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CIRCULAR TO ALL BANKS AND OTHER FINANCIAL INSTITUTIONS

INTRODUCTION OF THREE-TIERED KNOW YOUR CUSTOMER (KYC) REQUIREMENTS

Having recognized that access to basic banking facilities and other financial services is necessary in achieving the CBN policy on financial inclusion, the CBN has taken steps to ensure that the socially and financially disadvantaged persons should not be precluded from opening accounts or obtaining other financial services for lack of acceptable means of identification.

Given that the CBN AML/CFT Regulation, 2009 has made provision for this class of persons, it has become expedient to issue three-tiered KYC requirements for compliance by banks and other financial institutions in order to further promote financial inclusion. The three-tiered KYC regime seeks to implement a flexible account opening requirements for low-value and medium-value account holders subject to caps and transaction restrictions.

Banks and other financial institutions are hereby required to adopt the provisions of the three-tiered KYC requirements as embodied in the attached guidelines in addition to the provisions of the CBN AML/CFT Regulation 2009 (as amended). Please note that this circular supersedes our circular referenced FPR/DIR/GEN/EXP/01/001 of 22nd May, 2012 on similar matter.

A handwritten signature in blue ink, appearing to read 'Chris O. Chukwu'.

CHRIS O. CHUKWU
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THREE-TIERED KNOW-YOUR-CUSTOMERS (KYC) REQUIREMENTS

1.0 INTRODUCTION

- Available statistics indicate that about **64.1%**¹ of adult Nigerians (**56.3 million**) do not have access to financial services. Various factors that account for this level of financial exclusion include irregular income, unemployment, distance and low level of bank branches and cumbersome account opening requirements/procedures.
- It is worthy to note that the enforcement of full account opening procedures often excludes some segments of the population from financial services. This keeps them out of the formal economy and indirectly promotes the informal sector. This is particularly so among the lower income earners, poor and socially disadvantaged segment of the population, majority of who live in the rural areas.
- It is trite to state that in Nigeria, many people lack formal means of identification. Where they want to obtain such, the procedures to acquire them are too cumbersome and expensive, effectively out of their financial means. This inadvertently makes financial services go beyond the reach of the poor. Therefore to continue to maintain the same level of KYC requirements for all segments of the population, as hitherto required, encourages prevalence of informal financial systems which in turn undermines the AML/CFT objective.
- It was in recognition of the inequality in social and economic circumstances of the various segments of the Nigerian population that paragraphs **2.6.1.5.6-12 of CBN AML/CFT Regulation, 2009** (as amended) provide broad principles for addressing the challenge, thus:
 - ✓ Allow a third party (such as clergymen, village/clan heads, headmasters, etc. with acceptable means of identification) to identify the socially disadvantaged persons;
 - ✓ Require financial institutions to formulate written policies on financially disadvantaged customers and prescribe the type of documents acceptable for their identification to be provided by third party identifiers;
 - ✓ Require financial institutions to adopt a risk based approach on the operation of this category of accounts and customers; and

¹ Being recent survey carried out by Enhancing Financial Innovation and Access published by Punch Newspapers at <http://www.punchng.com/business/56-million-adults-have-no-bank-account-survey/> as at 26th November, 2012.

- ✓ Require financial institutions to conduct enhanced monitoring of such accounts, customers and third parties that identified them and render monthly returns to CBN and NFIU on their operations.
- Recommendations 1 and 10 of the revised FATF 40 Recommendations permit countries to allow financial institutions and Designated Non-Financial Businesses and Professions (DNFBPs) to apply simplified customer due diligence (CDD) measures in respect of lower risk customer category within which our target groups fall.
- Consequently, in furtherance of the objective of enhancing financial inclusion and access, the CBN has developed the tiered KYC requirements for compliance by banks and other financial institutions under its regulatory purview.

2.0 OBJECTIVE

The “tiered” KYC requirements regime will ensure application of flexible account opening requirements for **low-value and medium value accounts** and these are subject to caps and restrictions as the amounts of transactions increase. This means that account opening requirements will increase progressively with less restrictions on operations. However, the main objective of the proposed approach is to promote and deepen financial inclusion.

3.0 STRUCTURE

The structure ensures that the accounts remain attractive to customers of different socio-economic levels while close watch is kept on the risk involved. The table below shows the caps on deposits on the low-value and medium-value accounts as follows:

THREE TIERED KNOW YOUR CUSTOMER (KYC) REQUIREMENTS

	Description and characteristics	Amount /Threshold Limitation	Customer Identification requirements
LEVEL 1	Low-Value Accounts i. They are subject to close monitoring by the financial institutions and less scrutiny by Bank Examiners. ii. <i>The accounts can be opened at branches of financial institutions by the prospective customer or through banking agents.</i> iii. <i>No amount is required for opening of accounts.</i> iv. <i>Such accounts cover Mobile Banking products (issued in accordance with the CBN Regulatory Framework for Mobile Payments Services in Nigeria).</i> Main characteristics: i. <i>Deposits can be made by account holder and 3rd parties while withdrawal is restricted to account holder only.</i> ii. Be linked to mobile phone accounts. iii. Operation valid only in Nigeria. iv. <i>ATM transactions are allowed.</i> v. International funds transfer is prohibited. vi. <i>Accounts are strictly savings.</i>	It is limited to a maximum single deposit amount of N20,000 and maximum cumulative balance of N200,000 at any point in time. Mobile Banking Products Level One Mobile Banking Products Are Allowed: - Maximum transaction limit of N3, 000 and daily limit of N30, 000. <i>Such products are subject to the CBN Regulatory Framework for Mobile Payments Services in Nigeria.</i>	i. Basic customer information required to be provided are: Passport photograph; - Name, place and date of birth; - Gender, address, telephone number, etc. ii. This information <i>may be sent electronically or submitted onsite in bank's branches or agent's office.</i> ii. <i>Evidence of information provided by customer or verification of same is not required.</i>

LEVEL 2	Medium-Value Accounts i. These accounts can be opened face to face at any branch of a bank by agents for enterprises (used for mass payroll) or by the account holder. ii. Evidence of basic customer information is required at this level. ID verification and monitoring by financial institutions are required also. iii. Accounts can be contracted by phone or at the institution's website. iv. Accounts may be linked to a mobile phone. v. They may be used for funds transfers within Nigeria only. vi. The accounts are strictly savings. vii. No amount is required for opening of the accounts.	i. Maximum single deposit of <i>N50, 000 and a maximum cumulative balance of N400, 000 are allowed at any time.</i> ii. Where cross-checking of client's ID information is not <i>completed at the point of account opening, withdrawal should be denied.</i> <u>Mobile Banking Products</u> Level Two Mobile Banking Products Are Allowed: • Maximum transaction limit of N10, 000 and daily limit of N100, 000. • <i>Such products are subject to the CBN Regulatory Framework for Mobile Payments Services in Nigeria.</i>	i. Evidence of basic customer information (such as <i>passport photograph</i>, name, place and date of birth, gender, address, etc) is required. ii. These <i>may be forwarded electronically or submitted on-site in banks' branches or agents' offices.</i> iii. Customer information obtained are to be verified against similar information contained in the official data-bases <i>e.g. National Identity Management Commission (NIMC), Independent National Electoral Commission (INEC) Voters Register, Federal Road Safety Commission (FSRC) etc.</i>
LEVEL 3	High-Value Accounts i. Banks are required to obtain, verify and maintain copies of all the required documents for opening of accounts. ii. Account is to be opened at the bank branches by physical presence of the prospective customer. iii. <i>These accounts could be both savings and current.</i> iv. <i>No amount is required for opening of accounts.</i>	No Limit is placed on cumulative balance. <u>Mobile Banking Products</u> Level Three Mobile Banking Products Are Allowed: • Maximum transaction limit of N100, 000 and daily limit of N1, 000,000. • Such products are subject to the CBN Regulatory Framework for Mobile Payments Services in Nigeria.	Customers are required to comply with the KYC requirements contained in CBN AML/CFT Regulation, 2009 (as amended).

4.0 ABOUT THE PROPOSED REQUIREMENTS

It is important to note that **maximum deposits and balances are specified only for the low-value and medium-value categories of accounts.** In compliance with and in the spirit of the CBN monetary policy and financial inclusion, **there shall be no minimum opening amount for accounts in all the levels.**

In addition to the proposed limits and caps, the additional safeguards to further reduce the risk of money laundering & financing of terrorism **include account monitoring by the financial institutions for suspicious transactions.** To this end, financial institutions are required to report to the Nigerian Financial Intelligence Unit (NFIU) any suspicious transactions.

Also, financial institutions are required to **have robust, effective and efficient AML/CFT solutions with screening tools in place that will monitor the various thresholds.** All accounts, no matter how low the transaction or the risks, must be subjected to continuous suspicious transactions monitoring by financial institutions which will determine when incremental KYC requirements need to be provided by the customers. To this end, financial institutions are required to designate and dedicate monitoring officers in their Compliance Departments for consistent and regular monitoring of all transactions.

To facilitate the effective implementation of the regime and achievement of the objective of financial inclusion, **the tiered KYC requirements regime envisages the use of banks' agents and mobile banking portals to reach a wider segment of the society that otherwise have no access to financial services. This concept, therefore, calls for the introduction of agent-banking in Nigeria as the best practice.** The definition of a "banking agent" is as contained in the "CBN Guidelines for the Regulation of Agent Banking Relationship in Nigeria".

The Central Bank of Nigeria shall ensure the establishment of appropriate processes and procedures for the purpose of monitoring compliance with this regulatory framework.

Non-compliant financial institutions would, however, be sanctioned in line with the provisions of extant laws and regulations.

5.0 CONCLUSION

In conclusion, the above Tiered KYC Requirements regime:

- ✓ Is a practical example of implementing risk-based approach to CDD in compliance with **FATF revised Recommendations 1 and 10.**

- ✓ The policy will have positive impact in the financial market by making account opening and operation more attractive and appealing to the masses in view of the simpler and fewer requirements involved.
- ✓ Would reduce the administrative cost for banks as it involves online account opening, few paper filing and reporting.