DUALE, OVIA & ALEX-ADEDIPE

KYC Requirements for Onboarding New Customers by Fintech Companies in Nigeria

Introduction

In April 2024, the Central Bank of Nigeria (CBN) issued a directive mandating certain Financial Technology (Fintech) companies to stop onboarding new customers on their platforms. This decision was allegedly attributed to the failure of these Fintech companies to comply with the CBN's Due Diligence Regulation 2023 (the "**KYC Regulation**") and other CBN guidelines on Know Your Customer (KYC) resulting in the use of their platforms for fraudulent activities, cryptocurrency-related transactions and other financial crimes.

In today's TMTThursday series, we discussed the importance of KYC in combating financial crimes, the CBN three-tiered KYC requirements, transaction monitoring, how to handle high-risk clients, and the KYC process for Fintech companies.

What is KYC and the Importance of KYC for Fintech Companies?

KYC stands for "Know Your Customer". It is the process by which financial institutions and Fintech companies ascertain and verify the identities of their customers and assess the risk profiles of their customers. Adequate KYC helps Fintech companies to combat money laundering and terrorist financing. By ensuring customers are who they claim to be, KYC assists Fintech Companies to:

i. prevent criminals from disguising themselves and utilizing financial services for illicit activities.

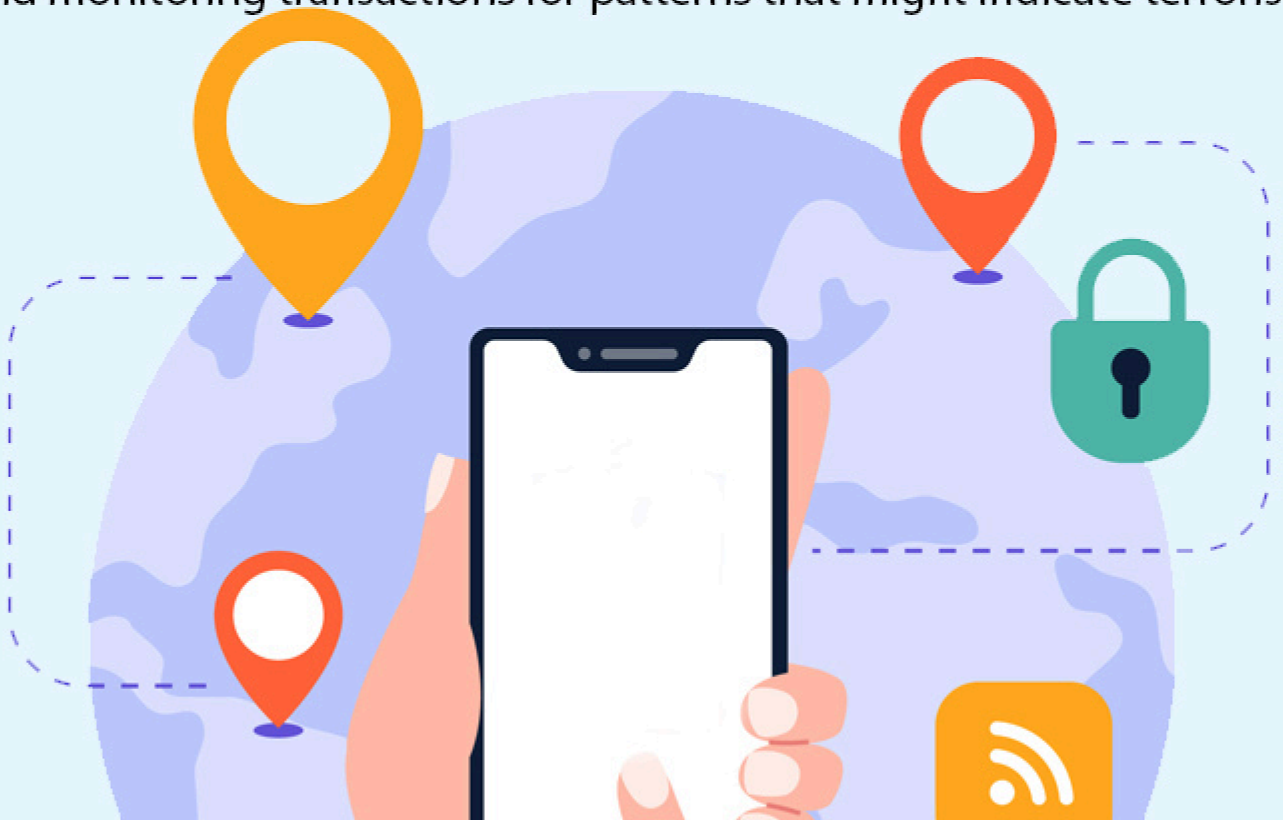
ii. identify Politically Exposed Persons (PEPs) and high-risk customers.

iii. provide tailor-made services for customers based on the information obtained during the KYC process.

iv. verify customers' identities and identify their sources of wealth.

v. identify suspicious activity and prevent the placement of illicit funds in the system.

vi. identify individuals or entities associated with terrorism by analyzing customer risk profiles and monitoring transactions for patterns that might indicate terrorist financing.

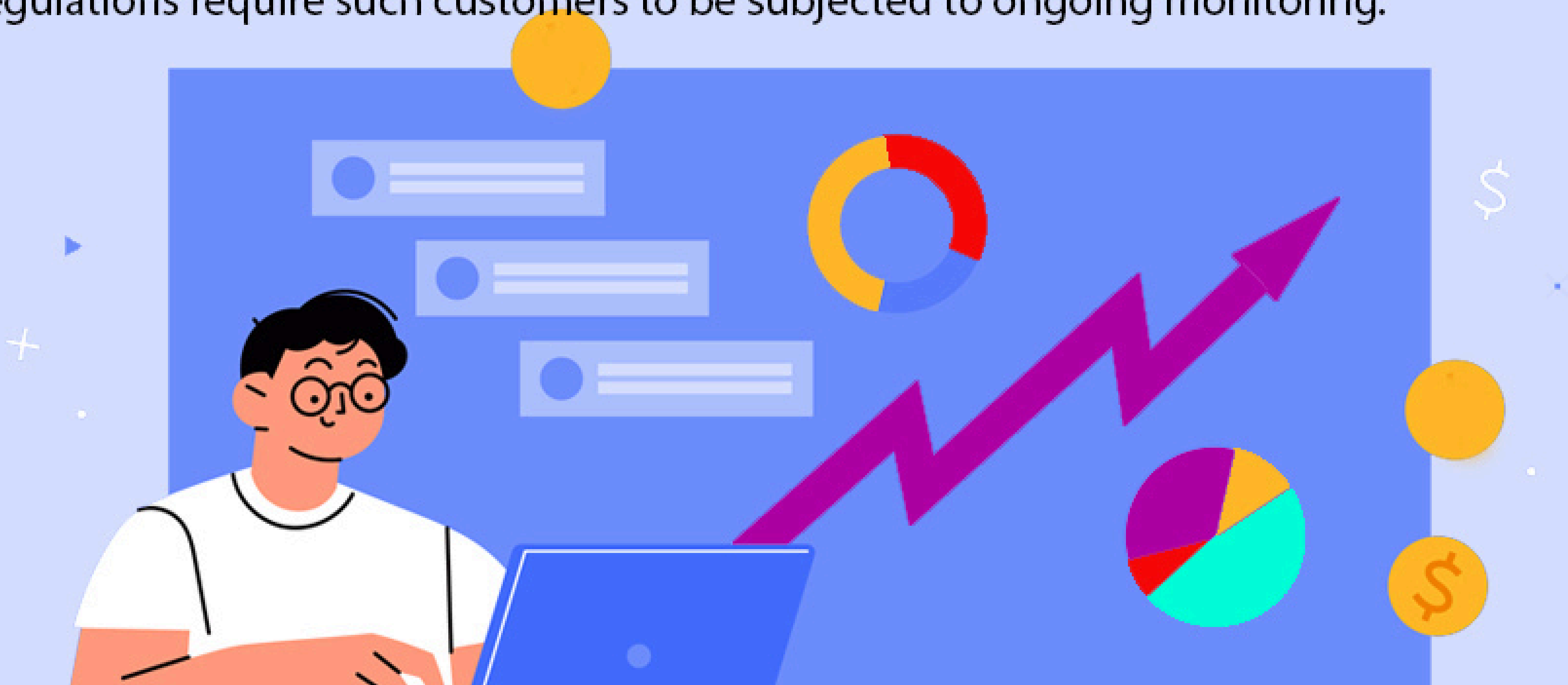


Three-Tiered KYC Requirements

Despite the overwhelming advantages of adequate KYC process and documentation, the process may appear to be tedious and can deter legitimate customers and hinder financial inclusion. In light of this risk, the CBN introduced the Three-Tiered KYC Requirements that allow Fintech companies to open tiered accounts for individuals.

The Three-Tiered KYC Requirements allow Fintech companies to create low-value and medium-value accounts for customers based on the account opening requirements obtained from the customers. The information required to create a low-value account includes name, place of birth, date of birth, gender, address, telephone number, etc. Customers with this account are limited to a maximum single deposit of N20,000 (Twenty Thousand Naira) and a maximum cumulative balance of N200,000 (Two Hundred Thousand Naira only). Verification of the information provided is not required for low-value accounts.

The medium-value accounts are limited to a maximum single deposit of N50,000 (Fifty Thousand Naira) and a maximum cumulative balance of N400,000 (Four Hundred Thousand Naira only). Fintech companies must verify basic information and identification of the customer against similar information contained in official databases such as the National Identity Management Commission, Independent Electoral Commission, and Federal Road Safety Commission. Where simplified due diligence is conducted for a customer, the KYC Regulations require such customers to be subjected to ongoing monitoring.



High-value account has no financial limits, and the customers must comply with the customer due diligence requirement in the KYC Regulation. Additionally, the three-tiered KYC requirements apply to individuals only.

In June 2024, the CBN lifted the restriction imposed on Fintech companies concerning onboarding new customers and required Fintech companies to:

i. Conduct physical address verification for all tiers of customer's accounts;

ii. Prohibit and hinder peer-to-peer cryptocurrency transactions on their platform; and

iii. upgrade facial verification systems to confirm user identity and prevent unauthorized account access.

These measures aim to align Fintech companies' operations with regulatory standards expected by the CBN, fortifying the financial system against potential threats.

Transaction Monitoring

Fintech companies must continuously scrutinize customers' transactions to detect suspicious activity that might indicate money laundering, terrorist financing, or other financial crimes. Transaction monitoring also ensures that the transactions conducted with customers' accounts are in line with the purpose for which the account was opened; and that the transactions do not exceed a limit pre-determined by the Fintech company or CBN.

Regular transaction monitoring allows authorities and financial institutions to track and disrupt terrorism financing. The Nigerian Sanctions Committee (NSC) regularly publishes lists of individuals and entities that have been involved in terrorism financing. Fintech companies are required to crosscheck their customer database with NSC sanctions lists and other relevant sanctions lists to ensure their customers are not listed in the sanctions lists.

Additionally, the KYC Regulation mandates Fintech companies to conduct regular monitoring of internet-based businesses or customers that operate a significant proportion of their businesses electronically, by putting in place, computerized monitoring systems or solutions that are designed to recognize unusual transactions and related patterns of transactions.

How To Handle High-Risk Customers

Fintech companies are required to perform advance due diligence on high-risk customers by taking the following measures:

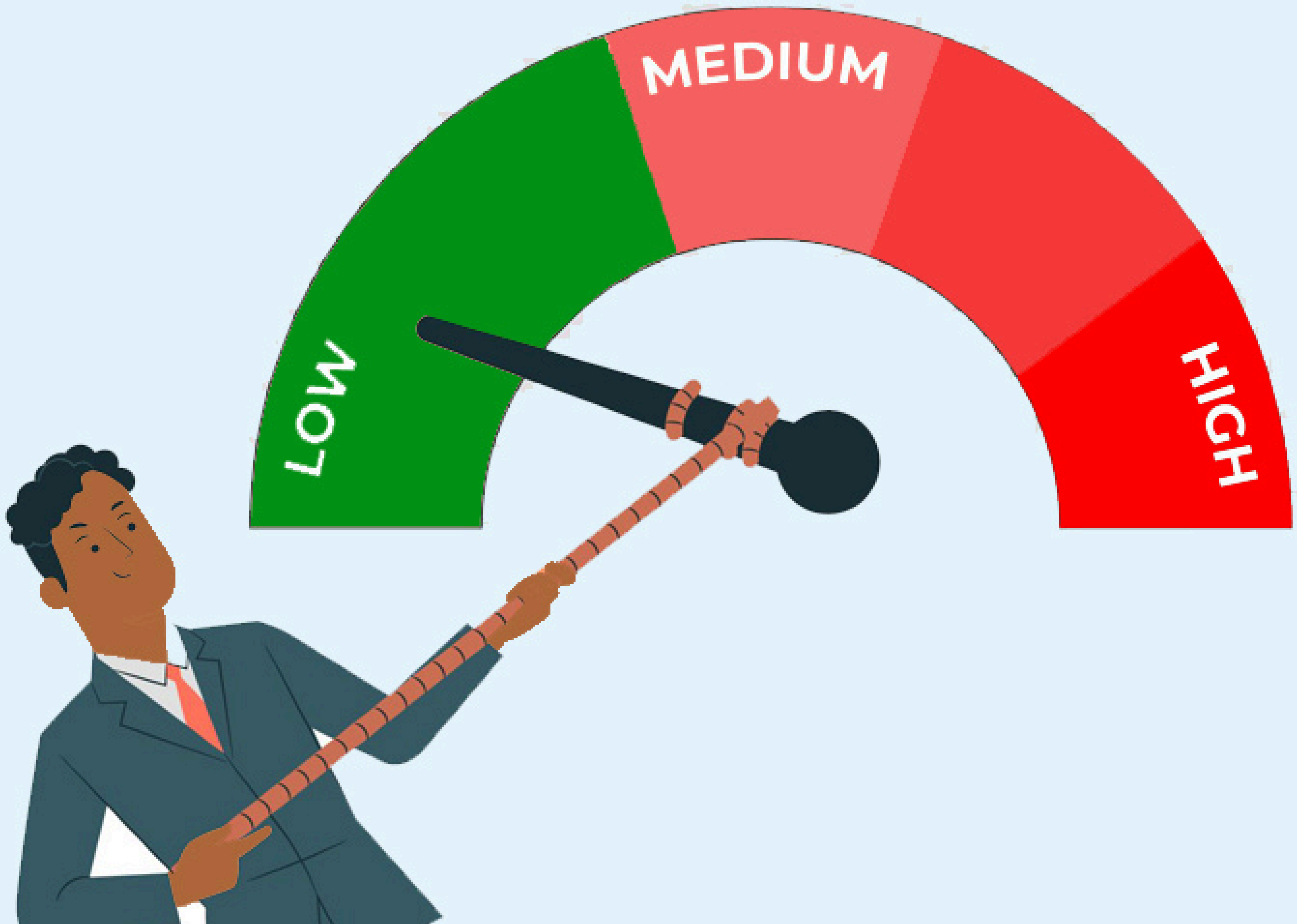
i. obtaining additional information on the customer including his/her occupation, volume of assets, information available through public databases, the internet, and updating the information of the customer regularly;

ii. obtaining information on the source of funds and source of wealth of the customer;

iii. obtaining information on the reasons for intended or performed transactions;

iv. obtaining the approval of senior management to commence or continue the business relationship; and

v. conducting enhanced monitoring of the business relationship, by selecting patterns of transactions that need further examination.



Conclusion

The CBN has reiterated its strong stance on the importance of proper KYC documentation and preventing financial crimes. Consequently, the CBN has introduced a stringent KYC protocol for all tiers of accounts to bolster security and combat money laundering, terrorism financing, and other financial crimes.

Implementing these measures may lead to increased costs for Fintech companies as they will be required to spend more on KYC. While these measures may entail initial costs and adjustments, they ultimately pave the way for sustainable growth, increased competition, and enhanced consumer protection in Nigeria's evolving financial ecosystem.