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## E - Banking Reform and National Development in Nigeria

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# E – Banking Reform and National Development in Nigeria

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**Abstract-** Until a decade or so ago, the banking industry in Nigeria had many kind of bank related problems. It was in realization of overcoming such problem that the Central Bank of Nigeria 2002 embarked on Bank's Consolidation and strengthening through financial reforms. Among the reforms is e-banking. This paper discusses the concept of e-banking, e-banking reform, the effects of e-banking reform on bank operation and management. It also examined the effect of e-banking reform on national development. Recommendations on how to instill good banking ethics in Nigeria such as, avoidance Of break down in service delivery, the reliability test on both software and hardware should be constantly carried out. Also, activities of hackers and crackers must be nipped in the bud to avoid damage by installing appropriate "firewalls" that will guarantee access by only the authorized users and others.

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## I. INTRODUCTION

E-banking is defined as the use of electronic devices through the internet to effect banking operation and management. It also involves the use of electronic devices and other types of on-line banking transaction. Also the concept of e-banking according to Nanna (2003) is the execution of banking services by financial institutions and their customers through the use of electronic devices such as Internet banking. With the advancements in information technology, various banking industries in Nigeria were mandated to be connected to the Internet. Uba (2006) defined e-banking as the process of banking transactions without cost to the customers. This is done through internet-driven electronic banking. He opined that e-banking usually include the use of Automatic Teller Machine (ATMS) to perform retail banking. This means that the banking services can be performed by simply inserting one's card in the slot, type in one's PIN and let the user-friendly ATM screen guide one through the service. Bamidele (2006) described e-banking as the system of banking operation where information exchange is executed through the use of electronic devices(s) or the use of information and communication technology (ITC). In general terms therefore, e-banking involves the utilization of interest, intranet or electronic mail (e mail), smart cards/ electronic purse /digital purse

of scales devices, Automatic Teller Machines (ATMS), telephone banking, among others to conduct banking service. This process is usually called e-commerce.

E-commerce is categorized into e-money and e-finance. E-money according to Nsoli and Schmecher (2002) is the stored, value of money or prepared mechanism which does not require keeping balance in financial accounts with the banks; while e-finance is the provision of financial services through electronic system. E-finance is also made up of e-banking and other financial services and products such as on-line brokering, capital market operations and insurance. This system of banking transaction is regarded as paperless system of banking, unlike the traditional system of banking that requires the customer to be physically present at the bank, for all transaction. This new approach to banking transformation and consolidation through the use of electronic device(s) is known as e-banking.

## II. E-BANKING REFORM

E-banking reform is a change from the traditional system of banking to the use of electronic device(s) via Information Technology (IT). The reform according to Uba (2006) was introduced into banking sectors to eliminate the crude banking habit that characterize banking system in Nigeria. This system of banking has made banking business very interesting and trustworthy. According to Nsoli and Shachter (2002) banking reform makes banks to deviate from old system of cash transaction or movement of cash from one place to another by customers to the use of credits. This is possible because of interconnectivity of banks through Information and Communication Technology (IT). E-banking as a reform in the banking sector enhances bank productivity by reducing over rowdiness in the banks, reducing hours of customers' transaction in banks, and enhances quick money transfer. It also reduces the stringent paper work involved in banking operation and reduces cost of transaction.

Despite the importance of e-banking as a reform in banking business, it has its own peculiar effects The effects according to Bamidele (2006) could be positive or negative depending on the approach one adopts to access the performance of e-banking.

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### III. POSITIVE EFFECTS OF E-BANKING

E-banking is a new phenomenon in Nigeria banking industry. Its effects on banking operations according to Uba (2006) are majorly felt in most cities and towns in Nigeria. This is because, with the bank consolidation exercise of the Central Bank of Nigeria, most banks in the country have gone internet to enable them cope with modernization of the industry; in view of this therefore, most customers in these areas where such services exist benefit from the reforms. Such benefits include the followings:

*a) Performing bank transaction without physical presence*

One of the positive effects of e-banking stems from the fact that banking operation in this new era enables the customers to withdraw cash or and perform other business transaction in banks without him or her being physically present. This is done through the use of Automatic Teller Machines (ATMS). The automatic teller machine according to Uba (2006) enables the customers to have a direct link to a wide variety of services in the bank. It also enhances operational efficiency and competency.

*b) Assess to Account*

Usually, the interactive nature of internet banking enables according to Soludo (2007) enable customers to access their accounts, and gather other information on the bank products/services through the use of personal computer (PC) or order devices such as cellular phones anywhere across the globe. Once the electronic device(s) is or are connected to the website, a customer can access up to 10 transactions within a period of time.

*c) Transfer of fund*

The use of e-banking enables customers to transfer funds from his account to any other account throughout the world (Nanna 2003, CBN (2004). This is done through the use of pay-in-slip and the account of the person or organization in which such fund is paid to. It also enables any bank connected to the website to pay her customers throughout its branches.

*d) Bank Competition*

E-banking promotes competition among banks as customers through this system can easily compare bank services / products as well as cost. The assessment of competitiveness enables customers to decide on which banks to operate so as to enjoy maximum utility (Nanna 2003).

*e) Information assessment*

The use of e-banking enables banks to access relevant information from the internet. This according to Adesida (2006) will enhance banking efficiency and competency thereby resulting to credible banking services.

*f) Monetary policy*

E-banking positively influences the effectiveness of monetary policy (CBN 2005). This is because with the system of e-banking, advanced and sophisticated payment system are provided, which usually improves the activities of monetary management in banks. This is done through reduction in the liquidity process and transfer cycle and the elimination of clerical processes of the paper based system.

In spite of the above benefits however, the negative effects of e-banking can never be under estimated. This is because, most things regardless as benefits could also be detrimental to both persons and organizations concern. Among such negative effects that can be witnessed by the use of e- banking according to Uba (2006) are as follows:

*i. Network failure*

Usually, computers are used on the internet by banks to acquire information and assist in providing customers services. But the use of computer on the internet to provide service could be problematic if there is network failure. Breakdown in service delivery due to network failure may erode public confidence on the banking system especially where critical time related transactions are involved.

*ii. Inadequate security to customers account*

The fact that banking business is based on trust and confidentiality, places a fiduciary burden on the bankers towards their customers. Hence, with e-banking, security threat to financial information and customers' net worth originates from within and outside banking systems. This may lead to money laundering and other types of frauds in the bank which are detrimental to the customers and the banks.

*iii. Inadequate infrastructural provision*

The operational efficiency of e-banking according to Omoruyi, (1991) and Bamidele (2006 ) depends on the adequacy of the information and Communication Technology (ICT) Infrastructures in terms of quality, and volume. Consequently, provision of energy and power for the smooth operation and efficient functioning of the electronic device(s) is necessary. But in Nigeria, due to frequent system and power failure, the operation and the use of (ICT) is disrupted. Also, insignificant infrastructure for electronic devices protection may affect the payment system adversely. This is because; the exposure to hazardous environment may have serious effects on the operation of the system.

*iv. System integrity/ reputational risk*

Security breaches and disruptions to efficient functioning of e-banking can damage not only the bank's reputation but the entire banking system ( Ebulu and Ajibade, 2008). The more electronic channels are utilized in banking services delivery system world wide the higher the risk of loss of confidence in incidence service disruptions. Also, the reputation of a bank is at

risk if an electronic bank encounters problems that make its customers lose confidence in the electronic mode of service delivery.

v. *Liquidity and credit transfer*

The operation of e-banking usually involves payments through liquidity and credit transfer from one person to another in the functional system (Zarma 2001). It is used to minimize liquidity, system and operational risks. But in events where payment system is dominated by cash transactions against electronic and other non-cash instruments as is the case in Nigeria, the system is capable of hampering the efficiency functioning of e-banking.

Having explained the positive and negative effects of e-banking in the operation and management of banking system in Nigeria, it is important to point out the prospects of e-banking to national development. This is because the banking sector through the use of electronic device on the Internet facilitates can transfer positive ideas to other sectors of the economy which enhances national development.

#### IV. E-BANKING AND NATIONAL DEVELOPMENT

E—banking as a means of strengthening and bank consolidation is adapted in Nigeria banking system for efficient and effective banking services. This is because with e-banking, banks are connected to the internet and linked to global economy. E-banking also simplifies cash transaction since all transactions are online. Usually, the reform in banking operations and management according to Oluyemi (2001), lead to bank's productivity and hence, national development. Such development accruing from e-banking involves the followings.

a) *Training*

With e-banking, training of bankers with particular reference to international banking system is simplified through internet browsing (Soludo, 2007). This enhances the performance of staff on-line to international standard resulting to international reputation and hence national development.

b) *Monetary Policy*

E- Banking makes supervision and monitoring of banking activities easier. This has gone a long way to ensure the effective implementation of monetary policy which leads to national development.

c) *Reduction in Inflation*

The use of e-banking in bank transaction involves liquidity and credit transactions which help in mopping up excess cash in the economy thereby resulting in the reduction in inflation.

d) *Cash transfer*

E-banking enhances cash transfer from one person or organization to another. This type of transaction could be for business or/other purposes (Soludo, 2007). The system reduces the idea of carrying cash about and the incidence of stealing from the carriers of such fund. It therefore encourages business transaction and leads to national development.

e) *Internet Banking*

The advent of e —banking according to Bamidale (2006) has increased the potentials cross-border the velocity movements as well as capital flight. It has increases the velocity of money in short- to-medium term owing to internet banking. The internet banking no doubt has encouraged banking effectiveness consequently leading to national development.

#### V. RECOMMENDATIONS

In order to guide against any hindrance to e —banking activities in Nigeria, the following recommendations are proffered.

Firstly, in order to avoid breakdown in service delivery, the reliability test on both software and hardware should be constantly carried out. Also, activities of hackers and crackers must be nipped in the bud to avoid damage by installing appropriate “firewalls” that will guarantee access by only the authorized users.

Secondly, to maintain the confidentiality of customers on their account, the regulators, supervisors and operators of the banks should put in place a standard practice to guarantee data and information confidentiality. This requires round the clock surveillance of the systems security including experts' review of network and vulnerability and recovery procedures. Also, effective customer education is necessary to guide against abuses, and negligence.

Thirdly, in order to ensure a hitch—fee operation of e—banking in the country, there is the need to have a national or shared switches and networks as opposed to standalone switches by individual operators to ensure cost-effectiveness services delivery. All information, communication and technological agencies should collectively operate on an effective national (ICT) development strategy. The frequent power failure in the country should be urgently ratified to ensure constant supply of electricity for (ICT) operations.

Fourthly, the reputation of the banks to be maintained and sustained, the supervisors/ regulators must ensure that standard on application and system software protocols as well as delivery channels are complied with by e-banking operator.

Fifthly, to ensure proper performance of e-banking especially as it affects liquidity and credit transfer, customers are expected to be well informed

about good banking habit. This is because liquidity and credit transfer will help in mopping up excess cash in the economy thereby reducing inflations

## VI. CONCLUSION

The study among other things examines the concept of e-banking and its approach to banking reform in Nigeria. The effects of e-banking on the activities of banking operation and management were equally discussed. The paper also pointed out the role of e-banking to national development; and advances recommendations on how e-banking could be managed to guide against mistrust in banking services in the country.

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