



NEWS LETTER



NEWS LETTER ON THE REVOCATION OF LICENCES OF MICROFINANCE BANKS, FINANCE COMPANIES AND MORTGAGE BANKS; A REVIEW OF THE APEX BODY'S DECISION AND ITS IMPLICATION

MICROFINANCE BANK
Microfinance is a category of financial services targeting individuals and small businesses who lack access to conventional banking and related services. It is crucial to understand the different categories of microfinance banks (MFBs) and the corresponding requirements set by the Central Bank of Nigeria. The establishment of a microfinance bank in Nigeria is regulated by the CBN, and compliance with its principles is mandatory for all financial institutions operating in the country

In a recent development, the Central Bank of Nigeria (CBN) has taken a decisive action by revoking the operating licenses of 132 microfinance banks, four primary mortgage banks, and three finance companies across the country. The revocation exercise was officially announced in the Federal Government's gazette, specifically in No. 93, volume 110, May 22, 2023 edition, which was published on the Central Bank of Nigeria's website. The revocation of these financial institutions' licenses was primarily attributed to their failure to engage in the type of business for which their licenses were issued within Nigeria for a continuous period of six months. Additionally, they were accused of not fulfilling the conditions under which their licenses were granted or failing to comply with the obligations imposed by the Central Bank of Nigeria as per the provisions of the Banks and Other Financial Institutions Act (BOFIA) 2020, Act No. 5

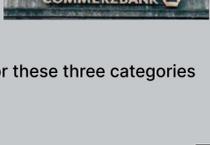
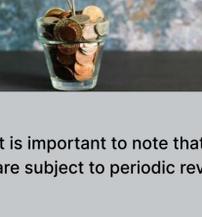


There are three major categories of microfinance bank licenses in Nigeria, each with specific financial requirements for setup:

1. Unit Microfinance Bank: This category refers to a microfinance bank authorized to operate in a single location without the possibility of opening additional branches. The minimum capital requirement for this category is set at N200,000,000 (Two Hundred Million Naira).

2. State Microfinance Bank: A state microfinance bank is granted authorization for operation within a single state or the Federal Capital Territory (FCT). The CBN allows the opening of multiple branches within that particular state or the FCT, with the condition that no more than two branches can be established within the same Local Government Area (LGA), unless the bank has established at least one branch or cash center in every LGA of the state. The minimum capital requirement for this category is N1,000,000,000 (One Billion Naira).

3. National Microfinance Bank: This category encompasses microfinance banks authorized to operate in more than one state, including the Federal Capital Territory (FCT). The CBN restricts their operations to a maximum of ten branches. The minimum capital requirement for this category is N5,000,000,000 (Five Billion Naira).



It is important to note that the minimum capital requirements for these three categories are subject to periodic review by the Central Bank of Nigeria.

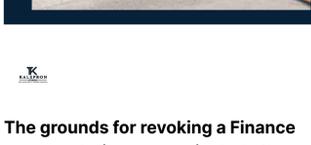
The grounds for revoking a microfinance bank's license can include several factors:

1. Ceasing to carry on the type of banking business for which the license was issued in Nigeria for a continuous period of six months or a cumulative period of six months within twelve months
2. Going into liquidation.
3. Failing to comply with the conditions under which the license was granted.
4. Having insufficient assets to meet liabilities.
5. Conducting business in an unsound manner or engaging in unsafe practices.
6. Being involved in circumstances or actions that pose a threat to financial stability.
7. Failing to comply with obligations imposed by the BOFIA, the Central Bank of Nigeria Act, or other relevant rules, regulations, guidelines, or directives.
8. Being critically undercapitalized with a capital adequacy ratio below the prudential minimum prescribed by the CBN or any other ratio set by the CBN.
9. Failing to commence banking operations within twelve months after the license was granted.
10. Failing to comply with specific provisions of the BOFIA.



Apart from microfinance banks, the revocation exercise also affected finance companies;

FINANCE COMPANY



A Finance company is a person or company licensed to engage in finance company business, which involves providing financial services to consumers, industrial, commercial, or agricultural enterprises. These services can include funds management, equipment leasing, hire-purchase, direct factoring and securitization, project financing or consultancy, debt administration, LPO financing, export financing, financial consultancy, and issuing of vouchers, coupons, credit cards, and token stamps. The Central Bank of Nigeria may designate additional businesses from time to time.

The grounds for revoking a Finance company's license can include the following:

1. Submission of false information/data during or after the processing of the license application.
2. Engaging in functions/activities outside the scope of the specified license.
3. Persistent failure to comply with requests for information/data from the CBN.
4. Engaging in activities detrimental to the Nigerian economy.
5. Failure to redeem matured obligations to customers.
6. Unauthorized shop closure.
7. Failure to comply with any directives issued by the CBN.
8. Failure to renew the operating license within the specified period.
9. Any other acts that, in the opinion of the CBN, constitute a violation or serious default.

In addition to microfinance banks and finance companies, the revocation exercise extended to primary mortgage banks (PMBs).



MORTGAGE BANKS

A mortgage bank specializes in mortgage loans and can be involved in originating or servicing such loans or both. These banks lend their own capital to borrowers and either collect payments in installments with a certain interest rate or sell their loans in the secondary market.

The revocation of a mortgage bank's license can occur under the following circumstances:

1. Ceasing to engage in the authorized mortgage business in Nigeria, going into liquidation, or being wound up or dissolved.
2. Failing to fulfill any conditions subject to which the license was granted.
3. Failing to comply with any provisions of the BOFIA, where non-compliance is a ground for revocation

To seek redress against the revocation of a bank's license, the Governor of the CBN appoints the Nigeria Deposit Insurance Corporation (NDIC) as the liquidator. The NDIC is responsible for the liquidation of the bank and the payment of assured deposit liabilities. However, if a bank wishes to challenge the revocation in court, it must do so within 30 days from the date of revocation at the Federal High Court. The legal proceedings and any subsequent appeals will receive expedited and accelerated hearings.

It is important to note that under the provisions of the new BOFIA 2020, the courts no longer have the power to grant restorative remedies regarding banking licenses. Matters concerning the granting, revocation, and related aspects of banking licenses are now exclusively handled by the CBN and its governor.

In light of these developments, it is recommended that financial institutions consider applying for fresh licenses if they intend to continue their operations. Strict compliance with the appropriate category's requirements, such as share capital and the number of branches, is essential. Additionally, banks must ensure that they carry out the specific banking business for which they are licensed. By adhering to these guidelines, financial institutions can avoid potential violations that may lead to license revocation

Here are some recommendations for financial institutions to consider in order to maintain compliance and avoid license revocation:

Fulfill License Requirements: Ensure that you meet all the requirements for the specific category of license you hold, including minimum capital requirements, number of branches, and operational scope. Regularly review and update your compliance with these requirements.

Implement Strong Governance and Risk Management: Establish robust governance structures and risk management practices within your organization. This includes having well-defined policies, procedures, and controls to mitigate risks and ensure compliance with regulatory requirements.

Maintain Sound Business Practices: Conduct your business in a prudent and responsible manner, avoiding unsafe practices or activities that could pose a threat to financial stability. Adhere to ethical standards and implement measures to prevent fraud, money laundering, and other financial crimes.

Maintain Transparency and Accurate Reporting: Provide accurate and up-to-date information to the Central Bank of Nigeria (CBN) as and when required. Avoid submitting false or misleading data, as it can lead to license revocation.

Adhere to Prudential Guidelines: Comply with the prudential guidelines issued by the CBN, such as capital adequacy ratios, liquidity requirements, and asset quality standards. Regularly monitor and assess your financial position to ensure compliance.

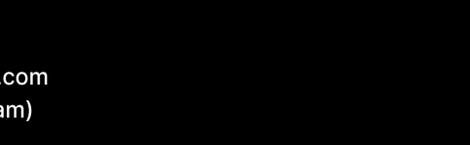
Engage in Core Banking Operations: Continuously engage in the type of banking business for which your license was issued. Avoid prolonged periods of inactivity or deviations from your authorized scope of operations.

Respond Promptly to CBN Communications: Cooperate with the CBN by promptly responding to any requests for information or data. Failure to comply with CBN directives or persistent non-response can lead to license revocation.

Regularly Train and Educate Staff: Invest in training and education programs for your staff to enhance their understanding of regulatory requirements, risk management practices, and compliance obligations. Promote a culture of compliance throughout the organization. Stay Informed about

Regulatory Changes: Keep abreast of regulatory developments, including changes to the BOFIA, guidelines, directives, and other relevant regulations. Regularly review and update your policies and procedures to align with any new requirements.

Maintain Adequate Capitalization: Ensure that your institution remains adequately capitalized at all times. Regularly assess your capital position, taking into account the prescribed capital adequacy ratios and any other requirements set by the CBN.



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