

ABSTRACT

This study examines the Impact of Cashless Policy on the Performance of Nigeria Financial Institutions. This study employs survey research design. Analytically, the research adopted descriptive statistics to highlight the effectiveness of the cash-less policy of the CBN in Nigeria.

Data were basically sourced from primary method through means of a well-structured questionnaire. Access Bank Plc was selected from the twenty-four banks in Nigeria and One hundred (100) respondents were sampled.

Three hypotheses were formulated and tested with the use of regression analysis and T-test. The analysis resulted into rejecting the null hypotheses and concluding that; there is significant relationship between cashless policy and performance in the Financial Institutions; cashless policy has significant impact on economic growth of Nigeria and that there is no significant relationship between cashless policy and money laundering and corruption.

The study proffered valuable recommendations on the execution of cashless banking in Nigeria such as availability of sufficient and well-functioning infrastructural facilities (notably electricity), harmonization of fiscal and monetary policy, regular assessment of the performance of cashless banking channels (individually and collectively), consideration of the present state and structure of the economy, redesign of monetary policy framework and greater efforts towards economic growth whilst managing inflation. Inclusion, the shift towards a cashless Nigeria seems to be beneficial though it comes with high level of concerns over security and management of cost savings resulting from its implementation.

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CHAPTER ONE INTRODUCTION

1.1 Background to the Study

The Central Bank of Nigeria (CBN) has in recent times engaged in series of reforms aimed at both making the Nigerian financial system formidable and enhancing the overall economic performance of Nigeria so as to place it on the right path in tune with global trends. Since Nigeria's independence in 1960, the successive reforms were channeled at enhancing social welfare and achieving developmental goals but there has been no substantial positive change in Nigeria's economic indicators.

Introduction of mobile banking, electronic banking and online transactions in Nigeria has paved way for a new era of development where the use and demand for physical cash is gradually declining. The increase in emerging Information Technology has made banking services become more and more automated and less paper work than in the past as averred in the Central Bank of Nigeria (CBN) reports and statistical bulletins, annual reports of most Nigerian banks. Banks in Nigeria have realized that they would soon go out of corporate existence unless they keep with the pace at which Information Technology (IT) has redefined the creation of value and worth for their customers.

Also, these recent evolution of information technology in the Nigerian financial institutions possess interesting questions for academician, economist, financial institutions, financial analyst and the regulatory agents of government such as Central Bank of Nigeria (CBN) regarding the current economic status,

logistics, and availability of instruments to guarantee economic growth and stability, efficiency and effectiveness of the cashless policy.

Some observers (Humphrey 1996, Ohley 1999, Klee 2004, Swartz 2006) suggest that the increased use of cashless payment system; (i.e. money or scrip which is exchanged only electronically via computer networks) has led to the prediction of a cashless society.

In addition, the cashless policy aims to curb some of the negative consequences associated with the usage of physical cash in the economy, including high cost of cash, high risk of using cash, high subsidy, informal economy and inefficiency and corruption (CBN, Website, 2011).

Since the inception, various payment methods have been used to purchase goods and services starting with the trade by barter. The trade by barter method of transaction has been the foundation for the introduction of money and coins to solve the problem of double coincidence of wants and divisibility faced by trade by barter. The use of money/coins was introduced after the use of trade by barter method, and it has solved various challenges associated with trade by barter, but the use of money as an exchange medium has its own challenges and shortcomings and can still be replaced with a better payment system 'the cashless policy'.

Developed countries like US have enjoyed various advantages which has prompted the Central Bank of Nigeria (CBN) to adopt the cashless policy. At the end of the 1980s the use of cash for purchasing consumption goods in the US has constantly dropped with inflation (Humphrey, 2004). Nigeria's aim to be among the biggest economy by 2020 has driven her to gradually move from a pure cash economy to a cashless policy. Since Nigeria gained her independence in 1960, there have been different constitutional reforms, change in economic and banking policies mainly aimed at stabilizing the economy, enhancing social welfare and enhancing economic growth and development.

While cash and cheques are still prevalent in some parts of the world, electronic payment mechanisms and especially, mobile payments are gaining consumer acceptance in many economies due to the high penetration of mobile phone technology (Herzberg, 2003).

In view of being one of the best economies in 2020, the CBN started implementing the cashless policy in some major cities in Nigeria since 2012 such as Lagos, Kano, Port-Harcourt and Onitsha. The CBN asserted reduction in crime rates, minimized risk associated with carrying huge sums of money, reduction in banking cost, improvement on monetary policy in management of inflation and the overall growth and development of the economy of Nigeria as advantages associated with the implementation of the cashless policy.

1.1.1 Organizational Profile of Access Bank Plc

Over the past 26 years, Access Bank Plc. has evolved from an obscure Nigerian Bank into a world-class African financial institution. Today, we are one of the five largest banks in Nigeria in terms of assets, loans, deposits and branch network; a feat which has been achieved through a robust long-term approach to client solutions – providing committed and innovative advice.

Access Bank has built its strength and success in corporate banking and is now applying that expertise to the personal and business banking platforms it acquired from Nigeria's International Commercial bank in 2012.

The next two years were spent integrating the business, investing in infrastructure and strengthening the

product offer.

As part of its continued growth strategy, Access Bank is focused on mainstreaming sustainable business practices into its operations. The Bank strives to deliver sustainable economic growth that is profitable, environmentally responsible, and socially relevant.

1.2 Statement of the Problem

The aim of any economy policies (fiscal or monetary policy) is to improve the purchasing power of every individual and the society at large.

Before the introduction of cashless policy by the Central Bank of Nigeria (CBN) in 2012, our financial institutions have been characterized with so many issues, ranging from poor handling of physical cash, high usage of cash in doing business which affect the cost of banking operation, leakages, money laundering and other financial related offences due to high cash usage within our various economic sector (private and government).

Cashless policy as a technique of economic management is to bring about sustainable economic growth and development as introduced by the Central bank of Nigeria (CBN) has not been fully operational in the country due to; i) high rate of illiteracy, ii) inadequate sensitization/education of the benefits of the cashless policy, and iii) inadequate infrastructure (such as the provision of internet connections in commercial areas, computers and Point of Sale (POS) machines) in some part of the country.

Apart from the physical challenges, economic data and indicators are not fully available and reliable. There is a great challenge in attempting to analyze the true impact of the cashless policy on the economy of Nigeria as only few monetary and macro-economic indicators can be traced with relation to the subject matter. Several scholars have attempted to analyze the cashless system or e-banking. However, it becomes clear that few studies present a comprehensive evaluation of cash-less banking implications in developing countries. Most ignore the economic benefits of the equation while some do incomplete examination of its negative implications. This is often due to unreliable panel data for monetary and macro-economic indicators. Although, this study focuses on Nigeria financial institutions, it is difficult to translate cashless studies from one country to another. Even payments instruments that look similar across countries on the surface may be different due to historical and legal variations (Daniel et al, 2004).

This study therefore examines the impact of cashless policy on performance of financial institutions.

1.3 Objectives of the Study

The main objective of the study is to examine the impact of the cashless policy on performance of financial institutions in Nigeria and how it affects economic growth. Specific objectives of the study include:

- To examine the impact of the cashless policy on performance of Access Bank Plc.
- To assess the impact of the cashless policy on economic growth of Nigeria.
- To determine the impact of cashless policy on money laundering and corruption using Access Bank as a case study.

1.4 Research Questions

This study tends to provide answers to the following research questions;

- To what extent does cashless policy impact performance of Access Bank Plc?

- To what extent does cashless policy impact the economic growth of Nigeria?
- To what extent does cashless policy impact money laundering and corruption in Access Bank Plc?

1.5 Research Hypotheses

The following hypotheses are formulated tentatively and for to be tested during the course of the research.

Hypothesis One

Ho There is no significant relationship between cashless policy and performance in the Financial Institutions

Hypothesis Two

Ho Cashless policy has no significant impact on economic growth of Nigeria

Hypothesis Three

Ho There is no significant relationship between cashless policy and money laundering and corruption

1.6 Significance of the Study

The study will give various insights into the various implications the introduction of the cashless policy will have on financial institutions and the economy of Nigeria. Through examining various economic indicators such as the gross domestic product (GDP) and inflation, the study will examine and compare growth trends and changes to determine whether the cashless policy introduced by the CBN has a negative or positive effect on the economy of Nigeria.

Various challenges and prospects identified in the study will also enable various stakeholders to tackle these challenges effectively by making policies that will address them and boost the economy of Nigeria.

1.7 Scope of the Study

In pursuance of the objective of the study; attention shall be focused on electronic banking among other electronic commerce implementation. In order to conduct an empirical investigation into the adoption of Electronic banking in Nigeria and will also examine the nature of electronic banking operations from the CBN bulletin from 2010-2014. The research scope covers Access Bank Plc for gathering of data related to cashless policy.

1.8 Operationalization of Variables

$$Y = f(X)$$

$$X = (x_1, x_2, x_3, x_4) - \text{Proxies for Cashless Policy}$$

$$Y = \alpha_0 + \alpha_1 x_1 + \alpha_2 x_2 + \alpha_3 x_3 + \alpha_4 x_4 + U$$

Where

$$Y = \text{Cashless Transactions}$$

$$X = \text{Cashless Policy}$$

$$x_1 = \text{ATM}$$

$$x_2 = \text{WEB}$$

$$x_3 = \text{POS}$$

$$x_4 = \text{MOBILE}$$

$$\alpha_0 = \text{Intercept of the line}$$

$$\alpha_1 = \text{Coefficient of } x_1$$

$$\alpha_2 = \text{Coefficient of } x_2$$

β_3 = Coefficient of x_3
 β_4 = Coefficient of x_4
 μ = Stochastic Variable/error term

1.9 Operational Definition of Terms

Cashless: designating of financial transactions handled by *means* of credit cards, bank transfers, and cheques, with no money handed from person to person

e-banking: A system allowing individuals to perform banking activities at home, via the internet.

Economic Growth: Increase in a country's productive capacity, as measured by comparing gross national product (GNP) in a year with the GNP in the previous year

POS (Point of Sale): *Point of sale is a computerized network operated by a main computer and linked to several checkout terminals*

Automated Clearing House Transfers (ACH): is an electronic network for financial transactions that processes large volumes of credit and debit transactions in batches. ACH credit transfers include direct deposit, payroll and vendor payments

ATM: An abbreviation for automated teller machine, an electronic banking outlet, which allows customers to complete basic transactions without the aid of a branch representative or teller

Travelers cheques: Check issued by a financial institution which functions as cash but is protected against loss or theft

Wire transfers: A *wire transfer* is the direct transfer of funds from the payer's account at one bank to the payee's account at another bank

NIBSS Funds Transfers: The Nigerian Interbank Settlement Scheme is an online platform where banks exchange value thereby enabling the performance of interbank transfers such as NEFT and NIBSS instant transferring funds between banks for single or multiple beneficiaries for individual amounts not exceeding N10 million.

NEFT Transfers: once effected works with the next available clearing session of CBN and is received in the beneficiary's account the same day or next working day, but NIBSS instant payments are immediate.

RTGS: Real Time Gross Settlements is used to transfer sums above N10 million in favor of a single beneficiary. It is used for big ticket transactions which must have been effected before noon for most banks if the funds are to reach the recipient bank the same day.

Mobile Money: this is a product that enables users to conduct funds transfers, make payments or receive balance enquiries on their mobile phones.

E- Transfers: refers to electronic transfers which can be effected via the internet on PCs, laptops and other devices. Bank customers who have subscribed to internet banking can do basic banking transactions via the web.

IMPACT OF CASHLESS POLICY ON THE PERFORMANCE OF FINANCIAL INSTITUTIONS IN NIGERIA (a case study of Access Bank Plc)

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