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An Historical Overview of the New Cashless Policy in Nigeria

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Abstract:

The most recent and ongoing development in the annals of monetary history in Nigeria is cashless policy which preparation began in 2010, but came on board on a pilot scheme for the first time on 1st April, 2012. Although the policy can be regarded as a new stage and dimension of imperialism that tries to turn the whole world into global village in terms of financial transactions, if successfully adopted nationwide, it has the tendency of becoming a turning point in the history of not only currency in the country, but also the entire economy from cash oriented to a cashless one. It should however be noted that before the introduction of the policy, certain systems which provided an enabling environment for its take up were adopted by both banking sector and government in Nigeria. These are electronic banking (e-banking) and electronic payments (e-payments). The aim of this paper is to assess the journey so far, pertaining to the introduction and gradual spread of the new cashless policy in Nigeria. The paper first of all discusses the concept of cashless policy as well as adoption of e-banking and e-payment systems, which provided fertile ground for the eventual introduction and spread of the cashless policy. Benefits derivable from the policy as well as problems and challenges facing it are also examined.

1. Introduction

Nigerian monetary system has over the years evolved from the one characterised by barter system of exchange to the one predominated by use of what scholars refer to as 'commodity', 'transitional', 'trade' or pre-colonial currencies.¹ Various European currencies in general and later, that of the British in particular, became the legal tender in the country. Until during the 1960s, Nigerian currencies were still patterned after the British. It was not until 1st July, 1962 that the legal tender status was changed to reflect the country's new status. In 1973 the authorities introduced what could be described as truly Nigerian currency, the Naira and Kobo as an independent Nigerian currency. From 1973 to date various denominations of the Naira and Kobo (both in coins and paper) have entered Nigeria's money market.² The last decade of the 20th century was an important milestone in the Nigeria's monetary system. The period marked the beginning of electronic banking, popularly known as (online or e-banking).³ This development eventually provided a fertile ground for the introduction of yet another monetary policy, tagged 'cashless policy', barely less than two decades thereafter. The new policy was a turning point in the country's monetary history, as for the first time it discourages the use of much cash in the economic system. Effort has been in this paper to define the concept of cashless policy, trace its origin and introduction in Nigeria, discuss its operation and gradual extension to cover larger portion of the country, identify problems and challenges so far encountered as well as possible benefits derivable from the policy and its likely future.

2. Understanding the Concept of Cashless Policy

The concept of cashless economy has been defined by scholars from different perspectives. According to Paul and Friday,⁴ cashless economy is a type of economy in which both paper and electronic money are used in transactions. They stated that cashless economy

¹ They include: cowries, manillas, copper wires, brass rods, slaves, cloth, iron, copper, iron bars, glass, beads, and gin. See A.H.M. Kirk-Green, "Major Currencies in Nigerian History", *Journal of the Historical Society of Nigeria*, Vol. 2. No. 1, December 1960; D.O. Chukwu, "Trends and Changes in the Nigerian Currency System, colonial period- 2008", *Stud Tribes Tribals*, Vol. 8, No. 2, 2010; S.O. Aghalino, "Trade Currencies in Pre-Colonial Nigeria", in O.N. Njoku (ed.), *Pre-Colonial Economic History of Nigeria*, NP, 2002.

² J. Nduwugwe, "The Metamorphosis of Nigerian Currency", *Leadership Newspaper*, February 28, 2007, p. 35.

³ This refers to services provided by banks using Information and Communication Technologies (ICT). It involves computer-based systems used to perform financial transactions electronically. For more on this, see A.O. Agbada, "Electronic Banking in Nigeria: Problems and Prospects from the Consumer's Perspective", *Bullion: Publication of the Central Bank of Nigeria*, Vol. 32, No. 4, October-December 2008, pp. 19-20.

⁴ A.B. Paul and O. Friday, "Nigeria's Cashless Economy: The Imperatives", *International Journal of Management and Business Studies*, Vol. 2, No. 2, 2012, pp. 1-36, cited by A.A. Sokoto and L. Haruna, "Cashless Policy and the Nigerian Economy: An

does not mean an outright absence of cash transactions in an economy but rather an economy where the amount of cash-based transactions are kept to the barest minimum level. Other scholars however, view cashless economy from the extreme perspective. For instance, Costa and Grauwe,⁵ described cashless economy as a system which uses electronic money as the only means of transactions. But this seems to be absolutely impossible as no society can sustain having no cash in an economy completely. The definition provided by Paul and Friday is thus, the most widely acceptable among scholars. The cashless policy, which is targeted at accomplishing a cashless economy therefore, aims at reducing (but not eliminating) the amount of physical cash (coins and notes) circulating in an economy as well as encouraging more electronic based transactions.⁶

Until the introduction of the cashless policy in Nigeria the country was, and of course still is, a heavily cash oriented economy with retail and commercial payments primarily made in cash.⁷ Indeed, cash was a strong motivator in Nigeria's highly informal economy. According to the Central Bank of Nigeria (CBN's) annual report for the year 2012, cash related transactions represented over 99% of customer activity in Nigerian banks as at December 2011.⁸ However, during the last four years, the Nigerian financial sector has witnessed a growing refrain of voices calling for a shift from a cash-based economy to a cashless one. The move is gradually fast becoming a top priority of banks, governments, companies, individuals, and non-governmental organizations (NGOs). It was in view of turning Nigeria into a cashless society that the CBN has introduced the new cashless policy on a pilot phase, starting with a section of the country (Lagos State), effective from 1st April, 2012.⁹

The policy was an important landmark in the 21st century monetary history of Nigeria. It aimed at reducing the amount of physical cash in circulation and encouraging more electronic-based transactions with a view to among others, reducing the cost of banking services, checking high corruption level in the country, reducing robbery and high cost of processing cash, reducing revenue leakages and inefficient treasury management, promoting economic development through financial intermediation, as well as improving the effectiveness of monetary policy in managing inflation and driving economic growth.¹⁰ The main purpose of the policy was therefore, to reduce the volume of cash in circulation for business transactions and encourage more electronic- based transactions, thereby reducing costs of printing new cash and handling the existing ones by the government and banks.

At this juncture, it is however important to note that there are certain developments that took place in the Nigeria's financial sector before introduction of the cashless policy, without which the introduction of the policy would have not been possible. The developments were adoption of electronic banking and payments, which have significantly contributed in providing fertile ground for the eventual introduction of cashless policy and its extension in Nigeria. These are discussed in some details below.

3. Electronic Banking in Nigeria

Electronic banking (e-banking) otherwise called internet banking is the conduct of banking business electronically which involves the use of information and communication technology (ICT) to drive banking business for immediate and future goals.¹¹ The ICT is an automation of process, controls and information production using computers, telecommunication, software and auxiliary equipment such as the ATM. It is a term that generally covers the harnessing of electronic technology for information needs of a business at all levels.¹² E-banking therefore, involves computer-based systems used to perform financial transactions electronically. It allows bank customers to pay money from one account to another, pay bills, and transfer funds using recognised electronic channels, among others. It further represents a variety of financial services performed through electronic devices, including withdrawals and deposits using ATM, Automated Bill Payment (ABP), Electronic Fund Transfer (EFT) and PC banking. Other types of e-banking services include telephone banking and "on-line-real-time banking", which is a type of banking that gives individual bank a 'one branch status' via technology, since with it customers can operate their accounts from any branch of the bank irrespective of where the account was opened and domiciled.¹³ This type of banking service is now being operated by almost all banks in Nigeria.

Appraisal of the Challenges and Implications for Monetary Policy", in M.U. Altı, et.al (eds.), *Readings in Public Administration*, Vol. 2, 2014, p. 148.

⁵ C. Costa and P.D. Grauwe, "Monetary Policy in a Cashless Society", *Discussion Paper No. 2696*, 2011, cited by A.A. Sokoto and L. Haruna, "Cashless Policy and the Nigerian Economy...", p. 149.

⁶ W.D. Olanipekun, et.al, "Integrating Cashless Economic Policy in Nigeria: Challenges and Prospects", *International Journal of Business and Behavioural Sciences*, Vol. 3, No. 5, 2013, p. 5.

⁷ E.F. Nwaolisa, and E.G. Kasie, "Electronic Retail Payment Systems: User Acceptability and Payment Problems in Nigeria", *Arabian Journal of Business & Management Review (Oman Chapter)*, Vol. 1, No. 9, 2012, p. 112.

⁸ *Central Bank of Nigeria's Annual Report for the Year 2012*, Abuja, CBN, pp. 6-7.

⁹ N. Ejoh and I. Okpha, "The Workability of Cashless Policy Implementation in Nigeria", *Journal of Economics and Sustainable Development*, Vol. 5, No. 17, 2014, p. 179.

¹⁰ O.O. Ovat, "The Central Bank of Nigeria's Cashless Policy in Nigeria: Benefits and Challenges", *Journal of Economics and Sustainable Development*, Vol. 3, No. 14, 2012, pp. 128-129.

¹¹ A.Z. Chibueze, et.al, "Electronic Banking and Bank Performance in Nigeria", *West African Journal of Industrial and Academic Research*, Vol. 6, No. 1, 2013, p. 171.

¹² I.D. Adewuyi, "Electronic Banking in Nigeria: Challenges of the Regulatory Authorities and the Way Forward", *International Journal of Economic Development Research and Investment*, Vol. 2, No. 1, 2011, p. 149.

¹³ A.O. Agbada, "Electronic Banking in Nigeria...", p. 19.

Chibueze et.al,¹⁴ further described e-banking as a provision of retail and small value banking products and services through electronic channels as well as a large value electronic payment and other wholesale banking services delivered electronically. But according to the CBN report of technical committee on e-banking, the concept is used to describe a situation whereby banking business is transacted using automated process and electronic devices such as personal computers, telephones, internet, card payments and other electronic channels. The report further states that some banks practice electronic banking for information purpose only. Some use it for simple transactions such as checking account balance as well as transmission of information while others facilitate fund transfer and other financial transactions.¹⁵

Long before the use of ICT to commence e-banking in Nigeria, it had earlier begun in Europe, America and other developed nations some decades ago. It started in Britain in the late 1960s, spread to U.S. France, Japan and other developed nations in the late 1970s and early 1980s.¹⁶ The adoption of e-banking in Nigeria started in the late 1980s following the advent of banks that were christened as 'new generation banks'. The founding of banks like Access Bank Plc, Diamond Bank Plc, Guaranty Trust Bank Plc, Zenith Bank Plc and Oceanic Bank International (refer to as new generation banks) as from 1989, with on-line-real-time (interconnectivity) facilities marked the beginning of e-banking nationwide. This development awakened new dimensions to completion among banks, including among the already existing banks (old generation banks), and consequently they all gradually embraced e-banking options to stem up competition. This was followed by the introduction of ATMs for cash dispensing, account balance inquiry and payment of utilities in the early 1990s.¹⁷ In fact, the first ATM in Nigeria was launched by the defunct Societe Generate Bank of Nigeria (SGBN) at their Broad Street and Apapa Branches (Lagos) in November, 1990. The points of the machines became known in Lagos as "cash point 24".¹⁸ E-banking was further enhanced in Nigeria by the introduction of use of cards (smartcards) for payment by the CBN in 1993. Ten years later, (in August 2003), the apex bank issued a broad guideline on e-banking in Nigeria.¹⁹

According to the guideline, the CBN identified the recognised e-banking operators, agents, products and channels. Specifically, banks and other financial institutions were identified as operators; Internet Service Providers (ISPs), Switch and Electronic Fund Transfer (SEFT) and messages companies were identified as e-banking agents; card products, EFT, e-bill presentation and digital cash, were identified as e-banking products; while mobile phones, ATMs, websites (internet) and POS devices were identified as e-banking channels.²⁰ For effective e-banking inter-bank operations in Nigeria, inter-switch operation was launched by group of banks in 2004 following the introduction of Nigerian Inter-Bank Settlement System (NIBSS). During the same year, the NIBSS further introduced NIBSS Electronic Fund Transfers (NEFT) which was no doubt, a boost to adoption of the NIBSS electronic banking operations in Nigeria.²¹

An important issue to note at this point is that before the introduction of electronic banking in Nigeria, monetary transactions were carried out manually by banks and other financial institutions. The manual system involved posting transactions from one ledger to another with human hands. Figures or counting of money which are now being done through electronic machines were prior to e-banking computed and counted manually which were not 100% accurate thereby resulting to human errors.²² Therefore, the origin of electronic banking not only in Nigeria but all over the world, is attributable to globalization which is the increased integration of world economies through trade and capital flows, facilitated by the phenomenal growth in information technology and the opening up of closed economies and societies.²³ It was the developments of electronic financial transactions in the banking sector that provided suitable atmosphere for the adoption of electronic payments (e-payments) in the formal sector and introduction of cashless policy in Nigeria, in 2009 and 2012 respectively.

4. Electronic Payments in Nigeria

In the context of Nigeria, electronic payments (e-payments) refers to effecting payments from one end to another end through the medium of a computer that is connected with internet, without manual intervention beyond entering the payment data. It is the ability of government to pay the suppliers, vendors and staff salaries electronically at the touch of a computer button. This is what is called e-payments in the formal sector in other parts of the World.²⁴ The Federal Government of Nigeria (FGN) introduced e-payments following the release of its treasury circular which directed that payments of all funds from it be made electronically as from 1st

¹⁴A.Z. Chibueze, et.al, "Electronic Banking..."..., p. 172.

¹⁵ Central Bank of Nigeria, *Report of Technical Committee on Electronic Banking in Nigeria*, Abuja, CBN, 2003, p. 3.

¹⁶I.D. Adewuyi, "Electronic Banking in Nigeria....", p. 151.

¹⁷A.O. Agbada, "Electronic Banking in Nigeria....", p. 20.

¹⁸I.D. Adewuyi, "Electronic Banking in Nigeria....", p. 151.

¹⁹A.O. Agbada, "Electronic Banking in Nigeria....", p. 20.

²⁰Central Bank of Nigeria, *Guideline on Electronic Banking in Nigeria*, Abuja, CBN, 2003, pp. 11-13

²¹A.O. Agbada, "Electronic Banking in Nigeria....", p. 20.

²²N. Odi, "Electronic Payment in Cashless Economy of Nigeria: Problems and Prospect", *Journal of Management Research*, Vol. 5, No. 1, 2013, p. 1.

²³For more on the concept of globalization and its dynamism, see I.P. Osamor et.al, "An Empirical Analysis of the Impact of Globalisation on Performance of Nigerian Commercial Banks in Post-Consolidation Period", *European Journal of Business and Management*, Vol.5, No.5, 2013, p. 37.

²⁴T.O. Asaolu, et.al, "Electronic Payment System in Nigeria: Implementation, Constraints and Solutions", *Journal of Management and Society*, Vol. 1, No. 2, 2011, p. 17.

January, 2009.²⁵ The policy was initially introduced to eliminate the un-acceptable delay in the payment of government contractors who have been certified to have either partly or totally completed contracts awarded to them and are due for payment. It was also introduced to minimize interaction between contractors and government officials, who have roles to play in the payment of contractors; check corruption because transactions of the government can easily be traced from one source to another; and institutionalize financial integrity in the activities of government. The policy was however, later extended to cover all payments from any FGN fund effective 1st January, 2009. In order to ensure efficiency in the new payment system, the CBN mandated that henceforth, all bank account numbers in Nigeria must be in compliance with 10 digits Nigerian Uniform Bank Account Number (NUBAN).²⁶

5. Operation of the Cashless Policy in Nigeria

At the dawn of April 1, 2012, the pilot scheme of mobile money, one of the financial services introduced to achieve a cashless economy in Nigeria, took off in Lagos, the commercial nerve centre of the country.²⁷ Part of the features of this payment platform were consumer accounts information, updates and alerts, which have been in existence but not widely subscribed to by account holders. Payment of bills, person-to-person transactions and remittances in different forms also form part of the cashless economy drive. With the introduction of the mobile payment, Nigeria was only keying into a fast-evolving global payment system. The mobile money platform is a technology driven payment system that will open up several other business opportunities in the economy²⁸. Initially, the cashless policy in Nigeria pegged daily cash transactions (deposits and withdrawals) for individuals and corporate bodies at ₦150,000 and ₦1,000,000 respectively. The amounts were however, later reviewed upward to ₦500,000 and ₦3,000,000 for individuals and corporate organisations respectively. Any cash transaction above the aforementioned amounts for individuals and corporate organizations attracted a charge of 10% in bank charges (that is to say ₦100 per every ₦1,000).²⁹ But the bank charges were later reviewed downwards by the CBN as presented in the table below:

Account type	Withdrawal/Deposit limit	Withdrawal fee	Deposit fee
Individual	₦500,000	3%	2%
Corporate	₦3,000,000	5%	3%

Table 1: Cashless Policy Withdrawal and Deposit Limits and their charges in Nigeria

Source: *Frequently Asked Questions and Answers on the CBN Policy on Cash Withdrawals/Lodgement Limit*, p. 12.

Individuals and corporate organizations that made cash transactions above the limits would be charged a service fee for the amounts above the cumulative limits only. For instance, if an individual makes a cash transaction of ₦700,000, the bank charges apply to ₦200,000 only (3% and 2% of ₦200,000 for withdrawal and deposit respectively). The cash limits apply to the accounts irrespective of channel of transaction (i.e. whether it is over the counter, automated teller machine (ATM), third party cheques cashed over the counter, etc. As far as cash is involved, any withdrawal or deposit that exceeds the limits attracts a service charge. For example, if an individual withdraws ₦450,000 over the counter and ₦150,000 from the ATM on the same day, the total amount withdrawn by the customer is ₦600,000, and the service charge will apply on ₦100,000 - the amount above the daily free limit. Thus, the limit did not prevent customers from withdrawing or depositing beyond the pegged limits but such customers should be ready to pay the aforementioned penal fee.³⁰

However, the CBN, granted exemption to revenue collection ministries, departments and agencies (MDA's) of the federal and state governments on lodgements for account operated by them for the purpose of revenue collection only. Similarly, exemption was given to all diplomatic missions, multilateral and aid donor agencies, and embassies in the country from penalties and charges on cash withdrawal and deposits with regards to the cashless policy, because Nigeria is a signatory to several treaties, which exempted such specialized international institutions from all fees and charges in the host country. Penalties on cash limit were also waived for microfinance banks and mortgage institutions.³¹

In order to facilitate efficiency of the cashless policy, the apex bank introduced the use of a number of electronic financial devices that were essential to the implementation of the policy which among others included mobile banking system, POS terminals and personal computer/web banking otherwise called PC banking. The apex bank also widened the scope of using ATMs to achieve more electronic financial transactions beyond cash dispensing like fund transfer, payment of bills and quick teller services. Although by the time cashless policy was introduced in Nigeria the ATMs had already been in use for over a decade, its usage was not as enhanced as after

²⁵ Reference No. TRY/A8 & B8/2008 dated 22nd October, 2008.

²⁶ E.F. Nwaolisa, and E.G. Kasie, "Electronic Retail Payment Systems...", pp. 112-113.

²⁷ It was introduced by the CBN via a circular Ref. No. COD/DIR/GEN/CIT/05/031 dated 20th April, 2011. See also, J.A. Odumeru, "Going Cashless: Adoption of Mobile Banking in Nigeria", *Arabian Journal of Business and Management Review*, (Nigerian Chapter), Vol. 1, No. 2, 2013, p. 10

²⁸ O.O. Ovat, "The Central Bank of Nigeria's Cashless Policy in Nigeria...", p. 129.

²⁹ W.D. Olanipekun, et.al, "Integrating Cashless Economic Policy in Nigeria...", *op.cit*, p 5.

³⁰ Malam Ibrahim Garba Ahmad, (Head of Cash and Cashless Champion), Central Bank of Nigeria, Sokoto Branch, on Wednesday 31st December, 2014. See also, O.O. Ovat, "The Central Bank of Nigeria's Cashless Policy...", *op.cit*, p. 128.

³¹ W.D. Olanipekun, et.al, "Integrating Cashless Economic Policy in Nigeria..."

the policy was introduced. It was also with a view to strengthening effectiveness of the cashless policy that the CBN had, with effect from 3rd June, 2013 stopped encashment of any third-party cheque above ₦150,000 nationwide. These channels through which the cashless policy is in the process of being implemented in Nigeria shall be briefly discussed in the following sub-sections.

6. Mobile Banking System

As stated earlier, effective from 1st April, 2012, the CBN launched a pilot scheme of mobile banking in Nigeria in its effort to commence implementation of the cashless policy in the country. Mobile banking refers to provision of banking and financial services with the help of mobile telecommunication devices. It is a type of banking that uses mobile phones to carry out some banking services.³² From the time when the Global System for Mobile Communication (GSM) was introduced into Nigeria over ten years ago, the face of communication in the country has been transformed. The development of the technologies in mobile communication has in recent years impacted upon different aspects of human endeavours. One of such aspects affected by the development of technologies in mobile communication not only in Nigeria but in the entire world was financial sector in general and banking sector in particular. Mobile smart phones (android, blackberry, windows phone, iPhone, etc), nowadays functions like personal computers in their own ends. Today Nigeria has over 90 million active mobile subscriptions making the country a fertile ground for the use of mobile banking.³³ Thus, with this high volume of active mobile phones in Nigeria, mobile banking has the potential of contributing greatly to the success of the cashless policy.

Mobile phone gives customers opportunity to operate their account with bank as long as their phones and network services provider support the short messaging service (SMS) which would enable them check account balance. It also allows users to make payments with their GSM phones. Mobile banking is a payment system that turns GSM phones into a saving account platform, allowing owners to access their account balance update and history, verify transactions, make fund transfers as well as other electronic financial services like payment of bills and quick teller services.³⁴ A recent survey carried out by the CBN show that there exists a huge growth potential for mobile banking in Nigeria. According to statistics, 32.5% of the adult population (26.4 million people) of Nigeria had at least one bank account while 55.9 million adults were unbanked. This is in addition to the fact that, virtually all the banks that operate in Nigeria today offer mobile banking services.³⁵ Therefore, since the success of a policy like the cashless policy depends to a large extent on the ability of banks to deliver alternative electronic banking options to their customers and the rate at which customers adopt such options; one of such alternatives is a mobile banking.

7. Point of Sale (POS) Terminals

The use of POS terminals to commence electronic financial services in Nigeria dates back to November, 2011, when the CBN issued a guideline on its commencement effective from December, that year.³⁶ It was in exercise of the powers conferred on the apex bank by Section 47 (3) of the CBN Act 2007 (as amended) to issue guidelines for the maintenance of adequate and reasonable financial services for the public and to ensure high standards of conduct and management throughout the banking system, that CBN issued the guidelines for POS card acceptance services in Nigeria.³⁷

The POS is a machine used to accept cards for payment of goods and services. It allows a cardholder to have a 'real-time' online access to funds and information in his/her bank account through debit or cash cards. This type of electronic financial device handles credit authorization, cash deposit and withdrawal, cash payment, etc. It equally enhances electronic fund transfer at the point of sales. The POS devices are obtained by businesses from their banks and installed for electronic financial transactions. They are normally connected to the NIBSS by the subscribers' bank for the purposes of making payments during business transactions. The way it works is that, customers account would be debited immediately with the cost of purchase in outlets such as petrol stations, supermarkets and pharmaceuticals. The implication of this is that customers can make payment for goods and services without necessarily coming in contact with physical cash as the purchase price would be debited on the buyer's card and credited on the seller's account.³⁸

8. Automated Teller Machine (ATM)

An ATM is a self-service machine that dispenses cash and performs some human teller functions like balance enquiry, bills payments, mini statements and so on. It is a computer controlled device that dispenses cash and provides other services such as fund transfer, air time recharge, quick teller services like payment of bills, etc to customers who identify themselves with a personal identification number (PIN). Its transactions are carried out through the use of a debit/credit card which enables the card holder(s) to access and carry out banking transactions without a teller.³⁹ As noted earlier, the first ATM in Nigeria was launched in November, 1990. ATM

³²J.A. Odumeru, "Going Cashless...", p. 9.

³³*Ibid*, p. 10.

³⁴ "Frequently Ask Questions and Answers on the CBN Policy on Cash Withdrawals/Lodgement Limit" a Monograph, Published by the Central Bank of Nigeria, ND p. 6.

³⁵ J.A. Odumeru, "Going Cashless...", p. 10.

³⁶ Central Bank of Nigeria, *Guidelines on Point of Sales (POS) Card Acceptance Services*, Abuja, CBN, 2011, p. 13. See also, O. Chima, "POS Transaction: NIBBS Commences T1 Settlement", *ThisDay Newspaper*, 2nd December, 2011.

³⁷ Central Bank of Nigeria, *Guidelines on Point of Sales (POS)...*, p. 2.

³⁸W.D. Olanipekun, et.al, "Integrating Cashless Economic Policy in Nigeria...", p. 6.

³⁹ *Ibid*, pp. 6-7.

has in recent years reduced to a certain extent, physical carriage of cash and frequent visit to the banks in Nigeria. It is therefore one of the channels through which cashless policy can be efficiently implemented in the country.⁴⁰ The principal advantage of ATM is that, it is accessible for electronic financial transactions and it dispenses cash at anytime of the day regardless of working hours or working days so long there is network, there is no any technical or mechanical problem and, or there is cash in the machine as the case may be. It also needs not to be located within the banking premises; it could be outside a bank, in stores, shopping malls, fuel stations, school premises, etc.⁴¹

9. Personal Computer (PC)/Web Banking

PC/web banking is a form of online banking that enables customers to execute bank transactions from a PC via internet connectivity like in a cyber café, using a modem or data by a mobile telecommunication network. In most PC banking ventures, the bank offers the customer a proprietary financial software program that allows the customer to perform financial transactions from his or her home computer. The customer then dials into the bank with his or her internet connectivity, downloads data, and runs the programs that are resident on the customer's computer. Currently, many banks in Nigeria offer PC banking systems that allow customers to obtain account balances and credit card statements, pay bills, and transfer funds between accounts.⁴² This is another channel through which cashless policy was in the process of being implemented in Nigeria. It is another form of online banking system which has become an important practice among commercial banks in Nigeria in recent years. The introduction of this kind of e-banking has no doubt enhanced cashless policy and improved banking efficiency in rendering services to customers in the country.⁴³

It is however, important to note that out of the above channels of electronic financial services, the ATM is the most patronized among Nigerians. According to 2013 CBN annual report, the ATM transaction in Nigeria accounted for 96.4%, followed by mobile banking with 1.3%, and POS terminals, 1.2 per cent. The PC/web transaction was the least patronized, accounting for only 1.1%. (The table below represents this information). This may not be unconnected with the fact that the ATM facilities (the machines and the cards) were the most easily accessible to bank customers. Other channels required access to bank mobile platforms that would enable customers to transact with their mobile phones and internet services, which were not as common as the ATM facilities.

Channel of Electronic Financial Service	Percentage of Patronage
ATM	96.4%
Mobile	1.3%
POS	1.2%
PC/web banking	1.1%

Table 2: Channels of Electronic Financial Services and their Percentage of Patronage in Nigeria

Source: CBN annual report for the year 2013, p. 7

10. Encashment of Third Party Cheque above ₦150,000

The CBN had also in addition to the above financial services that aimed at transforming Nigeria into a cashless society, through a circular⁴⁴ directed all deposit money banks, microfinance and mortgage banks in all the 36 states of the federation and Federal Capital Territory (FCT), to stop encashment of third party cheques above ₦150,000. The value for such cheques shall only be received through lodgements into the recipient/beneficiary's bank account. This new policy took full effect in the entire country on 3rd June, 2013. The implication of this was that any cheque above ₦150,000 originating from a third party must be lodged into the beneficiary's account. The policy, according to the CBN, was one of the measures being put in place to discourage the use of cash in the country's economic system.⁴⁵

Coverage of the cashless policy was later extended to the Federal Capital Territory (Abuja), and five other states: Kano, Rivers, Abia, Ogun and Anambra on July 1st, 2013, but due to unforeseen circumstances, the CBN suspended the extension until 1st July, 2014.⁴⁶ This was referred to as phase II of implementation of the policy.⁴⁷ Phase III, which was the last stage of implementing the policy was meant to cover the remaining 25 states of the federation. In a circular to all deposit money banks, titled "Phase III Nationwide Rollout

⁴⁰Ibid, p. 7.

⁴¹ Malam Abdullahi Bawa, Head of Banking, Central Bank of Nigeria, Sokoto Branch, interviewed at his office on Tuesday 30th December, 2014. See also O.O. Ovat, "The Central Bank of Nigeria's Cashless Policy in Nigeria...",

⁴²I. Pedro, "Towards Effective Implementation of Electronic Banking in Nigeria", *An International Multidisciplinary Journal, Ethiopia*, Vol. 6, No. 2, 2012, pp. 295-296.

⁴³W.D. Olanipekun, et.al, "Integrating Cashless Economic Policy in Nigeria...", p. 6.

⁴⁴Reference No. BPS/DIR/GEN/CIR/01/001. A third party cheque is the one issued by an account holder to a recipient for money to be released from his/ her account and given to the recipient. In this case, the bank is the first party, the account holder is the second party, while the recipient is the third party. For more on this, see A. Alawiye, "Cashing of Third-party Cheques above ₦150,000 Stops Today", *The Punch Newspaper*, Monday June 3rd, 2013, p. 1.

⁴⁵Malam Ibrahim Garba Ahmad (Head of Cash and Cashless Champion), Central Bank of Nigeria, Sokoto Branch, on Wednesday 31st December, 2014. See also, "Frequently Ask Questions and Answers on the CBN Policy on Cash Withdrawals...", p. 5.

⁴⁶ See *African Business Magazine*, for the months of August/September, 2014, p. 56.

⁴⁷ E. Okonji, "CBN to Push Cashless Policy Initiative to More States", *This Day Newspaper*, 24th June, 2014.

of Cashless Policy: Extension to 30 Remaining States”, signed by the Director, Banking and Payments System Department, Mr. Dipo Fatokun, the CBN said Phase III of the policy’s implementation would commence in the remaining 30 States of the Federation on July, 1 2014 as scheduled.⁴⁸ Another CBN circular⁴⁹ to all deposit money banks, microfinance banks and primary mortgage institutions; titled “Circular on the Phase III Nationwide Rollout of Cashless Policy to the 30 Remaining States”, dated June 9, 2014 and signed by the same CBN official, further reiterated the intention of the apex bank to extend introduction of the cashless policy in the remaining states of the federation by 1st July, 2014 where the policy was not hitherto introduced.

However, few days to the extension of the policy nationwide, the CBN announced waiver regarding charges on cash withdrawals by both individuals and corporate bodies above the pegged limit. In a press release signed by Isaac A. Okorafor, on behalf of Director, Corporate Communications Department of the CBN, it was made clear that as was the case in the pilot states, a one-year waiver was granted on the application of withdrawal charges in the remaining 30 states. This means that withdrawal charges continued to apply to transactions above the specified limits in only in Abia, Anambra, Lagos, Ogun, Kano, Rivers States and the Federal Capital Territory (Abuja). According to the release:

- Having successfully completed phases 1 and 2 of the cashless policy in six pilot states and the Federal Capital Territory, the Management of the Central Bank of Nigeria hereby notifies all stakeholders and the general public that phase 3 of the policy’s implementation will commence as scheduled on July 1, 2014, in the remaining 30 States of the Federation.⁵⁰

The announcement added that charges on withdrawals for both individual and corporate account holders were to take effect in the 30 remaining states as from July 1st, 2015. The waiver, the announcement further explained, was meant to allow ample time for the deployment of adequate infrastructure needed to support the policy, as well as additional sensitisation of various stakeholders on the merits of the policy.⁵¹

It was in compliance with the above directive of the CBN that deposit money banks across the country began charges on cash withdrawals above the pegged limit (₦500,000 and ₦3,000,000 for individual and corporate bodies account holders respectively), on 1st July, 2015. Text messages sent by deposit money banks across the country read:

- We refer to the Central Bank of Nigeria’s (CBN) cashless policy, and the previous communication deferring charges on cash withdrawals above the daily limits, in 30 states of Nigeria till July 1, 2015. Please be informed that the following modalities which are currently operational in Lagos, Federal Capital Territory (Abuja), Abia, Anambra, Kano, Ogun and Rivers States will now be effective nationwide, including the previously exempted 30 states of Nigeria.⁵²

However, nearly two weeks after commencement of the charges, the CBN issued a circular⁵³ to all deposit money banks, microfinance and mortgage banks; titled “Re: Nationwide Rollout of Cashless Policy to the Remaining 30 States”, requesting them to stop the charges in the remaining 30 states until further directive is received from the apex bank. The circular added that, “charges inadvertently applied by banks on their customers’ accounts in the remaining 30 states, with effect from 1st July, 2015, should be reversed immediately.”⁵⁴

At this point, it is important to note that the recent directive issued by the CBN to stop charges on the excess cash withdrawal limit in the remaining 30 states of the federation in Nigeria is not unconnected with inadequate facilities to commence the cashless policy effectively in the entire country. Even ATMs, which are the most patronized channels of implementing the cashless policy among Nigerians, are grossly inadequate. Up till now, many local government areas’ headquarters in the country, not alone to talk of more remote areas, have no single installed ATM. In the few rural communities where they are located, they are either in a bad state or they are being over used by people. Thus, many people have to go to urban centres for simple ATM transactions in most parts of the country.

This is in addition to dearth of other channels through which the cashless policy could be implemented, like POS in the remaining 30 states, and more importantly lack of awareness about their existence among considerable number of Nigerian population. For instance, as at July, 2015 the only town where POS terminals were found in the whole of Sokoto State was only Sokoto town- the state capital. Even in Sokoto town, they were located in few business outlets like Shangai supermarket and Mr. Bigg’s located along Maiduguri road, Rahusa and Zumunci Pharmacies along Sultan Abubakar road, Dankani Guest Inn along Kalambaina road, and Saraki Telecommunications shop around diplomat round about.⁵⁵

For the CBN to effectively commence the cashless policy in remaining 30 states of the federation therefore, it has to forestall and tackle the problem of infrastructural challenges as well as lack of wider publicity, hindering commencement of the policy proper in the

⁴⁸CBN Circular, Reference No. GOVSSO/GEN/02/100, dated, 3rd June, 2014.

⁴⁹CBN Circular, Reference No. BPS/PSP/DIR/CIRVOL.1/008, dated 9th June, 2014.

⁵⁰Central Bank of Nigeria, “CBN Rolls out Cash-less Policy on July 1, 2014, Postpones Withdrawal Charges in 30 States”, *Press Release*, 24th June, 2014.

⁵¹*Ibid.* See also, B. Uduze, “CBN Rolls Out Cashless Policy July, Waves Withdrawal Charges”, *The Sun Newspaper*, 25th June, 2014 and O. Chima, “Cashless Policy: CBN Defers Charges in 30 States”, *Thisday Newspaper*, 25th June, 2014.

⁵²This kind of text message was sent by deposit money banks to their customers in the states where the policy took effect as from 1st July, 2015 barely two days thereafter. See also, I. Akinmutimi, “Cashless Policy: Banks Implement Charges on Cash Withdrawals Nationwide”, *National Mirror Newspaper*, 13th July, 2015.

⁵³Reference No. BPS/DIR/GEN/CIR/02/006, dated 13th July, 2014

⁵⁴*Ibid.*

⁵⁵ Malam Ibrahim Garba Ahmad...., All the five outlets were visited and existence as well as functionality of the POS terminals at the locations have been confirmed.

remaining parts of the country. In view of this, the CBN has to enhance provision of adequate channels for implementing the policy in all nook and crannies nationwide, and embark on massive enlightenment campaign via the mass media outreach to educate both the banking and unbanked public on the nitty-gritty of the cashless policy. This can be done through production and airing of jingles in the three major languages being spoken in Nigeria: the Hausa, the Igbo and the Yoruba languages, to enable the message of actualizing a cashless Nigeria be widely publicised especially among rural dwellers. Although the cashless policy was another way of further integrating the economy of Nigeria into that of capitalist economies for easy continuation of exploitation of the former by the latter, if properly implemented in all the 36 states of the federation and Abuja (FCT), the policy has the potentiality of not only reducing the pressure on Naira notes but also transforming payment systems in the country.

11. Other problems and challenges facing the policy

The problems and challenges so far faced by the new cashless policy in Nigeria include: fraud, indiscriminate deductions from consumers' accounts, high rate of illiteracy, inefficiency as well as inadequate infrastructure and epileptic public power supply.⁵⁶ These are briefly discussed below.

The policy faced the danger of payment fraud. Experiences of the phase I and II pilot schemes in Lagos, and five additional states (Abia, Anambra, Kano, Ogun, Rivers,) and the Federal Capital Territory (FCT) respectively, have so far witnessed high incidence of fraud. For instance, there were occurrences of subjecting customers to multiple charges by banks in the states where the policy has so far been introduced. This is in addition to the normal 'Commission on Turn Over' (COT) charged by the banks on their customers. All these means, innocent customers could be exploited by the financial institutions in the name of providing electronic financial services.⁵⁷

The Lagos and other states experiences also revealed that there were cases of indiscriminate deductions from consumers' accounts, arising from inefficient mastery of the new technology by the financial service providers.⁵⁸

A country like Nigeria that had a high rate of illiteracy of up to 61.3%⁵⁹ would not embrace a cashless economy without some challenges. Illiteracy was no doubt among others, one of the greatest impediments in the country's shift towards a cashless society. Many people in the country could not even read and write, not alone to talk of how to operate electronic devices like ATMs, POS, PCs and mobile smart phones, through which the cashless policy can be implemented. Part of the consequences of this problem was unnecessary delay caused by people who operated the devices especially the ATMs, but did not know how to operate them efficiently.⁶⁰

Another challenge to the successful implementation of the cashless policy is inefficiency brought about by poor infrastructure. For example, on many occasions people go to ATMs to make withdrawals, the cash is not dispensed to them even after the system had debited their accounts, or there may be problem of network failure. Thus, with this, the ATM and POS machines cannot work when the consumers need them.⁶¹

Inadequate infrastructure and epileptic public power supply was another challenge that hindered successful implementation of the cashless policy in Nigeria. This ranged from network failure, to inadequate ATMs and POS terminals and epileptic power supply, which was critical to efficient electronic payment system. For example, some ATMs and POS terminals could not work when the consumers needed them because it was either out of service or unable to dispense cash. Another known infrastructural challenge was the public power supply system. Electric power is critical for efficient electronic payment. Unfortunately, in Nigeria, the power system was very epileptic where it was available and in most rural areas it was nonexistent.⁶² These problems have undoubtedly militated against success of the cashless policy in Nigeria.

12. Benefits Derivable from the Cashless Policy and its Likely Future in Nigeria

The benefits which Nigerians can derive from the cashless policy are to be shared among three main groups. They are; the people who own bank accounts and subscribe to the facilities provided by the policy (consumers), corporate organizations and the government. For the consumers, it brings about increased convenience, more service option, reduced risk of cash related crimes, cheaper access to out of branch banking services and access to credit. For corporate organizations, it ensures faster access to capital, reduced revenue leakage and reduced cash handling costs. For the government, it brings about increased tax collection, greater financial inclusion, reduced revenue leakage and increased economic development.⁶³

⁵⁶ W.D. Olanipekun, et.al, "Integrating Cashless Economic Policy in Nigeria...", pp. 6-7.

⁵⁷ O.O. Ovat, "The Central Bank of Nigeria's Cashless Policy in Nigeria...", p. 131.

⁵⁸ *Ibid.*

⁵⁹ See M.A. Yusuf, et.al, "Comparative Study of the State of Literacy in Nigeria and Cuba", *European Scientific Journal*, Vol. 19, No. 19, July 2013, p. 37.

⁶⁰ Field observation by the researcher at various ATM centres in Sokoto, Kebbi and Zamfara State. See also, A.A. Sokoto and L. Haruna, "Cashless Policy and the Nigerian Economy...", p. 153.

⁶¹ Habibu Isah Muhammad (Head of Marketing), Sterling Bank, Birnin Kebbi Branch, Thursday, 4th August, 2015. This is actually the popular experience of many bank customers in Nigeria who use ATMs.

⁶² O.O. Ovat, "The Central Bank of Nigeria's Cashless Policy in Nigeria...", p.131.

⁶³ A.B. Paul, and O. Friday, "Nigeria's Cashless Economy...", pp. 33-34. Also, in a discussion with Malam Abdullahi Bawa...,

The likely future of the cashless policy in Nigeria if the above problems and challenges are to be overcome and the policy be properly implemented, ranges from reduction in cost and risk of using cash, to reduction in subsidy of cash transaction costs, promotion of formal economy, reduction of corruption, creation of employment opportunities,⁶⁴ etc. These are also briefly explained below:

One of the benefits derivable from cashless policy in Nigeria is reduction in the cost of handling cash. A cash-based economy is usually associated with high cost of cash along the value chain – from the CBN and the banks to corporations and individuals; everyone bears the high costs associated with volume of cash handling. A shift towards a cashless economy will alleviate these costs. Operational costs are due to the high costs accrued in cash management, currency sorting, cash movements and frequent printing of currency notes. All these, ultimately manifest as allowances on the side of bank personnel and charges on the side of customers.⁶⁵

The policy also reduces the risk associated with using cash in an economy. The use of physical cash encourages cash related crimes like armed robberies and burglaries. It can also lead to financial losses in case of fire outbreaks. But a cashless economy minimizes such negative consequences.⁶⁶

Another benefit is reduction in subsidy of cash transaction costs. A cash-based economy is always associated with high subsidy of cash transaction costs. A recent research conducted by the CBN in 2013, revealed that 90% of bank customer daily withdrawals were of amounts below ₦150,000; whereas, only 10% of bank customers who withdrew over ₦150,000 were responsible for the rise in cost of cash management being incurred by all the bank customers.⁶⁷ This implies that the entire banking population subsidizes the costs that the minority 10% incurs in terms of high cash usage. A cashless economy will reduce this subsidy and make the minority 10% of the banking population account for the cost of cash management they incur rather than the entire banking population.⁶⁸

The policy also promotes formal economy. High cash usage results in a lot of money outside the banking system or formal economy. This militates against the effectiveness of monetary policy in managing inflation and boosting economic growth. A cashless economy stands to arrest this.⁶⁹

It checks corruption in an economy. A cash-based economy encourages corruption manifesting in form of money laundering, leakages etc, whereas a cashless society reduces such fraudulent practices.⁷⁰

It also provides employment opportunities. The policy if successfully implemented is also expected to create more employment opportunities. This can be achieved through charges which banks are going to be generating from their customers and make it available as loan for the low and middle-income earners especially those that run small and medium scale businesses respectively. The increase in velocity of the financial services due to cashless policy would equally ensure growth in the financial sector and the economy of the country as a whole.⁷¹

13. Conclusion

In a bid to promote globalization, which is an ongoing trend for achieving imperial goals in the developing countries by the western capitalist powers, electronic banking and payment systems are gradually taking ground in Nigeria. This followed the revolution in the banking sector of the country which began with the adoption of electronic banking system especially by the new generation banks from the late 1980s, through the 1990s and of course up to the present time. The introduction of electronic payments in the formal sector initially by the Federal Government effective from 1st January, 2009 and its subsequent adoption by various state governments in the country as from 2010 provided an impetus for the subsequent introduction of the cashless policy. Although the policy has not yet been effectively introduced in the country, insufficient channels through which it can be implemented as well as encashment of 3rd party cheque have already been put in place. The delay in commencing the cashless policy effectively in the larger part of the country is informed by insufficient facilities and infrastructure such ATMs, POS, epileptic power supply, internet/mobile communication network, as well as lack of awareness among larger population of Nigerians about the policy. To successfully implement it nationwide therefore, the CBN has to ensure provision of adequate infrastructural facilities needed by the policy and embark on nationwide publicity to sensitize more Nigerians on the benefits and prospects of the policy.

⁶⁴W.D. Olanipekun, et.al, “Integrating Cashless Economic Policy in Nigeria...”, p. 7.

⁶⁵M. Omotunde, et.al, “Impact of Cashless Economy in Nigeria”, *Greener Journal of Information and Communication System*, 2013, Vol. 1, No. 2, p. 43.

⁶⁶*Ibid.*

⁶⁷CBN 2013 Statistical Bulletin, published July, 2014.

⁶⁸S.T. Tunji, “The Effect of Cashless Banking on Nigerian Economy”, *Canadian Journal of Accounting and Finance*, vol. 1, No. 2, 2013, p. 14.

⁶⁹A. Blankson, “The New CBN Cash-less Policy: An Overview”, *Newsletter*, 2012, pp. 4-5.

⁷⁰*Ibid.*, p. 5.

⁷¹W.D. Olanipekun, et.al, “Integrating Cashless Economic Policy in Nigeria...”, p. 7.

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