**PROBLEMS AND PROSPECT OF ELECTRONIC BANKING IN NIGERIA**

**ABSTRACT**

This research work is an attempt to find out the “problem and prospects of electronic banking in Nigeria”. The research geared toward explaining what Electronic Banking is all about and when it was introduce into Nigeria.  The research also explained the services and the features of electronic Banking in Nigeria.  Though some of the information is between the bankers and their customers, the researcher was able to finally outline some of those problems and challenges associated with electronic banking, the information contained in this research will educate a lot of ignorant citizens, concerning how they can transact business with their bankers or their customers through electronic device effectively without fear or prejudice.

 **CHAPTER ONE**

            **INTRODUCTION**

**1.1** **BACKGROUND OF THE STUDY**

 Financial institutions have been early adopters of smart card and credit cards technology, in the system and more recently, the launching of internet banking have transformed the world into a global village linked with electronic impulses. The idea or when the Apex Bank of Nigeria (Central Bank of Nigeria) gave the approval to all states. Trust Bank Limited to issue a financial product known as the ESCA an electronic purse to the public. Later on, Diamond Bank Limited, introduced a parallel product know as Diamond pay card.  In February 1998 the smart card received a boost, when 19 licensed banks floated a smart card company. Although a lot of research works have been done on the prospects and challenges of information. Technologies in the banking industry, these research works are broad based (E-banking). Opera etal, (2010), posits that, modern banks now realize that  only those that overhaul their payment services delivery and operations are likely to survive and prosper in the 21st century. Connel and Saleh (2004) are of the view that, due to pressure of globalization, consolidation, privatization, deregulation and rapidly changing technology, in order to properly place themselves in favorable positions for competitions and be one of those corporations, to be reckoned with in the new century, banks are making use of internet to executes mobile banking, this developed from bringing personal computer (PCS) together to form local and wide area network through client/server technology.

Many banks have installed modern computer interconnectivity that would enable them achieve communications of data and multimedia over internets, intranets and extranets. They also realize that they have to achieve not only management staff, wide computer literacy but what could be called information literacy i.e. knowing how to locate, analysis, store and use information. All staff and managers in a modern bank need to be able to search and gather data from several types of sources, analyze them, select relevant ones and organize them in such a manner to allow them make decisions based on the organized data, banks future realizes that the banking of nowadays requires more of electronic banking and shuffling and other banking transaction, instead of paper. In other words, paper base transactions are now being replaced by electronic based transaction e.g. the internet. Whether a bank would be successful or not depend on the extent to which it is investing on IT and using it in an innovative manner. This area has been tipped to be a major competitive ground for banks that are operating in the post-consolidation era. Often times scholars tend to ask questions like;

i) What are the major issues needed to be mastered by Nigerian banks in order to compete with the rest of the world?

ii) What are the major developments and challenges in the Nigerian banking environment that are affecting the growth of electronic banking?

These are some of the questions that the researcher intend to addressed in the course of this study, “problems and prospect of electronic banking in Nigeria”.

**1.2** **STATEMETN OF THE PROBLEM**

Electronic banking is a driving force that is changing the landscape of the banking environment fundamentally towards a more competitive industry. Electronic banking has blurred the boundaries between different financial institutions, enabled new financial products and services, and made existing financial services available in different package,  (Anderson S. 2000), but the influences of electronic banking go far beyond this.

The developments in electronic banking together with other financial innovativeness are constantly bringing new challenges to finance theory and changing people’s understanding of the financial system.  It is not surprising that in the application of electronic banking in Nigeria, the financial institutions have to face its problems:-

1. Communication over the internet is insecure and often congested.

2. The financial institutions would also have to contend with other internet challenges including insecurity, quality of services and some aberrations in electronic finance.

3. Besides, the existing banking environment also possesses some challenges to the smooth operations of electronic banking in Nigeria. Some of these operational challenges includes. Epileptic power supply, dominance of cash transaction in the economy, low level of awareness among Nigerian etc. The thrust of this research work shall be to examine the trend of electronic banking in Nigeria and a critical examination of the challenges, (Danwa P. A 1991)

**1.3** **THE OBJECTIVE OF THE STUDY**

The main focus of this project will be on the problems and challenges, which the introduction of electronic money scheme throws up, adequate attention will also be devoted to prospects or control mechanism that has put in place to ensure effective management of electronic product vis-à-vis likely impact on the economy as a whole. Some of the sub objectives which this research work aims to achieve are as follows:-

1. To investigate the impact of Electronic banking on the efficiency and reliability of banks services.
2. To examine the impact of electronic banking on the operations of financial institutions with specific reference to the organization understudy.
3. To examine the relationship between Electronic banking and bank-customer relationship.
4. To test the efficacy of Electronic banking in enhancing the fortune of the banks.
5. To proffer solution/recommendations where necessary.

**1.4 RESEARCH HYPOTHESES**

The following hypotheses are formulated by the researcher for the smooth research of the above topic:

**Ho:** Electronic banking does not enhances banks profitability and efficiency.

**H1:** Electronic banking do enhances banks profitability and efficiency.

**Ho:** Electronic banking does not improves bank-customer relationship.

**H2:** Electronic banking does not improves bank-customer relationship.

**RESEARCH QUESTIONS**

The researcher intend to provide answers to the following questions in the course of this study:

1. What are the prospects of electronic banking in first bank plc in Nigeria?

2. What are the impacts of electronic banking on the operation of financial institutions with specific reference to the organization understudy?

3. To what extend has electronic banking affect customer and their relationship with the organization?

**1.5 SIGNIFICANCE OF THE STUDY**

It is expected that at the end of this study the findings will be relevant to operators in the banking industry and other concerned individuals and organization’s adoption of electronic banking.

The research shall basically identify the technical and operational challenges facing electronic banking in Nigeria banking environment and suggests ways by which they could be tackled. The study is significance to lecturers in the sense that, the lecturer valuable time that would have been wasted in the process of compiling and processing students notes has been reduced as a result of the advent of E-banking system compared to when operating manually. It is also important to researchers and students because, it reduced the stress of consulting series of textbooks and travelling from place to place looking for information, thereby provides avenue for browsing, thus, make the work to be done at ease.

**1.6 SCOPE AND LIMITATION OF THE STUDY**

The scope of this project work is restricted to only the banks and their customer in Nigeria and between a company or fir operating on electronic banking and their customers, the researcher encounters some limitations which limited the scope of the study;

**INADEQUATE TIME:** There is a limited for the researcher to work his project considering the short semester of the school.

**INADEQUATE RESPOND:** Some bank does not disclose how they operate on electronic banking because it is a secret between them and their customer.

**FINANCE:** The researcher has limited money to carry out the research more effectively.

**INADEQUATE MATERIAL:** Because the project is a new development the material for the project is limited.

**1.7** **DEFINITION OF TERMS**

 **Automated Teller Machine (ATM):**  Gives customers’ easy access to his/her cash whenever he/she needs it (24 hours a day 7days a week).

**Internet banking:** With a PC connected to the bank via the internet, the product empowers a customer to transact banking business when where and how he/she wants with little or no interaction with the bank physically.

**Mobile Banking:** Offer customers the freedom of banking with mobile phone. The product keep a customer in touch with his/her finances all the time and anywhere.

**Electronic banking/E-Banking:** This refers to the use of computer and telecommunication to enable banking transactions to be done by telephone or computer.

**Electronic funds transfer (EFT):** this involves transfer of money from one bank account to another by means of communication links.

**Smart Cards)**: Is a plastic card that contains a microprocessor that store and update information, typically used in performing financial transactions.

**E-money:** is also known as electronic cash which refers to money  or script which exchange only electronically. A good example of e-money is money transfer.

**Bill payment:** it refers to e-banking application whereby customer directs the financial institutions to transfer funds to the account of another person or business.

**1.8 ORGANIZATION OF THE STUDY**

This research work is organized in five chapters, for easy understanding, as follows Chapter one is concern with the introduction, which consist of the (overview, of the study), statement of problem, objectives of the study, research question, significance or the study, research methodology, definition of terms and historical background of the study. Chapter two highlight the theoretical framework on which the study is based, thus the review of related literature. Chapter three deals on the research design and methodology adopted in the study. Chapter four concentrate on the data collection and analysis and presentation of finding. Chapter five gives summary, conclusion, and recommendations made of the study.

 **CHAPTER TWO**

 **REVIEW OF RELATED LITERATURE**

* 1. **Introduction**

Electronic banking otherwise known as E-banking evolved from developed nations with enormous benefits such as online banking and elongated banking hours to customers. These benefits make available comfort, convenience and ease of use for bank transactions. Before the advent of electronic banking, customers could only make transactions from a bank’s brick and mortar branch offices. E-banking has facilitated the integration of the functions of some large banks that have several branches around the country on a centralized network so that transactions can be carried out at any branch on the network without the customer being physically present in the branch. Nevertheless, e-banking like any other human activities is fraught with different challenges as well as prospects.

Business organization especially the banking industry of the 21st century operates in a complex and competitive environment characterized by changing factors and highly unpredictable climate, thus, information and communication technology is at the centre of this global curve as an absorber and to provide a cooling effect. Also, Laudon D. and Laudon J. (1991) contend that banks cannot ignore information system because it plays a critical role in their competitive edge both locally and globally, they point out that most fortune banks' cash flow is linked to their adoption of information system. The adoption of Information and Communication Technology in banking sector is generally referred to as electronic banking (E-banking) and application of its concepts, techniques, policies, and implementation strategies to banking services has become a subject of fundamental importance and concerns to all banks and indeed a pre-requisite for local and global competitiveness because, it directly affects the management decisions, plan and products and services to be offered by banks. It has continued to change the way banks and the corporate relationships are organized worldwide and the variety of innovation of service delivery.

E-business has been continuously growing as a new industry during the last decade (Van Hoeck, 2001). The banking industry has been leading this trend in recent years, and now all banking transactions completing through internet applications is sometimes called e-banking (Boss et al., 2000; Smith, 2006; Hwang et al., 2007; Shin, 2008). E-banking has revolutionized the way business is transacted by globalizing the business enterprise. E-banking technologies have proliferated in recent years, and the availability of a wide range of products has led to increasing adoption among consumers. These technologies include direct deposit, computer banking, stored value cards, and debit cards (Servon and Kaestner, 2008). Consumers are attracted to these technologies because of convenience, increasing ease of use, and in some instances cost savings (Anguelov et al., 2004). E-banking has been viewed as an upgrading from previous electronic delivery systems to open new business opportunities for the banking industry (Ebling, 2001). www.wikipedia.com defines cellular phone as: The Cellular telephone (commonly "mobile phone" or "cell phone" or "hand phone") is a long-range, portable electronic device used for mobile communication. For the past two decades, the banking sector has chosen a new service channel based on the progress of information technology – internet to respond to the changes in customer preferences and needs, increasing competition from non-banks, changes in demographic and social trends, and government deregulations of the financial service sector (Byers and Lederer, 2001). In the search for sustainable competitive advantages in the technological financial service industry, banks have acknowledged the value to differentiate themselves from other financial institutions through new service distribution channels (Daniel, 1999). In addition, customer’s transaction and communication abilities have been improved by the developments of information technology. Information technology enabled electronic channels to perform many banking functions that would traditionally be carried out over the counter (Giannakoudi, 1999). The rise of electronic payments media such as debit and credit cards has caused the value of paid in the USA to fall to – from about $49 billion in 1995 to about $42 billion in 2002 (Gerdes and Walton, 2002). The use of paper cheques has been supplemented step-by-step with e-cheques (i.e., electronic images) allowing banks to have more storage capacity, reduce costs, and improve Furthermore customer services (Rose and Hudgins, 2005). A more recent e-banking development is wireless internet applications of banking sometimes called m-banking (mobile banking) (Choi et al., 2006; Scornavacca and Hoehle, 2007). With the combination of two most recent technological advancements – internet and mobile phone, a new service (mobile data service) is thus enabled and the first such wireless internet commercial transaction is performed by the banking industry (Barnes and Corbitt, 2003). It is believed that m-banking will provide another new channel for banking services, especially for certain remote areas where online internet is still unavailable. Strategic implications and customer perception of m-banking services are explored (Laukkanen and Lauronen, 2005) with a focus on the consumer value creation and a better understanding about the customer-perceived value of m-banking services. For instance, mobile internet service has been quite popular in Japan (over 60 million users in 2003) especially for those young and single (i.e., unmarried) consumers (Scornavacca and Barnes, 2004).

According to Timothy (2012) who posits that in three or four decades ago, banking was a simple business; consumers saved their money with and received their financial services from banks. When customers open savings account, they received passbook from the bank with which the account would be operated; and when it is a current accounts, they received cheque books for the same purpose. Today, the banking industry has moved into an era of menu-driven ultra-robust specialized software programmes called banking applications. These applications can carry out virtually all banking functions relying heavily on information collection, storage, transfer and processing The application of electronic banking products/services to banking operations has become a subject of fundamental importance and concerns to all banks operating within Nigeria and indeed a condition for local and global competiveness (Ezeoha, 2006; Ikechukwu, 2000). The recent consolidation exercise in Nigerian banking sector has drawn the attention of many banks to application of various technological devices in promoting/achieving better customer service delivery that guaranteed customer satisfaction that translates into increase profitability and higher return on investment.

* 1. **ORIGIN OF E-BANKING IN NIGERIA**

The Structural Adjustment Programme (SAP) initiated in 1986 by the Babangida Administration brought to an end the kind of banking services rendered by the first generation of banks, which have been described as "Arm Chair Banking". The SAP changed not only the structure but also the content of banking business. Just as the number of banks grew tremendously from 40 in 1985 to 125 in 1991, the SAP made possible the licensing of more banks and which posed more threat to existing ones and the more aggressive the marketing techniques adopted by them. In the process of the intense competition, adoption of electronic banking was seen as a necessity to maintaining a good competitive position, whereas, e- banking stormed the British Banking scene in the late sixties. Nigeria started the long and tortuous journey in November, 1990 when Society Generate bank launched their first Automated Teller Machine.

* 1. **Theoretical Review**

**Innovation Diffusion Theory**

This theory developed by Roger in 1983 explains individuals’ intention to adopt a technology as a modality to perform a traditional activity. The critical factors that determine the adoption of an innovation at the general level are the following: relative advantage, compatibility, complexity, trialability and observability. It is concerned with the manner in which a new technological idea, artefact or technique, or a new use of an old one, migrates from creation to use. According to (IDT) theory, technological innovation is communicated through particular channels, over time, among the members of a social system. The stages through which a technological innovation passes are: knowledge (exposure to its existence, and understanding of its functions); persuasion (the forming of a favourable attitude to it); decision (commitment to its adoption); implementation (putting it to use); and confirmation (reinforcement based on positive outcomes from it). Early users generally are more highly educated, have higher social status, are more open to both mass media and interpersonal channels of communication, and have more contact with change agents. Mass media channels are relatively more important at the knowledge stage, whereas interpersonal channels are relatively more important at the persuasion stage. Innovation decisions may be optional (where the person or organization has a real opportunity to adopt or reject the idea), collective (where a decision is reached by consensus among the members of a system), or authority-based (where a decision is imposed by another person or organization which possesses requisite power, status or technical expertise). Important characteristics of an innovation include: relative advantage (the degree to which it is perceived to be better than what it supersedes); compatibility (consistency with existing values, past experiences and needs); complexity (difficulty of understanding and use); trial ability (the degree to which it can be experimented with on a limited basis); observability (the visibility of its results). Different adopter categories are identified as: innovators (venturesome); early adopters (respectable); early majority (deliberate); late majority (skeptical); laggards (traditional). Earlier adopting individuals tend not to be different in age, but to have more years of education, higher social status and upward social mobility, be in larger organizations, have greater empathy, less dogmatism, a greater ability to deal with abstractions, greater rationality, greater intelligence, a greater ability to cope with uncertainty and risk, higher aspirations, more contact with other people, greater exposure to both mass media and interpersonal communications channels and engage in more active information seeking. Important roles in the innovation process include: opinion leaders (who have relatively frequent informal influence over the behavior of others); change agents (who positively influence innovation decisions, by mediating between the change agency and the relevant social system); change aides (who complement the change agent, by having more intensive contact with clients, and who have less competence credibility but more correctly or trustworthiness credibility). The change agent functions are: to develop a need for change on the part of the client; to establish an information-exchange relationship; to diagnose the client problems; to create intent to change in the client; to translate this intent into action; to stabilize adoption and prevent discontinuance; and to shift the client from reliance on the change agent to self-reliance.

* 1. **Empirical Review**

Electronic banking also forms part of what is generally known as new products and services in the Nigerian banking industry. This is given the overwhelming success of online banking in other developed societies of the world. It is on this wise that, banks in Nigeria are gradually embracing the product/service and radical changes are taking place in the Nigerian financial landscape (Ovia, 2005). The growth of this product/service has been unprecedented especially immediately after the consolidation exercise of the Nigerian banking system. This according to Christopher, Mike and Army (2006) is in line with the CBN directives of 2005, that banks must have a global reach and be competitive at the international level. With internet banking, opportunities are also created for small banks to compete on more equal footing with other larger banks in the world (Agboola, 2006). Customers who are increasingly raising the stake of expectations for quality products and customers service can quickly find it at a click of the mouse. Gupta (2008) observed that, banks and customers could engage in dialogue and learn from each other through this service. Mohammed and Siba (2009) found that with this service, customers can also access the balance and transactions on their account and perform other banking services such as transfer of funds from one account to the other, carry out transactions with other bank customers etc. Studies by Ovia (2005), Mahdi and Zhila (2008) and Gonzaliz (2008) have revealed that, at least 50% of the over 800 banks in Africa offer one form of online banking service or the other. Although the internet has become highly fashionable, the developing countries are still struggling hard to catch up with their counterparts in the developed countries. According to reports released in 2006 by the National Space Research and Development Agency, only about 2% (about 2.4 million) of Nigeria’s over 140 million populations actively use the internet (Ovia 2005: Mohammed and Siba ;2009). The report put internet access points in the country at 685,459, with offices having 530,968 of this, representing 77.4%; homes, 122,431 points, representing 18.9%; and cyber cafes accounting for the remaining 32060 points, representing 4.7% of the total internet access points available in the country. Nigeria has performed dismally in internet usage generally; and so performance in internet banking cannot be an exception. In fact, among the 5 top economies in the continent (South Africa, Egypt, Morocco, Algeria) Nigeria has the poorest internet usage record, when compared with its huge population (Ovia, 2005). Ahasanul (2009) the major instrument of globalization of markets is the development in communications and information technology. This development has therefore made the introduction of electronic purse a reality in banking and is redefining what a legal lender is in monetary terms (Agboola, 2006). According to Oyesola (2007), there are two major card business services providers that implement and manage electronic card scheme in Nigeria. They are Valucard and GEM card. They further stressed that as at March 2004, Valucard card had a consortium of forty three banks while Gem card, had about twenty banks in her consortium. As at 2004, about 184,924 cards have been issued (Maholtra and Singh, 2007). Valucard Nigeria plc, which acts as the clearing institution for the card scheme, also coordinates the hardware and software procurement. Currently in Nigeria, banks under the value-card consortium have joined the Visa International Network, the largest e-payment service provider. Visa is a membership association owned by more than 21000 financial institutions around the world that provides member institutions with global payment platform development. While research findings showed that, while about 5000 Nigerians carry e-cards (30,000 Valucard and 20,000 Smart card) only about 50,000 actually use them due to insecurity and the use of different cards on one terminal (Kanabara and Nayayan, 2005). To effectively correct this problem, Ovia (2005) opined that, Nigeria should replicate the South African success story where tremendous progress has been made in the use of smart cards. He further enunciated that, the estimated 44 million people in South Africa use smart cards about 40 million times per day. This he said is very impressive and worthy of emulation. Al-Sukkar (2005) pointed out that, in South Africa, smart cards are being put to use in various areas: salaries, pensions, car parks, post offices, cinemas and stadia.

* 1. **CHALLENGES AND INSECURITY OF INTERNET BANKING**

Nigeria became the third highest ranked in internet ‘money offer’ frauds. As was reported in one of the national newspapers, frauds and forgeries in Nigerian bank as at June 2005 stood at 329 or N1.15 billion monetary equivalent, against 222 cases or N1.47 billion monetary equivalent in April same year. There is even global suspicion that a Nigerian crime syndicate that coordinates global crimes such as money laundering, bank fraud and 419 seams exists today. These issues basically defeat the key ingredients of information technology, which includes confidentiality, integrity and availability. Several factors are responsible for the above situation. They include inordinate tolerance for corruption among Nigerian public and government agencies; weakness of the existing legislative/judicial institutions to make and enforce relevant laws on cyber-crimes; quality of graduates in terms of professional values and ethics; chronic unemployment among graduates, and the widening gap between the few rich and the many poor caused mainly by bad governance. In the main, erosion of good value principles and corruption constitute the greatest cause of rising cyber-crimes among Nigerian (Domestic electronic payment in Nigeria Amedu, 2005). This, according to transparency International, is worsened by fact that several generations of Nigerians have been raised in this norm. Hence, what is seen as a dangerous global crime is socially acclaimed and glamorized in Nigeria. The above situation constitutes the environment upon which Information technology has emerged in Nigeria. Although the level of the adoption and practice of information technology (especially Internet banking) has remained quite insignificant, global projections still remains that Information Technology would continue to play a revolutionary role in the development and delivery of banking products and services all over the world. In effect, it is this projection that has raised pertinent regulatory questions concerning Information technology, especially in Internet fraud-infested countries like Nigeria. One key issue here borders on how to handle the rising level of frauds and forgery prevalent in the entire banking system; and how to make Internet banking fit well in the banking structure of a country so notoriously identifiable with criminals use Internet access.

* 1. **PROSPECTS OF ELECTRONIC BANKING IN NIGERIA**

Survey shows that electronic banking has become a must in Nigeria banking system especially as a result of increasing competition among banks and non-banks financial institutions both locally and internationally (Olorunsegun, 2010). A lot of prospects have been recorded in electronic banking in Nigeria considering some developments in banking industry in recent times. Some developments in support of e banking in Nigeria are: The efforts of regulatory and supervisory authority aimed at improving and encouraging sound corporate Government in banks. The banking regulatory authorizes have continued to encourage banks to adopt good employment policy which ensures that staff recruited are people of integrity and high moral probity. The banking regulatory and supervisory authorities have equally set up a committee which will design on appropriate policy for the effective and efficient operation of electronic banking in Nigeria. The Government is also working seriously hard to ensure that adequate infrastructural facilities especially in area of communication and electricity are put in place. For example, the privatization of the licensing of the GSM business and ongoing Government effort to privatize Power Holding Company of Nigeria (PHCN) are all aimed at development of electronic banking in Nigeria. The constant monitoring and attention, of the authorities to money laundering with the money laundering act which requires financial institution to disclose to regulators and supervisors and the National Drug Law Enforcement Agency (NDLEA) any single transaction lodgment or transfer of funds in excess of certain amount. The up grading of the supervisory capacity of regulatory authorities in Information Technology (IT) and skills to an acceptable standards through continuous training and development to staff. These efforts are designed to ensure that all bank examiners are IT literate, is to enable them achieve competencies and necessary skills in auditing through computer based systems so as to create the desired framework for electronic banking surveillance.

* 1. **TYPES OF ELECTRONIC BANKING RISK**

A lot of risks are involved in e-banking. The risks are as follows:

* + 1. **Strategic Risk**

Electronic banking is relatively new and as a result there can be lack of understanding among senior management about its potential and implications. People with technological but not banking skills can end up driving the initiatives. E-initiatives can spring up in an incoherent and piecemeal manner in firms. They can be expensive and can fail to recoup their cost. Furthermore, they are often positioned as loss leaders (to capture market share), but may not attract the types of customers that banks want or expect and may have unexpected implications on existing business lines.

* + 1. **Business Risk**

Business risk are also significant in e-banking. Given the newness of electronic banking, nobody knows much about whether e-banking customers will have different characteristics from the traditional banking customers. They may well have different characteristics e.g. I want it all and I want it now. This could render existing score card models inappropriate, thus resulting in either higher rejection rates or inappropriate pricing to cover the risk. Banks may not be able to assess credit quality at a distance as effectively as they do in face to face circumstances. It could be more difficult to assess the nature and quality of collateral offered at a distance, especially if it is located in an area the bank is unfamiliar with (particularly if this is overseas).

* + 1. **Operational Risk**

The three main types of operation risk face by banks are volume forecasts, management information systems and outsourcing. Under e-banking accurate volume forecasts have proved difficult. Banks find it difficult to predict and manage the volume of customers that they will obtain. When a bank has inadequate systems to cope with demand it may suffer reputational and financial damage and even companies in security if extra systems that are inadequately configured or tested are brought on-line to deal with the capacity problems.

**2.7.4** **Security**

Security issues are sources of concerned for everybody more especially as it concerns banking industry. E – banking are prone to security breaches such as fraud, theft of commercially sensitive or financial information, defacement of web sites or denial of service and flaws in system design and/or set up leading to security breaches. All these security breaches have potentially serious financial, legal and reputational implications.

* + 1. **Reputational Risks**

Banks are too keen about their reputation. Banks operating e-banking are too exposed to reputational risk. This is as a result of rapid dissemination of information through the internet.

* 1. **MONEY LAUNDERING ASSOCIATED WITH ELECTRONIC TRANSACTIONS**

Money laundering is seen as the act of disguising the origin or ownership of illegally gained funds to make them appear legitimate. The huge sum of money is obtained through illegal activities and has been linked to nearly all kinds of crime for profit including organized and white collar crimes. This money must be laundered in order to avoid seizing by the law enforcements and handed to the government. There was a growing concern on money laundering in Nigeria as it is often associated with drug trafficking, bank savings abuses, real estate fraud, and tax evasion. The process of transferring funds through electronic messages between banks is known as wire transfers. It acts as the primer step in money laundering where the profits from organized crimes, for instance drugs, gambling, racketeering, and prostitution must be somehow slipped into the banking systems before it can be safely spent. It is the duty of the bank staff to report any detection of potential money laundering via direct telephone notification to the bank regulators and financial enforcers (Maiami 2005). The high number of transaction and the flow of wire transfer through fully automated systems have made it hard for it to be detected by law enforcements and confuse audit traits.

* 1. **PRIVACY AND ANONYMITY ASSOCIATED WITH ELECTRONIC TRANSACTIONS**

With the increasing usage of the Internet, the fears of privacy abuse become a top concern of most of the Internet users. In fact anonymity features of electronic transaction systems play a vital role in protecting privacy in an electronic world, and as the safeguard for a privacy protecting Internet. Nonetheless, the anonymity of an Internet user is mainly compromised through the transaction method that is employed widely on the Internet-credit card, since most of the information is being collected on the Internet when users enter their credit card purchasing details. As consumers prefer to keep the details of their transaction private, conversely merchants and issuers in favor to ensure they capture and possess enough an appropriate and sufficient record of their transactions. Then privacy may become a thorny issue here. For instance, the Economic and Financial Crimes Commission (EFCC), the Independent Corrupt Practices and allied Commission (ICPC), and other law enforcement bureaus have participated in a wide-ranging look at the issues of the emerging e-money technologies. Last but not least, privacy must be regarded as a political right that consumers enjoy and ought to be respected (Olesin 2006). At the same time, precautions need to be put in place to ensure that electronic transaction systems are not used as a means to thwart existing laws.

* 1. **TECHNICAL PROBLEMS ASSOCIATED ELECTRONIC TRANSACTIONS**

According to Chibueze (2006), every new technology, when exposes and comes to the public, it faces to so many difficulties. It takes time that people getting familiar with it. The other point is that since the technology like electronic payment is new, there should be so many thing invented and prepared as a base for expanding of it. Most of equipment of e-transactions is expensive and not easy and simple to anybody to apply them. The other problem is to expand and grow the other part that are engage in or are part of e-commerce, like telecommunication and their services. In the case of e-commerce and e-transaction every end user (home or office user) must have at least one phone line and the connection to the Internet. As to be integrated system in all over the world, the infrastructure should be well developed in all country to have a real integration in this field.

* 1. **CULTURAL PROBLEMS ASSOCIATED WITH ELECTRONIC TRANSACTIONS**

Most people still like to do their businesses in traditional form as before because they feel that the traditional system guarantees safety of their transaction. These people like to touch the documents and money in hand and doing the process physically and manually. They believe in every dealing and business, physically rather than virtually. There are many people even in the 21st century, who do not agree and accept all new technologies. They are always not certain and assured to the technologies. They do everything like old people. The job is very hard to pursue and to make these people eager to do in this way and accept the technologies. One reason is because of so many malfunctions, fraud, and unavailability of devices in the time of need (Andrew, 2004). Every defection makes the public opinion divert from the advantages of new technologies.

* 1. **CHALLENGES OF ELECTRONIC BANKING IN NIGERIA**

Eze and Nwankwo (2012) states the following as the challenges posed by e-banking in Nigeria:

**2.12.1 Legal and Regulatory framework:** The absence of a proper legal and regulatory framework for internet constitute one of the major challenges of electronic banking in Nigeria. The existing banking laws do not address the issue of electronic banking as a new banking system.

**2.12.2 Consumer Protection:** Another major challenge of the development of electronic banking is the issues of adequate protection for consumers of banking products from the various risks to which they are exposed to. The risks include financial loss, malfunctioning of terminals or cards as well as the possibility of unauthorized disclosure of information without the consent of the consumer. The challenges here range from customer details being stolen from the vendor’s files to the selling up of a fraudulent website by fake customer to deceive other innocent customers.

**2.12.3 Loss of Audit Trail:** Another challenge of e-banking is the loss of audit trail as business processes continue to change with internal banking, personal computer and telephone banking. Audit trail basically allows for the tracing of transactions through banking environment facilitates the work of supervisors in ascertaining the reliability or otherwise of the information contained in the master file.

**2.12.4 Security of Financial Transactions:** There are numerous threats to the security of internet banking. One of such threats is the fear of insecurity and trust associated with on-line banking which can only be tackled by a good online developer that can put in place the required firewalls whereby only the authentic users can gain access. Security breaches in electronic banking are most frequently discussed in terms of the dangers that hackers may intercept messages, misuse the information on modify the content of the message.

**2.12.5 Money Laundering and other Financial Crimes:** Another major challenge is that under electronic banking the financial system is prone to criminal abuse such as money laundering and other financial crimes. Money laundering and other financial crimes are easily facilitated through electronic banking. This has given a lot of work to monetary authorities which have continued to work to see that the activities of the money launderers and fraudsters are bought under control.

**2.12.6 Systems and Infrastructure Failure:** Systems and infrastructural failure have also a lot of effect on electronic banking. Failure results to loss of data. System failure can be caused by software failure either at the entity or at an organization used for outsourced functions. Infrastructure failures are mainly caused by power failure. The system and infrastructural really given a lot of setback to development electronic banking in Nigeria.

**2.12.7 The Potential Risks of Electronic Banking:** Electronic delivery and payments systems involve a wide range of potential risks. The use of an electronic channel to deliver products and services introduces unique risks due to the increased speed at which systems operate and the broad access in terms of geography, user group, applications database and peripheral systems. The potential risks bring by the electronic banking has a lot of implications for the safety and soundness of the nation’s banking system.

 **CHAPTER THREE**

 **RESEARCH METHODOLOGY**

* 1. **Introduction**

This chapter deals with the method used in collecting data required in carrying out this research work it explains the procedures that were followed and the instrument used in collecting data.

* 1. **Sources of data collection**

Data were collected from two main sources namely:

1. Primary source and
2. Secondary source

**Primary source:**

These are materials of statistical investigation which were collected by the research for a particular purpose. They can be obtained through a survey, observation questionnaire or as experiment, the researcher has adopted the questionnaire method for this study.

**Secondary source:**

These are data from textbook Journal handset etc. they arise as byproducts of the same other purposes. Example administration, various other unpublished works and write ups were also used.

* 1. **Population of the study**

Population of a study is a group of persons or aggregate items, things the researcher is interested in getting information for the study internal control and financial management of universities in Nigeria. The researchers randomly select 200 staffs of four banks which include First Bank of Nigeria Plc, Zenith Bank Plc, United Bank for Africa Plc, Diamond Bank Plc, all in Nigeria as the population of the study.

* 1. **Sample and sampling procedure**

Sample is the set people or items which constitute part of a given population sampling. Due to large size of the target population, the researcher used the Taro Yamani formula to arrive at the sample population of the study.

n= N

 1+N(e)2

n= 200

1+200(0.05)2

= 200

1+200(0.0025)

= 200 200

1+0.5 = 1.5 = 133.

**3.6 INSTRUMENT FOR DATA COLLECTION**

The major research instrument used is the questionnaires. This was appropriately moderated. The branch managers were administered with the questionnaires to complete, with or without disclosing their identities. The questionnaire was designed to obtain sufficient and relevant information from the respondents. The primary data contained information extracted from the questionnaires in which the respondents were required to give specific answer to a question by ticking in front of an appropriate answer and administered the same on staffs of the four organizations: The questionnaires contained about 16 structured questions which was divided into sections A and B.

* 1. **VALIDATION OF THE RESEARCH INSTRUMENT**

The questionnaire used as the research instrument was subjected to face its validation. This research instrument (questionnaire) adopted was adequately checked and validated by the supervisor his contributions and corrections were included into the final draft of the research instrument used.

* 1. **Method of data analysis**

The data collected was not an end in itself but it served as a means to an end. The end being the use of the required data to understand the various situations, it is with a view to making valuable recommendations and contributions. To this end, the data collected has to be analysis for any meaningful interpretation to come out with some results. It is for this reason that the following methods were adopted in the research project for the analysis of the data collected. For a comprehensive analysis of data collected, emphasis was laid on the use of absolute numbers frequencies of responses and percentages. Answers to the research questions were provided through the comparison of the percentage of workers response to each statement in the questionnaire related to any specified question being considered.

Frequency in this study refers to the arrangement of responses in order of magnitude or occurrence while percentage refers to the arrangements of the responses in order of their proportion.

The simple percentage method is believed to be straight forward easy to interpret and understand method. The researcher therefore chooses the simple percentage as the method to use. The formula for percentage is shown as.

% = f/N x 100/1

Where f = frequency of respondents response

N = Total Number of response of the sample

100 = Consistency in the percentage of respondents for each item contained in questions.

 **CHAPTER FOUR**

 **PRESENTATION ANALYSIS INTERPRETATION OF DATA**

**4.1 Introduction**

Efforts will be made at this stage to present, analyze and interpret the data collected during the field survey. This presentation will be based on the responses from the completed questionnaires. The result of this exercise will be summarized in tabular forms for easy references and analysis. It will also show answers to questions relating to the research questions for this research study. The researcher employed simple percentage in the analysis.

**DATA ANALYSIS**

The data collected from the respondents were analyzed in tabular form with simple percentage for easy understanding.

A total of 133 (one hundred and thirty three) questionnaires were distributed and 133 questionnaires were returned.

Question 1

Gender distribution of the respondents.

TABLE I

|  |
| --- |
| **Gender distribution of the respondents** |
| Response | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Male | 77 | 57.9 | 57.9 | 57.9 |
| Female | 56 | 42.1 | 42.1 | 100.0 |
| Total | 133 | 100.0 | 100.0 |  |

From the above table it shows that 57.9% of the respondents were male while 42.1% of the respondents were female.

Question 2

The positions held by respondents

TABLE II

|  |
| --- |
| **The positions held by respondents** |
| Response | Frequency | Percent | Valid Percent | Cumulative Percent |
| **Valid** | Managers  | 37 | 27.8 | 27.8 | 27.8 |
| Cash attendant  | 50 | 37.6 | 37.6 | 65.4 |
| Customer relation  | 23 | 17.3 | 17.3 | 82.7 |
| Marketers  | 23 | 17.3 | 17.3 | 100.0 |
| Total | 133 | 100.0 | 100.0 |  |

The above tables shown that 37 respondents which represents 27.8% of the respondents are managers, 50 respondents which represents 37.6 % are cash attendant, 23 respondents which represents 17. 3% of the respondents are customer relation, while 23 respondents which represents 17.3% of the respondents are marketers.

**TEST OF HYPOTHESES**

Electronic banking does not enhances banks profitability and efficiency

**Table III**

|  |
| --- |
| **Electronic banking does not enhances banks profitability and efficiency** |
| Response  | Observed N | Expected N | Residual |
| Agreed | 40 | 33.3 | 6.8 |
| strongly agreed | 50 | 33.3 | 16.8 |
| Disagreed | 26 | 33.3 | -7.3 |
| strongly disagreed | 17 | 33.3 | -16.3 |
| Total | 133 |  |  |

|  |
| --- |
| **Test Statistics** |
|  | Electronic banking does not enhances banks profitability and efficiency |
| Chi-Square | 19.331a |
| Df | 3 |
| Asymp. Sig. | .000 |
| a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 33.3. |

Decision rule:

There researcher therefore reject the null hypothesis that state that Electronic banking does not enhances banks profitability and efficiency Therefore the alternate hypothesis is accepted that state that Electronic banking does enhances banks profitability and efficiency

**TEST OF HYPOTHESIS TWO**

Electronic banking does not improves bank-customer relationship

 Table V

|  |
| --- |
| **Electronic banking does not improves bank-customer relationship** |
| Response  | Observed N | Expected N | Residual |
| Yes | 73 | 44.3 | 28.7 |
| No | 33 | 44.3 | -11.3 |
| Undecided | 27 | 44.3 | -17.3 |
| Total | 133 |  |  |

|  |
| --- |
| **Test Statistics** |
|  | Electronic banking does not improves bank-customer relationship  |
| Chi-Square | 28.211a |
| Df | 2 |
| Asymp. Sig. | .000 |
| a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 44.3. |

Decision rule:

There researcher therefore reject the null hypothesis that state that electronic banking does not improves bank-customer relationship as the calculated value of 28.211 is greater than the critical value of 5.99

Therefore the alternate hypothesis is accepted that state that electronic banking does improves bank-customer relationship.

 **CHAPTER FIVE**

 **SUMMARY CONCLUSION AND RECOMMENDATION**

**5.1 Introduction**

It is important to ascertain that the objective of this study was to evaluate the problems and prospects of electronic banking in Nigeria.

In the preceding chapter, the relevant data collected for this study were presented, critically analyzed and appropriate interpretation given. In this chapter, certain recommendations made which in the opinion of the researcher will be of benefits in addressing the challenges and problems of electronic banking in Nigeria.

**5.2 Summary**

It is crystal clear that the adoption electronic banking has influenced the content and quality of banking operations in Nigeria. The study investigates the problems and challenges of electronic banking on customers’ satisfaction. It also review extant literatures that have expounded the existing factors that affects electronic banking system in Nigeria, how they have been managed, and its relative effect on profitability and performance of banks in Nigeria. The study’s research design was the survey design and the population used was the entire staffs of First Bank of Nigeria Plc, Zenith Bank Plc, United Bank for Africa Plc, Diamond Bank Plc all in Nigeria. A simple random sampling technique was employed to get 200 respondents. Simple percentage was used to analyze the data, while chi-square was used to test the hypothesis.

**5.3 Conclusion**

Electronic banking is a welcomed development in Nigerian banking system. Although electronic banking reduces bank robbery activities, and safeguards customers. It also eliminates reconciliation challenges that comes with manual transaction processing and promotes operational efficiency. There are some challenges which pose threat to electronic banking. However, a lot of prospects have been recorded in Nigeria banking system through electronic banking which should be encouraged. Observation on this study shows that Electronic Banking when properly adopted will contribute substantially to the increase of accessibility and profitability of bank customer. It was revealed from the findings that high literacy level negatively impact on the electronic banking in Nigeria electronic fraud and infrastructural deficiency are a major constraint to internet banking in Nigeria. The study further revealed that power cuts during transaction send wrong signals about electronic banking and poor regulation of the e-banking structures is a limitation of banking in Nigeria. A significant portion of the population are of the opinion that electronic banking has increased banking cost and charges and that customers have been compelled against their wish to use ATM in a bid to imbibe e-banking culture. Furthermore, some banks have lost customers due to poor implementation of electronic banking. The study also shows that nevertheless electronic banking has helped to increase customer’s satisfaction especially the corporate ones. There is a significant improvement in general banking services as a result of the introduction of electronic banking, while the level of profit made by banks can be attributed partly to the introduction of electronic banking. Electronic banking has help to increase banks market share.

**5.4 Recommendations**

Having identified how crucial electronic banking is to an organization and its effectiveness, organizations are therefore encouraged to utilize electronic banking to the fullest advantage in order to enhance their effectiveness. With regards to the above findings, the following recommendations were made:

1. The migration of our normal banking system to electronic banking system would require some reform and a lot of effort and sensitization especially for low income customers, who are currently deeply rooted in using cash and see it as a convenient and easy way of receiving and making payments any point in time.

2. Critical infrastructure like power; security and telecommunication should be strengthened to ensure the application of electronic banking in Nigeria and optimum satisfaction on the part of customers.

3. The organization should always train and retrain their staff to ensure that they keep up with the dynamism of information technology.

4. Banks should always ensure that ICT serves core-banking activities not core banking fitting into IT legacy. This can be achieved by outsourcing ICT to a third party, however, this as to be pursued within caution.

5. Every Banks need to design proper customer identification and screening techniques, develop audit trails, and conduct periodic compliance reviews, frame policies and procedures to spot and report suspicious activities in electronic internet transactions to NDLEA and CBN.

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