An Overview of Revised Regulatory and Supervisory Guideline for Bureau De Change Operations in Nigeria

As part of the measures to address the instability of the foreign exchange market, the Central Bank of Nigeria (CBN) released an exposure draft of the Revised Regulatory and Supervisory Guidelines for Bureau De Change Operations in Nigeria (the "Revised Guidelines") on February 23, 2024. With the declared objective of strengthening the regulatory framework for Bureau De Change (BDC) operations, the forthcoming reform introduces comprehensive provisions which redefine licensing requirements and scope, establish corporate governance and AML/CFT standards as well as reporting obligations amongst other key aspects. As stakeholders engage with the Revised Guidelines, it is anticipated that the final-form regulation would mark a new course – promoting integrity, transparency, and resilience in a market currently faced with numerous challenges.

In this article, we highlight some important aspects of the proposed guidelines.

Capitalization Requirement

In what is notably a strategy to ensure financial stability and soundness, the Revised Guidelines introduce a tiered structure for BDCs in Nigeria. The framework defines the operational scope of each category as follows:

a.Tier 1 BDCs: require a minimum capital of N2 billion and are granted a national license to operate in any state within Nigeria. They may also open branches and appoint franchisees with CBN approval.

b.Tier 2 BDCs: require a minimum capital of N500 million but are restricted to operating within a single state. They are limited to a maximum of 3 branches within their chosen state.

Corporate Governance

The Revised Guidelines introduce increased corporate governance standards including clear requirements on multiple shareholding/licenses, board composition and diversity as well as qualification for directors. The elements of the governance requirements include the following:

- Individuals and entities are now prohibited from owning or holding shares in more than one BDC. This effectively prevents them from holding multiple licenses.
- Board Composition: Tier 1 BDCs require a minimum of 5 board members and a maximum of 9 while Tier 2 BDCs: require a minimum of 7 board members.
- The Revised Guidelines aim to promote gender equality and have stipulated that Boards of BDCs cannot be composed entirely of one gender.
- The CBN now has approval authority over directors who serve on both a BDC board and another regulated financial institution's board.
- Board members, especially independent directors, and members of the management team of a BDC, must have experience working in financial institutions.
- Other comprehensive provisions on the qualification, appointment, removal, and resignation of directors in a BDC

Licensing Requirements

The Revised guidelines adopt a more rigorous licensing process for BDCs to ensure that only qualified entities are authorized to operate in the sector. This new process aligns BDCs more closely with the regulatory standards applicable to banks and other regulated financial services institutions.

The Guidelines distinguish the operation of BDCs from Banks and Other Financial Institutions (OFIs) by prohibiting them from holding BDC licenses. This clear differentiation between BDCs and other financial institutions prevents regulatory arbitrage and promotes market integrity. However, it is noteworthy that the Revised Guideline does not establish whether activities like issuing Business Travel Allowances (BTA) and Personal Travel Allowances (PTA) will be exclusively reserved for BDCs.

Further, to maintain the integrity of the BDC sector and limit access to the license, the guidelines prohibit serving staff of financial services regulatory and supervisory agencies, serving staff of regulated financial services providers, Payment Service Providers and their employees, governments at all levels, public officers as defined by the Constitution of the Federal Republic of Nigeria, telecommunication services providers and other enumerated non-eligible individuals and entities from holding BDC licenses.

Operational Guidelines

The Guidelines aim to expand BDC operations to include the use of technology and improve access to financial services by providing the following:

- BDCs can now act as agents for International Money Transfer Operators (IMTOs), allowing them to disburse funds on their behalf.
- Transactions received in cash are limited to $500 or less. Amounts exceeding this limit must be deposited directly into bank accounts.
- BDCs are now authorized to issue Naira cards to foreign customers, potentially facilitating their access to local currency.
- BDCs are now permitted to issue Personal Travel Allowances (PTAs) and Business Travel Allowances (BTAs) and pay medical bills, and school fees amongst others which were services previously reserved for banks.
- BDCs are required to integrate with the CBN's reporting platform for transaction reporting and Anti-Money Laundering (AML) compliance.
- Integration with the Federal Inland Revenue Service (FIRS) and the Nigeria Inter-Bank Settlement System (NIBSS) is required for Bank Verification Number (BVN) verification and other purposes.

BDC as an Agent of the International Money Transfer Operators (IMTOs)

BDCs are permitted to act as agents of IMTOs, by creating 2 roles that BDCs can play to enhance the operation of International Money Transfer Operators (IMTOs) as follows:

- BDCs are authorized to serve as cash-out points for IMTOs, thereby becoming the final point of access to international money transfers. Recipients of international money transfers can withdraw cash from funds transferred through an IMTO at an authorized BDC.
- BDCs are allowed to engage in international inward transfers for operators with IMTO licenses and those that serve as cash-out points for IMTOs.

This revision has the potential to expand the access to foreign transfers beyond traditional banks. This could increase competition in the industry and offer greater convenience to customers. However, this increased competition may saturate the market, effectively diminishing the market share of IMTOs.

Additionally, this revision imposes the need for enhanced customer due diligence by BDCs. BDCs must ensure that they have and implement robust AML/KYC procedures to mitigate the risk of financial crime associated with money transfers.

Prohibited Activities for BDCs

The guidelines, also outline several activities that BDCs are prohibited from engaging in as follows:

- Participating in any capital market trading,
- Offering insurance or pension products,
- Maintaining deposit or withdrawal accounts for individuals or businesses,
- Receiving international wire transfers, except when acting as cash-out points for approved International Money Transfer Operators (IMTOs),
- Conducting foreign exchange transactions outside their licensed premises,
- Trading in gold or other precious metals,
- Providing financial support to political parties or candidates,
- Other activities not explicitly authorized by the guidelines or to be prescribed by the CBN to be off-limits for BDCs in the future.

AML/CFT Guidelines

The Guidelines introduce key AML/CFT provisions requiring stringent Customer Due Diligence measures, rigorous transactions monitoring, record keeping, and reporting of any suspicious activities to the Nigerian Financial Intelligence Unit (NFIU). The Guidelines also require the disclosure of the source of foreign exchange for a transaction of the equivalent of USD 10,000 and above to a BDC. BDCs will also assume responsibity for creating company-wide awareness on AML/CFT obligations and identification of suspicious activities.

Concluding Remark

The exposure draft of the Revised Guidelines continues to generate significant interest amongst stakeholders but there appears to be a consensus that the BDC operation in Nigeria is due for a comprehensive reform. Recent regulatory enforcement activities of the CBN leading to the revocation of licenses 4,173 operational licenses have brought to light the vulnerabilities within the sector, emphasizing the pressing need for extensive restructuring.

The guidelines build on the evidence of unethical conducts and malpractices to establish a new order of integrity, transparency and resilience. CBN's posture suggests a future of active monitoring of BDCs under a framework of governance effective, operational efficiency and accountability as the monetary authority continues to grapple with the excessive volatility of the market and its broad impact on the economy.

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