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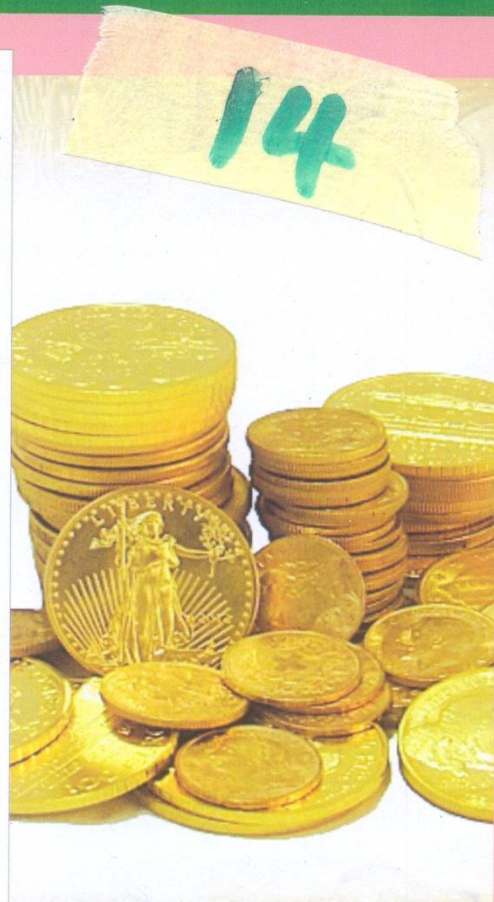
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Impact of Cashless Policy on the Profitability of Nigerian Banks

**AUN, ISAAC IORTIMBIR PhD; OLADIPO, GANIYU TAIWO Ph.D.;
OMOJOLOWO, OLUWAFEMI OMONIYI* and AKPAN, SUNDAY
JOHN PhD****

Abstract

The primary financial objective of every organisation lies in the attainment of profit and shareholders' wealth maximization. Every form of expenditure and innovation in the financial sector is divested in the attainment of these objectives. This study therefore investigated the impact of cashless policy on the profitability of Nigerian banks and determined the effect of cashless policy on the return on shareholders' capital. Secondary and primary data were used for the study to achieve these objectives. Data on profits, return on equity, number of ATMs and the number of E banking services were amassed from the financial annual reports of the selected banks. Questionnaires were distributed to two hundred and fifty customers of the selected banks and two hundred and fifty staff of the selected banks to elicit information with the use of stratified random sampling. The data were analysed using correlation coefficient and multiple regression analysis. The result shows that cashless policy has irrefutable tremendous influence on profitability and return on shareholders' capital in the long run with regression coefficients of 0.690 and 0.672 respectively. The study therefore concluded that cashless policy increases profitability and return on shareholders' capital of Nigerian banks and recommended that stakeholders should not be deterred by the relatively minor and short term negative effects of cashless policy as it holds greater promise to the profitability and the return on shareholder's capital of the Nigerian banking sector in the long run.

Keywords: Cashless Policy, Profitability, Nigerian Banks

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Introduction

Innovation is the process of creating, in which innovators create new products, ideas, technology, processes and methods that make existing one obsolete. Today's financial system is a result of centuries of innovation. It started as a barter economy and has moved through various incarnations in response to limitations inherent in the evolving systems. As the only thing constant in life is change, it is imperative to understand that changes would continually emerge in the financial system in response to social and technological advancements (Berger, 2003).

The wider patronage of e-Commerce is dependent on the availability of a secured and trusted e-Payment System (Baddeley, 2004). The various categories of e-Commerce include Business-to-Business (B2B): business transactions between organizations that involve companies buying and selling to each other; Business-to-Consumer (B2C): business transactions between organizations and consumers where goods and services are sold directly to the consumer; Consumer-to-Business (C2B): business transactions between consumers and organizations, where consumers can fix prices for both goods and services offered; and Consumer-to-Consumer (C2C): business transaction between consumers among others (Ayo, 2009). Therefore, appropriate considerations must be given to these categories so that the most suitable e-Payment system can be adopted.

Researches by Grigorian, and Vlad (2002); Nzotta and Okereke (2009); Thiel (2001) has shown that globalization has caused intense competition in the banking industry, worldwide. The world is seen as a global village which turned the markets and economies in like manner. According to Abdulsalam (2006), the phenomenon called globalization has significantly intensified competition in three particular aspects in the way competition had evolved giving it a new dimension viz:

- a. Banks faces pressures from a wide and diverse range of competitors
- b. The regulatory environment has become less protective of the banking sector and
- c. Competition has become global in nature.

The universal banking system was introduced in Nigeria in the early 1990s and rest of the world as an offshoot of globalization. Under this new system, banks were no longer specialized in either merchant banking or commercial banking; rather they are allowed to provide banking and other financial services to their customers under the new universal banking license. Banks

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could therefore provide commercial banking, stock broking, insurance business, asset and trustee management services under the new banking regulation. It also prompted a rapid and significant branch office expansion program with its attendant significant increases in the volume of customers' transactions in banking industry for survival and profitability (Johnson, 2005).

For many years I. T experts, bankers, entrepreneurs and others have advocated for the replacement of physical cash and the introduction of more flexible, efficient and cost effective retail payment solutions (Baddley, 2004). Nigerian commercial banks have been making large contributions to technological advancements in creating new electronic means of transactions. This had led to a gradual shift towards a more cashless banking system. Business transactions in the country are now being carried out through electronic means which include point of sales terminals (POS), GSM/ mobile banking, ATMs, bankers automated clearing services, E-payments etc. These innovative services have greatly affected service delivery of commercial banks and customer satisfaction has also been immensely influenced. This change in mode of transactions has led to a transformation of commercial bank products and services as their products and services have greatly been revolutionised from cash based to cashless based.

The primary goal of every business organisation be it sole proprietorship, banking, consulting etc., is to make profit. Profit is the cardinal objective towards which all business activities are channelled. The major financial objective of business is shareholders wealth maximization. These objectives are key in the assessment and decisions relating to the impacts of innovative expenditures as technological upgrades tend to be capital intensive in nature. This study therefore examined the impact of cashless policy on the profitability of Nigerian banks and how the implementation of cashless policy has affected the return on shareholders capital of Nigerian banks. The study focused on five Nigerian banks namely; Zenith bank, Guarantee trust bank (GTB), First bank, Diamond bank and Access bank (Nwaolisa, & Kasie, 2012).

Literature Review

Cashless policy is a monetary policy on cash based transactions (withdrawals and deposits) in banks aimed at reducing (NOT ELIMINATING) the amount of physical cash (coins and notes) circulating in the economy and encouraging more electronic based transactions (payments for goods, services, transfers, etc (CBN, 2011).

The vision of cashless policy is to reposition the Nigerian economy to achieve the objective of becoming one of the 20 largest economies by the year 2020. As part of the vision, the banking sector is expected to effectively play its actual role in intermediation and for the banks to be among global players in the international financial markets.

The internet is perhaps the most useful tool to business and individuals in contemporary world economies. Its use has touched every aspect of human endeavour especially in banking services. Technological breakthroughs and product designs have led to the emergence of e- Banking services which in recent time has become globally popular (Odumeru, 2012).

Through Information and communication technologies (ICT's), cashless policy has changed the approach of conducting business transactions and the modes of meeting the growing demands of consumers for banking institutions. The promise of cashless policy in the banking sector has been seen in terms of its potential to increase customer base, reduce transaction cost, improve the quality and timeliness of response, enhance opportunities for advertising and branding, facilitate self-service and service customization and improve customer communication and relationship. Most banks in developed and developing parts of the world are now offering E- banking services with various levels of sophistication.

Conceptual Clarification of a Cashless Society

A cashless society can be defined as a culture or situation where no one uses cash, all purchases being made are by credit cards, charge cards, cheques, or direct transfers from one account to another through mobile banking (Odumeru 2012).

A cashless society would mean, of course, the absence of currency and coin. Therefore, a cashless society could mean a barter society in which commodities were traded for commodities. However, barter would represent a major step backward. The cashless society envisioned and discussed herewith refers instead to the widespread application of computer technology in the financial system. Increasingly, funds are being transferred via an "Electronic Funds Transfer System" (EFTS).

A cashless society would entail the usage of instruments such as automated teller machines (ATM's), point of sales terminals, transfer cheques, bank drafts and other bank instruments, E- payment, mobile money etc. for carrying out business activities.

Money is often described as having three functions:

- a. A unit of account function,
- b. A medium-of-exchange function, and
- c. A store-of-value function.

In a cashless economy, the third function is not operative and, probably, neither is the second. Cashless economy does not refer to an outright absence of cash transactions in the economic setting but one in which the amount of cash-based transactions is kept to the barest minimum. It is an economic system in which transactions are not done predominantly in exchange for actual cash.

Cashless Instruments

Cashless policy would make use of diverse mechanisms and instruments in the attainment of its objectives as postulated by Malhotra, and Singh (2009) among which include:

- i. **Automated Teller Machines (ATMs):** Automated teller machines are the most widely used of cashless instruments. The first ATM was installed in Ghana by the Trust Bank in the 1980s. Since then, many banks have followed suit, installing ATMs for the convenience of their customers. In the modern day ATMs have been inculcated into daily life as ATM cards are now replacing wallets due to their portability, security and the ubiquitous number of ATM machines.
- ii. **Mobile Money Banking:** Telephone banking or telebanking is a form of virtual banking that deliver financial services through telecommunication devices. Under this mechanism, the customer transacts business by dialling a touch-tone telephone connected to an automated system of the bank. This is normally done through "Automated Voice Response (AVR) technology" (Nwaolisa and Kasie, 2012).

In Nigeria today service providers have created schemes through which customers can transact with their mobile account balances. Example of which include Airtel insurance, MTN mobile wallet, etc.

- iii. **Internet Banking (e-banking):** Internet Banking is beneficial for both the provider and the customer. The rationales of banks' usage of the internet banking technology from the bank's perspective are mainly related to cost savings. Internet banking offer services regardless of geography and time and banks thus provide its services to the

customers for them to use at their convenience. Such services save the time and money of the bank with an added benefit of minimizing the likelihood of committing errors by bank tellers and extending banking hour to 24 hours each day. Internet banking has been one of the most successful of all the traditional commercial ventures that have adopted the internet platform. The internet is taking over as a main access channel to complement branch and call centers in the banking industries' efforts to enhance their services, improve integration with partners and interaction with their clients. The high level of internet penetration in Europe and particularly in the Netherlands has made it a very attractive channel (Ensor & Tongeren, 2005).

- iv. **Point of Sales Terminals (POS):** Point of sales terminals are the second most widely used mode of cashless instruments in Nigeria. POS machines enable a customer transact with the use of a debit card usually an ATM card. POS machines are usually found in superstores such as ShopRite as the governmental schemes to encourage its usage in SMEs have not yielded favorable results.

Theoretical Framework

Cashless policy is a novel concept in the field of research and this has led to the diminutive amount of theories in its review among which include the technical progress function.

Technical Progress Function

The technical progress function is a concept developed by Nicholas Kaldor to explain the rate of growth of labour productivity as a measure of technical progress. Technical progress an economic relation which seeks to explain changes in the level of economic output in terms of the level of technical progress. Rather than looking at economic growth as a form of efficiently allocating inputs, the technical progress function explains economic growth in terms of investment in technological progress.

Technology has an important relationship with human capital. Same technology can be applied in two different countries, but output varies with respect to the labour force of that country. Adaption to new technology is directly proportional to pace of economic growth of the country. Hence labour should be experienced with the technology. Education also plays an important role as it helps in accumulating human capital which in turn helps technology

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diffusion. Education also helps a person get acquainted with technology efficiently and rapidly. Hence technology is economic specific.

Technological progress can be classified into two parts:

- a. Embodied Technological Progress: Improved technology which is exploited by investing in new equipment. New technical changes made are embodied in the equipment.
- b. Disembodied Technological Progress: Improved technology which allows increase in the output produced from given inputs without investing in new equipment.

Cashless policy has brought about new developments and technologies in the ways of carrying out banking activities. This new technology has increased the output in the banking sector and the economy at large and the greater the investment in the technologies that ensure cashless means of transactions the greater the level of output in the Nigerian banking sector and the economy at large. Cashless policy has brought embodied technical progress which is inherent in the invention of new ways of making cashless transactions such as the RFID chips and it has also brought about disembodied technical progress which is inherent in the improvement of payment systems, mobile applications etc. and these have increased the rate of productivity at which inputs in the banking sector are converted to output. The technical progress function also explains why the economies of developed nations such as USA are richer in terms of capital and productivity of labour compared to developing nations as the theory posits that the higher the level of technical progress the higher the productivity of capital and labour.

Empirical Framework

Research into the adoption of cashless policy and its impact is scarce in literature. More recently, as new data were made available and new methodologies were applied, empirical investigations have found evidence that cashless policy is associated with improvements in commercial bank service delivery, performance, in intermediate measures and in economic growth (Oliner and Sichel, 1994; Sichel, 1997; Brynjolfsson and Hitt, 1996).

Berger (2003) examined technological progress and its effects in the banking industry using data collected from the banking industry in the United States over the period 1967 to 2001. The author employed multiple regression model, and the findings revealed that improvements in costs of lending capacity due to improvements in “back – office” technologies, as well as consumer benefits from improved “front office” technologies suggests significant overall

productivity increases in terms of improved quality and variety of banking services.

Malhotra and Singh (2009) examined the implications of internet banking on the Indian banking industry using information drawn from a survey of 85 scheduled commercial banks' websites, during the period June 2007, by applying multiple linear regression model. Results revealed however, that profitability in the banking industry while offering internet banking does not have any significant association with their overall performance.

Odumeru (2013) accessed the integration of cashless policy in Nigeria in terms of prospects and challenges and identified that the conundrums in the adoption of cashless policy are due to the lack of Unique National Identity System in Nigeria, inadequate infrastructure which ranges from network failure, inadequate ATM and POS machines and epileptic power supply and the high rate of illiteracy and poor sensitization has been a major challenge in a country where literacy rate is still very low and that cashless policy holds great benefits for consumers, banks and the government. He also stressed the need for gradual implementation of the policy with emphasis on a more comprehensive enlightenment programme on a continuous basis to deepen the message and importance in order to achieve greater success.

Ogunwale (2012) looked into the impact of cashless policy in Nigeria and was of the opinion that the introduction of cashless economy in Nigeria can be seen as a step in the right direction and It is expected that its impact will be felt in modernization of Nigeria payment system, reduction in the cost of banking services as well as reduction in high security and safety risks and this should also include curbing banking related corruptions and fostering transparency. He also opined that the introduction of cashless policy in Nigeria will help to reduce the amount of bills and notes circulating in the economy. This should, therefore, reduce handling operation cost incurred on conventional money, as well as reduction in cash related crimes.

Agboola (2001) studied the impact of computer automation on the banking services in Lagos and discovered that electronic banking has tremendously improved the services of some banks to their customers in Lagos. The study was however restricted to the commercial nerve centre of Nigeria and concentrated on only six banks. He made a comparative analysis between the old and new generation banks and discovered variation in the rate of adoption of the automated devices.

Methodology

The study examined the impact of cashless policy on the profitability of Nigerian banks using selected Nigerian banks in Kwara state, Ilorin metropolis namely; Zenith bank, Guarantee trust bank (GTB), First bank, Diamond bank and Access bank. These banks were selected because they are favoured by customers seeking technological sophistication in transitional activities. Data were collated from financial reports of these five banks for a period of ten years i.e. 2004-2013 on the profit after tax, return on equity, number of ATMs and number of E banking services. Data was also collected from 242 customers and 239 staff of these banks using stratified random sampling. Separate structurally crafted and wide ranging questionnaires were distributed to staff and customers of the selected banks. This was done so as to enrich the scope of the research by tailoring questions suitable to the different kinds of respondents. The instrument contained structured questions with close ended answers. This was done so as to attain objectivity from the responses. The study was limited to two cashless instruments i.e. ATM and E banking as they are the most widely used of all the cashless instruments. The data were analysed using frequency counts, percentages, Pearson's correlation and ordinary least square regression techniques.

Research Hypotheses

The following hypotheses were tested in nullity:

- Ho₁: There is no significant relationship between cashless policy and the profitability of Nigerian banks
- Ho₂: There is no significant relationship between cashless policy and the return on shareholders capital of Nigerian banks

Results and Analysis

Table 1: Respondents (Customers) view on if they would rather pay ATM and E banking charges than go to banking hall

	Frequency	Percent
Strongly Agree	117	48.3
Agree	104	43.0
Indifferent	19	7.9
Strongly Disagree	2	0.8
Total	242	100.0

Source: Author's computation, 2015.

The table 1 shows that 117 (48.3%) of the respondents strongly agreed that they would rather pay ATM and E banking charges than go to banking hall while 104 (43%) respondents agreed, 19(7.9%) were indifferent, 19(7.9%) disagreed and 2(0.8%) strongly disagreed. This implies that banks would generate more income from customers as 221 (91.3%) of the respondents agreed and strongly agreed that they would rather pay ATM and E banking charges than go to banking hall.

Table 2: Respondents (Staff) opinion on ATM and E banking services reduces the transaction expenses incurred by banks

	Frequency	Percent
Strongly Agree	96	40.2
Agree	101	42.3
Indifferent	19	7.9
Disagree	21	8.8
Strongly Disagree	2	0.8
Total	239	100.0

Source: Author's computation, 2015.

Table 2 shows that 96 (40.2%) of the respondents strongly agreed that ATM and E banking services reduces the transaction expenses incurred by banks while 101 (42.3%) respondents agreed, 19 (7.9%) were indifferent, 21 (8.8%) disagreed and 2 (0.8%) strongly disagreed. This implies that ATM and E banking service would reduce the transaction expenses of banks as 197 (82.5%) respondents agreed and strongly agreed to it.

Table 3: Respondents (Staff) Opinion on ATM and E banking service yields a positive return on investment

	Frequency	Percent
Strongly Agree	54	22.3
Agree	166	68.6
Indifferent	2	.8
Disagree	18	7.4
Strongly Disagree	2	0.8
Total	242	100.0

Source: Author's computation, 2015.

Table 3above reveal that 54 (22.3%) of the respondents strongly agreed that ATM and E banking service yields a positive return on investment while 166 (68.6%) respondents agreed, 2 (0.8%) were indifferent, 18 (7.4%) disagreed

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and 2 (0.8%) strongly disagreed. This implies that ATM and E banking service would yield a positive return on investment as 220 (90.9%) respondents agreed and strongly agreed to it.

Table 4: Respondents (Staff) opinion on whether ATM and E-banking services has led to increase in the revenue of banks

	Frequency	Percent
Strongly agree	51	21.3
Agree	166	69.5
indifferent	2	0.8
Disagree	18	7.5
Strongly disagree	2	0.8
Total	239	100.0

Source: Author's computation, 2015.

Table 4 shows that 51 (21.3%) of the respondents strongly agreed that ATM and E banking services has led to increase in the revenue of banks while 166 (69.5%) respondents agreed, 2 (0.8%) were indifferent, while 18 (7.5%) disagreed and 2 (0.8%) strongly disagreed. This implies that ATM and E banking services enables banks to increase their revenue as 217 (90.8%) respondents agreed and strongly agreed to it.

Test of Hypotheses

Hypothesis One

H_{01} : There is no significant relationship between cashless policy and the profitability of Nigerian banks.

Using Correlation and regression techniques the hypothesis was tested based on the responses of the respondents on the questions related to this hypothesis. The hypothesis was further tested through the correlation and regression of data on Profit after Tax, number of ATMs and number of Ebanking services.

Table 5: Regression and Correlation Estimates between Cashless Policy and Profitability

Model	Coefficients (B)	Correlation	P-Value
Constant	0.595	0.761	.000
Cashless Policy	0.690		

Dependent variable: Profitability

The regression estimate (0.690) derived from the primary data indicated that cashless policy has led to a proportionate increase in the profitability of banks. The correlation estimate (0.761) which was significant (p-value <0.01) showed a strong positive relationship between cashless policy and profitability.

The regression estimate of the secondary data revealed opposing results as ATM and e-banking have negative coefficients, both not significant with p-values greater than 0.05. This means that though ATM and e-banking service have inverse effects on profit after tax their respective effects are not significant.

Decision: The null hypothesis was therefore rejected and the conclusion was reached that there is significant relationship between cashless policy and the profitability of banks as the secondary data was not significant enough to accept the null hypothesis.

Hypothesis Two

Ho₂: There is no significant relationship between cashless policy and the return on shareholders capital of Nigerian banks.

Using Correlation and regression techniques the hypothesis was tested based on the responses of the respondents on the questions related to the hypothesis. The hypothesis was further tested through the correlation and regression of data on return on equity, number of ATMs and number of E banking services.

Table 6: Regression and Correlation Estimates between Cashless Policy and Return on Shareholders' Capital

Model	Coefficients (B)	Correlation	P-Value
Constant	0.620	0.687	.000
Cashless Policy	0.672		

Dependent variable: return on Shareholders' capital.

The regression estimate (0.672) derived from the primary data indicated that cashless policy has led to a proportionate increase in the return on shareholders' capital. The correlation estimate (0.687) which was significant (p-value <0.01) showed a strong positive relationship between cashless policy and return on shareholders' capital.

The regression estimate of the secondary data also revealed opposing results as ATM and e-banking have negative coefficients, both not significant with p-values greater than 0.05. This means that though ATM and e-banking service have inverse effects on return on equity, their respective effects are not significant.

Decision: The null hypothesis was therefore rejected and the conclusion was reached that there is a significant relationship between cashless policy and return on shareholders' capital of banks as the secondary data was not still significant enough to accept the null hypothesis.

Discussion of Findings

The study was carried out with the primary objective of determining the impact cashless policy would have on the Nigerian Banking sector. The study further looked into how cashless policy would affect specific objectives of profitability, return on shareholders capital, customer satisfaction and the mitigation of the problems of Nigerian banks so as to determine the impact it would have on the overall performance of the Nigerian banking sector.

The study revealed that cashless policy has a positive relationship on the profitability of Nigerian banks and banks should pursue cashless means of transactions in their bid to achieve their primary aim of profit maximization. The study has revealed that cashless policy has a positive effect on the shareholders capital of Nigerian banks. Through the analysis of the profits and returns on equity of Nigerian banks, it was noted that cashless policy has

affected profits and returns on equity insignificantly negative and these was brought about by the capital intensive nature of cashless instruments of transactions as cashless policy is a relatively new concept being that it just kicked off in 2012, Nigerian banks are still at their gestation period as the study reveals that cashless policy has bountiful rewards in the future after the internal economies of scale have fully kicked in.

Conclusion and Recommendations

This study concluded that Cashless policy has a positive effect on the profitability and shareholders' equity of Nigerian banks. The introduction of cashless means of transactions would insignificantly negatively affect profitability and shareholders equity in the short run but after the gestation period is surpassed and internal economies of scale takes effect the profitability and shareholders' equity of Nigerian banks would tremendously increase.

Therefore, the study concluded that Nigerian banks should pursue cashless means of transactions as it is a veritable means of achieving the primary business goal of profit maximization and the major financial objective of shareholders wealth maximization. Electronic payment instruments are capital intensive, as such banks are encouraged to collaborate among themselves to jointly finance some of the infrastructures and share them amicably. This will help them to share the cost and reduce the initial cost of setting up the cashless banking system. The government should also provide subventions to Nigerian banks as this would make up for their short falls in profitability in the short run.

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