
POOR SERVICE QUALITY IN NIGERIAN BANKS-EROSION OF THE BENEFIT OF MICR AND AUTOMATED CLEARING SYSTEM

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ABSTRACT

In order to reduce the cheque clearing waiting time in the Nigeria banking system and provide adequate float in the banking system among other benefits associated with automation, the Central Bank of Nigeria established the Nigerian automated clearing system with the Magnetic Ink Character Recognition (MICR) as a forerunner. Despite the huge investment, the bank's services have left much to be desired due to poor service quality in the banking halls which has necessitated this study. The study will rely on graphical demonstration of the nature and the reason for the lack of improvement of bank services to commensurate with the level of investment put into this project aimed at improving life. Secondary sources of data will suffice for this research, such as textbooks, newspapers, journal, and internet documents among others. The study therefore recommends that, the Central Bank of Nigeria should step up its on-site supervisory role of banks as well as intensify its structured training of bank employees so that the essence of the huge investment made will be felt by way of the benefits of improved service delivery among others.

Keywords: Computer readable, Financial Instruments, High volume, Service Quality.

INTRODUCTION

The cheque clearing system is a means whereby banks exchange cheques drawn on each other through the clearing system. Clearing system on the other hand is the medium through which proceeds of cheques and other analogous financial instruments are transferred from the paying banker to the collecting banker. The Nigerian automated clearing system (NACS) which took off on October 21, 2002 as a result of the unprecedented delays in clearing of financial instruments, difficulties in reconciliation of clearing transaction as well as inadequate data base of clearing transactions among others.

The Central Bank of Nigeria (CBN) Act N024 OF 1991 empowered the apex financial institution to facilitate the clearing of cheques and other payment instruments, in an effort to execute her mandate, the CBN issued the Nigeria Banker Clearing House Rule on January 2, 1995. In November 1995 the Central Bank of Nigeria announced a plan for a detailed overhaul of the clearing system as well as monetary transactions in Nigeria where large transactions were based on cash with its inherent problems, such as security, volume of paper money, its transport, and currency sorting as well as exchange related issues. This state of affair necessitated the urgent need for alternative means of making payment and encouragement of the use of non-cash payment financial instruments. The use of non-cash financial instrument in making payment was consequently hampered by the clearing process, which was largely manual, resulting in inferior service quality to the customer, while cheque base transactions were prone to fraud, the clearing circle took between 5 to 15 working days.

The clearing process to be rowdy with many banks participating to clear deposited cheque of their customers drawn on other banks. The process was usually late in reconciliation and balancing of the books which was prone to fraud and human errors. This made it difficult for the CBN to calculate and advice on the net settlement figures on schedule after the clearing session. Though many of the instruments had the magnetic ink character recognition (MICR) code, the lack of automation meant that MICR code lines would not be used.

Thus, this meant waste of resources in the form of the magnetic ink character recognition (MICR) code line information processing infrastructure. Consequently a committee was set up; the report of this committee formed the basis for the banker's committee decision on the 16th of June, 1996 to approve the automated clearing process to zones within the country, with Lagos having more zones. It also reduced the number of clearing days in order to buster customer's confidence and encouragement. This signals a reduction in number of participating banks in clearing in order to make the number more manageable and faster which was the reason for the automation with the use of MICR technology.

All these are effort to further bring speed and efficiency into clearing processing with the potential to reduce the clearing float and introduce networking between the parties involved in clearing, in order to unlock the benefits of electronic banking in Nigeria.

STATEMENT OF THE PROBLEM:

This research study is as a result of the observed poor quality service in Nigerian banks despite all efforts being made by the apex regulatory institution to ensure quality service delivery to Nigerians by the Nigerian banks which culminated in the establishment of the Nigerian automated clearing system using MICR as a forerunner.

Irrespective of the huge investment by the apex institution, service quality is still at the lowest hence this study.

OBJECTIVES OF THE STUDY:

The basic objectives of this study are to:

- i. Identify why despite the huge resource invested by the apex regulatory institution in the automation of the Nigeria automated clearing system, service quality has remained poor.
- ii. Understand and track the reasons for the poor service quality and finding mitigating factors.

RESEARCH HYPOTHESES:

This study developed hypothesis which will be tested to determine whether the introduction of MICR and the Nigeria Automated Clearing System has improved the quality of service delivery in Nigerian banks as follows:

Ho: The MICR and the Nigeria automated clearing system have brought about quality service delivery in Nigerian banks

H1: The MICR and the Nigeria automated clearing system have failed to bring about quality service delivery in Nigerian banks

LITERATURE REVIEW

Magnetic Ink Character Recognition (MICR)

MICR may be a character-recognition technology used principally within the banking industry to ease the process and clearing of cheques and other analogous money instruments. The MICR cryptography typically known as the MICR code line is at the very bottom of cheques and other payment instruments usually includes the document-type indicator, like the bank code, checking account range, cheque range, cheque value, and other indicators. The technology permits MICR scanner to scan and skim the knowledge directly into a data-assortment device; MICR character will be read simply by humans.

According to MICR Basic Handbook-Documents 50-70300-001 Rev, c 1-2 the U. S. demand for mechanized methodology of processing cheques dates back to Nineteen Fifties, machine makers and cheque processors established many committees to recommend solutions. The last word results of these committees were the adoption of the E-13B Ink Character Recognition in 1958 by the American Bankers Association (ABA). This E-13B system used special characters that are written on the bottom of bank cheques. The majority of cheques created within the U. S. and many other countries were magnetically encoded with E-13B characters. Much of the E-13B data was then accepted by the American National Institute (ANSI) and incorporated into many specifications for MICR printing. These days these specifications are created out by ANSI, which defines in details, the formation of E-13B characters, MICR line placement, the part of the MICR line, and alternative parts of a bank cheque. The E-13B data required by the clearing house and banks is written within the ink close to the very bottom of the money instrument. The instrument's values are then processed automatically and electronically through a reader sorter machine. This machine would magnetically scan pertinent data regarding the cheque, as well as the value of the cheque, account range, establishment upon which the cheque is drawn and other miscellaneous codes.

Countries throughout the globe have teams that set standards and dictate the planning specifications for document cryptography, process instrumentality and quality criteria for MICR printing, a number of them are;

- American Banking Association (ABA)
- American National Standard Institute (ANSI)
- United Kingdom Association for Payment Clearing Services (APACS)
- Canadian Payment Association (CPA)
- Australian Bankers Association (ABA)
- International Organization for Standardization (ISO)
- France L' Association Francaise de Normalization Deluxe

In Federal Republic of Nigeria, Izunna (1999) (cited in Obasi, 2013) posited that the financial industry of Federal Republic of Nigeria introduced a laptop device known as the ink character recognition (MICR) reader in 1990 to assist the sorting of cheques by banks, the target of that was to clear the banks type cheques quicker and send them as quickly as possible to paying banks. Having been read with the new technology, clearing of up-country cheques are now cleared just like local cheques instead of eleven days as in the time past.

This will facilitate in redressing the payment difficulties being toughened by banks, notably those banks that have not already adopted the web industry. Ezekwe, 1979 cited in Obasi, 2013) posited that thanks to the utilization of recent system by CBN. Esezobor (2010) posited that the live run of MICR in Federal Republic of Nigeria commenced in 1999 whereas country-wide implementation was all over in Sept, 2000.

The money payment instrument for clearing consists of:
1. Cheques, dividend warrants and other bills of exchange
2. Machine-driven direct credit (ADC) like salaries, pension etc.
3. Machine-driven direct debit (ADD) like premium, subscription etc.

THEORETICAL FRAMEWORK ON THE MODALITIES OF NACS

Until the live run in 2002 the clearing system in Federal Republic of Nigeria was manual. In keeping with (Ovia, 2001) this clearing system is doubtless one amongst the foremost bold steps geared toward rising potency of the industry. It absolutely was coordinated by the CBN in collaboration with Nigerian Interbank Bank Settlement system (NIBSS) and the banking industry. The objectives of the project, according to the CBN vision statement, is to become one amongst the foremost economical and effective among the globe central banks in promoting and sustaining economic development. The manual system couldn't support the sophistication of the new technology being introduced by the banks. The manual system collapsed, thanks to MICR, having been over-whelmed by the pressure of increased high volume clearing activities as additional banks were licenced and admitted to the financial industry. In its modus—operandi, the NACS processes include:

1. Cheque lodgement method at the contra desk at the branch level didn't change.
2. Branches of banks endeavour to deliver clearing items same day to the head offices for collation and scanning to enable the MICR codes on the face of every cheque to be encoded as follows;
 - Issuing bank
 - Branch of the issuing bank
 - The NACS clearing zone
3. Every bank's head office currently works with the image created from the cheques
4. The post cryptography exercise to place the amount on every cheque slightly below the amount box is carried out.
5. Banks send details through network to NIBSS.
6. Since image is not reorganized as proof in law, cheques are packaged and send to NIBSS, which is zonal financial institution for exchange between banks. No more the previously tedious routine of reconciliation of clearing as was done before the introduction of NACS.
7. NACS net server would then sift and prepare reports and charges for every bank for settlement by the participating bank clearing centre (PBCC) through real time gross settlement (RTGS) by CBN.
8. Not all banks attend zonal clearing centre, but the PBCC alone. The PBCC are huge settlement banks, with down payment of N15 billion in treasury bills and government bonds with the CBN. The non- settlement banks maintain accounts with their several settlement banks in accordance with their agency agreement. All banks keep operations account with the CBN for treasury, exchange and financial policy needs.
9. Settlement is finished same day apart from up-country cheques, machine-driven financial institution debits and return cheques on second clearing session, that are settled on subsequent day.
10. Clearing waiting time was reduced to 1 + 2days, that's day of lodgment of the cheque and two waiting days for it to clear, as well as up-country cheques that are currently treated as local cheques, due to MICR.
11. machine-driven clearing presently holds in urban center, Abuja, Benin-city, Ibadan, Enugu and Port-Harcourt.

THE ROLE OF CBN IN THE ESTABLISHMENT OF NACS;

The CBN is the nucleus of the clearing system in Federal Republic of Nigeria. It depends on the CBN Act No, 24 of 1991, section forty one and the resultant amendments to facilitate the clearing of cheques and other payment instruments for banks in Federal Republic of Nigeria. The CBN in collaboration with other banks have the mandate to establish clearing houses in premises provided by the bank in anywhere, provided by the bank in any place the bank might consider necessary.

The earlier laws of Dishonoured Cheques (Offences) Act no, forty four of 1977 and the Bankruptcy Act of 1979 as well as the Bill of Exchange Act, cap35 of 1990 geared toward sanitizing the financial system were all the product of the CBN in conjunction with the bankers committee which generated a variety of operating rules, such as;

1. Nigerian Bankers Clearing -House Rules and Procedures, 2002.
2. NACS, PBCC Security Standards.
3. The Federal Republic of Nigeria Cheque customary and Cheque Printer enfranchisement 2005 among others.

To enhance potency, effectiveness and avoid ambiguity within the NACS operations, the CBN developed a collection of rules governing the conduct of all the parties within

the machine-driven clearing system. Otherwise called the financial institution rule which the CBN typically reverses when the need arises.

The Role of the Nigerian Interbank Settlement System in NACS;
1. NIBSS is the zonal clearing centre.

2. It coordinates the admission of members' beneath honest, equitable and clear manner.

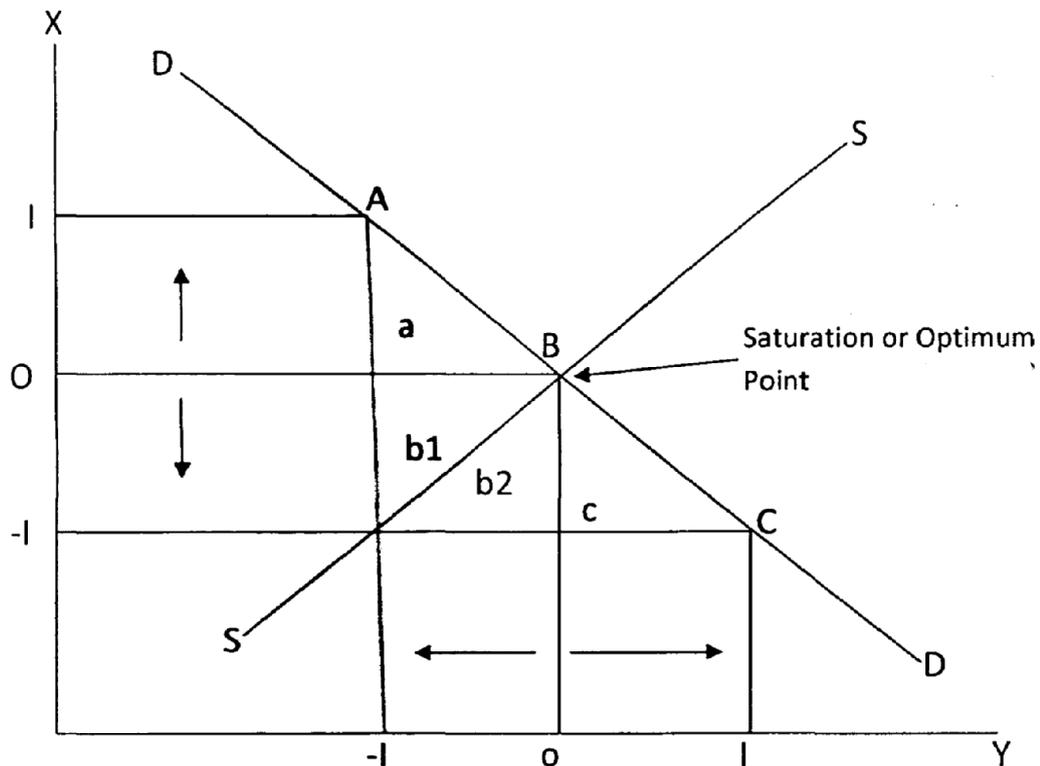
SERVICE QUALITY CHALLENGES IN NIGERIAN BANKS:

Kotler and Keller (2008) suggests that one of the best methods to offer service is for firms to train their service personnel on the techniques of establishing strong and dynamic relationship with customers. One of the pillars of customer relationship management (CRM) is relationship building through quality service delivery to customers (Winner, 2001). The objective of quality service delivery and tailoring such to meet customer expectation is in attaining customer loyalty.

Unfortunately, for over a decade now the Nigerian banking industry had neglected the need for training and retraining. The old generation banks that had training centres at various locations have long closed down the centres in preference to poaching of staff from other banks. Whereas the new generation banks never had training in their agenda; hence they resorted to poaching of staff of other banks from the on-set. The consequence is not farfetched, other than recycling of the few available experienced hands, most of them are now laid off either for old age and what have you. This research posited that recycling of the few trained manpower in short supply from one bank to another is quintessential real-world example of a zero-sum game. A game in which one player's gain necessarily represents the other player's loss, and does not add value to the banking industry and the economy generally.

Graphical Demonstration

Recycling of trained manpower = Zero-Sum Game



Source: Authors origination

The above graph depicted B as the optimum point of trained manpower distribution in the banking industry today, any point above or below presupposes recycling, zero-sum game or the proverbial saying robbing Peter to pay Paul in which case the gain of one bank becomes the loss of another bank without value addition to the economy.

TEST OF HYPOTHESES

Ho: The MICR and the Nigeria automated clearing system have brought about quality service delivery in Nigerian banks

H1: The MICR and the Nigeria automated clearing system have failed to bring about quality service delivery in Nigerian banks

The benefits of MICR in the automated clearing system is no doubt enormous, it is cost effective and a source of confidence in the Nigerian banking industry. It has reduced the clearing waiting time to T+2, while the up-country cheques are now treated as local as well as in the tremendous reduction in budgetary allocation to the back office job functions. This led to the serious downsizing of the banking industry without decline in the level of banking operation and profitability witnessed since the establishment of the Nigerian automated clearing system. The tedious reconciliation challenges experienced in the days of manual clearing has been replaced by electronic self-reconciliation of transactions. All these gave credence to the huge profitability being declared annually by the banking industry,

Discussions:

Despite the above enormous benefits the industry is still bedeviled with poor service quality and unprecedented transaction charges to unsuspecting customers' accounts. The poor service quality occasioned by low quality staffing in addition to expensive transaction cost being charged to unsuspecting customer's account is evident. Irrespective of the industry's reduction in the cost of doing business as a result of the automated clearing system, and electronic banking generally, the customers are being made to bear the brunt of the inefficiencies of the bank and its employees.

Empirical evidence in the course of this research at the banks visited in Benin-city, Lokoja, Lagos, Abuja and Nasarawa revealed serious knowledge gap in the law and practice of banking of the staff at the various banks visited.

For example, while the researcher was waiting to interview some of the staff of the bank he visited for the purpose of this study. He witnessed a situation, a customer was asking for his account balance at the enquiry desk. The officer in charge simply asked him to call out his account number, as the customer was calling the number, the officer was punching the computer and there after the officer announced Twenty Five Thousand Five Hundred Naira ten kobo to the hearing of everybody around. This is clearly un-banking, under the law of banker —customer relationship; the bank owes implied duty of confidentiality to the customer. Mayall & Palmer (1993) posited that it is the duty of the bank not to disclose information about its customer's affairs. *Tournier vs National Provincial and Union Bank of England* (1924), the Lord Justice of the court of appeal states thus; The duty of non-disclosure is a legal one arising out of conduct and that the duty is not absolute but qualified. The qualification can be classified under four headings:

- a. Where disclosure is under compulsion of law.
- b. Where there is a duty to the public to disclose
- c. Where the interest of the bank require disclosure
- d. Where disclosure is made by the express or implied consent of the customer

The above disclosure of this customer's balance by the bank official does not fall within these stated exceptions and therefore part of poor service quality.

Another empirical evidence, while the researcher had issued his cheque for an amount and turned to the back to write 'Please issue me a certified cheque in favour of the Principal, Federal Government Girls College, Benin-City with his signature, he subsequently handed over the cheque to the bank official who looked at the cheque, turned the back and read the message as well. Obviously does not know what is meant by certified cheque, got up from her seat and went away with the cheque probably to find out from the juggernauts among the staff members what is meant by certified cheque. After the researcher had waited for almost one hour, the lady came back to say sorry sir we don't have certified cheque. The researcher was astonished and demanded to see the manager, at the manager's office he took time to explain to the manager what certified cheque is before the manager said sorry sir, they are used to calling it draft here.

In practice a certified cheque is a cheque issued by a bank, drawn on itself on behalf of a customer, either drawn on the branch or another branch of the same bank or head office which is usually acceptable in making payment (Esezobor, 2010) It is a replacement of the purchaser's credit with the credit of the issuing bank to assure certainty of payment. It is

called a draft when drawn by one branch of a bank on another branch or head office and vice-versa, while it is called account payable cheque, manager's cheque, cheque issued and so on when it is drawn by one branch of a bank against itself.

Yet another example of poor quality staffing in the banking industry today was made manifest to one of the researchers. The researcher demanded for his statement of account from his bank after over 2 year of non-receipt of statement of account. The desk officer requested him to apply which he did, however instead of issuing him the statement of account, the desk officer asked him thus 'I hope there is money in your account, a page is fifty naira. The researcher demanded to know why and asked if he was not entitled to statement of account and that for over two years he had not been issued any statement of account. The desk officer replied that it is the bank's policy because they have been sending alert to keep you informed of your transactions. However the researcher insisted that it is the duty of the bank to issue him statement of account periodically which the bank had failed to do hence his coming to demand for it at no cost. It took the intervention of the manager before the statement was issued without passing the cost to the researcher's account. No wonder (Pai, 1968) cited in (Udendeh, 2009) postulated that the biggest assets in balance sheet of banks today are ignorance of the customers of their rights and their reluctance to fight for it. According to Mayall et-al. (1993), one of the implied duties of a bank is to issue its customer regular statement of account showing the entries that have been made.

CONCLUSION

These observations point to poor quality service, irrespective of huge transaction charges being debited to the customer's accounts, particularly when the customer is uninformed in the law and practice of banking. Evidences abound where customers later became aware of wrong debits into their account and the banks were made to refund the funds back to the customer's accounts which is tantamount to service failure and a drift of confidence in the Nigerian banking industry.

RECOMMENDATIONS

The Central Bank of Nigeria which is the apex regulatory institution needs to urgently step up on-site supervision of these banks to salvage the system from the unprecedented excessive transaction charges being debited to unsuspecting customers for their obvious inefficiencies. Not too long ago the CBN removed commission on turnover (COT) some of the banks have introduced other charges such as maintenance fee among others. Additionally, the CBN must step-up supervision to ensure structured training for the bank employees in the law and practice of banking; this is the only way the banking public can get value for the transaction charges that are being debited from customers' accounts. It is also the only way the gains from magnetic character recognition, the automated clearing system and electronic banking in general can benefit all the stakeholders, the customer and the bank as well as attaining the desired social corporate responsibility by the banking industry.

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