

**BANKING & FINANCE
UPDATES**

**RECENT REGULATIONS, GUIDELINES AND POLICIES AFFECTING THE
BANKING AND FINANCE SECTOR**

1.0 INTRODUCTION

In the month of September, the Central Bank of Nigeria (“**CBN**” or the “**Bank**”) has played an active role in the Nigerian financial markets by issuing various circulars, guidelines and regulations that impact on, amongst others, financial institutions, electronic transactions as well as the cashless policy, for the overall improvement of the Nigerian economy. In this newsletter, we highlight and review key regulatory publications issued by the CBN in **September 2019**.

1.1 REGULATORY UPDATES

This newsletter contains a review of the following regulatory publications:

- CBN Letter to all Development Finance Institutions (DFIs) on the Establishment and Operation of Subsidiaries and Special Purpose Vehicles (SPVs);
- CBN Letter to all Banks Re: Regulatory Measures to Improve Lending to the Real Sector of the Nigerian Economy;
- CBN Circular to all Other Financial Institutions and Mortgage Sector Stakeholders;
- CBN Circular on New Policies for Merchants Collections on Electronic Transactions;
- CBN Circular Re: The Implementation of the Cashless Policy;
- CBN Regulation on Electronic Payments and Collections for Public and Private Sectors in Nigeria; and
- CBN Guidelines on the Issuance and Treatment of Bankers Acceptances and Commercial Papers.

¹ Please note that the period under review is September 2019



2.0 CBN Letter to all Development Finance Institutions (DFIs) on the Establishment and Operation of Subsidiaries and Special Purpose Vehicles

To enhance the level of transparency in financial reporting by Development Finance Institutions which are required to submit and file returns with the CBN (“DFIs”), the Bank, [in a letter published on September 03, 2019](#) has mandated that, effective from the publication date, all DFIs are required to provide comprehensive disclosures on all subsidiaries and the operations of all special purpose vehicles (“SPVs”).

Furthermore, the CBN has mandated that going forward, the same regulatory standards applicable to DFIs shall be applied to their subsidiaries and SPVs. In particular, every DFI is now required to:

- a. submit financial and regulatory returns on all its SPVs;
- b. report on the financial soundness indicators and prudential ratios of itself, calculated on a solo and a consolidated basis with its SPVs;

- c. present to the CBN, for approval, its audited accounts, along with the audited accounts of its SPVs on a consolidated basis; and
- d. meet a consolidated leverage ratio – that compares the common equity to the total assets (both on and off the balance sheet) - of 10% at all times.

The consolidated risk-based examination of all DFI subsidiaries and SPVs will be conducted on a periodic basis. The CBN will take into account the successful performance of a DFI’s existing SPV(s), and the adherence to the consolidated prudential ratios, leverage ratios and business objectives, when approving a new SPV.

3.0 CBN Letter to all Deposit Money Banks (DMBs) Re: Regulatory Measures to Improve Lending to the Real Sector of the Nigerian Economy.

On July 03, 2019, an [initial letter was issued by the CBN to all DMBs on regulatory measures to improve lending to the real sector of the Nigerian economy](#) (the “Initiative”). The recorded success of the Initiative has led the CBN to issue a [further letter on September 30, 2019](#) to all banks (the “Letter”), acknowledging the appreciable growth in the level of the real sector gross credit, which increased by 5.33% between May and September 2019.

In order to sustain the momentum, the CBN reviewed upwards, the Loan to Deposit Ratio²

² Loan Deposit Ratio (LDR) refers to the ratio between a Bank’s total loans and total deposits. The LDR shows in percentages, how much of a bank’s received deposit is loaned out to the public



BANWO & IGHODALO

("LDR") target for all DMBs from 60% to 65% with emphasis on SMEs, Retail, Mortgage and Consumer Lending. This new target is to be attained by December 31, 2019.

The Letter further provides that failure to meet the LDR by the specified date shall result in a levy of additional Cash Reserve Requirement equal to 50% of the lending shortfall implied by the target LDR.

The LDR shall be subject to a quarterly review.

4.0 CBN Circular to all Other Financial Institutions and Mortgage Sector Stakeholders

On April 21, 2017, the CBN issued [the Guide to Charges by Banks and Other Financial Institutions](#)

in Nigeria (the "2017 Circular"), to moderate charges on various products and services offered by Banks and Other Financial Institutions ("OFIs") in Nigeria.

Stakeholders of these institutions had highlighted some challenges with the implementation of the 2017 Circular, particularly with respect to Part 2, Section 2.1.3 of the 2017 Circular, which fixes the interest rate on Mortgage Finance at "Negotiable, subject to a maximum Monetary Policy Rate ("MPR") of plus 5%.

After due consideration, the CBN, in a [circular to all OFIs and Mortgage Sector Stakeholders in Nigeria](#) published on September 05, 2019, (the "2019 Circular") amended the above section to read only, "NEGOTIABLE". This amendment has eliminated the maximum cap of a plus 5% MPR as obtained under the 2017 Circular. Consequently, there are no minimum or

maximum interest rates and fees that can be charged for the provision of mortgage financing to customers.

The 2019 Circular took effect from September 09, 2019.

5.0 CBN Circular on New Policies for Merchants Collections on Electronic Transactions

In a [circular issued on September 17, 2019 to all Bank Processors/Switches](#), the CBN approved two new policies for Merchants Collections on Electronic Transactions (the "Policies"). The Policies, which take effect from the publication date, are as follows:

- a. Banks shall unbundle merchant settlement amounts and charge applicable taxes and duties on individual transactions as stipulated by regulations; and
- b. Merchant Service Charge (MSC) has been reviewed downwards from 0.75% capped at N1, 200 to 0.50% capped at N1, 000.

The above Policies form part of CBN's strategic plans to further deepen financial inclusion and enhance efficiency of the Nigerian payments system.

6.0 CBN Circular Re: The Implementation of the Cashless Policy

A recent update on the implementation of the cashless policy has raised varying opinions on

CBN's policies and how it affects the Bank's financial inclusion strategies. In a [circular issued on September 17, 2019 to all Deposit Money](#)



BANWO & IGHODALO

Banks (“DMBs”) (the “Circular”), the CBN approved charges on cash deposits and withdrawals in the following states: Lagos, Ogun, Kano, Abia, Anambra, Rivers and the Federal Capital territory (FCT). These new charges are in addition to the already existing charges on withdrawals. The provisions of the Circular were to take effect from September 18, 2019, while nationwide implementation was to take effect from March 31, 2020.

The Circular made a distinction between two types of accounts — Individual and Corporate Accounts. The withdrawal/lodgment limit on individual accounts is any amount above N500, 000 which attracts new processing fees/charges of **3% (for withdrawals)** and **2% (for lodgments)**. On corporate accounts, the withdrawal/lodgment limit is any amount above N3, 000, 000 and attracts processing fees/charges of **5% (for withdrawals)** and **3% (for lodgments)**.

It is worthy of note that the CBN ran the pilot of the Cashless Nigeria Policy (the “Policy”) in Lagos from January 2012, which also took effect in Rivers, Anambra, Abia, Kano, Ogun and the FCT on July 01, 2013³. However, in April 2017, the CBN suspended the implementation of the Policy in thirty (30) states across the Federation, and ordered that refunds of processing charges on withdrawals and deposits be made accordingly.⁴

On the re-implementation of the Policy, Nigerians seems to be on both sides of the coin. One school of thought strongly advocates for the re-implementation of the Policy, stating that now is the best time for this Policy given the increased use of technology, mobile wallet options and

other avenues to trade and do business, without the use of physical cash. The other school of thought raises the argument that although Nigeria has seen an increased use of technology and its undeniable benefits, the largely unbanked in the rural communities still lack access to these improved options and are bound to be affected by

the re-implementation of the Policy. This school further argues that the Policy is likely to be a clog in the Federal Government’s strategic ease of doing business initiatives and negates the CBN’s financial inclusion policies.

On September 19, 2019, the House of Representatives, in a unanimous motion adopted during plenary, asked that the CBN suspend the charges imposed on cash deposits and withdrawals in the implementation of the Policy. According to the legislators, the suspension should remain until the CBN has made due consultations with all relevant stakeholders⁵. In response to the suspension, the CBN Governor, Mr. Godwin Emefiele said shortly after the September 21 Monetary Policy Committee (MPC) meeting, that the Bank will continue to implement the cashless policy in line with its mandate to ensure an efficient payment system.

He further stated, that contrary to some claims that many Nigerians would be affected by the implementation of the Policy, only about 5% to 10% of bank customers would be affected. According to Emefiele, “If the Nigerian economy was to compete effectively with those of developed countries, a payment system that encourages the use of non-cash channels is desirable”.

³ <https://www.cbn.gov.ng/cashless/>

⁴ <https://punchng.com/cbn-suspends-cashless-policy-in-30-states/>

⁵ <https://punchng.com/cashless-policy-reps-ask-cbn-to-suspend-charges-on-deposits/>



BANWO & IGHODALO

The figures also show how much Nigerians seem to have embraced the Policy. Point of Sale transactions (PoS) increased from N48bn in 2012 to N2.2tn in 2018, while electronic transfers have increased from N3.8tn in 2012 to N80.46tn in 2018. The CBN has also continued to provide alternative payment channels and Nigerians seem to have embraced it⁶, albeit some initial resistance.

⁶ <https://punchng.com/no-going-back-on-cashless-policy-says-cbn/>

The Bank has also clarified across all its online media platforms, that the charges stated in the Policy, will only apply on the amount in the excess of the stipulated limits. This applies to both individual and corporate accounts.

Like most policies that propose change, the onus remains on the CBN to fully enlighten Nigerians on the implementation of the Policy, identifying any exceptions (if any) to avoid all forms of ambiguity.



7.0 CBN Regulation on Electronic Payments and Collections for Public and Private Sectors in Nigeria 2019 (“the Regulation) and the CBN Guidelines on the Issuance and Treatment of Bankers Acceptances and Commercial Papers (“the Guideline”)

An extensive synopsis of the above Regulation and Guideline has been done by our Firm. Kindly see the link below for detailed information.

<https://www.banwo-ighodalo.com/grey-matter/new-frameworks-govern-electronic-payments-collections-issuance-bankers-acceptances-commercial-papers-nigeria>

Contact Persons: (Banking & Finance Practice Team)



BANWO & IGHODALO



Seyi Bella
Partner

sbella@banwo-ighodalo.com



Ifeoluwa Ogunbufunmi
Associate

iogunbufunmi@banwoighodalo.com



Oluwatobi Pearce
Associate

opearce@banwo-ighodalo.com



Daniel Jayeoba
Associate

djayeoba@banwo-ighodalo.com

48, AWOLOWO ROAD, SOUTH WEST
IKOYI, LAGOS, NIGERIA

AFRI-INVESTMENT HOUSE
50, AGUIYI-IRONSII STREET, MAITAMA
ABUJA, NIGERIA
234 9060003561-2; 8050875883; 8092714452;
9020524921
(ABUJA - 09 2912127)
www.banwo-ighodalo.com