# THE REGULATION OF AGENT BANKING IN NIGERIA

## Introduction

The Central Bank of Nigeria ("**CBN**") on the 9th day of March 2023, issued an exposure draft on the regulatory framework for agent banking in Nigeria (the "**Draft Framework**"). The Draft Framework was issued in furtherance of the *drive for financial inclusion* and the introduction of the agent banking initiative, which aims to increase access to financial services.

Following the implementation of the CBN's cashless policy, the CBN considered it necessary to review extant regulations guiding the operations of agent banking in Nigeria, to organize the activities at agent locations and ensure the security of customers' funds. The Draft Framework, therefore, is an offspring of the combined review of the Regulatory Framework for the Licensing of Super-Agents in Nigeria, and the Guidelines for Regulation of Agent Banking and Agent Banking Relationships in Nigeria.

In this publication, we have reviewed some of the salient provisions of the Draft Framework.

## 1. What is Agent Banking?

The Framework defines "agent banking" as the use of third parties for the provision of banking and other financial services to the public e.g the use of point-of-sales (POS) agents to provide simple banking services like deposits, withdrawals, and transfer of funds from cardholder's accounts to other accounts.

## 2. What are the requirements for the Operation of Agent Banking in Nigeria?

Any licensed financial institution in Nigeria, that wishes to engage in agent banking is required to obtain the CBN's approval before doing so. The application seeking approval must state the range of activities and responsibilities of the parties under the agent banking relationship.

The application shall be accompanied by the following documents amongst others:

a) board approval;
b) qualifying criteria for the engagement of the agents;
c) service level agreements and agent banking contracts between the financial institution and the agents;
d) risk management, KYC and AML/CFT/CPF, operational procedures, and other policies relevant to the management of the agent banking arrangements;
e) brief description of the agent banking relationship; and
f) feasibility study for the development of the agent business for a minimum period of five years.

## 3. What are the various Agent Structures provided under the Framework?

The approved agent structures are:

*a)* *Super-Agents*- these are agent networks licensed by the CBN to establish a collection of outlets that shall be under its supervision or control;
*b)* *Sole-Agent*- this agent takes on the responsibilities under the agent banking relationship directly, and does not delegate to any other agents;
*c)* *Sub-agents*- these are networks of agents that are directly controlled and supervised by the super-agents.

**4. What are the Obligations of the Financial Institution under the Framework?**

Under the Framework, the financial institution shall be responsible for all actions or omissions of the agent relating to the agent banking services, regardless of any contrary provisions in the agent banking contract. The Framework also provides that the financial institution shall:

a) comply with the CBN's AML/CFT/CPF Regulations and carry out due diligence on prospective agents;
b) conduct suitability assessment of the agent in line with the provisions of the Framework before its appointment;
c) obtain accurate information of the agent and its employees/officers, and endeavour to keep all such information safe and confidential;
d) maintain effective oversight of the agent's activities;
e) provide the agents with such manuals and risk management policy documents required to render services to customers;
f) ensure that separate accounts are maintained for agent transactions;
g) establish appropriate consumer protection measures in line with the Framework and extant laws, to protect the consumer against fraud, data privacy breaches, and general loss of service;
h) render monthly statutory returns to the CBN not later than the 10th day of the following month; and
i) provide training to the agents relating to proper identification of customers, customer service, confidentiality of information, record keeping, and financial education.

**5. What are the Permissible and Prohibited Activities under the Framework?**

Some of the permissible activities that can be performed by the agents include-

a) cash deposit and withdrawals within permissible limit;
b) bills payment;
c) funds transfer services;
d) generation and issuance of mini-statement;
e) collection and submission of account opening and other related documentation to financial institutions;
f) cash payment; etc.

An agent is, however, not permitted to-

a) accept cheque deposits and encashment of cheques;
b) transact in foreign currency;
c) be run or managed by an employee of a financial institution;
d) open accounts, grant loans;
e) issue guarantees;
f) charge customers fees beyond the regulated fees regime;
***g) accept deposits or permit withdrawals beyond amounts permitted by the CBN; and***
***h) use POS Terminals for cash-in and cash-out transactions***

**CONCLUSION**

The Draft Framework makes extensive provisions for the regulation of the activities of agents. Some of the non-permissible activities are targeted at barring agents from using POS terminals which are meant for merchants for cash transactions in view of the effects that this activity has had on the Nigerian economy since the CBN cashless policy came into force on 31st January 2023. If issued in its current form, the Draft Framework will provide substantial clarity on the role of agents vis-à-vis financial institutions in the financial services sector.