BANWO & IGHODALO

CENTRAL BANK OF NIGERIA REGULATORY UPDATE ON:

REVIEWED GUIDELINE FOR INTERNATIONAL MONEY TRANSFER SERVICES IN NIGERIA

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As part of its efforts to enhance transparency in foreign exchange market transactions, the Central Bank of Nigeria ("**CBN**") issued the Reviewed Guidelines on International Money Transfer Services in Nigeria ("**Reviewed Guidelines**") on January 31, 2024. These revisions come in the wake of the foreign exchange market's liberalization, aiming to refine and update the regulatory framework established by the Guidelines for International Money Transfer Services in Nigeria of September 2014 which regulated the licensing and operational standards of International Money Transfer Operators ("**IMTOs**") (the "**2014 Guidelines**"). We note that the 2014 Guidelines had replaced the earlier Guidelines for International Money Transfer Services in Nigeria of June 2014.

Historically, the primary rationale for the licensing of IMTOs was to encourage personal remittances, which are a major source of foreign currency in Nigeria, and as such IMTOs were restricted from providing business-to-business and business-to-customer transfers, which were handled by authorised dealers as set out in the Foreign Exchange (Monitoring and Miscellaneous Provisions) Act ("**FEMM Act**"). However, the Reviewed Guidelines have, while restricting the scope of activities of IMTOs to only inbound transfers as against the position under the 2014 Guidelines where IMTOs could do both in-bound and out-bound transfers, extended the scope of permissible activities for IMTOs to include these transactions (i.e., business-to-business and business-to-customer transfers), leading to some confusion as to the role of Authorised Dealers. However, the provisions of the FEMM Act are still in force and so individuals can still import and export foreign currency in line with its provisions.

The Reviewed Guidelines introduce other critical updates and stipulations, including, but not limited to:

I. **Requirements for International Money Transfer Services in Nigeria**: The Reviewed Guidelines outline the updated prerequisites for entities wishing to provide international money transfer services within Nigeria, ensuring they meet the CBN's current standards for operation.

II. **Overseas Partnership Requirements**: The Reviewed Guidelines specify the criteria for foreign partnerships, focusing on ensuring that such collaborations are transparent, secure, and in compliance with Nigerian financial regulations.

III. **Permissible and Non-Permissible Business Activities**: The Reviewed Guidelines delineate the scope of activities allowed and prohibited for IMTOs, providing clearer boundaries and preventing any operational ambiguities.

IV. **Mode of Disbursement for Inbound Transfers**: The Reviewed Guidelines detail the approved methods for disbursing funds to recipients in Nigeria, emphasizing efficiency, security, and compliance with anti-money laundering standards, etc.

This regulatory update offers detailed insights into the significant changes brought forth by the Reviewed Guidelines concerning the licensing process, *viz.*:

1. **Licensing:** The Reviewed Guidelines introduce a structured two-stage registration process for acquiring an IMTO licence, which consists of:

   I. Approval-in-Principle stage ("**AIP**")[1]: This initial phase is a prerequisite for proceeding to the final application stage, establishing a preliminary approval based on the applicant's fulfilment of specific criteria set by the CBN; and

   II. Final Approval stage[2]: Upon successful completion of the AIP stage, applicants may proceed to the final stage, where the CBN evaluates the comprehensive application before granting the final license.

2. **Application Fee:** Under the Reviewed Guidelines, the application fee for an IMTO license has been updated to NGN10,000,000 (Ten Million Naira)[3] marking a substantial increase from the sum of NGN500,000 (Five Hundred Thousand Naira)[4] stipulated in the 2014 Guidelines. It is important to note that this new application fee is non-refundable, representing a significant commitment from applicants and a move by the CBN to ensure that only serious and qualified entities proceed through the licensing process.

3. **Mandatory Licensing:** The Reviewed Guidelines reinforce the mandate that no person or institution shall operate as an IMTO within Nigeria without obtaining an operating licence from the CBN. This requirement underscores the CBN's commitment to regulating the sector, ensuring that all operators meet the necessary financial and operational standards to maintain the integrity and stability of Nigeria's financial system.

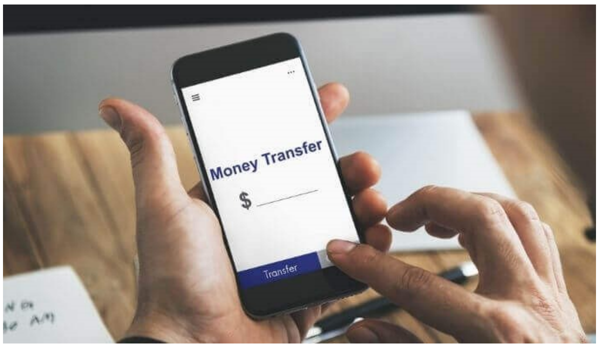
4. **Share Capital Requirement**: The Reviewed Guidelines have introduced significant changes to the capital requirements for IMTOs operating within Nigeria, with a focus on streamlining and simplifying the financial prerequisites for both indigenous and foreign entities. Under the Reviewed Guidelines, the stipulated **minimum share capital** for foreign IMTOs is set at USD1,000,000 (One Million United States Dollars), with an equivalent standard applied to indigenous IMTOs.[5] This amendment marks a departure from the 2014 Guidelines, which mandated a **minimum paid-up share capital** of

1. Please note that AIP cannot be used by an IMTO to commence operations.
2. Paragraph 2.0 of the Reviewed Guidelines.
3. Paragraph 2.1 of the Reviewed Guidelines.
4. Paragraph 2.4 (i) of the 2014 Guidelines.
5. Paragraph 2.1 (x) of the Reviewed Guidelines.
6. Paragraph 2.3 (xviii) of the 2014 Guidelines

at least NGN2,000,000,000[6] (Two Billion Naira) for indigenous IMTOs. Foreign IMTOs, under the 2014 Guidelines, were required to demonstrate evidence of having a minimum paid-up share capital of NGN50,000,000 (Fifty Million Naira) or its equivalent.[7] This shift alleviates the upfront financial burden on IMTO stakeholders, focusing instead on the entity's capitalization potential rather than its immediate capital liquidity.

The Reviewed Guidelines effectively lumps up the requirements for indigenous and foreign IMTOs which were separated in the 2014 Guidelines. However, by standardizing the capital requirements and removing the obligation for the share capital to be paid up, the CBN has streamlined the licensing process. This adjustment not only simplifies the entry for new participants in the money transfer sector but also aligns with global best practices, enhancing Nigeria's attractiveness as a destination for international money transfer services.

5. **Annual Renewal:** The Reviewed Guidelines has introduced a significant update concerning the annual renewal process for IMTO licences. In contrast to the 2014 Guidelines, the Reviewed Guidelines mandate that the IMTO license must be renewed annually, with a deadline set for January 31st of each year. The renewal fee has been pegged at NGN10,000,000 (Ten Million Naira)[8]. Furthermore, the Reviewed Guidelines imposes a strict compliance measure on banks, requiring them to cease further transactions with IMTOs that have not successfully renewed their license for the relevant period by the first quarter of the year. This provision ensures that only compliant and duly licensed IMTOs are engaged in international money transfer operations within the country, enhancing the regulatory oversight and integrity of cross-border financial transactions.



6. **Prohibited Institutions**: Unlike the 2014 Guidelines that permit deposit money banks to operate as IMTOs with the approval of the CBN, the Reviewed Guidelines outrightly/wholly prohibit banks from operating as IMTOs, as outlined in paragraph 2.6.[9] Additionally, this prohibition has been extended to include Financial Technology (Fintech) Companies, explicitly stating that such entities are also ineligible to receive approvals to operate as IMTOs – the Reviewed Guidelines however does not define what amounts to Financial Technology Companies. The expansion of the prohibition underscores the regulatory authority's intent to clearly define and control the entities that can engage in international money transfer services, ensuring that the operation of IMTOs is restricted to organisations that meet specific regulatory criteria.

7. **Means of Identification:** In the Reviewed Guidelines, the provision that previously recognised the Bank Verification Number ("**BVN**") as an acceptable means of identification has been expunged. Consequently, submissions requiring a form of identification will no longer accept the BVN as valid. In other words, where the Reviewed Guidelines require submission of a means of identification, BVN will no longer suffice. This adjustment signifies a shift in the regulatory requirements for verifying identities, necessitating stakeholders to adapt to alternative forms of identification for compliance.

7. Paragraph 2.3 (xviii) of the 2014 Guidelines.
8. Paragraph 2.3 of the Reviewed Guidelines.
9. Both the 2014 Guidelines and Reviewed Guidelines maintain that banks can act as agents.

These changes reflect the CBN's strategic efforts to further regulate the international money transfer sector, enhance operational standards, and ensure that entities engaging in this business are adequately capitalized, competent, and compliant with regulatory requirements. The modifications reflect a nuanced understanding of the operational realities facing IMTOs, indicating the CBN's commitment to fostering a more inclusive, competitive, and flexible regulatory environment for the money transfer industry in Nigeria. It also illustrates some of the requirements for compliance by companies desirous of obtaining IMTO licences or old companies with IMTOs licences. Hence, there is a need to seek tailored legal counsel to ensure proper compliance with the Reviewed Guidelines.

Banwo & Ighodalo possesses the requisite expertise and competence to provide legal advisory services on banking and financial regulations.

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