



## Development of E-Banking, its Benefits and Challenges in the Nigerian Banking Industry

Duru Georgr Chukwudi<sup>1</sup> and Edwinah Amah<sup>2</sup>

<sup>1</sup>Doctoral Candidate, Department of Management, University of Port Harcourt, Rivers State, Nigeria | E-mail: [kingenthronbygod@gmail.com](mailto:kingenthronbygod@gmail.com)

<sup>2</sup>Associate Professor, Department of Management, Faculty of Management Sciences, University of Port Harcourt | E-mail: [edwinah4christ@gmail.com](mailto:edwinah4christ@gmail.com)

**Abstract:** *This study theoretically investigated the development of e-banking, its benefits and challenges in the Nigerian Banking industry. We examined the significant effect of information technology in Nigeria and also the benefits of electronic banking in Nigerian banks, its challenges and the difference between traditional banking system and electronic banking. This paper concludes that the new incentives of electronic banking have triggered the basic changes in plan of action measurements like customer's value, market portion, cost structure and revenue sources.*

**Keywords:** *Banking industry, Development, E-banking*

### Development of e-banking, its benefits and challenges in the Nigeria banking industry

Electronic banking is the way a bank carry out business transaction using electronic devices such as computer system, global system for mobile communication (GSM telephones, Automated Teller Machine (ATM). internet facilities etc.

According to oluwagbeni et al (2011), the evolution of e-banking dates to 1986 when the banking sector in Nigeria was deregulated. The aftereffect of this deregulation brought extensive change through computerization and enhanced bank service provision.

In an effort to encourage e-banking, the government of Nigeria promoted electronic banking with which the CBN released a guideline on august 2003, having recognized that electronic banking and installments service are still at the beginning times of improvement in Nigeria.

Emerging from the three noteworthy tasks of the CBN in the zones of fiscal strategy, money related framework steadiness and payments framework oversight the CBN specialized board of trustees on e-banking produced a report which participate the possible effect of the development towards electronic banking and payments system on the accomplishment of CBN's center goals (Morufu and Taibat, 2012).

However, in light of the discoveries and suggestions of the CBN Technical panel on F-banking four categories of guideline have developed as follows.

- a. Information and communication Technology (ICT) principles to deliver issues identifying with innovation results conveyed, and guarantee that they address the issue of clients, economy and universal best practice in the region of communication equipment, software and security.
- b. Monetary policy, to address the issue relation to how increased usage of internet banking and electronic payments delivery channels would influence the accomplishment of CBN's money related strategy goals.

- c. Legal rules to address issues on banking directions and customer right insurance.
- d. Regulatory and supervisory, to address issues that, however distinctive to payment scheme all in all might be intensified by the set of electronic media.

The guidelines are expected to inform the future conduct of financial institutions in electronic banking and electronic payments delivery. This milestone step gave legitimate acknowledgment of advanced marks and records, therefore decreasing the dangers related with the utilization of electronic banking in Nigeria (Morufu & Tabihat, 2012).

Oluwagbemi, et al (2011), Observed that rivalry with new products ended up sharp inside the framework while client refinement represented a test for them, henceforth the reengineering of handling methods of business exercises support the computerization of money related services especially, among new age of commercial and merchant banks.

Basically, the rise of a harvest of new age banks following the Liberalization of bank licensing spurred the presentation of high innovation in the Nigerian banking framework (Oluwagbeni, et al 2011.).

The reaction of Nigeria banks to the reception of information communication technologies has uncovered that the period among 1990 and 2005, was characterized by fundamental changes, in content and quality of banking business in Nigeria (Ozuru and Chikwe, 2012).

According to Aghoola (2005) as cited in Ozuru and Chikwe (2012), technology was discovered to be the main driving force of competition in the Nigeria Banking Industry. By 1998, only one bank had ATM and by 2014, all of the banks working in the country had acquired the technology. Electronic Fund Transfer (EFT) also increase from 3 to 14, smart cards from I to II Electronic Home and office banking from 3 to 9 and Telephone Banking from 3 to 12 inside a similar period (Ozuru and Chikwe, 2012). This trend has change as at 2014 every one of the banks in the nation has increase their processes to electronic products of which it is difficult to know the total number of customers that have signed into this products as the number increases daily.

As per the investigation led by Ohiwagbeni et al., (2011), they discovered that the information communication Technology has significantly changed the conventional banking framework to E-banking framework. A portion of the significant effect of information technology in Nigeria banking framework as expressed include:

1. **Automated Teller Machine (ATM):** ATMs are a PC controlled gadget that dispenses money, and may give different services to clients who distinguish themselves with an individual ID number. ATM dispenses money anytime of the day and night, dissimilar to the conventional technique where clients need to line for quite a while with the end goal to withdraw cash or transfer funds.
2. **GSM Banking:** This mode of c-banking makes use of the global system for mobile communication (GSM) Phones as the primary doctrine device. GSM has enhanced the operational proficiency of the considerable number of banks in the nation. The mobile banking service essentially enable clients to work their records with the operating banks from cell phones to an expansive extent as long as their phone and network support SMS (short messaging service).
3. **Electronic Fund Transfer:** client can now electronically exchange assets over the worldwide immediately when contrasted with the customary strategy before the coming

of information technology when funds are genuinely postponed before they are conveyed to the beneficiaries.

4. **On-line Banking:** with the aid of information technology, internet banking gives the opportunity of paying bills and performing transactions of any sort electronically. Electronic payment can be debited or credited instantaneously unless there was a network problem.
5. **Electronic Mail:** Information technology has offered ascend to electronic mail which enhances communication between individual, external parties and the bank within or across various geographical regions or boundaries.
6. **Bankers Automated Clearing Services:** This involves the use of magnetic ink character reader (MTCR) for cheque processing. it is capable of encoding, reading and sorting cheques: Also- request for cheque books or purchase of draft can be made and granted via electronic devices that are web-enabled.
7. **Internet Banking:** through internet banking you can check your transactions anytime of the day and the same number of times as you need to where as in a conventional technique you get quarterly articulations from the banks. In the event that the fund transfer must be requested outstation where the bank does not have a branch, the bank would request outstation charges. Whereas with the assistance of internet banking transaction can be done at anytime without additional charges.
8. **Credit card/debit card:** The credit card holder is enabled to spend wherever and at whatever point he needs with his credit card inside the cutoff points settled by his bank. Credit card is a post-paid card. Debit card considered as a prepaid card with utilization office restricted to the parity in the connected deposit account of the card holder. An individual needs to open an account with the issuing bank which gives debit card with an individual distinguishing proof number. When he makes purchases he enters his pin on shops pin pad. At the point when the card is slurped. Through the electronic terminal it dials the getting bank framework either master card or Visa that approves the stick out of the balance. You can never over spend because the system rejects any transactions which exceeds the balance in his accounts. The bank never faces a default on the grounds that the sum spent is charged promptly from the client's account
9. **RTGS Fund Transfer:** RTGS is an inter bank funds transfer system where bank transfer money to each other on behalf of their customers

Consequently information technology had made a significant impact in banking sector in Nigeria as flexible and convenient services are provided to customers.

Presently, every one of the banks in Nigeria have set up their own ATM, Networks, issue debit and credit cards and have joined ATM Switch Network (Morufu & Taibat, 2012).

### **Benefit of Electronic Banking (E-Thinking)**

E-banking is a method for on-line exchange through the internet It construct an elective channel by which clients can without much of a stretch make an exchange anyplace whenever and diminish their requirements for financial intermediaries (Jen-Her Wu, et al., 2006).

Bank have created new sources of income by offering more sophisticated products and services which would not have been conceivable without the utilization of electronic banking. Examples of set indecencies offered online will be on the web trading, e-invoicing and internet

banking. The whole banking landscape is changing as web based business are changing conventional block and mortar banking by offering services online, which are customarily performed by tellers. In the banking segment. For banks to stay in the know regarding information technology developments. The benefits, however, also provide strong incentives for banks to keep up with developments as the expenditure in terms of information technology tend to reap long4ertn savings. Electronic banking enabled developments may impacts the banks in an assortment of ways including savings in personnel and time from automated processes, reduced cost from rationalized and computerized process flow, reduced cost from fewer errors, and identification and utilization of economics of scale from lowers unit processing cost. The case study on some banks in Nigeria shows how electronic banking may be utilized as a means to facilitate process efficiency and hereby streamlined work-processes and reduce staff cost. The banks has an automated credit application facility, which accelerate the procedure and diminishes spending as far as handling cost. Another example is where internet banking reduces private customers accounting cost and work time by optimizing several accounting transactions (eg pre-defined payments). The development of the internet has likewise affected the internal business processes of the greater part of the banking segment in Nigeria today, as an online transaction is about 20 times less costly than the equivalent transaction conducted in a branch due to automation.

Jen-Her wu, et al (2006) posits that e-banking allows bank to link directly to customers online thereby significantly reducing transaction, labour, promotion and service costs.

According to Ojeka and Ikpefan (2011), the benefits of e-banking are classified into tangible and intangible benefits. The substantial advantages incorporate business productivity, expanded computerization forms, change of customary market chain, held and extended client loyalty, competitive advantage and enhancing well-being and education of customers.

The benefits of e-banking can't be overstated as it facilitates delivery of account statement, online credit card and loan applications, transfer of funds between account and online bill payment. These services have the potential to change many part of the banking area in particular, the degree of market competitiveness and financial performance as banks used the internet as a tool to draw in and hold customers.

### **Challenge of E-Banking**

Albeit, electronic banking gives numerous chances and benefits for the banks, to it also characterized with challenges.

According to Oladejo aid Akaibi (2012) baking administrations gave through web are restricted because of security concerns, multifaceted nature and innovative problems. Nancy et al (2001) as in Oladejo and Akanbi (2012) indicates that customers complain about computer logon times which are usually longer than making a telephone call constitute a challenge to e-banking. Similarly, Lioa and Cheung (2002) found that individual expectations regarding accuracy, security, transaction speed, user friendliness, user involvement and suitability are the most essential qualities in the apparent value of web based e-banking.

Another challenge in the selection of e-banking is the confidentiality of consumer's data. Customers expect that somebody will have boundless access to their own money related data. The absence of particular laws to administer web banking is another imperative worry for both

the bankers and the clients. This identified with issues, for example, out of line and misleading exchange practice by the provider and unapproved access by spammers.

Shah and Siddiqui (2006) as cited in Bedman (2001) identified employee skill and knowledge in the use of information technology as a challenge to the appropriation of E-banking. They posit that the shortage of readily skilled human resources can hamper the implantation of internet and electronic device projects.

Also, Alawneh and Hattab (2009) discovered that the absence of trained and forward IT work force may influence value creation in the banking industry. It is therefore imperative to provide adequate training for the employees in the usage of information technology, considering employees are the life wire of these banks and potent in ensuring a sustainable competitive advantage of these banks.

The electronic banking implantation and exploitation often require substantial investments. This can especially be troublesome for smaller banks which do not have the financial opportunity to invest as heavily as larger banks.

Information technology is in many banks increasingly replacing personnel as the largest expenditure. The explanation to this is twofold. Old systems are increasingly outdated, as over 80% of information technology expenditure goes into maintenance of these system as per an ongoing survey. This means that new investment is required, and these are challenging projects. The second explanation is that traditional brick and mortal banks are increasingly investing in electronic banking platforms with the end goal to pick up or maintain a competitive advantage. Apparently, there is almost certainly that the application of information and communication technology required high degree of knowledge, expertise and skills by all categories of employees.

However, Osabuohien (2008) observed that challenges in e-banking adoption may arise as a result of interruptions due to network failures which may make customers unable to do exchanges at that point in time.

Also, Ojeka and Ikpefan (2011) noted that the key challenges to c-banking are the cost of the technology, the lack of knowledge, managing the change, budgeting and issues associated with linking bank and systems. Amrit (2007) thought about that a sufficient level of framework and human capacity building are required before banks receive the full-fledged e-banking.

### **Differences between Traditional Banking System and E-Banking**

In order to examine the major contrasts between conventional banking and electronic banking system, a comprehension of the concept and nature of innovation is very necessary. Innovation is the utilization of new technology and business related learning to offer new products or services that clients want. Essentially, E-banking is a financial innovation that is enabled by creative use of emerging information technology and other business forecast. (Jen-Her Wu, et al 2006). In like manner, the development incorporates an arrangement of perspectives: IT, client, finance, Marketing, and methodology. These perspectives can be ordered into two noteworthy spaces: innovation and plan of action that support a banks capabilities (Holland and Westwood, 2001, Wu et al, 2006).

A scholar defines technological knowledge as the technologies that help maintain an e-banking environment within and across the organizations. The dimension of technological knowledge can be characterized into:

- **IT - infrastructure:** comprising of a system design and application stage.
- **Transaction:** consisting of a transaction mechanisms and security schema.
- **Service:** consisting of customer services and service delivery.

According to Wu et al (2006), business model is used to depict the key segments of a given business. It is a lucid system that changes over the new innovations through markets into business value which incorporate value proposition, showcase portion, cost structure, profit potential, value network, and competitive advantage.

In contrast, wu et al., (2006), indicated that e-banking is a method for on-line exchange through the web. It builds an elective channel by which clients can without much of a stretch make exchange anyplace whenever and decrease their requirements for money related intermediaries. The nature of traditional system centers around inward administrations, for example, value-based and regulatory capacities that allows bank clients to perform routine budgetary exercises and to direct institutionalized business exchanges by utilizing branch counters.

E-banking channel is an inner asset whose use must be augmented, and as interface to the banks client base whose utilization should empower client relationship administration in the e-banking situation, the client can have full access to applicable budgetary data, and needs never again to depend on the administration faculty at the branch office. It additionally enables clients to accomplish more self-benefit for themselves, giving more noteworthy fulfillment

Generally, conventional banking is a method for individual to-individual administration conveyance over the counter. It sees the customers as an aloof member in the exchange procedure until the season of the exchange. On the other hand, E-banking administrations are promising modified administrations customized to client needs. Such service conveyance considers the client as a functioning member at each phase of the exchange procedure, and as the co-maker of the monetary products and service contributions. As opposed to the customary banking service which center around verbalized needs as stated by the customers, or the banks impression of client requests tailored administrations absorbed both enunciated and unstated needs by directing customer's profile and utilization designs. Instead of accepting off-the-shelf financial products or services, customers can choose their personalized financial services in an e-banking context. In any case, e-banking offers elective methodologies by which banks can give singular contributions and administrations to draw in customers' interest, add client faithfulness, and rehash transactions (wind, 2001, wu et al, 2006).

Moreover, the informational customized also, self-service contributions improve the current elements of traditional banking system. E-banking makes old the innovative learning of traditional banking. Also, the new incentives of e-banking will trigger the basic changes in plan of action measurements, for example, client value, market portion, client base, cost structure and revenue sources.

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