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Money Laundering, Terrorism Financing and Proliferation Financing

Risk Assessment Report of Banks and Other Financial Institutions

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Introduction

Nigeria is advancing its Anti-Money Laundering, Combating the Financing of Terrorism, and Proliferation Financing (AML/CFT/CPF) measures to safeguard its financial and non-financial sectors from money laundering (ML), terrorism financing (TF), and proliferation financing (PF).

To this end, the country conducted a National Inherent Risk Assessment (NIRA) in 2022 and completed a National AML/CFT/CPF Residual Risk Assessment (NRRA) in June 2023, both overseen by the Inter-Ministerial Committee on AML/CFT/CPF (IMC).

Building on these assessments, a Sectoral Risk Assessment (SRA) was undertaken by the Central Bank of Nigeria (CBN) in compliance with the Financial Action Task Force (FATF) Standards thereby enhancing the effectiveness of risk-based supervision of financial institutions under the purview of the CBN.

Purpose of the SRA

The purpose of this assessment is to enable supervisors, and the financial institutions apply a Risk-Based Approach (RBA), in conducting due diligence and allocating resources efficiently to fulfilling their legal obligations in respect of AML/CFT/CPF requirements both domestically and internationally.

Specifically, the assessment aims to achieve the following objectives:

- Identify and understand ML/TF/PF risks across subsectors;
- Detect methods used for ML/TF/PF;
- Identify and address gaps in systems and controls;
- Optimize resources allocated for AML/CFT/CPF compliance; and
- Contribute to national AML/CFT/CPF strategies.

This report provides an overview of the process, the methodology and scope of the assessment, an assessment of ML/TF/PF risks (threats and vulnerabilities) of the banking and other financial institutions subsectors. It also includes an assessment of financial inclusion products. It further provides recommendations and priority areas in the supervision of banks and other financial institutions.

Supervisory Framework for AML/CFT/CPF in Nigeria

Nigeria's AML/CFT/CPF supervisory framework aligns with FATF Recommendations 26 and 27. The CBN's supervisory powers are derived from several legislative acts, including the CBN Act 2007, BOFIA 2020, MLPPA 2022, and the Terrorism (Prevention and Prohibition) Act 2022.

These laws empower the CBN to oversee financial institutions, enforce compliance, and impose sanctions. The assessment involved formation of Working Groups (along lines of supervisory oversight) with members from departments within the CBN and other stakeholder institutions, training from the World Bank and GIABA, and stakeholders' engagement workshops.

Data was collected through questionnaires, reports of examinations, and expert judgment. The World Bank tool and an in-house tool were used to assess ML/TF/PF risks, adjusting threat ratings based on available data and typologies. However, there were challenges faced during the exercise, which included difficulties in data collection from financial institutions and stakeholders, limited IT tools, and budget constraints.

The assessment covered January 2021 to December 2023, evaluating the following subsectors: Commercial Banks, Merchant Banks, Non-Interest Banks (NIBs), Payment Service Banks (PSBs); Microfinance Banks (MFBs); Primary Mortgage Banks (PMBs); Bureau De Change (BDCs); Finance Companies (FCs); Development Financial Institutions (DFIs); Payment Service Providers (PSPs); and International Money Transfer Operators (IMTOs).

The assessment provided a detailed view of the subsectors' ML/TF/PF risks, informing regulatory improvements and resources allocation strategies. Specifically, the report examined ML/TF/PF threat environment across various subsectors, employing a weighted and aggregated approach to assess the threat levels, considering both domestic and international ML/TF typologies, statistics of suspicious transaction reports (STRs), and other relevant data.

The exercise also reviewed quantitative and qualitative data from financial institutions to provide an overview of ML/TF risks related to customers, products/services, delivery channels, and geographic locations.

The outcome of the assessment revealed that the overall ML/TF threat environment varies by subsector, with the banking subsector experiencing higher threat compared to others with medium to low threats. Inherent risk assessment of the subsectors revealed varying levels of risk across different financial subsectors. The overall ML/TF risk ratings of the subsectors is contained in the table below:

In terms of the control environment, Nigeria has established a robust AML/CFT/CPF framework supported by legal structures and institutional and regulatory measures. The CBN has developed a comprehensive AML/CFT/CPF regime with appropriate supervisory powers to mitigate risks. Despite these frameworks, several areas such as supervision, enforcement of sanctions, staff training, and monitoring are being need improved to enhance overall effectiveness.

Approach and Methodology

A project Secretariat and Working Groups (Appendix 1) with members drawn from relevant departments within the CBN was constituted for the assessment. Thereafter, training was conducted for the officers involved in the assessment by the World Bank and GIABA. This was followed by stakeholder engagement workshops to apprise the relevant stakeholders from the private subsector and competent authorities of the objectives, scope and commencement of the project.

To ensure a comprehensive conduct of the exercise, members were sub-divided into six Working Groups along lines of supervisory oversight. Accordingly, quantitative and qualitative data were collected through questionnaires administered to reporting entities, competent authorities, and self-regulatory organisations (SROs). Other information was obtained from reports of prudential and AML/CFT compliance examinations, supervisory knowledge of the subsectors, typologies and case studies, and data from LEAs. The expert judgment of working group members was utilized in some instances during the assessment to arrive at conclusions where reliable statistics were unavailable. The vulnerabilities of the subsectors were further assessed by considering the inherent risk and control factors.

The World Bank tool for risk assessment was considered appropriate because of its granularity and systematic process for assessing the level of ML/TF/PF risks in a consistent way across all financial institutions. In addition, an in-house tool was developed to determine the ML/TF threat ratings for each subsector leveraging on the NIRA. This was done by adjusting the weights assigned to each predicate offense based on the availability of Suspicious Transaction Reports (STRs), as well as domestic, regional, and international ML/TF typologies affecting the respective subsectors. This approach allowed the working groups to conduct a qualitative analysis to determine the current ML/TF threat ratings for each subsector. These threat ratings, combined with the final vulnerability scores, resulted in final ML/TF risk ratings for each subsector.

Banking Sub-Sector

The banking subsector in Nigeria essentially provides financial services, products, and access to finance with presence across the country and subsidiaries in fifty-six (56) countries. As of December 2023, there were twenty-six (26) Commercial banks, six (6) Merchant banks, four (4) NIBs and five (5) PSBs. The commercial banking authorizations are categorised into international, national, and regional licenses based on the approved scope of activities. The most prevalent predicate offences affecting the banking subsector that are rated as High ML/TF Threat include corruption and bribery, illicit trafficking in narcotic drugs and psychotropic substances, fraud (including cybercrime) by organised criminal groups and terrorist financing. Other offences impacting on the banking subsector include trafficking in persons and migrants smuggling, kidnapping for ransom, smuggling and environmental crimes.

Risk Assessment Summary

Commercial Banks

ML/TF/PF Threat	Above Average
Vulnerability Rating	Above Average
Overall Risk Rating	Above Average

Merchant Banks

ML/TF/PF Threat	Above Average
Vulnerability Rating	Above Average
Overall Risk Rating	Above Average

Non-Interest Banks

ML/TF/PF Threat	Above Average
Vulnerability Rating	Above Average
Overall Risk Rating	Above Average

Payment Service Banks

ML/TF/PF Threat	Above Average
Vulnerability Rating	Above Average
Overall Risk Rating	Above Average

Payment Service Providers

The PSPs subsector focuses on delivering financial services by enabling and facilitating electronic payments in Nigeria. The subsector consists of 153 licensed institutions as at December 31, 2023. The PSPs are broadly categorised into Mobile Money Operators (MMOs), Payments Switching and Processing, and Payment Solution Services (PSS). The PSS comprises Payment Solution Service Providers (PSSPs), Payment Terminal Service Providers (PTSPs) and Super-Agents (SA). Entities with Switching and Processing license also have authorisation to carry out the activities under the PSS category. The PSPs are integrated with banks and non-bank institutions to facilitate the delivery of payment services. Non-bank acquirers, unlike bank acquirers, do not directly access or hold merchants' funds, whether from or for settlement, reversals, or any other reason. They ensure that merchants' accounts or wallets domiciled with the banks or mobile money service providers (who are acquirers) are credited in respect of the acquired transactions.

Risk Assessment Summary

Payment Terminal Service Providers

ML/TF/PF Threat	Moderate
Vulnerability Rating	Moderate
Overall Risk Rating	Moderate

Payment Solution Service Providers

ML/TF/PF Threat	Moderate
Vulnerability Rating	Moderate
Overall Risk Rating	Moderate

Mobile Money Operators

ML/TF/PF Threat	Above Average
Vulnerability Rating	Above Average
Overall Risk Rating	Above Average

Super Agents

ML/TF/PF Threat	Above Average
Vulnerability Rating	Above Average
Overall Risk Rating	Above Average

Switching and Processing

ML/TF/PF Threat	Vulnerability Rating	Overall Risk Rating
Moderate	Moderate	Moderate

International Money Transfer Operators

IMTOs are companies approved by the CBN to facilitate the transfer of funds from individuals or entities residing abroad to recipients in Nigeria, and the payment of a corresponding sum to a beneficiary through a clearing network to which the IMTO belongs. They offer fast and relatively low-cost methods of disbursing funds domestically from overseas. The transactions are limited to only inbound transfers while IMTOs are prohibited from out bound transfers, The IMTO subsector plays an important role of providing foreign exchange inflows through diaspora remittances into Nigeria.

There were forty-two (42) foreign and twenty-two (22) local IMTOs authorized to provide services in Nigeria as at December 2023. The total assets of the IMTO stood at N1.67tillion as at 31st December 2023 with the IMTOs with foreign authorization constituting 65.41% and the Local authorization 34.59%. The subsector significantly grew in the last three years as total assets grew by 44.27% to N925.61billion in 2022 from N641.60billion in 2021 and further increased by 80% to N1.67trillion billion in 2023.

Risk Assessment Summary

ML/TF/PF Threat	Moderate
Vulnerability Rating	Above Average
Overall Risk Rating	Above Average

Bureaux de Change

BDCs are non-bank financial institutions licensed to carry out foreign exchange business on a small scale and stand-alone basis. The BDCs provide currency exchange services to mainly small end-users of foreign currency and are permitted to sell Personal Travel Allowance (PTA) to individual travelers and Business Travel Allowance (BTA) to corporate customers, subject to a maximum amount of $4,000 and $5,000 per transaction per quarter for PTA and BTA respectively.

BDCs are not allowed to operate branches or offices outside the registered address and the ownership structure is usually 100% domestic with no foreign ownership. There were 5,689 BDCs operating in the country as of December 31, 2023 with 90 per cent of them operating in Lagos, Abuja and Kano.

Risk Assessment Summary

ML/TF/PF Threat	Above Average
Vulnerability Rating	Above Average
Overall Risk Rating	Above Average

Microfinance Banks

In Nigeria, this category of banks is designated as OFIs with a separate supervisory oversights from other banks listed in the "banking subsector" above. MFB is a company licensed to provide financial services such as savings & deposits, loans, domestic funds transfer and non-financial services to their customers. The licensing authorization categories for MFBs are Unit Tier 1, Unit Tier 2, State and National. A Unit Tier 1 and Tier 2 MFB operate only in one office location in addition to their head office in urban and high density-banked areas while a State MFB operates in one state or the FCT. A State MFB operates in one State or the Federal Capital Territory (FCT) and is allowed to open branches within the same state or the FCT.

A National MFB operates in more than one state including the FCT and is allowed to open branches in all states of the Federation and the FCT. As at December 31, 2023, there were seven hundred and twenty-two (722) MFBs with different license authorizations (National, State, Unit tier 1 and Unit tier 2) with 2,933 branches across the country. MFBs with unit tier 2 licenses constituted 48.90 per cent of the banks while unit tier 1, state, and national made up 33.80 per cent, 16.07 per cent, and 1.25 per cent, respectively.

Risk Assessment Summary

ML/TF/PF Threat	Moderate
Vulnerability Rating	Moderate
Overall Risk Rating	Moderate

Primary Mortgage Banks

PMBs are established to provide funding for affordable housing by mobilizing both domestic and offshore funds into the housing sector. There are two (2) categories of PMBs namely; State PMBs and National PMBs. As at 31st December 2023, there were thirty-two (32) PMBs in Nigeria comprising nine (9) with National authorization and twenty three (23) with State authorization.

The National PMBs had fifty (50) branches across the country while the State PMBs operated fifty-two (52) branches located in various States of the federation. Total assets of the PMBs stood at N569.195 billion as at 31st December 2023 with the State PMBs constituting 54.71 per cent and the National PMBs 45.29 per cent.

Risk Assessment Summary

ML/TF/PF Threat	Moderate
Vulnerability Rating	Moderate
Overall Risk Rating	Moderate

Development Finance Institutions

The DFIs are specialized financial institutions established as intervention vehicles to stimulate growth through the development of local industries in critical Subsectors of the economy There are two categories of DFIs viz: The Wholesale DFI and Retail DFI.

The Wholesale Category provides wholesale funds to Participating Financial Institutions (PFIs) for on-lending and the Retail DFIs lends directly to enterprises/organisations in identified subsectors. The wholesale DFI provides wholesale funds to the PFIs for on-lending to entities in identified Subsectors while Retail DFI lends directly to enterprises/organisations in critical Subsectors.

There were seven (7) DFIs in the period under review, six (6) RDFIs and one (1) WDFI which were created to serve industries and other corporate customers in different Subsectors of the economy. The DFIs include Bank of Agriculture, Bank of Industry, Development Bank of Nigeria, Federal Mortgage Bank of Nigeria, Nigerian Export Import Bank, Nigerian Mortgage Refinancing Company and the Infrastructure Bank.

Risk Assessment Summary

ML/TF/PF Threat	Low
Vulnerability Rating	Moderate
Overall Risk Rating	Moderate

Finance Companies

A FC is a company licensed to provide financial services to individual consumers, industrial, commercial, and agricultural enterprises, and SMEs (Small and Medium Scale Enterprises). They play complementary roles to banks, bridging financing gaps and meeting the financial needs of target customers.

There was only one licensing category offered to Finance Companies by the CBN during the period of this report. Currently, there were one hundred and fifteen (115) licensed FCs in Nigeria with some of them having branches in other locations within the country. As of December 31, 2023, there were fifty-eight (58) branches of FCs in Nigeria. The table below summarizes the assets of the FCs as at 31 December 2023.

Risk Assessment Summary

ML/TF/PF Threat	Low
Vulnerability Rating	Moderate
Overall Risk Rating	Moderate

Key Findings

01 Inadequate understanding of AML/CFT/CPF legal and regulatory requirements by few financial institutions.

02 Existing supervisory structure for some subsectors need to be made more robust.

03 The turnaround time for the examination cycle is long and this impacts on the compliance level of supervised institutions.

04 There are emerging ML/TF vulnerabilities in the MFB subsector occasioned by increasing leverage on technology.

05 There are cross-cutting non-compliance matters across the PSP, MFB and IMTO subsectors which require ongoing strong cooperation and coordination to enhance effective supervision and reduce regulatory arbitrage.

06 The traditional savings account has evolved over time and this has led to vulnerabilities including abuse for money laundering.

07 The level of commitment to AML/CFT/CPF compliance in some sectors needs improvement.

08 The reporting entities need to continuously improve in their mechanism for identifying and reporting suspicious transactions.

09 The requirements for registration on the reporting portal for STR should be made less stringent.

10 The CBN would need to enhance collaboration with stakeholders such as LEA, NIMC, CAC to improve the compliance level of reporting institutions.

Key Recommendations

01 CBN should develop and implement an Action Plan to address the identified gaps for each subsector based on Priority ranking as outlined in the Priority Action Plan for each subsector.

02 CBN should continue to enhance the AML/CFT/CPF supervision of OFIs with special focus on higher risk institutions.

03 The ML/TF/PF risks of the sub-sectors should be kept up to date through periodic reviews, taking into consideration the changes in the identified vulnerabilities and the mitigants.

04 The supervisory structure for IMTOs should be made more robust by re-assigning the AML supervisory oversight of IMTOs from the Trade and Exchange Department to a more appropriate AML Supervisory team within the CBN.

05 CBN should beam its supervisory searchlight on the involvement of licensed institutions, especially PSPs and IMTOs identified to be utilizing crypto currency for remittances.

06 The CBN should provide supervisory intervention on the operations of savings accounts and vulnerabilities for abuse of some categories of Savings accounts, such as Minor accounts, for financial crimes.

07 Appropriate and effective feedback should be provided to financial institutions on these findings and how this can be utilized in the development of institutional risk assessment and AML/CFT policies and procedures.

08 Enhance supervision strategy to ensure that financial institutions are complying with AML/CFT/CPF requirements.

09 Intensify training for Compliance Officers in the FCs to address the gaps noted on the rendition of the statutory AML/CFT/CPF returns.

10 Guidelines and protocols for data collection to ensure consistency and accuracy across all participating financial institutions should be

11 established. Additionally, providing training or support to FIs on data collection practices could help improve data quality in the future.

12 Promote understanding and knowledge of ML/TF/PF risks and regulatory requirements through target outreach, awareness and training sessions and regular engagement for the OFIs, especially for the high-risk sub-sectors

13 The CBN should continue to collaborate with the LEAs to identify and prosecute illegal financial operators.

14 The CBN should continue to partner with the NFIU to simplify STRs filing for OFIs and ensure that regular feedback is provided to financial institutions in order to enhance compliance and improve the quality of STR filings.

15 CBN should encourage each subsector to establish a forum of Chief Compliance Officers to provide a pivotal forum for continuous engagement and sharing of information.

16 Training programmes highlighting sector vulnerabilities to ML/TF/PF threats for strategic products should be developed and rolled-out.

17 Timely and effective outreach to financial institutions on the findings of this report, including how the report's findings should be utilized in the development of their own AML/CFT policies and procedures.

18 Collaborate with NIMC on availability of identity database for verification.

19 Timely completion of examination processes and issuance of supervisory letters to communicate findings and prompt implementation of remedial action.