

**CASHLESS POLICY AND OPERATIONAL EFFICIENCY OF PAYMENT
TERMINAL SERVICE PROVIDERS IN LAGOS STATE, NIGERIA**

BY

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**BEING THESIS SUBMITTED TO THE DEPARTMENT OF MANAGEMENT AND
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DEDICATION

This research work is dedicated to My Abba Father God Almighty, My Beloved. To my lovely parents Chief Godfrey Aduairo and Deaconess Rhoda Aduairo

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LIST OF ABBREVIATIONS/ACRONYMNS

<i>CBN</i>	<i>Central Bank of Nigeria</i>	1
<i>PoS</i>	<i>Point of Sale</i>	2
<i>PTSPs</i>	<i>Payment terminal service providers</i>	2
<i>NIBSS</i>	<i>Nigeria Inter Bank Settlement System</i>	2
<i>DOI</i>	<i>Diffusion of Innovation</i>	10
<i>ECB</i>	<i>European Central Bank</i>	10
<i>NPS</i>	<i>Nigeria Payment System</i>	12
<i>EPS</i>	<i>Electronic Payment System</i>	17
GDP	Gross Domestic Products	32
RBA	Reserve Bank of Australia	34



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ABSTRACT

The study examined the statutory responsibilities of payment terminal service providers in Lagos State; investigated the level of efficiency of payment terminal service providers in cashless operations in the state; and examined the prospects of the payment terminal service providers cashless operations in the state. This was with a view to ascertaining the efficiency of payment terminal service providers (PTSPs) in cashless operations in Lagos state

The study used both primary and secondary data. Primary data were obtained through the administration of questionnaire to 40 Point of Sale terminals (PoS) merchants and 160 end-users who were purposively selected. *Secondary* data such as guidelines on PoS terminals and *statutory responsibilities of* payment terminal service providers were sourced from the Central Bank of Nigeria and *Manuals on expected standards of* PTSPs from the Nigeria Inter-Bank Settlement System. Data collected were analysed using *percentages, frequencies, correlation, analysis of variance and chi-square.*

The results of the analysis revealed that 62.5% respondents agreed that their payment terminal service providers were operative in delivering their statutory responsibilities. The implication was that PTSPs were diligent in carrying out their statutory responsibilities. Also 88.75% of the study accepted that the PTSPs were deficient in rendering efficient services to PoS merchants and end-users. The implication was that payment terminal service providers were still lacking in their level of operations offered to PoS merchants and end-users. In addition, also showed that 70% of the respondents were of the opinion that there were positive prospects (network reliability, speed, improved technology and efficiency) in payment terminal service providers in cashless operations. It is therefore interpreted that the PTSPs would improve

on their performance in cashless operations. This indicates that the PoS terminals were productive and will be highly useful in the future for maximal operations. The high R value (75.39, $df = 44$, $p < 0.05$) showed that the growth in statutory responsibilities executed by the PTSPs to merchants and end-users will lead to (75%) increase in cashless operations. ($F_{(13, 146)} = 10.57$, $P < 0.05$) This implies that an increase in efficiency of payment terminal service providers will result to growth in cashless operations to PoS merchants and end-users. In addition ($X^2 = 730.7$, $df = 208$, $p < 0.05$) represents likelihood ratio of greater operation and efficiency in the activities of PTSPs. The study established that there were prospects in payment terminal service providers' cashless operations.

The study concluded that while payment terminal service providers were effective in delivering their statutory responsibilities, they were not efficient in rendering their optimum services to merchants and end-users due to lack of awareness, high usage of cash, insufficient sensitization and interoperability of cards on the platforms.

CHAPTER ONE

INTRODUCTION

1.1 Background of Study

Proponents of electronic payment system for a developing nation like Nigeria envisaged a reduction in the load of cash management, safety and security of the populace and their hard earned money, drastic reduction in the incidence of money laundering, forestalling transaction losses owing to fraud and counterfeit among other challenges, especially when paying for services, making item purchases, subscribing for services, collecting from one or more payer and aggregating deductible funds (Akano, 2012). These benefits galvanized the design and implementation of strategies geared towards entrenching the cashless policy in the country, with the pilot project launched in Lagos in April 2012.

The Central Bank of Nigeria (CBN) early 2011 announced a new cash policy with the objective of reducing cash payments and encouraging electronic payments, that the country would from June 1st 2012 join the committee of nations that embrace the electronic means of payment and limit the use of cash to the barest minimum. The apex bank has gone ahead with the commencement of its “cashless policy” in Lagos, Abuja and Port Harcourt to demonstrate the CBN’s seriousness about the policy which generated a huge debate from Nigerians. While the apex bank is of the view that the cashless policy is the way to go in line with global trends, many Nigerians both informed and uninformed have divergent views about the policy (CBN, 2011).

For years, analysts have predicted the transition of physical cash as a transaction medium to an electronic cash transaction medium referred to as a “cashless policy” which is



substituted in the place of cash system known as the electronic payment system. Some analysts look at such a prospect optimistically, believing that a cashless society would increase the efficiency of the economy. While others view it pessimistically, believing that it would subject the most private details of our lives to scrutiny and publication. Whatever the outcome, such a radical transformation will undoubtedly have a substantial effect on the credit card processing industry according to (David, 2012).

Cashless policy which has been in operation in developing countries of the world (such as United Kingdom, United State of America, Japan) came gradually through few bankers and consultants in the 1950s through the introduction of check, debit cards, credit cards, promissory notes, smart cards, online banking and mobile banking. They foresaw how their recently adopted computers and telecommunications equipment would revolutionize the way consumers exchanged money.

As a corollary, the adoption and infusion of cashless financial cum economic tools into Nigeria economy presupposes the existence of enabling institutions among which are deposit money banks, merchants (eateries, stores, hospitals, schools, etc), cardholders, card schemes, switches, Point of sale (PoS) terminal owners, payments terminal service aggregator, payment terminal service providers, processors (Nigeria Inter-Bank Settlement System, NIBSS) and independent system operators (CBN, 2011). This shows that the whole idea of cashless economy involves a web of interconnectivity among these indispensable institutions. Though all these institutions play crucial roles in the running of a cashless system, the activities of some are more germane and central than some other ones. Thus, we cannot but specially acknowledge the position of central institutions such as the NIBSS, payment terminal service aggregators and payment terminal service providers.

NIBSS and payment terminal service aggregators are important because they are government institutional regulators. While the activities of the payment terminal service providers (PTSPs) occupy a central position where it interlinks with the institutional regulators, the acquirers, the merchants as well as the consumers. Their basic product which is point of sale terminal has a significant role to play in driving a cashless initiative owing to the fact that they are ubiquitous, easy to use and portable. PoS are found in stores, restaurant, hospitals, schools, churches and other service centers. Besides, the responsibilities of PTSPs in POS terminal management and support (part of which are purchase and replacement of spare parts, provision of connectivity, training, repairs, and development of value added services) put their activities in a position where it should be given maximum scrutiny, if the whole cashless scheme will be successful. This fact thus necessitates a periodic evaluation of the operational efficiency of the payment terminal service providers.

In Nigeria, it was reported that the CBN already plans to issue ten more payment terminal licenses in addition to the six in existence (Unified Payment Services Limited, ITEX, ETop, EasyFuel, Citiserve, Paymaster) (National Mirror, 2013). This is coming on the heels of several complaints about the inadequacy of the present service providers to meet up with the deployment as well as the connectivity requirement of PoS merchants. The NIBSS (2013) reported that only 115, 475 (representing 72 per cent) of the total registered PoS machines have been successfully deployed and connected. The CBN also reported to have initiated talks with the Nigerian Communication Satellite Limited on a better connectivity platform (other than GPRS) for the PoS. Other arguments for these additional licenses include inadequate enlightenment of merchants and consumers of these financial services, low capacity of PTSPs and merchant apathy. These and other challenges confronting these PTSPs border on their



operational capabilities, especially if they have optimized the market potential in Nigeria for deployment and connectivity, the maintenance cost they charge the acquirers and merchants, the quality and reliability of the network provided, the accuracy of transactions reconciliation, prompt settlement of acquirers and many such other efficiency related matters. These no doubt have a strong bearing on the success or otherwise of the nascent cashless policy. Therefore this proposal seeks to assess and investigate the cashless policy and operational efficiency of payment terminal service providers in Nigeria.

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