



CENTRAL BANK OF NIGERIA

Financial Policy and Regulation Department
Central Business District
P.M.B. 0187
Garki, Abuja.

09-46237402/09-46235426

Tel:.....
E-mail:fprd@cbn.gov.ng

February 27, 2017

Ref: FPR/DIR/GEN/CRM/06/012

CIRCULAR TO ALL BANKS ON REGULATORY GUIDELINES FOR THE REDESIGNED CREDIT RISK MANAGEMENT SYSTEM (CRMS) FOR COMMERCIAL, MERCHANT AND NON-INTEREST BANKS IN NIGERIA

Following the successful redesign of the Credit Risk Management System (CRMS), the Regulatory Guidelines for Commercial, Merchant and Non-Interest Banks in Nigeria has been developed and attached herewith for necessary actions. please.

The rendition requirements of this Regulatory Guidelines came into effect with the system going live on 21st February 2017.

We expect your usual co-operation on steadfast compliance with the requirements of the Guidelines. However, any rendition breach from 3rd April 2017 would be appropriately sanctioned.

Yours faithfully,

A handwritten signature in black ink, appearing to read "Amugo".

KEVIN AMUGO
Director, Financial Policy & Regulation Department

CENTRAL BANK OF NIGERIA



REGULATORY GUIDELINES FOR THE OPERATION OF THE REDESIGNED CREDIT RISK MANAGEMENT SYSTEM (CRMS)

FOR

**COMMERCIAL, MERCHANT AND
NON-INTEREST BANKS**

FEBRUARY 2017

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Section 1 DEFINITION OF TERMS

- “Act” – refers to the Central Bank of Nigeria Act, 2007.
- “AMCON” – refers to the Asset Management Corporation of Nigeria
- “Approved CRMS Code Book” – refers to the codebook with CRMS approved codes with description
- “Banks” - shall have the same meaning as defined in BOFIA 2004
- “Board of Directors”- refers to the Board of Directors of a legal entity
- “BOFIA 2004” – refers to Banks and Other Financial Institutions Act, CAP B3, LFN 2004
- “BVN” – means Bank Verification Number
- “CAC” – means Corporate Affairs Commission
- “CBN” – means the Central Bank of Nigeria.
- “Credit Bureau” (CB)/Credit Reference Company - means an institution that collects information from creditors and available public sources on a borrower or potential borrowers’ credit history.
- “Credit File” – means an electronic or physical docket containing the Data Subject’s personal and Credit Information that are collected, processed and maintained by an institution.
- “Credit Information” – means the history of a Data Subject with regard to credit and financial obligations that an Institution may collect from Data Providers.
- “Credit Report” – means credit information issued by a participating institution containing all or part of the data subject’s information and data available in the credit file or a summary thereof.
- “CRMS Reference Number” – refers to the unique reference number generated by the CRMS after validation and incorporation of credit details submitted by Participating Institutions for each transaction.

- “CRMS” – means Credit Risk Management System (provided by the CBN)
- “Data” – refers to information contained in rendered returns
- “Database” - means a set of information administered by participating institutions.
- “EBA” – means Eligible Bank Assets (refers to non-performing loans purchased by AMCON from Eligible Financial Institutions.)
- “FiNA” – refers to the IFRS compliant financial regulatory application/platform for rendition of prudential regulatory returns.
- “FIRS” – means Federal Inland Revenue Service.
- “Individual Borrower” – refers to an individual (Nigerian or otherwise) that a Participating Bank has decided to avail a credit/loan facility.
- “JTB TIN” - refers to Taxpayer Identification Number that unifies taxpayer identification numbers issued by the FIRS and State Revenue Boards. Also called UTIN.
- “JTB” – means Joint Tax Board.
- “NDIC” – means Nigeria Deposit Insurance Corporation.
- “NIBSS” – means Nigeria Inter-Bank Settlement Services Plc
- “Non-Individual Borrower” – refers to any legal entity registered or established in Nigeria to which a Participating Bank has decided to avail a credit/loan facility.
- “Participating Bank” - refers to a bank or other financial institution regulated by the Central Bank of Nigeria with a license type that permits it to avail loans/credit to individuals and/or non-individuals.
- “Participating Institutions” – refers to entities that are allowed under the Guidelines to furnish and/or update credit information to the CRMS database and access information available therein.
- “RC Number” - refers to CAC’s Registration Number.
- “TIN” – means Taxpayer Identification Number.

- "Unique Identifier" - means a number or combination of numbers and alphabets that uniquely identifies a borrower (in this case BVN for individuals and TIN for non-individuals)
- "User" – means an entity or a person that is allowed under this guidelines to access the CRMS. This is limited to participating banks and other financial institutions, NDIC, AMCON and any other institutions licensed by the CBN to provide credit/loans.
- "WebService" refers to a software function/method of communication between two electronic devices over a network.

Section 2 INTRODUCTION

2.1 Background

In the exercise of the powers conferred on the Central Bank of Nigeria by Section 57 of the CBN Act 2007, the provisions herein are made as guidelines for the operation of the Credit Risk Management System (CRMS) in Nigeria.

This guidelines shall apply to all Commercial, Merchant and Non-Interest Banks licensed and regulated by the Central Bank of Nigeria and authorized to grant credit facilities or loans to its customers.

2.2 Compliance with this Guideline

Participating Institutions shall strictly comply with the provision of this Guidelines and any other existing regulations, guidelines or circulars on CRMS. However, where there is a conflict between other regulations, guidelines or circulars relating to the CRMS, this guideline shall take precedence.

Where participating bank fails to comply with the spirit and letter of this guideline, CBN shall apply appropriate sanctions on the defaulting Participating Bank as provided in the CBN and BOFIA Acts.

Section 3 UNDERLYING BASIS AND OBJECTIVES OF THE GUIDELINES

3.1 Underlying Basis

The regulatory guideline for the redesigned CRMS is underpinned by the following:

- a) Rendition on the CRMS is required **before disbursement of any loan or credit facility**. This process of submission does not interfere with any Participating Bank's decision to extend a loan or credit to its customer. Consequently, rendition is only required after approval to disburse is given.
- b) Concerns over recurring poor lending practices as captured in bank examination reports.
- c) The following legislations:
 - i. BOFIA, CAP B3, LFN 2004;
 - ii. Central Bank of Nigeria Act 2007;
 - iii. Companies and other Allied Matters Act 2004 ;
 - iv. Money Laundering (Prohibition) Act, 2010 (As Amended);
 - v. Company Income Tax Act 2004;
 - vi. Federal Inland Revenue Service (Establishment) Act, 2007;
 - vii. Joint Tax Board; established by Section 86 of Personal Income Tax Act, CAP P8, LFN 2004;
 - viii. Nigerian Co-operative Societies Act, 2004; and
 - ix. Any other legislations governing banking and granting of credit facilities or loans in Nigeria.
- d) Other operational guidelines, such as:
 - i. Regulation on the Scope of Banking Activities and Ancillary Matters, No. 3, 2010;
 - ii. CBN Scope, Conditions and Minimum Standards for Merchant Banks Regulation, 2010;
 - iii. Consumer Protection Framework for banks and other financial institution by the CBN (Nov 2013);
 - iv. AML/CFT Regulation 2009 (as Amended);
 - v. Code of Corporate Governance for Banks and Discount Houses in Nigeria, 2014;
 - vi. The Revised Guide to Bank Charges (2013);
 - vii. Approved Persons Regime for Financial Institutions;

- viii. CBN Black Book Guidelines; and
 - ix. Any other relevant Circulars/Guidelines issued by the CBN from time to time.
- e) Under established Know Your Customer (KYC) regulation, banks and other financial institutions are expected to demonstrate a sound knowledge of their customers' background, more especially when it involves extension of loan/credit.
- f) *Section 257 (a) of CAMA (Disqualification for directorship) specifically disqualifies “..... a person under the age of 18years” from being a director.* In this regard, only individuals and legally registered or established entities (non-individuals) that can enter into valid and legally binding contracts are expected to be beneficiaries of loans/credits.

3.2 Objectives of the Guidelines:

The establishment of the Credit Risk Management System (CRMS) is aimed at identifying and minimizing the activities of serial defaulting borrowers in the financial services industry and to assist in strengthening the credit appraisal processes of Participating Institutions.

The objectives are to:

- a) ensure that the beneficiary of ANY loan or credit extended by any regulated financial institutions in Nigeria is uniquely identified;
- b) provide broad guidelines, minimum standards and requirements for the operation of the CRMS database in Nigeria;
- c) identify the stakeholders of the CBN CRMS and specify their roles and responsibilities on the operations of the CRMS;
- d) provide an enabling environment (business and technological) for the operation of the CRMS and specify the scope of reporting for the purpose of CRMS return rendition;
- e) specify minimum technical and business requirements for various stakeholders in the CRMS operations in Nigeria; and

f) specify appropriate sanctions for non-compliance with the guidelines.

Section 4 STAKEHOLDERS (Roles and Responsibilities)

4.1 In general, the following persons/Institutions are the main stakeholders of the CRMS:

- i. The Central Bank of Nigeria (CBN)
- ii. The Nigerian Deposit Insurance Corporation (NDIC)
- iii. Asset Management Corporation of Nigeria (AMCON)
- iv. All licensed Commercial and Merchant Banks
- v. All licensed Non-Interest Banks
- vi. All Development Financial institutions(DFIs)
- vii. All licensed Primary Mortgage Banks (PMBs)
- viii. All licensed Finance Companies (FCs)
- ix. All licensed Microfinance Banks(MFBs)

NOTE: Licensed Private Credit Bureaus shall continue to exist and serve their functions, render mandatory returns and comply with all relevant Circulars and Guidelines on their operations.

4.2. The Central Bank of Nigeria shall:

- be the custodian of the CRMS database;
- provide regulatory guidance for the effective and efficient operation of the CRMS;
- provide platform for rendition of CRMS related data and ensure availability and accessibility of the platform at all times;
- ensure full compliance by participating banks on renditions to the CRMS; and
- act as arbiter, through its Consumer Protection Department (with input from the Banking Supervision Department and Financial Policy & Regulations Department), in the event of a dispute between a borrower and a participating bank relating to entries on the CRMS only.

- 4.3 The Nigerian Deposit Insurance Corporation (NDIC) shall:**
- update status of existing loans granted by Financial Institutions (In-Liquidation); and
 - act as arbiter in the event of a dispute between a borrower and entries on the CRMS by Financial Institutions (In-Liquidation)
- 4.4 The Asset Management Corporation of Nigeria (AMCON) shall:**
- Update credit record status of EBAs transferred from Financial Institutions.
- 4.5 All Participating Banks shall:**
- Comply with extant CRMS related regulations;
 - Be responsible for data integrity and all liabilities that may arise otherwise;
 - Submit valid and complete credit information of its customers before disbursement of credit;
 - Make reference to the database as part of its credit appraisal process and retain evidence of same in borrower's credit file;
 - Ensure that the status of all credit records created is updated as may be required by the CBN from time to time; and
 - Ensure full disclosure of the institution's relationship with borrower.

More specifically,

- a) Participating Bank to Borrower:
 - Obtain valid BVN or TIN
 - Ensure details therein are correct
 - Where incorrect, contact borrower to initiate corrective measures
 - Obtain valid e-mail address
- b) Participating Bank to CBN/CRMS:
 - Know-Your-Customer/Borrower
 - Validate BVN, TIN, e-mail address
 - Populate CRMS with valid and accurate information
- c) CBN to Participating Banks:

- Ensure availability of the CRMS at all times (adequate notice will be given for routine maintenance)

Section 5 SCOPE OF REPORTING

5.1 Transactions to be Reported on the CRMS

- a) The CRMS shall be populated with details of all credit by way of loans and advances (with no upper or lower limits) before disbursement;
- b) All investment securities captured as part of loans and advances shall also be reported using the appropriate reporting templates as specified in the CRMS user manual;
- c) Any dishonoured/dud cheque issued by a banking customer shall be reported on the CRMS using the appropriate reporting template as specified in the CRMS user manual.

5.2 Operational Procedures for the CRMS:

Participating Institutions shall refer to the updated CRMS user manual and approved code book for detailed CRMS returns rendition procedures, information requirements and the respective templates for all CRMS returns.

User Manuals and Approved Code Book (especially updated versions) shall remain available at the CRMS portal for download.

5.3 Rendition of Returns and Records maintenance:

- a) The **only** basis of making any rendition on the CRMS is either of the two recognized and valid unique identifiers - BVN for individual and TIN for Non-individual.
- b) Participating banks shall submit all the required information in the appropriate templates and manner in which they are required; as well

as make regular updates and maintenance of the records in a timely manner to reflect the true and correct credit position of a borrowing customer at any particular point in time.

Apart from updating borrowers' exposure level(s) at the prescribed intervals, Participating Banks are expressly prohibited from updating submitted/created credit records where there are no underlying transactions to support same.

For the avoidance of doubt, the CBN cannot amend any information submitted on the CRMS platform by Participating Institutions

5.4 SPECIFIC REQUIREMENTS FOR RENDITION ON THE CRMS

The achievement of this Guidelines' objectives is only possible to the extent that all Participating Institutions comply fully with its requirements.

Consequently, the following underlying principles shall apply:

a) For non-individual borrowers,

- The Board of Directors or promoter(s) of a legal entity (as duly registered with appropriately empowered statutory agencies) retain the ultimate responsibility for ensuring that any loan or credit facility contracted on behalf of the legal entity is repaid.
- The Board Resolution or any other legally recognized basis for authorizing request for a loan or credit facility, MUST expressly authorize the participating bank to obtain and retain on the CRMS:
 - TIN related information such as Company Name, Registration Number, Address, etc.; and
 - BVN related information such as Name, Address, Date of Birth, Gender, etc. of directors.
- Where the Directors or promoters of the legal entity are individuals, they shall provide their valid BVNs to the participating banks for authentication and shall form part of the information on the CRMS.

b) For an Individual Borrower,

- a valid BVN must be provided to the Participating Bank for authentication and shall form part of data on the CRMS.
- Additionally, the legally recognized document or basis for a loan or credit facility request MUST expressly authorize the participating bank to obtain and retain BVN related information such as Name, Address, Date of Birth, Gender etc.

c) For Guarantees/Guarantors,

- No guarantee provided by an individual shall be allowed on the CRMS without BVN.
- Where an entity, legally registered or established in Nigeria, provides a guarantee to either an Individual or a Non-Individual Borrower, its TIN must be provided in the data submission.
- Additionally, the board resolution or any other legally recognized basis for authorizing the entity to serve as a guarantor MUST include language expressly authorizing the participating bank to obtain and retain on the CRMS TIN related information such as Company Name, Registration Number, Address, etc.

6.0 NON-COMPLIANCE (PENALTIES AND SANCTIONS REGIME)

The Central Bank of Nigeria in exercise of the powers conferred on it under extant legislations shall monitor compliance with the Guidelines through routine onsite examinations of financial institutions, off-site review of returns rendition, and periodic spot checks.

The penalties and sanctions specified in Section-6 would be levied on Participating Banks and their Principal Officers for contravention of the provisions of this Guidelines.

6.1 Categories of non-compliance

Non-compliance with the Guidelines is categorized as follows:

- a) Failure to submit borrower's details before disbursement:
 - A single incident where a Participating Bank fails to submit details of an approved loan or credit before disbursement to the beneficiary.
- b) Persistent Failure to submit borrowers' details before disbursements:
 - Two (2) or more incidents in any calendar year where a Participating Bank fails to submit details of an approved loan or credit before disbursement to the beneficiary.
 - Two (2) or more incidents refer to individual loan or credit type regardless of whether it involves one or more borrower(s).
- c) Submission of misleading, incorrect, invalid and/or incomplete information:
 - This covers **ALL** forms and types of incorrect information relating to both the borrower and details of the credit at the time the loan was approved and submitted on the CRMS before disbursement:
 - Borrower's unique identification;
 - Borrower specific disclosures such as relationship with borrower, demographics etc;
 - Credit/Transaction details;
 - Purpose of loan/credit;
 - Funding sources;
 - Collateral & Guarantees; and
 - Other information that may be specified by the CBN from time to time.
 - All required information in the CRMS is considered material.
- d) Any discrepancy between information submitted to the CRMS and the contents of the borrower's credit or the credit file.

- e) Inappropriate handling of borrower records on the CRMS:
 - Unauthorized release of a borrower's credit details submitted on the CRMS;
 - Failure to update borrower record(s), in a timely manner, to immediately align with changes to the terms and conditions of the loan/credit facility;
 - Deliberate and/or malicious update of borrower record(s) in a manner inconsistent with underlying agreements resulting in borrower adverse or favorable status; and
 - Update of borrower record(s) without ANY underlying transaction to support same except if update is to comply with periodic update of borrower's exposure.
- f) Failure to check the CRMS, as part of the of the credit appraisal process, and retain a copy of a CRMS generated report with date & time stamps of such status check in a borrower's credit file.

6.2 ACCOUNTABILITY FOR SPECIFIC ROLES IN PARTICIPATING BANKS

In order to consistently ensure completeness, accuracy and timeliness of information on the CRMS, the following shall apply:

- Chief Risk Officer (directly or through the Chief Credit Officer) to ensure:
 - ALL credits/loans/exposures are reported;
 - ALL details required and submitted MUST mirror contents of internal credit files for the borrower; and
 - Adherence to the minimum maintenance cycle for updating records in the CRMS – at least once a month.

NOTE: Under the CBN's Approved Persons Regime, the Chief Risk Officer will be held individually accountable and responsible for regulatory breaches that occur during his/her tenor. This also includes discovery of such regulatory breaches after his/her tenor.

- **Chief Finance Officer to:**
 - ensure total loans/advances/credits reported on FiNA or any regulatory platform for such submissions of returns MUST match total value of credit/exposures reported in the CRMS.

NOTE: Under the CBN's Approved Persons Regime, the Chief Finance Officer will be held individually accountable and responsible for regulatory breaches that occur during his/her tenor.

- **Chief Compliance Officer to:**
 - immediately and formally advise both the Director, Banking Supervision Department and Director, Financial Policy & Regulation Department of the CBN when there are personnel changes involving either the Chief Risk Officer and/or Chief Finance Officer;
 - ensure internal processes required to generate ALL required information for accurate and timely rendition are institutionalized; and
 - ensure compliance by Participating Bank with the letter and spirit of the Guidelines and report any breaches to the CBN

6.3 Penalties and Sanctions Grid

A) Failure to submit details of any loan (N1m and above) availed a borrower prior to the effective date of this Guidelines (see CBN Circular dated 6th June 2000; Ref No:BSD/PA/5/2000)

S/NO	RELATIONSHIP WITH BORROWER	SANCTION (live or repaid; including cash-backed exposures)
1	Any borrower other than Staff, Subsidiary, Affiliate, Director Related, Insider Related	N10,000/day for each loan/credit from day it was disbursed to the date it is reported
2	Staff, Subsidiary, Affiliate, Director Related, Insider Related	N25,000/day for each loan/credit from the day it was disbursed to the date it was discovered/reported

B) Failure to submit borrower's details before disbursement (from the effective date of this Guidelines):

S/NO	RELATIONSHIP WITH BORROWER	SANCTION-1	SANCTION-2	SANCTION-3
1	Any borrower other than Staff, Subsidiary, Affiliate, Director Related, Insider Related	N1,000,000/day for each loan/credit from day it was disbursed to the date it was discovered/reported	Individual "Letter of Explanation" from the Chief Risk Officer and the Chief Compliance Officer to the Director Banking Supervision and Director Financial Policy & Regulation Departments for EACH unreported loan	Value of EACH approved loan or disbursed amount (whichever is higher) to be immediately deducted from qualifying capital in the calculation of Capital Adequacy Ratio for regulatory capital purposes and apply same for the next three (3) years.
2	Staff, Subsidiary, Affiliate, Director Related, Insider Related	(a) N2,000,000/day for each loan/credit from the day it was disbursed to the date it was	Value of EACH approved loan or disbursed amount (whichever is higher) to be permanently deducted from qualifying capital	

		<p>discovered/reported.</p> <p>OR</p> <p>(b) Penalty shall be the equivalent of ALL income(s) earned from each loan/credit.</p> <p>whichever is higher</p>	<p>in the calculation of Capital Adequacy Ratio for regulatory capital purposes for the next three (3) years.</p>	
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C) Persistent Failure to submit borrowers' details before disbursements

In addition to the sanctions regime in table (B) above:

S/NO	RELATIONSHIP WITH BORROWER	FREQUENCY	SANCTION-1
1	Any borrower <u>other than</u> Staff, Subsidiary, Affiliate, Director Related, Insider Related	The 3 rd or more incidents in a calendar year	<p>(a) Penalty shall be the equivalent of ALL income(s) earned from each loan/credit.</p> <p>(b) Approved Persons Regime will require decertification of the Chief Risk Officer and Chief Compliance Officer</p>
2	Staff, Subsidiary, Affiliate, Director Related, Insider Related	The 2nd incident in a calendar year	<p>In addition to item(1) above:</p> <p>Letter of Explanation from the Participating Bank's MD/CEO for EACH unreported loan</p>
3	Staff, Subsidiary, Affiliate, Director Related, Insider Related	More than two incidents discovered (regardless of when it occurred)	<p>In addition to item(2) above:</p> <p>(a) Letter of Explanation from the Participating Bank's Board</p>

			<p>Chairman and Board Credit Committee Chairman to the Director Banking Supervision and Director Financial Policy & Regulation Departments</p> <p>(b) The Fit and Proper Persons Regime and Code of Corporate Governance shall determine the appropriateness of ALL Board Credit Committee Members</p>
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D) Submission of misleading, incorrect, invalid and/or incomplete information.

Any discrepancy between information submitted/available on the CRMS and the contents of the borrower's credit file

Failure to update existing/live records to reflect status of the credit or loan:

S/NO	RELATIONSHIP WITH BORROWER	SANCTION-1	SANCTION-2	SANCTION-3
1	Any borrower other than Staff, Subsidiary, Affiliate, Director Related, Insider Related	N10,000/day for each incorrect/invalid data from day it was submitted to the date it was discovered.	Individual "Letter of Explanation" from the Chief Risk Officer and the Chief Compliance Officer to the Director Banking Supervision and Director Financial Policy & Regulation Departments for EACH reported loan	For recurring incidents in more than 3 (three) loans/credits in a calendar year, penalty shall be the equivalent of 50% of ALL income(s) earned from each loan/credit.
2	Staff, Subsidiary, Affiliate, Director Related, Insider Related	N25,000/day for each incorrect/invalid data from the day it was submitted to the date it was discovered.		

E) Any discrepancy between total loans/advances/credits reported on FiNA or any regulatory platform for submission of such returns and total value of credit/exposures reported in the CRMS:

S/NO	FREQUENCY	SANCTION-1
1	A single incident in a calendar year	"Letter of Explanation" from the Chief Finance Officer and Chief Risk Officer to the Director Banking Supervision and Director Financial Policy & Regulation Departments on the discrepancy;
2	Two incidents or more incidents in a calendar year	In addition to above: Approved Persons Regime will require decertification of the Chief Finance Officer and Chief Risk Officer

Section 7 COMPLAINTS AND DISPUTE RESOLUTION

7.1 Introduction

- a) Participating Institutions shall be solely responsible for their rendition on the CRMS database and will be wholly and severally liable for any liability that may arise thereto.
- b) The CBN shall not be liable or joined in any dispute(s) arising from wrong information given in respect of a credit report on a holder/data subject.

7.2 Procedure

Consistent with dispute resolution mechanism in the CBN's Consumer Protection Framework, where a borrower disputes any credit record or credit status relating to the borrower, as reported on the CRMS by a Participating Bank,

- a) the borrower should formally complain to the reporting Participating Bank for a resolution
- b) the borrower who complained is not satisfied with a response of the reporting Participating Bank, the complainant may escalate the issue to the Director, Consumer Protection Department, Central Bank of Nigeria; and
- c) where any of the parties that is still not satisfied with the outcome of the CBN's mediation process, the issue may be referred to any arbitration panel or a court of competent jurisdiction for resolution.