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An Overview of the New CBN's Measures to Enhance Local Currency Liquidity for Settlement of Diaspora Remittances by IMTOs



Introduction

Following the Central Bank of Nigeria's (the "CBN") consistent moves to ensure transparency and efficiency in foreign exchange transactions and boost diaspora remittances in Nigeria, the CBN on 24th June, 2024 issued a Circular with Reference No. TED/FEM/PUBFPC001/019, titled "New Measures to Enhance Local Currency Liquidity for Settlement of Diaspora Remittances" (the "Circular"). The Circular reinforces the CBN's commitment to setting up infrastructures to ensure the efficient functioning of the Nigerian foreign exchange market by seeking ways to ensure that increased volume of remittances flow through formal channels to Nigeria. The CBN, through the Circular, seeks to achieve this objective by introducing measures that it believes will enable licensed International Money Transfer Operators ("IMTOs") to access Naira liquidity through the CBN to disburse remittances to beneficiaries.

This move by the CBN is a follow-up to an earlier development in the international money transfer services space introduced by the CBN earlier in the year. This was the release of the Reviewed Guidelines of International Money Transfer Services in Nigeria (the "2024 Guidelines") on 31st January, 2024, which made significant changes to rules applicable to IMTOs operating in Nigeria. Based on the foregoing, this publication aims to provide insights into the Circular, contextualise the Circular with the 2024 Guidelines, and consider the impact of the changes introduced by the Circular and the 2024 Guidelines.

Highlights of the Circular

The Circular introduced measures that are aimed at improving access to Naira liquidity by IMTOs for the timely settlement of diaspora remittances. Consequently, effective from 24th June, 2024, eligible IMTOs are allowed to access the CBN window directly, or through their authorised dealer banks, to execute transactions for the sale of foreign exchange in the Nigerian foreign exchange market. Based on this measure, IMTOs can purchase Naira from the CBN directly or through their authorised dealer banks for the settlement of diaspora remittances. The participants in this new segment of the foreign exchange market are eligible IMTOs, authorised dealer banks, and the CBN.



To ensure an efficient implementation of the Circular and to provide transparency, and accountability in the Nigerian foreign exchange market, the CBN has also introduced the following guidelines to guide participants in this new market segment in the execution of transactions:

(a) the availability of the option of same day settlement for transactions that are executed and confirmed before noon on a trading date. This is expected to expedite the process for all the participants, including beneficiaries of the remittances;

(b) the pricing for transactions executed with the CBN to be based on the prevailing Nigerian Autonomous Foreign Exchange Market ("NAFEM") rates, as referenced by an observable and acceptable market benchmark; and

(c) participants in the market are to submit mandatory regulatory returns containing all the relevant information on the sources of funds to the CBN on a daily basis.

All interested eligible IMTOs are required to confirm their partner banks (the authorised dealer banks) and advise standard settlement instructions to facilitate the smooth implementation of the new measures.

Highlights of the 2024 Guidelines

It is important to provide insights into the provisions of the 2024 Guidelines to better appreciate the new policy direction of the CBN. The 2024 Guidelines provide a new framework for the licensing and operations of IMTOs in Nigeria. We have set out below some of the key highlights of the 2024 Guidelines.

Commencement of Operations of IMTO Services

The 2024 Guidelines require any person or institution that intends to provide IMTO services in Nigeria to be authorised by the CBN. Subject to the applicant meeting the requirements for the approval, the CBN is mandated to approve the application in two phases comprising: (i) approval-in-principle ("AIP"); and (ii) final approval.



The AIP only allows an IMTO to open a bank account and finalise other pre-operational processes. IMTOs are only allowed to commence operations after the CBN has granted the final approval.

Requirements to Obtain the AIP and Final Approval

To obtain CBN's AIP, the applicant is required to submit an application with supporting documents to the CBN and pay a non-refundable application fee of NGN10 million. The supporting documents include an approval to operate in other jurisdictions or agency agreement, evidence of tax clearance and incorporation documents (for indigenous IMTOs), ownership structure of the IMTO, board of director's approval, information on beneficial owners of the company (where applicable), minimum share capital of USD1 million for foreign IMTOS and the equivalent for indigenous IMTOS, etc. IMTOs are to apply for the final approval no later than 3 (three) months after obtaining an AIP. The 2024 Guidelines require IMTOs applying for the final approval to provide the names of the authorised dealer bank(s) to serve as local agent(s), a copy of the agency agreement, and a detailed business plan. Having said this, based on the provision of Section 4.1(e) of the Regulatory and Supervisory Guidelines for Bureau de Change ("BDCs") Operations in Nigeria, 2024, BDCs can now serve as cash-out points for IMTOs in Nigeria. This means that IMTOs are now permitted to partner with BDCs for settlement of diaspora remittances in Nigeria.

Renewal of IMTO Licence

The 2024 Guidelines require IMTOs to renew their approval within the first quarter of every year. The renewal fee is NGN10 million and is required to be paid to the CBN on or before 31st January of the year but no later than the end of the first quarter. Where an IMTO fails to avail its agent bank a copy of the CBN renewal within the first quarter of each year, the agent bank would cease further transactions with the affected IMTO.



Collaboration with Foreign Technical Partners

Indigenous IMTOs that intend to collaborate with foreign technical partners are to obtain the approval of the CBN subject to various conditions including: (a) the partner should be a registered entity in its home country with approval to carry on IMTO services; (b) the partner should have a verifiable track record in money transfer services; (c) there should be a Memorandum of Understanding that specifies the liabilities in the event of disputes and/or process failures; and (d) the CBN is to conduct due diligence on the promoters and key officers of the IMTO.

Permissible Activities

The 2024 Guidelines broaden the scope of IMTO operations. It permits IMTOs to facilitate inbound money transfers for both individuals and businesses, including business-to-person and business-to-business transactions.

Restrictions on the Operations of IMTOs

The 2024 Guidelines place some limitations on the activities of IMTOs operating in Nigeria. Some of those limitations include:

(a) Prohibition of Outbound Transfers

IMTOs are prohibited from engaging in any outbound transactions. In addition, IMTOs are not allowed to accept deposits or lend to the public.

(b) Prohibition of Banks and Fintechs from IMTO Services

The 2024 Guidelines allow banks (defined as authorised dealer banks) to act as agents for IMTOs but prohibit banks and financial technology companies ("Fintechs") from rendering international money transfer services. The 2024 Guidelines do not provide a definition for "Fintechs". That has created an ambiguity on which types of entities the CBN would regard as Fintechs that are not permitted to operate IMTO services in Nigeria. The CBN is yet to provide clarification on this point.

(c) Restriction on Payout Options

The 2024 IMTO Guidelines mandate all IMTOs to pay inbound money transfers to beneficiaries in "Naira" through a bank account or cash payment using the prevailing rate in the Nigerian foreign exchange market. To provide context,



under the CBN Circular titled "Rate Quote and Other Market Conduct by International Money Transfer Operators" dated 13th September, 2023, IMTOs were required to quote exchange rates within an allowable limit of -2.5% to +2.5% around the previous day's closing rate of the Nigerian foreign exchange market. However, further to a recent CBN circular titled "Removal of Exchange Allowable Limit of Exchange Rate Quoted by the International Money Transfer Operators dated 31st January, 2024", the cap on allowable limit was removed. Consequently, in addition to selling remitted FX to the CBN through the segment discussed above, IMTOs are also now allowed to quote exchange rates at the Nigerian foreign exchange market on a willing seller, willing buyer basis. Proceeds of IMTOs that are more than the equivalent of USD200 are required to be paid to the beneficiaries through an account.

Conclusion

The Circular and the 2024 Guidelines mark a significant shift in the remittance industry in Nigeria in terms of improving FX liquidity in the Nigerian foreign exchange market and expanding the permissible activities of IMTOs. They are also expected to help with maintaining transparency, accountability, and robust financial practices. IMTOs can now handle both individual and business-to-business inbound transfers and access the Nigerian foreign exchange market for Naira to settle diaspora remittances. These are commendable changes which we expect may provide comfort to people remitting funds to beneficiaries in Nigeria through official channels. This is because they will be able to have the funds converted to Naira at a better exchange rate.

Having said that, we expect the CBN to fill gaps and provide clarity regarding key issues in the 2024 Guidelines, including providing a definition for "Fintechs" to enhance optimal compliance to the 2024 Guidelines.

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