# Regulating Internet Banking In Nigeria : Problems and Challenges – Part 1

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## Abstract

The emerging trend in Internet banking in Nigeria is of global concern. For one thing, the Nigerian economy is a strong force in Africa . The country also has a high reputation for Internet-related frauds in the world, having been regarded as the headquarters of Advance Fee Fraud (419). The code "419" is named after Section '419' of the Nigerian Criminal Code that deals with "obtaining property by false pretences; Cheating." On the home front, bank frauds, forgeries, money laundry, insider abuse and erosion of public confidence constitute a set of disturbing issues in the present-day Nigerian banking system. This explains why regulation has become of paramount importance in the entire Internet banking development process. This paper examines the current regulatory efforts of the Central Bank of Nigeria to ensure successful practice of Internet banking in Nigeria . It identified lapses in the existing regulations on Internet banking, and argues that without a comprehensive regulation and improved access to information infrastructure, it might be difficult for meaningful advances to be made in this field of banking.

## Introduction

Conventional banking system started in Nigeria in 1952. Since then, the industry has witnessed a lot of regulatory and institutional advances. The industry was being controlled by at most five out of the 89 banks in existence before the commencement of the ongoing banking industry reformation in the country. Multiple branch systems is also one of the notable features of Nigerian banks, with a total of 89 banks accounting for about 3017 bank branches nationwide as at 2004. As well, the industry is faced with heavy challenges, including the overbearing impact of fraud and corruption, erosion in public confidence, a poor capital base, persistent cases of distress and failure, poor asset quality, and so on. P art of the moves to resolve these lingering problems include the banking reform initiated by the Central Bank of Nigeria in June 2004, which is largely targeted at reducing the number of banks in the country and making the emerging banks much stronger and reliable.

In the bid to catch up with global developments and improve the quality of their service delivery, Nigerian banks have no doubt invested much on technology; and have widely adopted electronic and telecommunication networks for delivering a wide range of value added products and services. They have in the last few years transformed from manual to automated systems. Unlike before when ledger-cards were used, today banking has been connected to computer networks, thereby facilitating the practice of inter-bank/inter-branch banking transactions. Developments at home, such as the introduction of mobile telephone in 2001 and improved access to personal computers and Internet service facilities have also added to the growth of electronic banking in the country. However, whereas local banks most commonly practice real time online intranet banking, the integration of customers into the process is far from been realized. Many of the reasons are attributed to the high prevalence of Internet fraud and lack of an adequate regulatory framework to protect the banks from the volatility of risks associated with Internet banking, especially at the levels of communication and transaction. In the main, Nigeria is globally regarded as the headquarters of Advance Fee Fraud which is perpetrated mostly via the Internet.

## The Emerging Issues in Internet Banking in Nigeria

In its survey on the extent of e-banking adoption by Nigerian banks, the Central Bank of Nigeria, in September 2002, found out that of the 89 licensed banks in the country, 17 were offering Internet banking, 24 were offering basic telephone banking, 7 had ATM services, while 13 of the banks were offering other forms of e-banking. This implies that as at then, only 19.1 percent of the banks were offering Internet banking.

At present, the situation does not seem to have shown any significant improvement. Whereas about 90 percent of the banks in the country offer other forms of electronic banking services like telephone banking, ATM and electronic funds transfer, Internet banking is yet to take center stage. This aspect of banking is still at the basic informative stage. This is so despite the widely acclaimed benefits of Internet banking against the traditional branch banking practice. Part of the reasons identified for the inability of banks in Nigeria to take full advantage of this mode of banking includes lack of adequate operational infrastructure like telecommunication and power, upon which e-banking generally relies. Due to the inability of the banks to integrate their operations into the Internet development process, Internet banking can be said to have less impact in the existing banking structure in the country.

Earlier articulated reasons why Internet Banking was having a moderate economic impact in the country include: that Nigerian bank customers are not on the average trained on for teller jobs and the workings of Internet banking, a situation which makes transaction processing via Internet banking prone to error; the absence of a clearly defined legal frame-work for internet banking, leaving banks with inadequate legal cover to provide the services; and poor telecommunication infrastructure all over the country. In addition, the fact that Internet usage in the country has been abused by cyber-criminals makes its window unattractive for domestic banking operations and legitimate international operations. The inherent fear associated with patronizing Internet banking services in Nigeria is again re-inforced by the growing evidences that the world over, dubious Nigerians use fake bank websites to scoop funds from unsuspecting victims. In some cases, these crimes are committed using existing bank sites.

## Threats of Cyber-Crimes on the Nigerian Banking Premises

The Advance Fee Scheme or 419, which is one of the most popular of all Internet frauds, has its origin from Nigeria in the 1980s. Its development and spread follows the path of the developments in information technology. At inception, postal letters were used as key media for committing 419 frauds. Later in the early 1990s, it became integrated into telecommunication facilities such as the telephone and fax. From the late 1990s following the introduction of computers and Internet, 419 crimes became prevalently perpetrated through the use of e-mail and other Internet means. The latest dimension taken by the perpetrators of this crime is the use of fake Internet bank sites, and using that to encourage victims to open accounts with them. The country is currently rated as having one of the highest records of Internet frauds in the whole world. According to the National Consumers League (2002), the country is the third highest ranked in Internet 'money offer' frauds. As was reported in one of the national newspapers, frauds and forgeries in Nigerian banks as at June 2005 stood at 329 or N1.15 billion monetary equivalent, against 222 cases or N1.47 billion monetary equivalent in April this same year. There is even global suspicion that a Nigerian crime syndicate that coordinates global crimes such as money laundering, bank fraud and 419 scams exists today. These issues basically defeat the key ingredients of e-banking, 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; deteriorating 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 Nigerians. 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 Internet banking has emerged in Nigeria . Although the level of the adoption and practice of Internet Banking has remained quite insignificant, global projections still remain that the Internet 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 Internet banking, 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 criminal use of Internet access.

## The Regulatory Challenges

At the national level, the Nigerian government and the relevant regulatory agencies have strived to match the rapidly changing electronic banking environment with necessary regulations and institutional frameworks. Earlier efforts made to this effect included the enactment of the Failed Banks (Recovery of Debts) and Malpractices in Banks Decree No.18 of 1994, and the Money Laundering Decree of 1995. However, as noted above, poor enforcement procedure rendered these instruments very inactive in checking the menace of financial crimes. By the late 1990s, following record growth in Internet and computer usage in the country, almost all the regulations guiding the banking industry, including the *Banks and Other Institutions Act* of 1991, were lacking adequate provisions to accommodate the emerging trend. Not even a mention of electronic banking or any manner of its application was mentioned in any of those prevailing regulatory documents. The situation created a lot of gaps between the levels of CBN regulatory tools and the advances in information technology. This at the same time made the banks vulnerable to all kinds of risks, including transaction, strategic, reputation and foreign exchange risks. This deficiency notwithstanding, it was not until 2003 when the maiden guidelines on electronic banking came into force.

The electronic banking guidelines emerged from the findings of a Technical Committee on Electronic Banking set up by the Central Bank of Nigeria in 2003 to find appropriate modalities for the operation of electronic banking in the country. It was indeed the findings and recommendations of the committee that led to the adoption of a set of guidelines on Electronic Banking in August 2003. Of the key provisions of the Guidelines, only a section deals with issues relating to Internet Banking. Section 1.3 paragraph 4 of the guidelines, exceptionally stresses that banks should put in place procedures for maintaining the bank's Web site, including the various security features needed for Internet banking services.

Despite its numerous technical specifications, the Guidelines have been widely criticized as not being enough to check the growing popularity of Internet banking against the backdrop of growing sophistication in technology related crimes and frauds. Closer examination of the contents of the Guidelines equally shows that the document fails to meet up with the four key areas where Internet banking may have regulatory impact – changing the traditional lines upon which existing regulatory structures are laid; handling concerns about existing public policy issues; changing the nature and scope of existing risks; and rebalancing regulatory rules and industry discretion. Again, some important recommendations of the Technical Committee that gave rise to the adoption of the guidelines were completely omitted. This is especially so with paragraph 6.1 of the Committee's report, which among others recommended that all banks intending to offer transactional services on the Internet/other e-banking products should obtain an approval-in-principle from CBN prior to commencing these services.

Part of the criticisms is that the recent guidelines that are capable of constraining the practice and development of Internet banking Nigeria . One of such areas, for instance, is the requirement on electronic banking product development. While acknowledging that the existing regulations would apply wholly on electronic banking, section 4.2 of the Guidelines emphasizes that only banks, which are licensed, supervised and with physical presence in Nigeria, are permitted to offer electronic banking services in Nigeria, and that virtual banks are not to be allowed. The Guidelines also gives indications that the products/services can only be offered to residents of Nigeria with a verifiable address within the geographic boundary of Nigeria; any person residing physically in Nigeria as a citizen, under a resident permit or other legal residency designation under the Nigerian Immigration Act; any person known herein as a “classified person" who neither is temporarily in Nigeria. The Guidelines go further to indicate that the e-banking service should be offered in Naira only; and that where such a service is to be provided in foreign currency, it should be to only the holders of ordinary domiciliary accounts, and conform with all other foreign exchange regulations.

On some other aspects, the Guidelines have also been criticized for not addressing adequately the critical issues concerning Internet security. It failed to explicitly recommend a standard that allows banks to examine potential threats that may already be in existence in each individual financial institution's current network.

In addition to this array of criticisms, the workability of proper Internet framework is also queried amidst the poor state of basic information technological infrastructure in the country. This is essentially necessary since e-banking generally relies on the existence of adequate operational infrastructure like telecommunications and power to function effective. Though little success has been recorded, the supply of these requisite facilities is very erratic in the Nigerian case. Where they exist, high cost of acquisition and maintenance tend to deny a greater percentage of the population access to them. The case of Internet access is a glaring one – where majority of the citizens rely solely on the services of commercial cyber cafés to meet their Internet needs. It is expected of the E-Banking Guidelines to provide procedures not only for banks' investment in Internet facilities, but also in promoting customers' access to such. Unfortunately, none of such is contained in the document.

## CONCLUSION

As it stands, Internet banking might take a reasonably long time to fully become of economic relevance in the country's banking practice. Even amidst the regulatory deficiencies identified above, the rising cases of Internet related frauds originating from Nigeria have made the Internet banking environment very complex. The banking industry in the country does not also at present enjoy that level of global integration that may allow for full benefits of Internet banking system. Even at home, the level of public confidence in the banks is not such that can guarantee effective customer patronage of Internet Banking services. Hence in addition to the cases of poor access to the requisite facilities, very few customers actually transact businesses through the Internet. This explains why the development of banks' web sites has not gone beyond information purposes. A situation where banks would have to invest much on acquiring information technology software without attracting enough customer patronage necessary to justify the huge expenditure does not make for a progressive chance for rapid growth in Internet banking in Nigeria . With the deficiencies in the existing electronic banking guidelines and the seemingly lack of proactive measures in other banking regulations in the country, the right environment for Internet banking remains presently not in existence.

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