

ELECTRONIC BANKING IN NIGERIA: CHALLENGES OF THE REGULATORY AUTHORITIES AND THE WAY FORWARD

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ABSTRACT

The Nigerian banking sector has witnessed tremendous changes linked with the development in information system over the years. The quest for survival, global relevance, maintenance of existing market share and sustainable development have made the exploitation of many advantages of information technology through the use of automated devices imperative in the industry. The development of e-banking as a result advancement in information system poses a lot of challenges to regulatory authorities in the system. This paper examines the concept of information technology, the meaning of electronic banking, origin of e-banking in Nigeria, areas of information and communication technology deployment by banks, guidelines on e-banking in Nigeria, reasons for automation of banking operation, challenges of regulatory on e-banking in Nigeria and the way forward.

Keywords: *E-banking, information technology, challenges*

INTRODUCTION

Business organization especially the banking industry of the 21st century operates in a complex and competitive environment characterized by changing factors and highly unpredictable climate, thus, information and communication technology is at the centre of this global curve as an absorber and to provide a cooling effect. Also, Laudon D. and Laudon J. (1991) contend that banks cannot ignore information system because it plays a critical role in their competitive edge both locally and globally, they point out that most fortune banks' cash flow is linked to their adoption of information system.

The adoption of Information and Communication Technology in banking sector is generally referred to as electronic banking (E-banking) and application of its concepts, techniques, policies, and implementation strategies to banking services has become a subject of fundamental importance and concerns to all banks and indeed a pre-requisite for local and global competitiveness because, it directly affects the management decisions, plan and products and services to be offered by banks. It has continued to change the way banks and the corporate relationships are organized worldwide and the variety of innovation of service delivery.

Information and Communication Technology (ICT) is the automation of process, controls and information production using computers, telecommunication, software and ancillary equipment such Automated Teller Machine and Debit Cards.

It is a term that generally covers the harnessing of electronic technology for the information needs of a business at all levels. Laudon D. and Laudon J. (2001), assert that Information and Communication Technology deals with the physical devices and software that link various computer hardware components and transfer data from one physical location to another. Harold and Jeff (1995) contend that financial service providers should modify their traditional operating practices to remain viable in the 1990s and decades that follow. They claimed that most significant shortcomings in the banking industry today is a wide spread failure on the part of senior management in banks to grasp the improvement of technology and incorporate it into their strategic plans.

Woherem (2000) claims that only banks that overhaul the whole of their payment and delivery systems and apply Information and Telecommunication Technology to their operations are likely to survive and prosper in the new millennium. He advises that banks should re-examine their service and delivery systems in order to properly position themselves within the framework of Information and Communication Technology. Information and Communication Technology has provided self-service facilities (automated customer service machine) from where prospective customers can complete their account opening direct online. It assists customers to validate their account numbers and receive instruction on when and how to receive their cheque books, credit and debit cards.

According to Report of Technical Committee on e-banking (CBN, 2003), e-banking can be defined as a means whereby banking business is transacted using automated processes and electronic devices such as personal computers, telephones, facsimiles, Internet, card payments and other electronic channels. It further states that some banks practice electronic banking for informational purpose, some for simple transactions such as checking account balance as well as transmission of information while others facilitate funds transfer and other financial transactions while many systems involve a combination of these capabilities. E-banking is a kind of banking that involves electronic form of money transmission. Here, banking services are fully automated such that transactions are concluded in a jiffy. He further states that, e-banking involves the use of computer network in dispensing cash and transfer of funds.

ORIGIN OF E-BANKING IN NIGERIA

The Structural Adjustment Programme (SAP) initiated in 1986 by the Babangida Administration brought to an end the kind of banking services rendered by the first generation of banks, which have been described as "Arm Chair Banking". The SAP changed not only the structure but also the content of banking business. Just as the number of banks grew tremendously from 40 in 1985 to 125 in 1991, the SAP made possible the licensing of more banks and which posed more threat to existing ones and the more aggressive the marketing techniques adopted by them. In the process of the intensified competition, adoption of electronic banking was seen

as a necessity to maintaining a good competitive position, whereas, e- banking stormed the British Banking scene in the late sixties. Nigeria started the long and tortuous journey in November, 1990 when Societe Generate bank launched their first Automated Teller Machine.

Areas of information and communication technology deployment by banks

Agboola (2002) discusses the dimensions in which automation in the banking industry manifests in Nigeria. They include.

Automated Payment Systems: Devices used here are: Automated teller machine - According to Idowu (2005), the introduction of this machine serves as genesis and bedrock of electronic banking. It has been a common feature in the United Kingdom, France and Japan banking system, but Nigeria never had experience until Societe Generale Bank blazed the trail in November 1990 and popularly referred to as "cash point 24" at their Broad Street and Apapa Branches. He contends that ATM is basically a cash dispenser, but this is not ail, it has a unique of 24/7 service facility, that is, the machine unattended to i.e. "stand alone" or "wall mounted" (outside or inside the banking hall) allows you to transact limited business without referring to any bank staff except in case of problem and difficulty round the clock. An ATM allows a customer to withdraw cash from his or bank account by entering a Personal Identification Number (PIN) after the insertion of a card into the machine and having the amount of the withdrawal immediately debit to the account of the customer.

Electronic cards: These are:

- i **Credit cards:** These are plastic cards encoded with electromagnetic identification -The card is incorporated with circuit on which value is loaded. Customers can use the card to carry out transactions on the ATMs deployed by the issuing banks at strategic locations as well as point of sale terminals with designated signs of the producer of such card. Among the companies-that are offering this service to banks are Visa International, which is the leading payment solution system with presence in about 120 countries globally, the Master Card Inc. which is also the second largest credit card brand.
- ii **Debit card:** This is an electronic card with very advanced feature including the use of microchip, whereby transaction is validated against the chip rather than a magnetic stripe. Among the companies that are offering this service to banks are also Visa international, Master card incorporated and an indigenous company called smart switch Nigeria Ltd.

Among banks in Nigeria operating this service are Diamond Bank, United Bank for Africa, Eco bank and Skye Bank (Skye card debit) and GTB cash plus. This card can be used on ATMs deployed by the banks and also various point of sales terminals deployed in strategic locations especially in banks, hotels, eateries, fuel stations etc. Others are Electronic Funds Transfer and Point of sales.

Automated Delivery Channels: These include:

- i Home link banking/interactive television banking -This product allows bank customers to transact business right inside their rooms. A pre-requisite for the use of this product is television; the bank on its part will provide a Home Deck Console. The facility provides the customer the opportunity to settle his purchases through an electronic instruction to the bank.
- ii On-line banking -This product basically allows a customer to transact business in any branch, irrespective of the branch his/her account is domiciled.
- iii Internet banking - It refers to the worldwide connection of networks that enables communication with other entities and individual around the world. It is a super network connecting millions of computers around the world via telephone lines, cables and satellite.

The World Wide Web otherwise called website is a gateway to accessing, organizing and moving through the information on the Internet. Every website has an address is called Uniform Resources Location (URL). To get to any website, the internet address must be typed in the space for IIRL (<http://...>) entry in the web browser having entered the address, one can then use the "search engine" to locate the required information. Example of website of some banks include:

- a. First Bank of Nigeria Plc- <http://www.firstbankingeria-com>
- b. Zenith International Bank -Plc <http://www.zenithbank.com>

Telephone banking (tel-banking): This product introduced the debunked standard trust bank limited. This service allows bank's customers to access banking service via dedicated telephone lines from the comfort of homes, offices etc. As at present, account balance could be checked, authorized inter-branch money transfer, transaction alert (withdrawal or savings) and enquiry can be made through telephone.

Image machine/structured query language: The primary objective of Pinnacle Commercial Bank to introduce this product is to facilitate cheque encashment. The machine is a photographic and signatures verification system that permits the bank to automatically stores signatures and photographic of account holders. With the introduction of the machine, bank is able to conclude withdrawal transactions in a jiffy.

Banker Automated Clearing System: (MICR for cheque processing - Magnetic Ink Character Recognition (MICR)). It was introduced first in Lagos in 1991. On the cheques are pre-encodeds of standard information like bank code, branch code, account holder number and cheques leaf number. With a special reader sorter machine, it is possible to separate the cheques into different banks and branches.

GUIDELINES ON E-BANKING IN NIGERIA

Due to increasing response of banks to e-banking in Nigeria coupled with the supervisory role of Central Bank of Nigeria led to the setting up of Technical Committee on e-banking in 2003 and also the formulation of guideline on e-banking based on the report submitted by the committee in 2003.

The guidelines put in place include the following:

- i Restriction of issuance of e-money products to only licensed banks under the supervisory purview of the CBN or eligible subsidiary companies of it.
- ii Any bank or company intending to serve as issuer of e-money to seek and obtain prior clearance and approval of CBN.
- iii The bank or subsidiary company to submit a detailed feasibility report covering areas such as the scheme structure, documentation including prototype (sample card) products, clearing and settlement arrangements, security and system control, float management business plan and contingency plans i.e. disaster recovery plan and contingency system.
- iv The promoter of e-products to enter into contractual agreement with the Nigerian Inter Bank Settlement System (NIBSS) for the clearing and settlement of e-money products.
- v The electronic banking service should be offered in Naira only. Where such a service is to be provided in foreign currency, it should be to only holders of ordinary domiciliary accounts and conform to all other foreign exchange regulations.
- vi Electronic Banking products and services should comply with the Money Laundering Act 1995 as amended and "Know Your Customer Rules" (KYC).
- vii The CBN, through its Banking Supervision Department would appraise the product or service as well as the applicant, bank's overall financial condition and its compliance with the CBN rules and regulations based on the latest available returns and examination report on the bank.
- viii Banks wishing to provide transactional and /or enhance existing electronic banking services shall submit to the CBN, an application describing the services to be offered /enhanced and how it fits into the bank's overall corporate objective and strategy.
- ix To disclose to the CBN and National Drug and Law Enforcement Agency (NDLEA) any single transaction, lodgment or transfer of funds in excess of N500, 000 and N2million or their equivalent for individuals and corporate bodies respectively in line with the provisions of Money Laundering Decree 1995.

REASONS FOR AUTOMATION OF BANKING OPERATION

According to Idowu (2005), the following are the reasons for adoption of e-banking in Nigeria;

- a. To the bank
 - i Facilitation of decision making
 - ii Availability of essential information at finger tips
 - iii Improved service delivery
 - iv New product development
 - v Savings in space and running costs
 - vi Relevance among league of global financial institution.

- b. To the customer
 - i Quality services enjoyed
 - ii Great reduction in time being spent in banking halls
 - iii Confidentiality
 - iv Bank statement, balance etc obtained ease
 - v 24V7 service delivery.
 - vi Account could be accessed almost anywhere in the world
- c. To the economy
 - i Creation of jobs and specialization
 - ii Improvement in commerce
 - iii Technological development
 - iv Data bank for National planning

CHALLENGES OF REGULATORY ON E-BANKING IN NIGERIA

The automation of banking operations is really posing challenges to the Regulatory/Supervisory authorities in Nigeria. Among the issues concerned are:

- i **Money Laundering:** Development in Information Technology particularly the growing use of the internet has now made it possible to transact business electronically. The growth of electronic commerce has increased the concern about the use of electronic medium to launder money. Money laundering is defined as derivation of washy money from illicit activities especially drugs trafficking, advance fee fraud and other forms illegal activities.
- ii **Fraud:** The high exposure of the system to fraudsters, hackers and other criminally minded persons who could access, retrieve and utilize confidential information from the system if security measures are weak; to checkmate unauthorized intrusion is another challenge to the authorities.
- iii **Electronically Generated Evidence:** Evidence in electronic transactions is essentially generated documents, from either the hard disk or the floppy disk. Such evidence qualifies to be secondary evidence as provided in section 93 of the Nigerian Evidence Act. For such secondary evidence to be advisable, certain conditions in section 94 must be satisfied i.e. when the original is movable, lost or cannot be produced.
- iv **Consumer Protection:** Another major challenge of adoption of ICT is the absence of statutory or regulatory provisions to protect the consumer of the products/services.
- v **Job Cut:** Evidence in all IT deployments in developing economies point out the fact that it always comes with massive job cut. In fact, there is no good record that all those who lost their job were gainfully retrained and resettled in their new jobs.
- vi **Possibility of Core Business Being Swallowed:** There is the risk of IT taking precedent over core business of banking. In the long-run, it may permanently impair the future competitiveness of Nigerian banks. Consequently, the solution

to this may be IT outsourcing as practiced by bank of Australia, BP Amoco, Xeroxetes, etc.

- vii. **Systems Operational Risks:** Bank IT rests on computers and telecommunications which could be susceptible to system failure, internal manipulations and inconsistent regulatory policies (Etim, 2000).

CONCLUSION AND THE WAY FORWARD

It is crystal clear that the adoption of ICT has influenced the content and quality of banking operations. From all indications, ICT presents great potential for business re-engineering of Nigerian banks. Thus, investment in ICT should form an important component in the overall strategy of banking operation to ensure effective performance. The ways forward to solve the problems identified above accordingly are:

- i **Customer/Staff Alienation:** Effective and Efficient IT must think about the customer and staff, not how bank deploys ICT to foster only the mechanical service delivery of bank customers. Davenport (1999) calls this a human centered approach to IT which contrasts with the standard IT view. This should be the focus of all banks in the course of their deployment of it. This can be achieved by ensuring that banks staff are, trained on the use of the ICT in respect of serving their customers better because it is even an offence to breach the principle of "Know Your Customer" as stated in the Guideline on E-banking issued by the CBN.
- ii **Job Cut:** This is an inevitable adjunct to IT implementation; however, banks are expected not to maximize profit at the expense of sustainable stakeholders' value maximization. Job Cut should be preceded with retaining and resettlement activities to make those displaced by IT deployment to add more wealth either in the industry or outside it.
- iii **Possibility of Core Business Being Swallowed:** Banks must always ensure that ICT serves core-banking activities not core banking fitting into IT legacy. This can be achieved by outsourcing ICT to a third party, however, this as to be pursued within caution.
- iv **Systems Operational Risk:** This type of risk are inevitable, however, in order to minimize such risks, dynamic technology controls in respect of information security should be put in place including, amongst others, the following:-
 - a Encryption
 - b Message authentication
 - c Security software; and
 - d Data retention.
- v **Money Laundering Risk:** Banks need to design proper customer identification and screening techniques, develop audit trails, and conduct periodic compliance reviews, frame policies and procedures to spot and report suspicious activities in electronic internet transactions to NDLEA and CBN.

Customer Protection: Banks should be required to:

- i Develop and make their customers aware of their privacy and policies issues concerning the use of e- banking on products and services.
- ii Take appropriate measures to ensure adherence to customer privacy requirements applicable to the Nigeria environment.
- iii Ensure the customer data are not used for purposes beyond which they are specially allowed or beyond which customers have authorized

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