GUIDELINES FOR BANKS AND OTHER FINANCIAL INSTITUTIONS/ FINTECHS APPLYING TO UPGRADE OR CONVERT THEIR EXISTING LICENCES

Introduction

In recent times, there have been increasing requests from financial institutions to either upgrade their existing licence or convert to other licensing regimes, such as the recent upgrade of Parallex Limited from a Microfinance Bank to a full-fledged Commercial Bank.

To guide this process, on March 28, 2023, the Central Bank of Nigeria ("CBN") released draft guidelines titled "Guidelines for Change of Operating Licence for Banks and Other Financial Institutions in Nigeria (the "Draft Guidelines").

The Draft Guidelines provide guidance to banks and Other Financial Institutions (OFIs), including Fintechs, wishing to change their licensing regime.

We have set out in this article key provisions in the Draft Guidelines.

1. What institutions are eligible to apply for a change of operating licence?

The Draft Guidelines apply to: i) Commercial Banks; ii) Merchant Banks; iii) Non-Interest Banks; iv) Microfinance Banks; v) Primary Mortgage Banks; vi) Payment Service Banks; and any other institution the CBN may designate from time to time ("Eligible Institutions").

The Draft Guidelines provide that all banks are eligible and permitted to change their licence, however, the CBN reserves the right to decline such request.

2. How will the CBN categorize applications for change of an operating licence?

Under the Draft Guidelines, applications for a change of an operating licence will be categorized by the CBN as follows:

i. Conversion: This is where a financial institution in a particular licence category wishes to move to a new licence category that is not guided by the same regulation. For example, a Microfinance Bank transitioning to a Commercial Bank.

ii. Re-Categorization: This is where a financial institution applies to the CBN to upscale or downscale its current licence, to the extent that the changed licence will be covered by the same regulation.

For example, a Microfinance Bank moving from a Unit Microfinance Bank licence to a National Microfinance Bank Licence, or a financial institution moving from operating with a Payment Terminal Service Provider (PTSP) licence to a Payment Solution Service Provider (PSSP) or vice versa.

iii. Re-Designation: This will apply where a licence change is as result of a regulatory directive by the CBN, or a policy change.

3. What are the criteria to qualify for a change of licence under the Draft Guidelines?

For an Eligible Institution to qualify for a change of licence, such an institution must fulfil the following requirements:

i. be under the supervisory purview of the CBN;
ii. have no adverse supervisory report to its application; and
iii. satisfy any other condition the CBN may stipulate from time to time.

In addition, Eligible Institutions interested in a change of license through conversion must have been in operation for a minimum of five (5) years.

4. What restrictions are applicable to institutions interested in a change of operating license?

Banks and OFIs interested in a change through conversion or re-categorization shall not, during the CBN's consideration of the application, do the following:

i. expand or reduce its current banking network;
ii. roll-out new products and services;
iii. carry out any new strategic banking activity;
iv. take any business decision after the conversion process has commenced;
v. engage in any banking activity specific to the proposed new licence; and
vi. or carry out any other activity/ requirement as may be prescribed from time to time by the CBN.

5. What are the requirements for a change of licence type?

Eligible Institutions will be required to submit the following to the CBN in order to change their licence type:

i. an application letter;
ii. a business plan approved by the shareholders and the board of directors of the financial institution;

iii. documents showing compliance with existing regulations as it relates to the new licence type, such as board resolution(s), governance structure, rationale for the change, risk management framework, evidence of shariah compliance (where applicable), e.t.c.; and

iv. supervisory briefs to be provided by the supervisory department which include documents and information stipulating the financial position and operational status of the financial institution.

6. Will there be a one-off approval of an application?

The approval process will be in two (2) phases:

i. ***Approval-in-Principle (AIP)***: This is the period where the applicant has been granted conditional/temporary approval on the submission and acceptance of the required documents and payment of applicable fees. It is considered the first stage of application.

ii. ***Final Approval***: Upon the grant of the AIP, and the lapse of the time specified in the relevant licensing period, the Eligible Institution may apply for the grant of a final approval.

7. What other regulatory requirements in the Draft Guidelines are applicable to Eligible Institutions seeking for a change of operating licence?

i. ***Regulatory directive***: The CBN has stated that it reserves the right to issue a regulatory directive to any Eligible Institution to change the status of its operating licence at any point in time.

ii. ***Conduct of Pre-licensing inspection:*** The CBN may conduct an inspection of the premises and facilities to ascertain their suitability or otherwise and confirm the authenticity of all relevant documents submitted by the Bank or OFI.

iii. ***Corporate Governance:*** A bank or OFI that has changed its license is required to comply with the provisions of the relevant CBN Guidelines on Corporate Governance and Nigeria Code of Corporate Governance (NCCG 2018).

Conclusion

Please note that the Draft Guidelines are still in draft form, and subject to change. We will update you accordingly once the final guidelines are published.

Please don't hesitate to contact us for further guidance.