

EFFECT OF CASHLESS SYSTEM ON FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN RWANDA: A CASE STUDY OF COGEBANQUE

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Abstract: This study is about to establish the transition effect from cash based to cashless system on financial performance of commercial banks. A case study of bank of Cogebanque. Cashless system is described in economy whereby financial transactions are not conducted with money in the form of notes or coins. This concept has been discussed worldwide as the world is experiencing rapid use of digital exchanging of money especially in e-commerce, investment and daily life. On the other side cash based economy is a setting where retail and commercial payments are primarily made in cash. Cashless system is an indispensable system which makes life easy but at the end the most important thing is its impact on the overall development and transformation of the economy in general. The objective of this study is to assess the effect of cashless system on financial performance of commercial banks in Rwanda. Specific objectives are to determine the effect of mobile wallet on profitability of commercial banks, to assess the effect of plastic money on performance of commercial banks in Rwanda, to investigate the relationship between net banking and performance of commercial banks in Rwanda. The researcher will use descriptive research design of study based on qualitative and quantitative approach in order to get better analysis of the study. She will use both primary and secondary data collection with their relevant tools like questionnaire and documentary analysis in order to come up with required data. The target population will be 100 staff involved in decision making and customers. The researcher will use descriptive method of study based on qualitative and quantitative approach in order to get better analysis of the study. She will use stratified sampling technique and Pearson coefficient of correlation to measure the statistical relationship that exists between independent and dependent variable

Keywords: Cashless system, financial performance, commercial banks.

1. INTRODUCTION

A recent study from forex bunes finds that the majority of their payments were made using cashless means at 57% of transactions it has shown that cashless payments are the future and demonstrated that with the introduction of cashless policy there has been increase in sales by 20%. Worldwide, non-cash transactions reached 433 billion in 2015, a growth of 11.2% (Zandi M, 2013) studied whether the long term shift to credit and debit cards simulates economic growth of 56 countries worldwide. Moreover, the adoption of electronic transaction is essential for transparency, accountability and reduction of cash related fraud, the fundamental elements of economic growth and development (Mieseigha, 2013). According to National Bank of Rwanda, Rwanda's journey towards a cashless economy started in 2008 with its first Vision and Strategy for the payment system of which, much progress has been achieved with the wide use of card payments and the introduction of mobile financial services. The ratio of electronic payments transactions to GDP, it has increased from 0.3% in 2011 to 16.1% as of September 2016 and they expect it to increase at 55% by 2020. The Central Bank of Rwanda in collaboration with its stakeholders such as MINECOFIN, RDB, and MINEACOM has established the cashless system that will enable the country to realize the cashless vision as well as provide incentives to payment service providers which boosts the usage of electronic payments.

2. STATEMENT OF THE PROBLEM

According to National bank of Rwanda (NBR Report, 2012) there was a challenge of conducting financial transactions very fast, delay in payment of checks between banks; time wasted in banks as people line in queue waiting for service, errors as a result of manual work and fraud related cases was common. As a result some clients complain of the above, it is upon this that is why the researcher would like to examine the contribution of cashless system towards commercial banks financial performance because researcher believes the changes from cash based to cashless system will ease banking transactions and people will no longer need to carry wads of cash or even queue up for ATM withdrawals. When we look at the ratio of electronic payments transactions to GDP, it has increased from 0.3% in 2011 to 16.1% as of September 2016 and government expect it to increase at 55% by 2020. regardless of the importance of cashless system in explaining banking performance, the impact of cashless policy on banks performance is still misunderstood because there are those who are still optimistic about the policy but this study agrees with the submissions of (Laoye, 2011) (Akhalumeh.P.B and Ohiokha, 2012) (Okey, 2012) that if the cashless system is successfully implemented the following benefits will be attained, where a shift towards cashless system will reduce high operational cost incurred in cash based economy. Such costs emanate from cash management and movement, currency sorting and printing. The cashless system will bring about increased convenience, more service option, reduced risk of cash related crimes, cheaper access to banking services, and credit to customers. On the part of the government, it will bring about increased tax collection, greater financial inclusion, reduced revenue leakages and increase economic development. Other stakeholders: The cashless system brings along with it different banking instruments such as POS systems, mobile payments, direct debits, internet banking, electronic fund transfer etc. Implicitly, companies that are connected with the production of these products will benefit.

3. OBJECTIVES OF THE STUDY

The general objective of this study was to determine the effect of Cashless system on financial performance of commercial banks in Rwanda especially in CogeBanque.

The specific objectives of the study were:

1. To assess the effect of mobile wallet on financial performance of commercial banks in Rwanda.
2. To assess the effect of plastic money on financial performance.
3. To investigate the relationship between net banking and financial performance

4. RESEARCH METHODOLOGY

4.1 Research Design: This study adopted a descriptive research design to obtain data useful in evaluating present practices and providing a basis for decision making.

4.2 Target Population: The population of this study consists of CogeBanque staff in charges of policy making namely the branch managers and clients who are beneficiaries of a new policy

4.3 Data Collection Instruments: The researcher will use different instruments to collect data namely reports review, questionnaires

5. RESEARCH FINDINGS

Table1: Effect of mobile wallet

Statement	SA%	A%	N%	D%	SD%
Being aware of cashless system	3	82		4	
Mobile banking is an effective tool that contribute to the banks 'performance	3	86.5			
Telephone banking increased the number of population that use banks	6.9	74.6	4.5	3.5	
Mobile banking promote financial performance	1.5	86.5	1	0.5	
Profitability have been boosted due to electronic banking	1.6	82	0.5	5.4	

The above table shows a positive perception of the effect of mobile wallet on financial performance.82% out of 100% respondents replied that they are aware of cashless system,86.5%out of 100% respondents agreed that mobile banking is an effective tool that contribute to the banks’performance,74.6% out of 100% of respondents agreed that telephone banking increased the number of population that use banks,86.5% out of 100agreed that mobile banking promote financial performance and 82% out of 100% agreed that profitability have been boosted due to electronic banking.

Table 2: Effect of plastic money

Effect of plastic money	SA%	A%	N%	D%	SD%
Awareness of plastic money		45	7.5	29.5	7.5
Plastic money contribute to the quick access of liquidity		45	7.5	29.5	7.5
Plastic money play a big role on commercial banks ‘performance		45	44.5		

The table indicates that 45% out of 100% are aware of plastic money and this is the same percentage of those who agreed that plastic money contribute to the quick access of liquidity and agreed that plastic money play a big role on commercial banks ‘performance, 7.5% out of 100% replied that there is no effect of plastic money on the liquidity.

Table 3: Effect of net banking

Effect of net banking	SA%	A%	N%	D%	SD%
Cashless system reduces errors in banking services		86.6	2.9		
Cashless system contribute to the quick services of the bank		89.5			

The above table indicates that 86.6% out of 100% agreed that cashless system reduces errors in banking services and 2.9% doesn’t have information on how cashless system reduces errors in banking services. All respondents agreed that cashless system contribute to the quick service of the bank which is 100%

Table 4: How costly is online transactions

Response	Frequency	Percentage
Very costly	51	76.1%
Relatively costly	9	13.4%
Not costly	0	0%
	60	100%

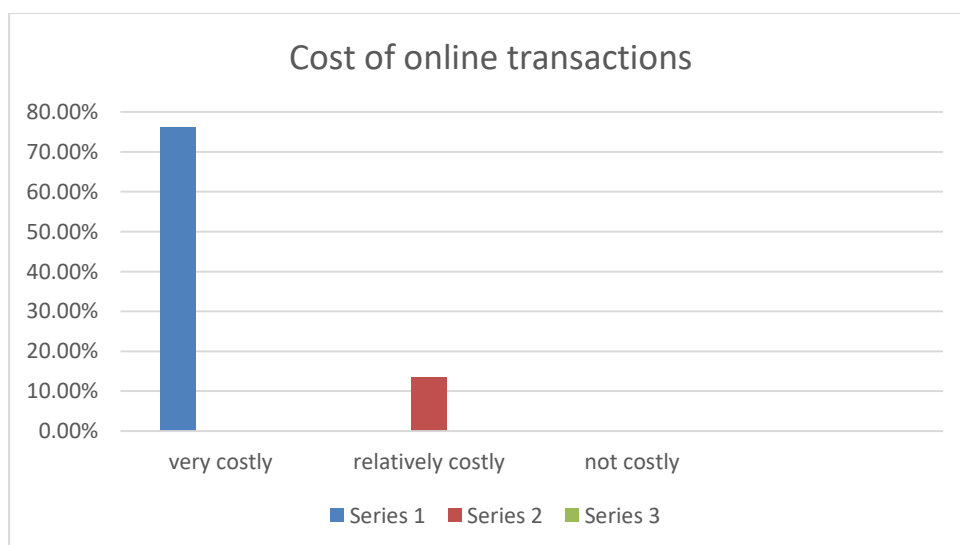


Figure1: Cost of online transactions

The findings illustrated in the figure above indicate that 76.1% consider cashless system to be costly while 13.4% take it to be relatively costly and 0% of the respondents consider it not costly at all.it can be conclude that the cashless system is costly.

Table 5: Performance of Cogeбанque

Performance before and after cashless	Frequency	Percentage
Excellent	4	7%
Very good	50	83%
Good	6	10%
Fair		
Bad		
Total	60	100%



Figure 2: performance of Cogeбанque after cashless

The table and figure above indicates that 83% out of 100% agreed that the performance of Cogeбанque after introduction of cashless system was very good, 10% replied that the performance after introduction of cashless was good and 7% agreed that the performance was excellent. This leads to a conclusion that the performance of Cogeбанque after introduction of cashless system was very good.

Table 6: Impact on the financial performance

Impact	Frequency	Percentage
Positive	57	95%
Negative	3	5%
No impact	0	0%
Total	60	100%

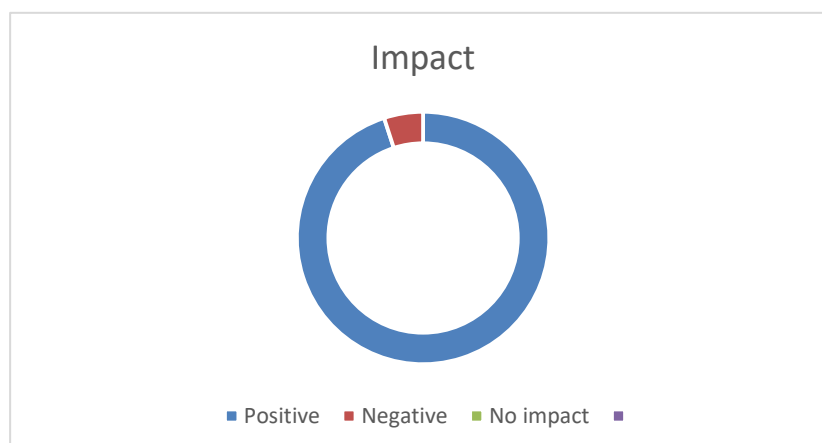


Figure 3: Impact of cashless system on the financial performance

The results above indicates that 95% of the respondents were in agreement that cashless system has a positive impact on the financial performance while 5% of the respondents thought it had a negative impact on the financial performance of cogebanque,0% of the respondents indicated that cashless system had no impact. From the above findings it is clear that we can conclude that cashless system had a positive impact on the financial performance of Cogebanque

Table 7: Reliability

Reliability	Frequency	Percentage
Very reliable	45	75%
Moderately reliable	10	16.6%
Unreliable	5	8.3%
Total	60	100%

75% of the respondents agreed that cashless system is very reliable to use while 16.6% think it is moderate reliable.8.3% of the respondents think that cashless system is unreliable. The findings prove that cashless system is a very reliable mode of delivering service

Table 8: Service improvement

Service improvement	Frequency	Percentage
Yes	60	100%
No	0	0%
Maybe	0	0%
Total	60	100%

As per the data above it is clear that customer service has improved in the Cogebanque services

6. CONCLUSIONS AND RECOMMENDATIONS OF THE STUDY

6.1 Conclusions

It should be noted that cashless system has an effect on financial performance of banks in Rwanda.it is clear that the introduction of cashless system cost the bank significantly. The study found out that the increased cost has both positive and negative impact to the financial performance. This has led to the banks diversifying their resources and reducing the subscription fees for POS banking, mobile banking as well as Internet banking as a measure to bring down the increased costs.

The study aimed at investigating whether cashless system had any, positive or negative, impact on the financial performance. It was established that cashless system had a positive impact on the services offered as more customers have been able to transact different services electronically. It has also been very easy to access their accounts and therefore saving on valuable time.

6.2 Recommendations

- i. Banks should create a campaign of awareness among their clients to make sure that they are aware of the benefits if cashless system were introduced.
- ii. The bank management should establish a training for their clients on the various use of cashless system and capacity building for Cogebanque staff.
- iii. The study has shown that cashless system has a positive impact on the financial performance of the banks and therefore they should more targeted online services as well as come up with more technology based services that are easily reachable by customers

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