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Key contacts

Zelda Akindele
Partner,
Finance & Fintech
zelda.akindele@templars-law.com

Victor Sameria
Senior Associate,
Finance & Fintech
victor.sameria@templars-law.com

Victoria Aluko
Associate,
Finance & Fintech
victoria.aluko@templars-law.com

Client Alert

CBN Issues New IMTO Rules for Remittances in Nigeria

Diaspora remittances – generally understood to mean reoccurring person-to-person (P2P) payments of relatively low value from persons living abroad to persons in their home country – now account for a sizeable portion of Nigeria's foreign exchange in-flow. Between 2019 – 2022,[1] Nigerians in the diaspora were reported to have remitted $60.22billion with a total of $168.33 billion in the past eight years (which is estimated to be over ten times higher than the amount of foreign direct investment (FDI) attracted by Nigeria for the same period).[2]

This data is indicative of how remittances could spur economic growth and affect (whether positively or negatively) Nigeria's volatile currency exchange regime. As a result, the Central Bank of Nigeria (CBN) pays very close attention to these transactions, particularly now that they have become an anchor segment of the fintech ecosystem, being conducted almost exclusively via digital channels.

On 31 January 2024, the CBN issued two new guidelines on the operations of international money transfer operators (IMTOs) in Nigeria – the reviewed guidelines of international money transfer services in Nigeria (the "**New Guidelines**") and the circular on removal of allowable limit of exchange rate quoted by the IMTOs (the "**Allowable Limit Removal Circular**").

In this client alert, we discuss the New Guidelines, Allowable Limit Removal Circular and the wider implications for IMTOs both from a legal and practical standpoint.

[1] https://data.worldbank.org/indicator/BX.TRF.PWKR.CD.DT?locations=NG
[2] https://www.ceicdata.com/en/indicator/nigeria/foreign-direct investment#:~:text=Key%20information%20about%20Nigeria%20Foreign,Mar%202008%20to%20Dec%202022.

Key Changes in the new IMTO Guidelines

In the paragraphs below, we set out the key provisions of the New Guidelines and provide our analysis on the implications for IMTOs and the wider fintech ecosystem:

Prohibition on Banks and Fintechs

From a market perspective, the most significant change under the New Guidelines is the prohibition on banks and financial technology companies (FinTechs) from obtaining IMTO licenses.

The New Guidelines do not provide a clear-cut definition of FinTechs. Additionally, it is not entirely clear how this prohibition would impact on FinTechs with existing IMTO licenses. That said, this prohibition impacts on the ability of FinTechs to introduce remittance products as part of their expansion strategy although FinTechs can always partner with IMTOs to launch their remittance products.

Expanded Scope of Users

The Old Guidelines provide that IMTO money transfer services shall primarily target individual (retail) customers and the transactions shall be on person-to-person (P2P) basis to safeguard against corporate customers that might structure their transactions into smaller amounts to circumvent the statutory reporting threshold. This is no longer the case under the New Guidelines as the scope of permissible user bases has been expanded to include transactions on a person-2-person (P2P), business-2-person (B2P) and business-2-business (B2B) basis (which until now was only permissible with a specific approval from the CBN in this regard).

Mode and Currency of Transfer for In-Bound Remittances

Under the Old Guidelines including the IMTO circular dated 10 July 2023 on the payment option in Naira for receipt of proceeds of diaspora remittances, IMTOs were permitted to use bank accounts, mobile money wallets and cash as the channels for the payout of diaspora remittances in Nigeria. However, the New Guidelines now limit this to cash and bank accounts.

Additionally, the payout currency is now limited to Naira thereby restricting the ability of IMTOs to payout remittances either in Naira or United States Dollars.

- **Definition and Structure**

  The IMTO Guidelines dated 26 September 2014 (the "**Old Guidelines**") did not expressly define IMTOs or what should be considered as international money transfer operations. As a result, the definition of IMTOs was implied from the scope of permissible activities that IMTOs could undertake. However, the New Guidelines now provide for a definition of IMTOs.

  Under the New Guidelines, IMTOs are defined as companies approved by the CBN to facilitate the transfer of funds from individuals or entities residing abroad to recipients in Nigeria and the payment of a corresponding sum to a beneficiary through a clearing network to which the IMTO belongs.

- **Two Phased Approval Process of License Approval**

  The New Guidelines now expressly provide for approval in principle (AIP) and final approval (FA) as the two licensing phases required to obtain an IMTO license. This is however unlikely to have a significant impact on IMTOs as this has been the practice for years with respect to the CBN licensing stages.

Increase in Application Fee

The IMTO license application fee under the Old Guidelines was N500,000 (Five Hundred Thousand Naira). However, this has now been reviewed upwards to N10,000,000 (Ten Million Naira).

This increase, which is almost 1000%, is significantly higher than the license application fees for payment service banks (PSBs), switching and processing companies, mobile money operators (MMOs), payment terminal service providers (PTSPs), Payment Solution Service Providers (PSSPs) and Super Agents. Independent of the minimum share capital requirement which is set at US$1 million for foreign IMTOs and its equivalent for indigenous IMTOs, this further heightens the entry barrier for startups looking to obtain an IMTO license.

Annual Renewal Requirements

The New Guidelines now expressly provide for an annual renewal of N10,000,000 (Ten Million Naira) payable on or before 31 January of every year and failure to renew the IMTO license within the first quarter of the year could impact on the ability of the IMTO to operate.

Record Keeping Requirements and Returns

Amongst other things, the New Guidelines provide for new recording keeping and return requirements. For example, under the Old Guidelines, IMTOs were required to keep transaction information for a period of 6 (six) years. However, this has now been reviewed downwards to 5 (five) years.

Additionally, the New Guidelines provide for daily, weekly and monthly returns, although the practically of this remains uncertain.

Allowable Limit Removal Circular

Under a CBN circular dated 13 September 2023, IMTOs were required to quote rates within the allowable limit of -2.5% to + 2.5% around the previous day's closing rate of the Nigerian Foreign Exchange Market for their transactions. This restricted the ability of IMTOs to fix or quote rates outside of the foregoing allowable margin.

The Allowable Limit Removal Circular has now removed the allowable limit / cap of -2.5% to + 2.5%. As a result, the applicable or reference exchange rate will now be the prevailing rate at the Nigerian foreign exchange market on a willing buyer, willing seller basis.

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Summary

The changes introduced by the New Guidelines and the Allowable Limit Removal Circular are generally understood to be part of the wider FX reforms aimed at liberalizing the FX market, ensuring transparency, boasting diaspora remittances and by extension foreign capital inflows in Nigeria. However, there will be significant implications for the fintech sector as regards the ability to play within the very lucrative remittances space.