



Bank Neutral Cash Hubs In Nigeria: Understanding The Proposed Operational Framework

KEY TAKEAWAYS

- The Central Bank of Nigeria (“CBN”) on March 15, 2022, issued an exposure draft of guidelines for the operation of Bank Neutral Cash Hubs (“BNCH” or “Cash hubs”) in Nigeria.
- BNCHs are cash collection centres located in areas with high volumes of commercial activities and cash transactions, for the purpose of providing a platform for customers to make cash deposits and receive value.
- The cash hubs enable customers to make cash deposits and withdrawals irrespective of the banks with which their accounts are domiciled.
- Deposit Money Banks (“DMBs”) and Cash Processing Companies (“CPCs”) are the institutions eligible to apply for the grant of approval to operate a BNCH.
- The minimum transaction value allowable at a BNCH is ₦500,000.00 for individuals and ₦1,000,000.00 for corporate entities.
- The exposure draft is subject to review and comments by stakeholders, after which the CBN is expected to release the final guidelines, which will provide minimum standards and requirements for the registration and operations of BNCHs, as well as regulate them for effective supervision by the CBN.

Cash Hubs in Nigeria (the “Draft Guidelines”); which provides for permissible and non-permissible activities, eligible promoters, and registration requirements for operation of BNCHs. It also prescribes the roles and responsibilities of the regulator and participating institutions in the cash hubs, including the rights and responsibilities of customers. There are also provisions on compliance monitoring and consumer protection, as well as dispute resolution, among others.

The key objective of creating the cash hubs is to reduce the risks and costs associated with cash handling and management by banks, merchants and huge cash handlers. The cash hubs are also set up to help deepen financial inclusion in the country, as well as leverage on shared services to increase the level of efficiency in cash management.



OVERVIEW

Via a circular dated March 15, 2022 and referenced: COD/DIR/INT/CIR/001/004, the CBN released the **Exposure Draft on Guidelines for Bank Neutral**

PERMISSIBLE AND NON-PERMISSIBLE ACTIVITIES

A cash hub is permitted to carry out:

- Receipt of Naira denominated deposits on behalf of financial institutions from individuals and

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businesses with high volumes of cash;

- Disbursement of high volumes of cash on behalf of financial institutions to members of the public; and
- Any other activities that may be permitted by the CBN.

However, a cash hub is prohibited from:

- Carrying out, investing and lending activities;
- Receiving, disbursing or engaging in any transaction involving foreign currency;
- Undertaking any other transaction not prescribed by the Draft Guidelines;
- Engaging another entity as a sub-contractor to carry out its operations; and
- Carrying out any other activities that may be prohibited by the CBN.

REGISTRATION REQUIREMENTS



An application to operate a cash hub is to be made to the Director, Currency Operations Department of the CBN, and the approval process involves two stages – Approval-in-Principle (“AIP”) and Final Approval.

To be granted AIP, promoters seeking to establish a

cash hub are required to attach to their application some specified requirements including the following:

- Valid DMB licence or a valid proof of CPC registration (as applicable), issued by the CBN;
- Non-refundable application fee of ₦100,000 (One Hundred Thousand Naira Only) in bank draft;
- Evidence of board resolution duly signed by the Chairman and Secretary of the board of the DMB or CPC, approving the application;
- A detailed business plan or feasibility report, in the specified form; and
- Certificate of Incorporation and certified true copies of other incorporation documents of the applying DMB or CPC.

Where the CBN issues a no-objection to the application for the AIP, the promoters shall be required to submit further requirements, before the grant of Final Approval, which include:

- Evidence of ability to meet technical requirements and infrastructural facilities, such as:
 - ◆ office space/business premises.
 - ◆ machinery and equipment required for operations.
 - ◆ basic security infrastructure.
 - ◆ computer and telecoms infrastructure.
 - ◆ electronic CCTV surveillance, access control and monitoring devices.
- Evidence of insurance cover for the hub vault cash;
- Evidence of collaboration with the Nigeria Police Force;
- Secure connectivity with the Nigerian Interbank Settlement System (“NIBSS”);
- Service Level Agreement between CPCs and

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- DMBs to facilitate settlement, clearing and indirect connectivity with the NIBSS; and
- Non-refundable approval fee of ₦500,000 (Five Hundred Thousand Naira).

In addition to the requirement for compliance with the provisions of the Draft Guidelines, a BNCH operator is equally under obligation to comply with all extant CBN guidelines/circulars on the cashless policy; consumer protection; anti-money laundering and combating the financing of terrorism (ATML/CFT) in banks and other financial institutions (“OFIs”) and other extant laws of the Federation aimed at combating money laundering and terrorism financing.

Further, a BNCH is required to keep adequate accounting and reporting standards, by complying with the reporting requirements and timelines specified in the *Cash Activity Reporting Portal (CARP) Industry Handbook*. Essentially, all activities of a cash hub are required to be included in its annual reports and accounts.

Another important obligation of a cash hub, among others, relates to the charges to be applied in its operation. In this regard, a cash hub is required to adopt the CBN-approved cash handling charges as well as the extant CBN’s *Guide to Charges by Banks, Other Financial and Non-Bank Financial Institutions*.

Given the nature of the services to be provided by a cash hub, the Draft Guidelines require a BNCH operator to put in place effective IT infrastructure that guarantees instant execution of payment instructions and secure transmission of transaction information. Further to this, all settlement information details are required to be preserved by a cash hub for a minimum period of 5 years and be made available via



the CARP.

REMARKS

Generally, the proposed establishment of the cash hubs is aimed at bridging the gaps of cash management costs and risks for banks and OFIs. The flexibility afforded by the Draft Guidelines in making the BNCHs open to customers regardless of which banks their accounts are domiciled (though with transaction value limits) will also significantly ease the stress that huge cash handlers at various market clusters and central business districts have to go through on daily basis in moving cash to their banks for deposit.

A significant concern, however, relates to the security of the cash deposited at the BNCHs. For instance, what happens where there is a case of cash theft either at a cash hub or when cash is in transit to and from the cash hub? It appears that the Draft Guidelines already anticipate this likely occurrence and make provisions for ameliorating these situations. In the first place, in order to reduce the risks associated with cash movement, BNCHs are to ensure that only registered Cash-In-Transit (CIT) companies are engaged for cash movements to and from the BNCH sites. In addition, every BNCH is

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required to take insurance cover for its hub vault cash and equally insure the total deposits in its custody, without which it will not be licenced to operate. By this, a cash hub will be indemnified against the risk of cash theft.

In our view, the success of the operations of BNCHs will largely depend on the effective participation of all stakeholders, and the degree of customer satisfaction and confidence in the initiative. This will definitely require a collaboration among the CBN, DMBs, OFIs, CPCs, CIT companies and the NIBBS. Each party has to play its role, as set out in the Draft Guidelines. The CBN must play its supervisory and monitoring role over the operations of the BNCH. By the same token, the BNCHs should ensure that all requirements regarding infrastructure, reporting standards/lines, consumer protection and dispute resolution among others, are complied with. In line with the Draft Guidelines, DMBs should ensure unhindered access to all relevant information where disputes arise, and facilitate the resolution of all disputes within the time limits prescribed in the CBN's *Consumer Protection Regulations 2019*. Similarly, customers are required to comply with all security rules as provided by the BNCHs. They should also promptly escalate complaints to the Consumer Protection Department (CPD) of the CBN, where resolution of complaints takes longer than the time limits prescribed in the CBN's *Consumer Protection Regulations 2019*.

Apart from the participants dutifully playing their roles and contributing to the success of the cash hubs' operations, in our view, the CBN can encourage or create incentives for using BNCHs by allowing reduced charges on transactions with BNCHs

compared with the charges on cash deposits and withdrawals at DMBs.

Overall, we believe that BNCHs are a welcome development and look forward to its implementation in Nigeria.

The Grey Matter Concept is an initiative of the law firm, Banwo & Ighodalo.

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