curtailed with the implementation of cashless policy in Nigeria.

Hypothesis 2

$H_0$ : The level of infrastructure does not have an effect on the implementation of cashless policy in Nigeria

From table 3 replicated: Respondents' distribution on whether improved infrastructural facilities will contribute to the success of cashless policy in Nigeria.

Table 6.1 Chi –square ( $x^2$ )

Option	Observed N	Expected N	Residual
Agree	21	42.0	-21
Strongly Agree	63	42.0	21
Total	84		

Source: Author's Computation SPSS, version 20

Table 6.2 Test Statistic

	Cashless policy can be successful with improved infrastructure such as power supply, internet facilities, good road network, security and transportation
Chi – square	21.000
Df.	1
Asymp. Sig.	.000

Source – Author's Computation SPSS, version 20.

From the table 6.2 above, the calculated value of  $x^2$  is 21.00 which is greater than the table value 3.841 of  $x^2$ . Therefore, the null hypothesis ( $H_0$ ) is rejected while the alternative hypothesis ( $H_1$ ) is accepted. This validates the statement that improved infrastructure will contribute to the success of cashless policy implementation in Nigeria.

## CONCLUSION AND RECOMMENDATIONS

Based on the results of the paper it can be deduced that the idea of the cashless policy is a noble idea in Nigerian economy which cannot be overemphasized. The policy is seen as a welcome development through its faster and easier way of cash transactions especially in international arena which has impacted positively on the Nigeria economy.

It was also discovered that many Nigerians ranging from individuals to corporations have benefitted immensely from the implementation of cashless policy in Nigeria as cash theft and



many fraudulent practices of many bankers and politicians have been curtailed through the policy.

However, the policy implementation has not been without some hitches, hence the researcher recommends the following for its improvement.

- i. As reported in the Nigerian Tribune of Thursday 13<sup>th</sup> November, 2014, the Nigeria Interbank Settlement System (NIBSS) revealed that the electronic payment industry lost over N4.8 billion to criminals in the first nine months of the year. Therefore, it means a lot still need to be done in the area of security. It is suggested that the Central Bank of Nigeria (CBN) and other regulatory agencies in the financial sector must ensure that adequate security mechanism is put in place to safeguard the interest of customers against dubious and fraudulent practices of fraudsters, and also ensure that service providers adhere to the minimum security standards on their web –based platform for success of the cashless policy in Nigeria
- ii. The Nigerian government should endeavour to provide needed reliable power supply and good roads in urban, semi – urban and most especially in the rural areas because the unbanked majority reside in the rural areas. Therefore, provision of adequate infrastructure in these areas will encourage banking sector to open channels of expansion. This will in no –doubt guarantees an effective cashless policy in the country.
- iii. The service providers (the banks) are advised to invest and improve on their information technology and use it in an innovative manner. This would go a long way to nip in the bud the disappointments being experienced by customers at the point of cash withdrawal as a result of internet failure. Awareness Campaign and Sensitization should be intensified especially among the illiterate populace on the use of required technologies.

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