

**THE CONCEPT OF E-BANKING IN 21ST
CENTURY NIGERIA: A PROMISING
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Oluwapelumi Awoyale

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Oluwapelumi Awoyale*

ABSTRACT

The competitive engagement of key players in the banking sector has caused a need for dynamism in business approach and customer satisfaction which will subsequently result in profit making. Just like the revolution Information Communication and technology has been causing through several human endeavours, the banking sector has not been left behind. Electronic banking is a relatively old concept in Nigeria, which banks plug into to ensure customer satisfaction. However, despite being customer oriented, a relative percentage of the customers have still not seen the need to thrust their confidence in this system. To this end, this paper seeks to analyse the concept of E-banking in 21st century Nigeria, address prevailing challenges in this sector and analyse the future of electronic banking in Nigeria.

Keywords: E-Banking, Internet Banking, Electronic Fund Transfer, Online Banking.

1.0. INTRODUCTION

The proper definition of a bank has been statutorily scarce; however, some statutes have defined its closely related concept. Section 1 of the Bill of Exchange Act¹ defines a banker to include a body of persons whether incorporated or not who carry on the business of banking. Section 22 of Chartered Institute of Bankers Act 2007² defines a bank as “a bank licensed in Nigeria under Banks and Other Financial Institution Act 1991”. Section 66 of Banks and Other Financial Institution Act 1991 defines bank as any bank licensed under this “Act”, it however, defines banking business as the business of receiving deposits or current account, savings account or other similar account; paying or collecting cheque drawn by or paid in by customers; provision of finance or such other business as the Governor may, by order published in the Gazette, designate a banking business. In

* Oluwapelumi Awoyale is a penultimate law student of law at Lead City University. He can be contacted via email: pelumifemi87@gmail.com.

¹ Chapter B8, Laws of the Federation of Nigeria 2004.

² 2007 Act No.5.

Associated Discount House Ltd v Amalgamated Trustees Ltd,³ it was held that:

The word “bank” is not defined in the constitution and in the interpretation Act. It is therefore appropriate to ascribe its ordinary grammatical meaning which is, according to Ogundare, JSC in *Federal Mortgage Bank of Nigeria v NDIC* (1999) 2 NWLR (Pt. 591) 333 at 361 as an organisation or place that provides financial services.

The importance of banking system in economic growth and development cannot be undermined globally, Nigeria inclusive. They provide a mechanical system to group savings and convert them into investment. A bank serves as an intermediary between depositors and borrowers. Globalization and financial liberalization constitute major changes that have significantly affected banks, and this has resulted in competition between banks forcing individual banks to find new market to expand. Many Nigerian banks have, over the years, streamlined their organizations, tailored their products and services delivery and automated their operations to enhance their performance and capture the market. As the struggle to enhance performance intensifies, the focus is moving to the complete automation of all their operation and services. The system or industry is highly competitive and competition is expected to intensify as new players of local and global scope enters the market. As the competitive terrain becomes more challenging to navigate, banks will need to maintain their competitive edge, and to do this; they have to adopt new technology.⁴

The inherent potential in Information Communication and Technology has been discovered by Nigerian banks since the 1980s, and they have over the years tried to explore the potentials in this system. Decades after, nearly all commercial banks operate Automated Teller Machine

³ (2006) LPELR-583(SC).

⁴ M.A. Farouq, S.U. Hassan, and A. Mamman, “Electronic Banking Products and Performance of Nigerian Listed Deposit Money Banks” (2013) 1(10) *American Journal of Computer Technology and Application*, pp. 138-148.

(ATM) services, internet banking services, online banking services, credit card services among many others.

However, the challenge of E-banking has generated a number of public outcries which are predominantly based on its insecurity, congestion and network failure especially in a third world country like Nigeria. The massive ignorance that bedevils the populace has defeated the essence of the Personal Identification Number given to individuals (in relation to card transactions) as this is readily given by illiterate individuals, when requesting assistance in making withdrawals.

To this end, the researcher will analyse the concept of electronic banking and its future in the light of recent circumstances. To do this, the paper is divided into seven sections. The introduction, the concept of electronic banking and its legal framework in Nigeria, the history of electronic banking in Nigeria, the advantages so far, the hiccups in using electronic devices for financial transactions, future prospect and recommendations.

2.0. THE CONCEPT OF ELECTRONIC BANKING AND ITS LEGAL FRAMEWORK

Electronic banking is the conduct of banking process as of deposit, payment confirmation, and enquiries through the use of electronic medium.

The Central Bank of Nigeria (CBN), in 2003, released guidelines on electronic banking as part of the payment system enshrined in Vision 2020 which led to issuance of framework for Mobile payment services (2009), Guidelines on Nigeria debit scheme (2009), ATM operations guideline (2010), Nigeria Uniform Bank Account Number (NUBAN).

Electronic banking may be defined as a means whereby banking business is transacted using automated processes and electronic devices such as personal computers, telephones, fax machines, Internet, card payments and other electronic channels. 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. Many systems involve a combination of these capabilities.⁵

Electronic Banking (Also known as “Electronic Fund Transfer”) is further defined as:

Any transfer of funds which is initiated by a person by way of instruction, authorization or order to a bank to debit or credit an account maintained with that bank through electronic means and includes point of sales transfer, automated teller machine transactions, direct deposits or withdrawal of funds, transfer initiated by telephone, internet and card payment.⁶

The Guideline of Nigeria Direct Debit Scheme (2009) defines direct debit as a payment prepared in an Electronic Fund Transfer Format, in this case the National Electronic Fund Transfer (NEFT) format or any other format prescribed by relevant service provider.

Guideline on Operation of Electronic Payment channels in Nigeria defines online transaction to mean a transaction in which there is a direct connection between the device(s) and a centralised computer system for effecting settlement or authorisation or validation before a transaction can be executed.

Introduction to the Revised Standard on Nigeria Uniform Bank Account Number (NUBAN) Scheme for Banks and other Financial Institutions in Nigeria (2018) provides that, in exercise of the powers conferred on CBN under the Banks and other Financial Institution Act and CBN Act 2007 to make regulations and to promote sound financial system in Nigeria, facilitate the development of an efficient and effective payment systems in Nigeria, the standards for the efficient operation of Electronic Fund Transfer and cheques clearing operations by Banks and other Financial Institutions (OFIs) are issued by CBN.

⁵ Central Bank of Nigeria (CBN), “Report of The Technical Committee on Electronic Banking” (2003), available at <https://www.cbn.gov.ng/OUT/PUBLICATIONS/BS/2003/E-BANKINGRPT.PDF> (accessed 13 January 2021).

⁶ S. 58 Cybercrime (Prohibition, Prevention Etc.) Act 2015.

This concept has been repeatedly called different names, ranging from Electronic Fund Transfer to e-banking and online transaction, among others. It is however, pertinent to know that irrespective of the name, the concept is one.

Kingsley Moghalu, in 2013, elaborated that electronic banking means the conduct of banking transactions, deposit and withdrawals, transfers and receipts, processing of customers' loan requests, update of bank customers' enquiries through electronic means, using remote ICT servers and/or the internet.

Electronic banking products and services includes ATMs, online banking, internet banking, smart cards, telephone banking, virtual banking, Point of Sale Terminals among others.

Convenience, flexibility, speed, efficiency, accessibility and so on has popularised e-banking so much that it has become irresistible.

3.0. HISTORY OF ELECTRONIC BANKING IN NIGERIA

Banking has come a long way from the time of ledger cards and other manual filling system to the computer age. The Structural Adjustment Programme (SAP) initiated in 1986 by the Babangida Administration brought an end to 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 intense 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 Society General Bank launched their first Automated Teller Machine.⁷

Later on, the scenario became different. Banks have not only adopted computerization, but advanced from very simple and basic retail operations of deposits and cash withdrawal as well as cheque processing, to the delivery of sophisticated products which came as a result of keen competition in view of unprecedented upsurge in the number of banks and branches as well as advancement in information technology. There was the need to innovate and modernize banking operation in the face of increased market pressure and customers demand for improved service delivery and increased convenience.⁸

The introduction of e-banking (e-payment) products in Nigeria commenced in 1996 when the CBN granted All States Trust Bank approval to introduce a closed system electronic purse called ESCA. This was followed in February 1997, with the introduction of a similar product called “Paycard”, by Diamond Bank. The card-based e-money products assumed an open platform with the authorization in February 1998 of Smartcard Nigeria PLC, a company floated by a consortium of 19 banks to produce and manage cards called “value cards” and issued by the member banks. Another consortium of more than 20 banks under the auspices of Gemcard Nigeria Limited obtained CBN approval in November 1999 to introduce the “Smartpay” Scheme. The number of participating banks in each of the two schemes had been rising since then.⁹

Some banking services that have been revolutionized through the use of ICT include account opening, customer account mandate and transaction processing, recording, deposit customer services, etc. Electronic banking became prominent after the Central Bank of Nigeria banking reformation exercise in June 2004, which was geared

⁷ I.D. Adewuyi, “Electronic Banking in Nigeria: Challenges of the Regulatory Authorities and the Way Forward” (2011) 2(1) *International Journal of Economic Development Research and Investment*.

⁸ *Ibid.*

⁹ *Ibid.*

towards reducing the number of banks in the country and making the emerging banks much stronger and reliable.

Before this period, it took time for transactions to be completed on the floor of Nigerian banks. Customers were driven away from banking transactions just because of poor services and facilities. But with electronic banking, the scenario became different. The banks official websites (almost all the commercial banks have their own websites) properly enlightens customer and the public as to the activities of the banks. It can give any visitors or customers all the information about the operations of the banks such as account opening information, information about internet banking viz: access to online balance of customer's account, transfer of funds to third party and access to all transfer history on customers' account. Customers do not need to wonder whether a cheque has cleared or a deposit has been posted. At the click of a button, customers can easily check the status of their current, savings and any other type of account. Also, Customers do not have to wait till month end for historical, snail mail statements of account, through online banking: banks can provide immediate account enquiries statements online for customers. Furthermore, e-banking gives the ability to pay bills electronically. Since banks tie-up with various companies, services providers, and insurance companies across the country, a customer can facilitate payment of electricity and telephone bills, online registration, scratch card of universities and insurance premium bills. Customers can also transfer any amount from one account to another account of the same bank or another bank. Geographical locations are no longer barriers to financial transactions.¹⁰

3.1. Automated Teller Machine (ATM)

The ATM is perhaps the most popular of all products of e-banking in Nigeria. However, just like every other product of this system, it has its own guidelines¹¹. A cursory look at its guidelines exposes some legal issues which are worthy of consideration.

¹⁰ *Ibid.*

¹¹ CBN, "Standards and Guidelines on Automated Teller Machine (ATM) Operations in Nigeria", available at

The standard of operation provided by the guideline provides that all ATMs are to dispense all denominations of Naira, but the penalty section of the guideline is not clear enough. More often than not, lower denominations of Naira are not dispensed by this machine and this has a consequence on the larger society. Scarcity of lower denomination of naira can be traced to the lack of compliance of this standard by most financial institution operatives.

Financial institution operatives must consider the visually impaired persons in its ATM facilities as contained in the guideline. However, often times this is neglected, thereby leaving a section of the society uncovered in this regard.

The guidelines also stipulate that bank ATMs should not discriminate ATM cards. However, there are no laid down procedures to enforce this guideline. The only closely related procedure is that which allows the CBN to conduct onsite checks of ATMs with a view to ensuring compliance of these guidelines. Also, ATM standard downtime is 72hours consecutively. Where this is not practicable, customers ought to be duly informed. ATMs ought not to be stocked with unfit notes, and cash ought to be statutorily available in the ATMs at ALL time. These guidelines are sometimes not followed.

Every ATM is to have a camera which is mandatory to record all users of the ATMs without their key strokes. This is in no way a violation of any privacy as a matter of fact, where the user of an ATM blocks his image for camera capture, the ATM shall be capable of aborting the transaction.

Nigeria runs a cash out first before card is out of ATM, to minimize the possibility of customers leaving cash uncollected at ATM.

3.2. Point of Sale (POS)

This has over the years gained popularity due to its wide range of usage by traders, retailers and wholesalers, businesspeople, etc.

<https://www.cbn.gov.ng/OUT/2010/CIRCULARS/BSPD/ATM%20STANDARDS%201.PDF> (accessed 13 January 2021).

However, a cursory look at its guidelines¹² exposes some issues for examination.

Under the guideline, the common retailers and wholesalers of POS are called the merchants and they are enabled to enter into agreement with only a merchant acquirer licensed by CBN.

The merchant shall be held liable for frauds with the card arising from its negligence, connivance etc. However, the cardholder shall be liable for fraud committed with his card, arising from the misuse of his PIN or his card. He must also protect his card, mobile device and PIN with due care or inform the issuer immediately a PIN is compromised. Timely notify the issuer about missing, stolen, damaged, lost or destroyed card and/ or mobile device.

Same also applies to the mobile POS as provided in its guidelines.¹³

3.3. Web Services

This is fast gaining grounds in Nigeria's financial institution market and its guideline¹⁴ contains some issues worthy of examination.

The issuers who are licensed financial institutions that issue payment tokens to customers are to be held liable for card fraud in the event that payments are made with hot listed cards (cards which have been deactivated by the bank or reported missing, stolen, or damaged). In other words, if a card reported to be stolen was consequently used in a web transaction, the financial institution is nevertheless to be held liable.

4.0. BENEFITS SO FAR

¹² CBN, "Guidelines on Point of Sale (POS) Card Acceptance Services", available at [https://www.cbn.gov.ng/cashless/POS_GUIDELINES_August2011_FINAL_FINAL%20\(2\).pdf](https://www.cbn.gov.ng/cashless/POS_GUIDELINES_August2011_FINAL_FINAL%20(2).pdf) (accessed 13 January 2021).

¹³ CBN, "Guidelines on Operations of Electronic Payment Channels in Nigeria", available at <https://www.cbn.gov.ng/out/2016/bpsd/approved%20guidelines%20on%20operations%20of%20electronic%20payment%20channels%20in%20nigeria.pdf> (accessed 13 January 2021).

¹⁴ *Ibid.*

As stated earlier, e-banking has a lot of potentials it embodies and Nigerian banks have been able to explore a number of this. These potentials have not only been of great benefit to the banks, it has also benefited the customers to a very large extent.

Automation of financial services by banks has improved customer satisfaction more than twice as it used to be. Using Lagos State, Nigeria as a microcosm; a state densely populated with businesses and enterprises which makes almost daily financial transaction. This has led to the daily congestion of banking halls, which on a number of times brings dissatisfaction to the customers. However, with the introduction of e-banking, companies and individuals find it easy to transact at their convenience, reducing congestion in banking halls, and improving customer satisfaction. In fact, even electricity bills, taxes, flight bookings, and whatnot, can all be done without a visit to the banking hall. It is time saving.

Subjectively, e-banking lowers transactional fees. Banks scarcely open new branches especially in technologically inclined areas. This invariably reduces cost of operation of the banks and subsequently leads to more profit. The customers also do all the work themselves, so staff numbers can be reduced. Overhead costs (heating and lighting, insurance, salaries etc.) are greatly reduced. It further encourages healthy competition and creativity which in turn leads to the development of the industry.

Internationally speaking, enormous amount of money is made from online transactions such as Forex trading, online mini-importation, buying and selling of crypto currencies among many others in relation to the offline dominant businesses, and e-banking serves as a tool for the facilitation of this transaction.

With the government embracing the e-commerce system in Nigeria, the technological transformation of the country and the economy is one of the benefits of e-banking. E-banking also facilitates delivery of reliable services as the automation of most financial services reduces the risk of errors.

5.0. CHALLENGES OF ELECTRONIC BANKING

Electronic banking has its pros and cons. Some of its hiccups and challenges affects human labour and can in the long run deskill a number of employees and also displace them out of their jobs. Technologies improve on a daily bases and sooner than expected, holistic software would be built such that little or no human input would be required. This will render a lot of persons in the sector jobless and in turn worsen the unemployment situation of the country.

The level of job insecurity on the part of the employees increases by the day, the level of perfection rendered by electronic automated services renders some, if not a large amount of skills, obsolete; thereby demanding high level of skill in information technology. In a country like Nigeria, where information technological skills are relatively behind in the educational institutions (with exceptions to the high profiled exclusive private educational institutions), it becomes a great challenge for an average Nigerian graduate to be tagged “employable”.

The duty of secrecy between bank and customers have been given judicial blessings in a plethora of cases, however the fortress that houses this duty is getting porous by the day. For instance, banks database can be illegally accessed by fraudsters. Also, during the transfer of data from one bank to another through the internet, internet fraudsters can intercept this transfer and get such information for themselves which will in turn be used in furtherance of criminal activities.

Non-repudiation of transaction is also an alarming challenge of the e-banking system. The fact that when making an internet transfer and a number is interchanged for another due to an innocent mistake or unstable frame of mind or anxiousness as to emergency situation, such transaction when completed cannot be repudiated.

Excluding card transaction services such as ATM, most e-banking services have a relative loss of audit trail which makes it impossible to accurately trace a transaction from the source to the destination.

In the 21st century, data is life and he who has the most data controls the gold mine. Data protection today is just as important as the

protection of the fund itself. As such where data which ought to be safeguarded by banks are being sold out to or are penetrated by companies who use it for a number of businesses, such as advertisement, customers develop reasonable fears regarding how their data is handled.

For a third world developing country like Nigeria popularly known for its poor power supply, its inaccessibility in some regions of the country, and its unstable telecommunication network, it is relatively impossible to have a proper delivery of this service.

Mass illiteracy with regards to this system makes ignorant users vulnerable to fraud. For instance, in card transactions, illiterate users ignorantly disclose their Personal Identification Number (PIN) in a bid to request help in making a withdrawal. This ignorance is then used against them.

The above challenges impinge the proper realisation of this concept in 21st century Nigeria.

6.0. FUTURE PROSPECTS

Many Nigerians shy away from using internet banking, not because they enjoy a stressful life or that the air conditioning system in the banks improves life expectancy, but the fear of parting with their money unjustly to criminals who have mastered the intricacy of this system overwhelms them. If lucky, the criminal might be apprehended but will that necessarily guarantee the return of their hard-earned money? Prevention is better than cure, so they say.

With the government embracing e-commerce and electronic transactions in Nigeria, it is evident that the future of electronic banking in Nigeria is promising. Despite distrust in the system by Nigerians due to inadequate legislations on this subject matter, as the passage of time unfolds the legislature will look into it and will in turn cast confidence upon the faces of Nigerians.

7.0. RECOMMENDATIONS

Some recommendations proffered by this paper in other to arrive at a promising future for electronic banking includes:

First, sufficient and effective laws should be made with regards to electronic banking. It is not enough to have only the report of technical committees, the Cybercrime Act, and a host of other guidelines defining this concept. A holistic legislation should be put in place with regards to this subject matter.

Data is life and its security is as germane as the protection of customers' funds itself. Therefore, a holistic legislation concerning data security should be put in place. The researcher is aware of the new development concerning this aspect which is the Data Protection Regulation of 2019. However, this is just a subsidiary regulation as contained in the regulation itself. Therefore, a holistic legislation should be made concerning data security.

Furthermore, cross-border legislation and jurisdictional collaboration should be encouraged and embraced to prevent and mitigate money laundering, and other wrongful use of the system. This is being done in collaboration with a host of foreign countries. However, the effort is not enough. More collaboration should be made in other to ensure faster repatriation of laundered public funds.

Anti-graft agencies such as the Economic Financial Crimes and other related offences Commission, and the Independent Corrupt Practices Commission should be fortified and funded to effectively curb vices determined to destroy the system. Governmental agencies established for this reason should avoid a wild goose chase at activities which is statutorily not within their purview.

Finally, massive enlightenment and sensitization programs should be done for customers both by governmental agencies, the bank, and concerned individuals in other to remove or reduce the ignorance concerning electronic banking.