

E-Naira Digital Currency and Financial Performance of Listed Deposit Money Banks in Nigeria

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ABSTRACT

Background: A digital currency is a means of payment or money that exists in a purely electronic form, issued and regulated by the nation's monetary authority, or central bank, and backed by the government. Nigeria's E-Naira digital currency was launched as at 1st October, 2021 and will be in the digital form of Naira and be used just like cash.

Aim: This study was carried out to examine the relationship between E-Naira Digital Currency and Financial Performance of Listed Deposit Money Banks in Nigeria.

Materials and Methods: The study employed survey design in the analysis. A hypothesis was formulated to guide the investigation and the statistical test of parameter estimates was conducted using Kendall's Coefficient of Concordance. Primary data was used in the study and was obtained through questionnaire survey administered to the staff of those banks with international authorization and commercial banking license i.e (Zenith Bank Plc, Access Bank Plc, UBA Plc, Union Bank Plc, Gtbank Plc, Fidelity Bank Plc, FCMB Plc and First Bank Plc) within Awka Metropolis.

Results: Using Kendall's Coefficient of Concordance, the findings of the study generally indicated that E-Naira Digital Currency has positive and significant relationship with financial performance in the bank of industry at 1% significant level.

Conclusion: The study concludes that the adoption of Central Bank Digital Currency (CBDC) has significant relationship with financial performance of listed deposit money banks in Nigeria.

Recommendation: Hence, the study suggests that monetary authorities and deposit money banks should enlighten their customers on the benefits and importance of using E-Naira Digital Currency as it reduces the cost of processing cash, improves the availability and usability of Central Bank money and also increases the revenue generation of the nation. The study contributed to knowledge by introducing a new variable (E-Naira Digital Currency) and also updated literature on the subject.

KEYWORDS: E-Naira Digital Currency, Financial Performance, Deposit Money Banks

1. INTRODUCTION

The advancement of digital technology has brought innovation in many sectors, including the financial one: the development of digital currencies is a clear case of disruption in this context. Different forms of money are currently emerging, reshaping the overall

payment's system. Presently, central banks should innovate to continue to meet the customer needs, through the public digital currency offering, issuing a risk-free alternative to private payment solutions instead of (or together with) cash. The European

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Central Bank defines fiat currency as any legal tender designated and issued by a central authority, that people are willing to accept as money being well regulated and trusted (European Central Bank, 2012).

Regardless of the fact that the concept of currency as payment method remains actually unchanged, nowadays we have different ways to do a transaction. In particular, central banks have been under pressure to respond to the proliferation of Fintech (Financial Technology) and to the consequent developments of “stable coin” that may challenge the definition of money, the access to legal tender, even the role of central banks, the financial intermediation model and the transmission of monetary policy. The growing relevance of different digital payment’s methods (e.g. SamsungPay, ApplePay, Satispay and so on) and the declining usage of cash can change the status quo and lead to more fast, cheap, secure and digital means of payment. If this is the case today, in the near future we will begin to see real digital coins, issued by central banks (but not only). As cited in the study of Lucrezia (2019), regulators particularly in Italy, is outlining a way that can stimulate the digital currency over the physical one, due to its greater safety and speed. The latter are ensured by the blockchain as transaction enabler. This one is based on “block” that ensures the goodness of each transaction through a validator (the “chain”). The mechanism behind this structure could avoid evasion and falsification, making the payment fast and traceable. An important further application should be the “smart contract” (Szabo, 1994), through which two or more parties can insert a trigger situation to perform a transaction (eg. Assurance: if the client has an accident, it will be registered in the chain and will result in a payment if necessary, automatically and without bureaucracy).

According to Bartoletti, Carta, Cimoli and Saia (2017), the universal financial system is absolutely embracing the current evolution from physical currency to almost virtual currencies through the medium of technology. However, there have been many attempts at producing a digital currency during the 90s tech boom (Bech, 2017).

In this regard, it is significant to emphasize that it has been more than 20 years since Bill Gates opined: “*Banking is essential, banks are not*” and nowadays the State needs to maintain the role in the payment system, considering the trend of dramatically declining cash use. E-Naira currency digitalization was launched on 1st October, 2021 in Nigeria with a view of reshaping economic activity, reducing the role of cash and spurring new digital forms of money. Consequently, Central Bank of Nigeria (CBN) faces a difficult choice between two options; improve the

existing payment solutions or issue a Central Bank Digital Currency (CBDC).

Hence, the need for the study to examine the relationship which subsists between the E-Naira Digital Currency and Financial Performance of Listed Deposit Money Banks in Nigeria.

In order to direct the flow of this work, this hypothesis was formulated:

H₀₁: E-Naira Digital Currency has no significant relationship with Financial performance of Deposit Money Banks in Nigeria.

2. Review of the Related Literature

2.1. Digital Currency

A digital currency is a means of payment or money that exists in a purely electronic form. Central bank digital currencies are issued and regulated by the nation’s monetary authority, or central bank, and backed by the government. They are different from existing electronic central bank money, which is provided by central banks but can only be used by banks and selected financial institutions. When financial institutions pay each other, they pay in reserves from accounts held with a central bank (<https://african.business/2021/10/finance-services/nigeria-gears-up-for-enaira/>).

Before central bank digital currencies, the only way consumers could use money that is a direct liability of a central bank was with physical cash. Existing digital retail payment from customer deposits accounts in banks are based on money that is the liability of the institution providing the account, not a central bank. A central bank digital currency is a direct liability on the central bank and is available to all households and businesses giving them access to electronic central bank money.

Central bank digital currency can be transferred or exchanged using technologies such as blockchain. Blockchain is a system of storing records of transactions across a network of computers (Ahannaya, Oshinowo, Sanni, Arogundade & Ogunwale, 2021).

Nigeria’s digital currency was launched as at 1st October, 2021 and will be in the digital form of the Naira and will be used just like cash. A central bank digital currency is not a cryptocurrency. Cryptocurrencies, such as Bitcoin, are not currencies in most countries since they are not a generally accepted form of payment. Although they are still widely referred to as cryptocurrencies and best described as digital assets, or crypto-assets.

Digital currencies do not have physical attributes and are available only in digital form. Transactions

involving digital currencies are made using computers or electronic wallets connected to the internet or designated networks. In contrast, physical currencies, such as banknotes and minted coins, are tangible, meaning they have definite physical attributes and characteristics. Transactions involving such currencies are made possible only when their holders have physical possession of these currencies.

Digital currencies have utility similar to that of physical currencies. They can be used to purchase goods and pay for services. They can also find restricted use among certain online communities, such as gaming sites, gambling portals, or social networks.

Digital currencies also enable instant transactions that can be seamlessly executed across borders. For instance, it is possible for a person located in the United States to make payments in digital currency to a counterparty residing in Singapore, provided they are both connected to the same network.

Characteristics of Digital Currencies

- As mentioned earlier, digital currencies only exist in digital form. They do not have a physical equivalent.
- Digital currencies can be centralized or decentralized. Fiat currency, which exists in physical form, is a centralized system of production and distribution by a central bank and government agencies. Prominent crypto currencies, such as Bitcoin and Ethereum, are examples of decentralized digital currency systems.
- Digital currencies can transfer value. Use of digital currencies requires a mental shift in the existing framework for currencies, where they are associated with sale and purchase transactions for goods and services. Digital currencies, however, extend the concept.

Types of Digital Currencies

Digital currency is an overarching term that can be used to describe different types of currencies that exist in the electronic realm. Broadly, there are three different types of currencies according to Ahannaya, Oshinow, Sanni, Arogundale and Ogunwale (2021):

Crypto currencies

Cryptocurrencies are digital currencies that use cryptography to secure and verify transactions in a network. Cryptography is also used to manage and control the creation of such currencies. Bitcoin and Ethereum are examples of cryptocurrencies.

Depending on the jurisdiction, cryptocurrencies may or may not be regulated.

Cryptocurrencies are considered virtual currencies because they are unregulated and exist only in digital form.

Virtual Currencies

Virtual Currencies are unregulated digital currencies controlled by developers or a founding organization consisting of various stakeholders involved in the process. Virtual currencies can also be algorithmically controlled by a defined network protocol. An example of a virtual currency is a gaming network token whose economics is defined and controlled by developers.

Central Bank Digital Currencies

These are regulated digital currencies issued by the central bank of a country. A CBDC can be a supplement or a replacement to traditional fiat currency. Unlike fiat currency, which exists in both physical and digital form, a CBDC exists purely in digital form. England, Sweden, and Uruguay are a few of the nations that are considering plans to launch a digital version of their native fiat currencies.

Reasons Nigeria launched a Digital Currency?

The Central Bank has given several reasons for launching the eNaira. It is to:

- promote and facilitate financial inclusion
- enable direct welfare disbursements to citizens
- facilitate diaspora remittances
- reduce the cost of processing cash
- improve the availability and usability of Central Bank money
- increase revenue and tax collection
- support a resilient payment system
- improve the efficiency of cross-border payments

Is Nigeria Ready for Digital Currency? If not, How Can the Gaps be Addressed?

According to Onu (2021), Nigeria could certainly pull this off, provided the technology infrastructure and the technological know-how are in place. It is stated that the eNaira shall be administered by the central bank through the Digital Currency Management System to mint and issue eNaira but it appears this system has been built by Bitt, a global financial technology company. It provides digital currency and stable coin solutions to central banks, financial institutions and ecosystem participants worldwide. As such, the maintenance of the eNaira system would very much depend on the technological strength of

this company and the extent to which they are retained to provide a maintenance framework for the system.

Another issue is the electricity crisis and lack of widespread access to the internet across the country. These should be immediate priorities for the Central Bank, and the government, to resolve for the eNaira system to be successful. It is good to see that there's a plan for the system to be usable while offline.

Another challenge that the poor may have in accessing the eNaira system is the difficulty of attaining digital identity. The eNaira design plans to use the existing Bank Verification Number and National Identity Number regime. Getting the documents needed for these is expensive and cumbersome.

As Nigeria has the largest population on the continent, spearheading this process could signal the start of a regional monetary integration. If central bank digital currency arrangements could work together across the continent it could solve the challenge of the inconvertibility of African currencies. This could help intraregional trade, which has been challenging to achieve in Africa. With the African Continental Free Trade agreement now operational, the successful launch of the eNaira might be a step towards regional monetary integration in Africa and potentially a regional central bank digital currency.

The Central Bank Digital Currency (CBDC) is an alternative means of payment to cash. While there are two types of payment modes i.e. physical and virtual, cash is termed physical while CBDC is virtual. The CBDC can be local (i.e. within the country) or cross the border (between two or more countries). The CBDC is usually used in situations where the local currency of a country is often subjugated in which case the government may ban the use of foreign currency and make the local digital currency compulsory.

Before now, there have been attempts to introduce CBDC. The first in 1992 was by the Bank of Finland which operated for 3 years and got transferred to private ownership and technically ceased to be CBDC. It was aimed at providing small-scale retail payments and operated as a prepaid stored-value card. Ecuador attempted it in 2014 but shut it down in 2018. This attempt failed because the government had asked the citizens to trust it and keep their monies in a virtual currency backed by physical dollars during their financial crises. It was abandoned as the government could not live up to its billing. Cambodia through the National Bank of Cambodia in 2020

implemented it to address the gluttonous appetite for foreign currency and hoped it would encourage the greater use of their local currency as opposed to the dollar.

The advent of crypto and by extension Libra (Facebook digital currency) has put pressure on countries to delve into finding suitable alternatives that will make them remain relevant. The recent progress made and the implementation of CBDC by the People's Bank of China (PBOC) has also been a major driver of interest. However, as of date, eighty-one countries have signified interest in the on boarding of CBDC out of which only five have taken off. Recently Australia, Singapore, South Africa, and Malaysia formed a consortium of countries for a cross-border CBDC which is expected to improve trade and exchange. Though CBDCs are not the obvious best solutions, problems ranging from hygiene to macroeconomics have been touted as key issues to be addressed through its implementation.

2.2. Theoretical Underpinnings

2.2.1. Mises Regression Theorem

This study was theoretically underpinned by Mises Regression Theorem propounded by Ludwig Von Mises in his 1912 book titled, Theory of Money and Credit. The theory holds that the value of money can be traced back (regressed) to its value as a commodity.

The regression theorem assumes that all money must ultimately derive their purchasing power from a historical tie to a commodity that was valued in a state of barter. The theory of the value of money is able to trace the objective exchange value of money only to that point where it is no longer the value of money but just the value of a commodity (Jeffrey, 2014). In this way, one can continually go further and further back and must eventually get to a point where one can longer find any component in the objective exchange value of money which emanates from valuations based on the function of money as a medium of exchange. At this point, the value of money is nothing other than the value of an object that is useful in some other way than as money. Mises solved this circularity through the regression theorem. Mises further identified that people expect future purchasing power based upon current and previously observed purchasing powers (Ahannaya, Oshinowo, Sanni, Arogundade & Ogunwale, 2021). For the regression theorem to work, a medium of exchange must already have the attributes necessary for a medium of exchange, having a price and be accepted on the market. Thus, the study was anchored on the theory.

2.3. Empirical Review

Asidok and Micheal (2018) investigated the impact of mobile banking transactions on bank profitability in Nigeria using selected banks data from Electronic payment system office covering from 2007-2016. The study adopts Panel unit root and SURE model estimation technique to conduct quantitative analysis for four selected old and new generation banks. The results of this study were analyzed using economic a priori criteria, statistical criteria and econometric criteria. The positive and statistically significant relationship between automated teller machine of old and new generation banks in Nigeria indicates that automated teller machine is a major factor that contributes to old and new banks performance in Nigeria.

Olaiya and Adeleke (2019) on electronic banking and profitability of deposit money banks in Nigeria employed Autoregressive Distributed Lag and found that two independent variables namely ATMTV and POSTV individually have positive relationship ROA, while both MBTV and IBTV defied apriori expectations as they individually have negative relationship with ROA. However, a combined test for all the four variables revealed a no significant relationship with ROA. The study therefore, concludes that digital banking channels have no significant effect on the performance of banks in Nigeria in the short run for the period covered by the study.

Ahannaya, Oshinowo, Sanni, Arogundade and Ogunwale (2021) on the effect of cryptocurrencies on Nigeria economy employed regression model and found that cryptocurrencies such as Bitcoin and Ethereum in performing online transactions have been on the rise and almost accepted globally. The study concluded that a significant number of people are now fully convinced that the digital Currency-Bitcoin is legitimate, safe and has value.

Eze and Egoro (2016) investigated the impact of electronic banking on the profitability of commercial banks in Nigeria. The study sought to examine the relationship between different e-banking channels and the profitability of commercial banks in Nigeria. Four e-banking channels (automatic teller machines, electronic mobile banking, internet banking transactions, and point of sales services) were identified and regress against the profit before tax of commercial banks operating in Nigeria between 2006 and 2014. The study used the confirmed ECM model (via residual diagnosis) to test the formulated hypotheses. The results revealed that the over impact of electronic banking on the profitability of

commercial banks was significant; whereas, the impact of the individual channels was varied.

Oladejo (2016) examined the impact of four (ATM, POS, web/Internet and mobile) e-payments adoption and banks specific variables on profitability of the Nigerian Deposits Money Banks (DMBs). Secondary data were obtained from annual report and accounts of ten quoted (DMBs) between 2005 and 2012. Data were analysed using panel logistic regression. The overall result from data analysis shows that when bank adopt e-payment systems, their performance level, such as gross margin, profits after tax, return on assets and return on equity changes. This is reflected in the positive association between adoption and gross earning of banks. Further, adoption of the four e-payment instruments like ATM, WEB, POS and Mobile banking influenced performance indices measured by return on assets (ROAE), gross margin and profits after tax (PAT) of the sampled banks.

Edwin and Adele-Louise (2014) investigated the extent of the adoption and usage of the mobile phone banking services among banking customers in Nigeria and the associated problems. In the course of the research, ten out of twenty one banks were selected in Nigeria. The stakeholders interviewed included bank staff, customers and students from higher education institutions. Study data was gathered over a two month period using an unstructured set of interview questions and data analysis was through thematic evidences arising from the data analyzed. The findings of this study however, discovered that phone banking was more established than internet banking and ATM services, but ATM services had a wider reach. In summary, the overriding factors affecting this situation included the cost and maintenance involved, education of customers, poverty and infrastructure availability.

Ugwueze and Nwezeaku (2016) studied the relationship between electronic banking and the performance of Nigerian commercial banks. Electronic banking was proxied by value of Point-of-Sale transactions while commercial banking performance was proxied by customers' deposits. Engle-Granger co-integration model was used to analyze data for the sample period January 2009 to December 2013. The results show that POS is not co-integrated with both the savings and time deposits but are co-integrated with demand deposits.

Osazevbaru, Sakpaide, and Ibubune (2014) examined the impact of cashless policy on the profitability of Nigerian banks, against the backdrop that these banks in a cash based economy are known for their huge profits even in the face of associated high cost of

operations. Basically, will banks in the cashless regime still make as much profits as they use to make? To address this, secondary data were collected and analyzed using content analysis comparing profits under cash based policy with a cashless regime. The results revealed that cashless economic policy positively impact on banks' profit through reduction in cost of operations and banking the unbanked populace.

3. Methodology

The research design used in this study is survey design. It was established to predict and envisage the nature of the relationship which subsists between E-Naira Digital Currency and Financial Performance of Listed Deposit Money Banks in Nigeria. Thus, the population of the study comprises of workers in the accounting section of listed deposit money banks in Nigeria with international authorization and commercial banking license. It ranges from *Zenith Bank Plc, Access Bank Plc, UBA Plc, Union Bank Plc, Gtbank Plc, Fidelity Bank Plc, FCMB Plc to First Bank Plc.*

4. Data Presentations and Analysis

H₀₁: E-Naira Digital Currency has no significant effect on financial performance of deposit money banks in Nigeria.

Decision Rule: accept H₀ if P-value > 5% significant level otherwise reject H₀

Table 1: Respondents Responses on the relationship between E-Naira Digital Currency and Financial Performance of Listed Deposit Money Banks in Nigeria

| Questions | To a Very High Extent | To a High Extent | Neutral | To a Very Low Extent | To a Low Extent |
|-----------|-----------------------|------------------|---------|----------------------|-----------------|
| 1 | 30 | 10 | 10 | 10 | 10 |
| 2 | 45 | 10 | 5 | 5 | 5 |
| 3 | 40 | 10 | 10 | 5 | 5 |
| 4 | 40 | 5 | 5 | 10 | 10 |
| 5 | 35 | 15 | 5 | 5 | 10 |

Source: Field Survey (2021).

For the test of hypothesis, the study used the data as explicated on table 1 above. The outcome of the test using Kendall's Coefficient of Concordance is shown on table 2 below:

Table 2: Result on Respondents Distribution on table 1 Hypothesis Test Summary

| | Null Hypothesis | Test | Sig. | Decision |
|---|--|--|------|-----------------------------|
| 1 | The distributions of TVHE, THE, N TVLE and TLE are the same. | Related-Samples Kendall's Coefficient of Concordance | .008 | Reject the null hypothesis. |

Asymptotic significances are displayed. The significance level is .05.

4.1. Discussion of Findings

H₀₁: E-Naira Digital Currency has no significant relationship with Financial Performance of Deposit Money Banks in Nigeria.

For data accessibility, the study was narrowed down to only the listed deposit money banks with international authorization and commercial banking license in Awka, Anambra State. This was based on the fact that banks have same policy across the branches and states. Data for the study were obtained from primary sources using questionnaire survey. The questionnaire survey was designed where respondents were asked to assess the extent to which E-Naira Digital Currency ensures Financial Performance using Likert five point scale referred to as: (1) to a very high extent, (2) to a high extent, (3) neutral, (4) to a low extent and (5) to a very low extent.

In view of this, 81 copies of questionnaire were administered to the relevant accounting sections of the selected listed deposit money banks with international authorization and commercial banking license in Awka Metropolis. The hypothesis was statistically tested using Kendall's Coefficient of Concordance operated with SPSS Version 20 at 5% level of significance.

In view of the analysis as shown on Table 2, the result shows that there is a significant and positive relationship between E-Naira Digital Currency and Financial Performance of Listed Deposit Money

Banks in Nigeria. The Kendall's test as shown on table 2 shows a p-value of 0.008. This probability value is statistically significant at 1% level. Thus, the null hypothesis was rejected as suggested by the decision rule shown in Table 2 and alternate hypothesis accepted which contends that E-Naira Digital Currency has significant relationship with Financial Performance of Deposit Money Banks in Nigeria. This is in tandem with the apriori expectations of Osazevaru, Sakpaide, and Ibubune (2014), Ahannaya, Oshinowo, Sanni, Arogundade and Ogunwale (2021) who before now had a position that cashless economic policy positively impact on banks' profit through reduction in cost of operations and banking the unbanked populace.

5. Conclusion

From the statistical analysis of the study, it was concluded that the adoption of Central Bank Digital Currency (CBDC) has significant relationship with financial performance of deposit money banks in Nigeria

5.1. Recommendation

Based on the findings above, the study therefore recommends that monetary authorities and deposit money banks should enlighten their customers on the benefits and importance of using E-Naira Digital Currency as it reduces the cost of processing cash, improve the availability and usability of Central Bank money and also increase the revenue generation of the nation

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QUESTIONNAIRE**SECTION A: Personal Data of Respondent**

Sex: Male [] Female []

SECTION B: Questionnaire Items**Instruction:** Kindly read through all the item statements carefully and indicate your response against each statement by ticking [√] in the appropriate column using the following response options.**To a Very High Extent (TVHE)****To a High Extent (THE)****Neutral (N)****To a Low Extent (TLE)****To a Very Low Extent (TVLE)****CLUSTER ONE: E-Naira Digital Currency and Financial Performance**

| S/N | STATEMENTS | TVHE | THE | N | TLE | TVLE |
|-----|--|------|-----|---|-----|------|
| 1 | The adoption of E- Naira Digital Currency improves financial performance of banks in Nigeria | | | | | |
| 2 | The adoption of E-Naira Digital Currency enhances the banks existing payment solutions | | | | | |
| 3 | The adoption of E-Naira Digital Currency ensures sustainability of listed deposit money banks in Nigeria | | | | | |
| 4 | The CBN Digital Currency would ensure financial sustainability in Nigeria | | | | | |
| 5 | The CBN adoption of E-Naira Digital Currency would ensure financial sustainability of DMBs in Nigeria | | | | | |