

JIM OVIA'S PAPERS

INTERNET BANKING: PRACTICES AND POTENTIALS IN NIGERIA

by

Jim Ovia MD/CEO

ZENITH INTERNATIONAL BANK LIMITED
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OUTLINE

- On-line, Real-time Services
- Banks and Internet Age
- Internet Banking Practices
- Raising the Bar of Expectations
- Potentials of Internet Banking In Nigeria
- Constraints of Internet Banking
- Security Implications
- Legal Implications
- Conclusion

Introduction...

- In the past few years, banking activities in Nigeria have increasingly depended on the deployment of Information and Communications Technology.
- Customers' insatiable appetite for efficient services have compelled financial institutions to fast-forward to a more radical transformation of their business systems and models by embracing e-banking.
- E-banking appeal is growing rapidly and the global acceptance has reinforced the speed of penetration.
- The success of e-banking is contingent upon reliable and adequate data communications infrastructure.
- It is prudent for banks to invest in creating secure networks for online transactions.

ONLINE REALTIME

- On-line, real-time banking services have now become a birth right of the customer as the customer demands the flexibility of operating an account in any branch of a bank irrespective of which branch the account was domiciled.
- Through Internet banking, customers would enjoy sitting in the comfort of their homes and offices and with a PC log onto their banks' servers and transact banking activities.

BANKS AND INTERNET AGE

- Financial services being offered through the Internet were more frequently described as "virtual banking". This is simply because there is no physical contact between the customer and banks' personnel. Some market watchers are beginning to argue that such transactions are real indeed and can no longer be described as "virtual".
- Given the overwhelming success of on-line banking, banks in Nigeria are gradually embracing Internet banking and radical changes are beginning to take place in Nigerian financial landscape.
- The British Internet only bank, Egg, launched in October 1998 had by June 2001 signed over one million accounts with total assets of £7.9 billion (www.egg.com).
- The US-based Virtual Bank's survey projects that by end of 2003; there would be 100 million on-line bank accounts in the US.
- In a more matured financial market, the e-banking excitement is growing rapidly and the global acceptance has reinforced the speed of penetration.
- The hype of e-commerce, e-banking and e-everything is gradually being embraced by Nigerian financial institutions who are poised to be in the vanguard of narrowing the digital divide.

INTERNET BANKING PRACTICES

- *Informational* – a bank's products and services being displayed on its websites. The risk here is relatively low.
- *Communicative* – the bank's system allows interaction between the system and the customer. This interaction is limited to electronic, account opening enquiry, loan application and static file updates. Because these servers have a path to the bank's internal network, the risk is higher compared to informational.
- *Transactional* – this level of Internet banking allows banks to transact business with their customers. It presents the highest risk architecture and must have the highest security and controls.

RAISING THE BAR EXPECTATION

- Banks customers' taste and desire have begun to raise the stakes of expectation of exceptional services.
- Customers want to transact their banking transactions at any time and location convenient for their life-style.
- They want to pay their regular household bills, buy and sell stocks and shares. When Nigeria's automated clearing system is fully operational, it will be a prelude to the integration of networks of Nigerian banks' payment system which will enable seamless electronic transfer of funds between one bank and the other.

POTENTIALS OF INTERNET BANKING IN NIGERIA

- Tremendous possibilities in Nigerian financial landscape by embracing digital technology.
- Access to Internet is beginning to get less stressful as NCC liberalises the policies that allow for cheaper, faster and better access to Internet services.
- The network of Internet Service Providers are also becoming more efficient.
- Lower cost of bandwidth.
- National policy on IT announced.

CONSTRAINTS

- It is practically impossible to move financial products and services from the banking hall to e-platform without adequate and reliable data communication infrastructure.
- Presently, there are less than 300,000 Internet users in Nigeria. This figure is in sympathy with the ridiculously low Nigeria's tele-density of 0.004 (250 people to 1 telephone line) as at July 2001 before GSM roll-out.
- Nigerian banks are known to have built their own data communication infrastructure (Vsat, radio links).

SECURITY IMPLICATIONS

- Hackers on the net could manipulate customer account balances by breaking into bank's database.
- Unauthorised access to customers' account and other confidential information is also inherent danger when deploying Internet banking facilities.
- Virus attack on banking application servers could disrupt banking operations or grind them to a halt. Example: 'I love you bug' virus.
- Classified information could be made available to competitors of the banks deploying Internet banking facilities.
- Accounts could inadvertently be opened for fraudsters. On the average, customers are not trained for teller jobs.
- Hence, involvement of these accounts holders in online transaction processing via Internet banking is prone to error.
- Customers passwords and User – ID could be extracted by hackers and subsequently used for perpetration of fraud.
- Loss of data between the transaction point and the Internet banking server can cause information to be wrongly presented.

LEGAL IMPLICATIONS

- There is no clearly defined legal frame-work for internet banking in Nigeria.
- This is necessary for any bank to have adequate legal cover to provide the service.
- An account opened on the net without passing through the standard account opening procedure is tantamount to breach of procedure.
- Confidential information of a customer prone to unauthorised access. This could lead to litigation against the bank.
- When a customer takes a decision based on erroneous information gathered from Internet banking system due to, for instance, incomplete cycle of transactions, the customer can take up the bank in a legal battle depending on the extent of damages sustained from such decision.
- A bank can face a legal battle if there is a disruption of Internet banking activities that leads to the inaction of a customer on a transaction that ordinarily should have been carried out via Internet banking system.

CONCLUSION

- Technology is undoubtedly a very important tool of every bank's competitive strategy. It could draw the line between success and failure.
- Internet banking, which has resulted from the blossoming Internet technology, obviously has many benefits for the financial system.
- Unfortunately, Nigerian banks cannot immediately reap the digital dividend because of poor telecommunications infrastructure.
- Since Internet banking is targeted, in most cases, at the public by way of mass marketing, users must have access to cheap, fast and easy telecommunication tools.
- The poor in Nigeria are financially forbidden from participating. The recent roll-out of GSM cannot solve our telecommunications problem given the high cost of tariff.
- It is expected that with the necessary competition, the cost of access to the country's present 2G mobile phones should come crashing down and hopefully should positively impact on internet banking.