

2016

FINANCIAL INCLUSION PRODUCTS RISK ASSESSMENT

**NIGERIA NATIONAL MONEY
LAUNDERING & TERRORIST
FINANCING RISK ASSESSMENT**





THE NATIONAL (MONEY LAUNDERING & TERRORIST FINANCING) RISK ASSESSMENT FORUM

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ACGS	Agricultural Credit Guarantee Scheme
AFI	Alliance for Financial Inclusion
ANMFIN	Association of Non-Bank Microfinance Institutions of Nigeria
ATM	Automated Teller Machine
CACS	Commercial Agricultural Credit Scheme
CBN	Central Bank of Nigeria
CDD	Customer Due Diligence
CFAN	Co-operatives Financing Agency of Nigeria
EFCC	Economic and Financial Crimes Commission
EFINA	Enhancing Financial Inclusion and Access
EU	European Union
FATF	Financial Action Task Force
FCT	Federal Capital Territory
FIP	Financial Inclusion Products
FIRAT	Financial Inclusion Risk Assessment Tool
FISC	Financial Inclusion Steering Committee
GDP	Gross Domestic Product
ICPC	Independent Corrupt Practices and other related offences Commission
KYC	Know your Customer
MFB	Microfinance Banks
ML/TF	Money Laundering/Terrorist Financing
MMO	Mobile Money Operator
MSME	Micro Small and Medium Enterprises
NACCUN	National Association of Cooperative Credit unions of Nigeria
NAICOM	National Insurance Commission
NFIS	National Financial Inclusion Strategy
NGO	Nongovernmental Organisation
NIPOST	Nigerian Postal Service
NIRSAL	Nigeria Incentive-based Risk Sharing Scheme for Agricultural Lending
NPF	Nigeria Police Force
NRA	National Risk Assessment
PENCOM	Pension Commission
RBA	Risk Based Approach
RUFIN	Rural Finance Institutes Building Programme
SEC	Securities and Exchange Commission
SMEs	Small and Medium Enterprises
SSA	Sub Saharan Africa
UNHCR	United Nations High Commissioner for Refugees

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Francis Oka-Philips Usani
Chairman, Nigerian National (ML/TF) Risk Assessment Forum

FOREWORD

One of the critical success factors of any anti-money laundering and counter-financing of terrorism (AMLCFT) regime is premised on the ability of a country to properly identify, assess and understand the money laundering and terrorist financing (ML/TF) risk elements prevalent in the jurisdiction with a view to efficiently allocate limited resources to address them as enshrined in the Financial Action Task Force (FATF) recommendation 1.

Nigeria has achieved this significant milestone with the successful conclusion of the country's first National (money laundering and terrorism financing) Risk Assessment (NRA) exercise; the outcome of which shall lay the foundation for an effective National AML/CFT Strategy. The need for an AML/CFT strategy cannot be overemphasized as it provides operational and policy coordination between agencies of government as well as the private sector.

I would like to commend all agencies and individuals that contributed in one way or another to the production of this report. I am certain that the recommendations proffered shall have far reaching effects in strengthening the country's AML/CFT regime.



Abubakar Malami, SAN

Honourable Attorney General of the Federation and Minister of Justice

DISCLAIMER

*The National ML/TF Risk Assessment of **Nigeria** has been conducted as a self-assessment by **Nigerian** Authorities, using the National Money Laundering and Terrorist Financing Risk Assessment Tool that has been developed and provided by the World Bank. The World Bank team's role was limited to delivery of the tool; providing guidance on technical aspects of it and review/feedback to assist with the accurate use of it. The data, statistics, and information populated into National Money Laundering and Terrorist Financing Risk Assessment Tool templates, and any other finding, interpretation, and judgment under the scope of National Money Laundering Risk Assessment process completely belong to the **Nigerian** authorities and do not reflect the views of World Bank, its Board of Executive Directors or the governments they represent. Nothing herein shall constitute or be considered to be a limitation upon or waiver of the privileges and immunities of The World Bank, all of which are specifically reserved.*

EXECUTIVE SUMMARY

As part of her National (ML/TF) Risk Assessment (NRA), Nigeria assessed the money laundering/terrorist financing risk in financial inclusion products in Nigeria.

This is in compliance with Recommendation 1 of the Financial Action Task Force (FATF) Standards. The objectives of the Assessment is to determine and assess the level of money laundering and terrorism financing threats inherent in existing or proposed products and services targeted at financial inclusion, as well as determine and assess the vulnerabilities of institutions, financial or non-financial actors or professionals. The assessment covered the formal and semi-formal sectors of the country's financial system including Banking, Capital Market, Insurance, Pension and Non-Bank Micro Finance Institutions.

In Nigeria, financial inclusion is defined as adult Nigerians having easy access to a broad range of formal financial services that meet their needs at an affordable cost.

The services include payments, savings, loans, insurance, and pension products. Based on a national survey conducted in 2010 by Enhancing Financial Innovation and Access (EFInA)¹, it was revealed that 39.2million Nigerians representing 46.3% of the adult population were financially excluded and had no access to either formal or informal financial services. Also, according to the EFInA 2010 Survey, only 25.4million were banked (representing 30.0% of the adult population) and the main barriers to having a bank account are lack of money, irregular income and distance to the bank.

The absence of a functional unique national identification for citizens and lack of other identification card also contributes to the poor access to financial services in Nigeria. Thus, the country developed its Financial Inclusion Strategy in 2012 to encourage financial inclusion. Various stakeholders, including the financial sector Regulators, keyed into the Strategy and developed products to enhance financial inclusion.

The banking sector Regulator, **the Central Bank of Nigeria (CBN)**, is at the forefront of improving financial inclusion in Nigeria. This is hinged on its pivotal role in the financial system and the consequential effect of most transactions conducted in other sub-sectors such as insurance, securities and pension, which are ultimately consummated through banks.

The CBN introduced the following initiatives to boost financial inclusion -

¹ EFInA is a financial sector development organization that promotes financial inclusion in Nigeria. It was established in late 2007 and funded by the UK Government's Department for International Development (DFID) and the Bill & Melinda Gates Foundation.

- a) transformation of existing Know-Your-Customer (KYC) Regulations into a simplified risk based tiered framework that allows individuals who do not currently meet formal identification requirements to enter the banking system;
- b) development and implementation of a Regulatory Framework for Agent Banking to enable Financial Institutions to bring banking services to the unbanked individuals in all parts of the country;
- c) development and implementation of a National Financial Literacy Framework to increase awareness and understanding of financial products and services, with the ultimate goal of increasing sustainable usage;
- d) implementation of a comprehensive Consumer Protection Framework to safeguard the interest of clients and sustain confidence in the financial sector;
- e) encourage the implementation of Mobile Payment System and other Cash-less Policy in order to reduce the cost of service and increase the ease of access to financial services; and
- f) the implementation of Credit Enhancement Schemes or Programmes to empower micro, small, and medium enterprises (MSMEs).

The Insurance sector Regulator, **National Insurance Commission (NAICOM)**, developed and introduced Frameworks for Micro insurance and Takaful insurance for the sole purpose of including clients from the underserved group and low income brackets.

The **Securities and Exchange Commission (SEC)**, which is the Regulator for the capital market, issued guidelines to utilise existing Collective Investment Scheme – CIS products (Mutual Funds) such as Unit Trusts, as a vehicle for driving financial inclusion in the sector.

The Regulator for the Pension sector, **National Pension Commission (PenCom)** mandates that every employer with a minimum of three (3) employees must enrol in a pension scheme. In addition, PenCom is developing a micro pension guideline to promote financial inclusion in the sub-sector.

The assessment covered the period from January 2012 to December 2015. The methodology adopted for the assessment was the administration of questionnaires, interview of key relevant stakeholders in the industry and literature review of secondary data obtained from the industry. Open source information such as news publications and the World Wide Web were also explored.

The World Bank Financial Inclusion Product Risk Assessment Tool (FIRAT) was adopted in assessing the Frameworks issued by the CBN and SEC. The FIRAT was also used to assess some products offered in the industry.

Findings show that financial inclusion products (FIP) offered in the banking and other financial institutions sector includes savings accounts (based on simplified KYC requirements), mobile money and micro credits. The ML/TF risk in savings accounts has been assessed to be low because of the thresholds set on the number and value of transactions; prohibition of anonymous use of the product; and limited non face-to-face account opening and transactions. The mandatory registration of SIM cards for mobile phones has enhanced the identification of such accounts through mobile phone numbers provided by the customers. Also, the risk is assessed low because of the low level of financial crimes perpetrated with the product and the introduction of Biometric Verification Number (BVN) by the CBN which helps to mitigate identity fraud. The ML risk in mobile money products is assessed low as they also have thresholds similar to the savings accounts issued by the CBN.

The FIPs are offered in the capital market by the Fund Managers and stockbrokers through Unit Trusts. By investing in a unit trust scheme, the unit holders enjoy the benefits of diversification and professional management of their funds at low cost. These FIPs have been assessed to have a low ML/TF risk. The products only have thresholds for the minimum amount required to participate. Transactions above N50,000 must be initiated through a bank account and the dividends can only be cashed through a bank account (including savings accounts). It was observed that a simplified identification requirement does not exist in the sector.

Takaful insurance products, which are similar to conventional insurance products, are classified as FIPs because they allow people hitherto excluded from having insurance due to mutuality and ethical finance consideration to have access to such products. The products are assessed to have medium low ML risks. All micro insurance products are classified as FIPs and based on the Guidelines issued by the Regulator; these products have thresholds of ₦1million as the maximum sum insured. Both Takaful insurance and Micro insurance were relatively new in the industry and the operators are required to seek for the supervisor's approval for each new product. The available products have been assessed to have low ML/TF risk. The life insurance products offered under micro insurance only offer protection and mostly do not have cash surrender value. These products are provided through telecommunication companies.

Findings further revealed that there are no existing FIPs in the pension sector. However, PenCom is developing a framework for micro pension to encourage financial inclusion. The Assessors note that PenCom needs to consider the ML/TF risks while designing the products and the World Bank FIRAT would assist in effectively designing such products.

Overall, it was observed that the various sectors in Nigeria's financial system are quite unique although practice for FIPs can be harmonized across all the stakeholders such as use of simplified identification for access to the financial system at different levels. The role of Nigerian Postal Services (NIPOST) should be properly harnessed in line with its key role of money transfer services while other sectors should leverage on the advantage that technology is bringing to the financial system. Other sectors may consider the tiered identification requirement system that has been successful in improving financial inclusion in the banking sector.

There is need for targeted financial literacy to enlighten the public on taking advantage of the formal financial system to improve their wealth and well-being since it offers a secure and dependable means of savings, investment and loans that may not be obtainable in the informal sector. Monitoring, supervision and transactions reporting should be constantly evaluated and adjusted where necessary. This will encourage prospective investors to develop more products, channel limited resources to other more vulnerable areas and fast track the country's drive of including more of its adult populace in the formal financial system.

1.0 INTRODUCTION

Financial inclusion is the process of ensuring access to financial services on a timely manner at an affordable cost by low income and underserved groups. In other words, financial inclusion is the process of attracting and facilitating those sectors and segments of the population that are outside the system, to become a part of the formal financial system.

The Financial Action Task Force (FATF)'s interest in financial inclusion is driven by its objective of protecting the integrity of the global financial system, which requires covering the largest range of transactions that pose money laundering and terrorist financing risks in the jurisdictions that have committed to the FATF Recommendations. Thus, the (FATF) published a Guidance Paper on Financial Inclusion and Money Laundering in 2012.

According to the FATF, financial exclusion and its risks can occur when persons do not have effective access to appropriate and affordable formal financial services and therefore have to seek their financial services from informal providers in the cash economy. The risks include financial crimes committed by informal service providers, threats to the integrity of formal financial services, social exclusion and continued extreme poverty and consumer protection risks.

The financially excluded and underserved groups include low income households, handicapped individuals in rural communities and undocumented migrants in both developed and developing jurisdictions. They are also those who currently have access to financial services but in a limited manner. The underserved can also be those who have access but are not using it because of barriers such as problems in meeting the documentary and other requirements, non-awareness, wrong perceptions, limited knowledge, high cost etc. The lack of government issued form of identification has also been an impediment. The above issues abound within the Nigerian context.

In 2010, Enhancing Financial Innovation and Access (EFInA)²² carried out a survey on the access to financial services in Nigeria. According to the survey, the total adult population (18 years and above) in Nigeria was 84.7million with 70% living in rural areas while 30% live in urban areas. The Survey showed that 39.2million Nigerians representing 46.3% of the adult population were financially excluded and had no access to either formal or informal financial services. Also, according to the EFInA 2010 Survey, only 25.4million were banked (representing 30.0% of the adult population) and the main barriers to having a bank account are lack of money, irregular income and distance to the bank. This can be adduced to the low level of

²² EFInA is a financial sector development organization that promotes financial inclusion in Nigeria. It was established in late 2007 and funded by the UK Government's Department for International Development (DFID) and the Bill & Melinda Gates Foundation.

employment and financial literacy, irregular income and cumbersome account opening requirement or procedures.

Feedback from practitioners in the financial sector to their respective Regulators indicated that identification document was a major hindrance to account opening and on - boarding of new customers, especially in the rural areas. The documents required for identification for Customer Due Diligence (CDD) by the financial sector Regulators were International Passport and Driver's License. However, the EFInA 2010 survey showed that of the 67.2% of the adult population that were unbanked in the rural areas, only 39.5% , 2.6%, and 0.9% had National ID, Driving License and International Passport respectively.

Subsequently, the various Sector Regulators issued guidelines allowing the use of National identity cards and Voter's Registration card in addition to the existing identification requirements. Third party identification for account opening purposes was also allowed in order to encourage financial inclusion.

The 2014 EFInA Access to Financial Services Survey showed that the total adult population had increased to 93.5million with 36.9million adults being financially excluded from access to financial services. The Report further stated that 5.6million adults were unbanked while only 29.8million adults had access to formal savings products.

2.0 FINANCIAL INCLUSION FRAMEWORK IN NIGERIA

The National Financial Inclusion Strategy was launched on October 23, 2012 and a Financial Inclusion Secretariat was established in the Central Bank of Nigeria to coordinate the activities of stakeholders towards the implementation, gathering and analyzing data to inform the public on the progress made. The Secretariat provides support and serves as the Secretary of the Financial Inclusion Steering Committee (FISC) and the Financial Inclusion Technical Committee (FITC) which were established by the CBN in collaboration with other stakeholders.

According to the Nigerian Financial Inclusion Strategy document, financial inclusion is achieved when adults (persons 18 years and above) have access to a broad range of formal financial services that meet their needs and are provided at an affordable cost. The financial services include, but are not limited to, payments, savings, loans, insurance and pension products.

The National Financial Inclusion Strategy aims to reduce the financial exclusion rate from 46.3% in 2010 to 20% by 2020. Specifically, adult Nigerians with access to payment services is to increase from 21.6% in 2010 to 70% in 2020, while those with

access to savings should increase from 24.0% to 60%; and credit from 2% to 40%, Insurance from 1% to 40% and Pensions from 5% to 40%, within the same period.

The Nigerian Financial inclusion Strategy includes a National Financial Literacy Framework to increase awareness and understanding of financial products and services, with the ultimate goal of increasing sustainable usage.

Financial inclusion in Nigeria is based on the National Financial Inclusion Strategy (NFIS). The NFIS is supported by existing regulatory structures provided by the financial services regulatory institutions, other relevant government agencies, self-regulatory organizations and key players in the informal sector. The key stakeholders in financial inclusion in Nigeria include the banks, other financial institutions, insurance, Regulators, technology or telecommunications firms, public institutions and development partners or experts. The key sectors involved with financial inclusion are outlined below.

2.1 BANKING AND OTHER FINANCIAL INSTITUTIONS

The banking sector remains the main driver in accelerating financial inclusion in view of its role as the banker for other economic agents. The CBN is the regulator and supervisor for the banking sector and the consequential effect is that most transactions in the other sub-sectors such as insurance, securities and pension are ultimately consummated through banks. As at December 2015, the banking sector consisted of 23 deposit money banks (DMBs); 60 Finance Companies and 1031 specialized banks comprising 938 Micro Finance Banks, 6 Development Finance Institutions; and 36 Primary Mortgage Institutions.

The major tools for driving financial inclusion in the banking sector include the simplified Know-Your-Customer requirements for savings products, mobile banking, agent banking, credit enhancement programmes, consumer protection, financial literacy and linkage banking.

Consequently, the CBN had released the framework for the following-

- (a) Agent Banking;
- (b) Know Your Customer Requirements;
- (c) MSME Development Fund;
- (d) Financial Literacy; and
- (e) Mobile Money Operation.

The Deposit Money Banks (DMBs) provided services to about 20 million customers through a network of about 6,000 branches and 10,000 ATMs while the Micro finance banks served about 3.2 million customers out of which 65% used savings products, 14% used credit products and 4% used ATM cards.

2.2 CAPITAL MARKET

The Nigerian capital market comprises of 2 stock exchanges, 206 registered broker dealers, 43 issuing houses, 8 underwriters, 94 fund or portfolio managers, 66 investment advisers, 18 registrars, 22 trustees, 3 rating agencies and 6 custodians. It represents a small but growing proportion of the nation's economy. As at December 2015 the Nigerian capital market whose total market Capitalization stood at N17.00339 trillion represents 17.9% of the Country's GDP which is N95.06trillion.

The Securities and Exchange Commission (SEC) is responsible for supervising and regulating the Nigerian capital market. It has the mandate to ensure orderly and equitable dealings in securities, and protecting the market against insider trading abuses.

The SEC issued guidelines to utilize existing Collective Investment Scheme – CIS (Mutual Funds) products such as Unit Trusts, as a vehicle for driving financial inclusion in the sector. A Unit Trust Scheme is a Fund into which small sums of monies from individual investors are collected to form a “pool” for the purpose of investing in stocks, shares and money market instrument by professional fund managers on behalf of the contributors called unit holders (subscribers).

The FIPs in the capital market are offered by the Fund Managers and stockbrokers through Unit Trusts. By investing in a unit trust scheme, the unit holders enjoy the benefits of diversification and professional management of their fund at low cost. These FIPs have been adjudged to have a low risk. The products only have thresholds for the minimum amount required to participate, transactions above N50,000 must be initiated through a bank account and the dividends can only be cashed through a bank account (including savings accounts). It was observed that a simplified identification requirement does not exist in the sector.

Benefits of Unit Trust Schemes

- (a) Deepening and expansion of the Nigeria capital market;
- (b) Bringing capital market activities to the grassroots;
- (c) Helps to pool funds from various investors for investment purposes;
- (d) Encourages small private enterprises to take advantage of capital market funds for long-term investment purposes, which is necessary for the expansion of their businesses and subsequently the economy;
- (e) Profit or income, capital appreciation e.t.c; and
- (f) Avails retail investors with professional Management for their Funds.

2.3 INSURANCE

. The Insurance Sector in Nigeria is regulated by the National Insurance Commission (NAICOM) which, was established by the National Insurance Commission Act, 1997

with the principal objective to ensure the effective administration, supervision, regulation and control of insurance business in Nigeria. Accordingly, insurance or reinsurance companies, Insurance Brokers, Loss Adjusters and Agents fall within the regulatory purview of the Commission. As at December 2015, the sector had fifty eight (58) insurance companies who offer several products ranging from General Insurance, Composite, Life and Reinsurance in line with Insurance Sector Regulations.

As at December 2010, insurance companies in Nigeria provided services to only 1% of the Nigerian population.

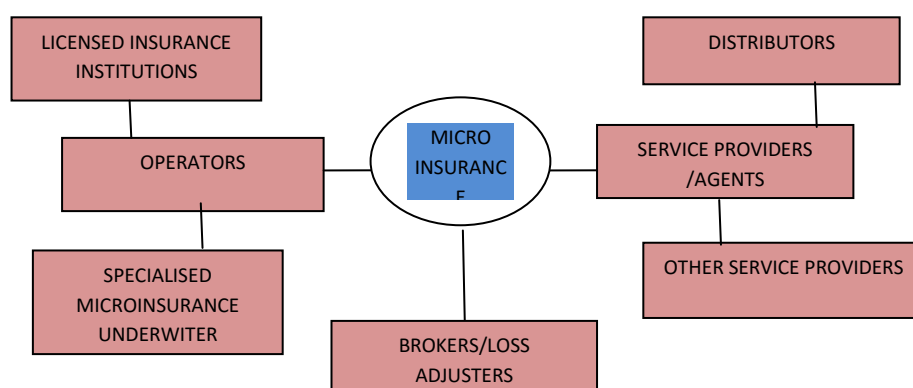
The Insurance Sector Regulator has developed Guidelines for two Financial Inclusion Products (Micro Insurance and Takaful Insurance).

Micro insurance is defined as insurance that is developed for low-income populations, provided by licensed institutions in accordance with generally accepted insurance principles and funded by premiums. These are insurance products designed to be appropriate for the low income market in relation to cost, terms, coverage and delivery mechanism. According to the Guideline on Micro insurance Operations in Nigeria, micro insurance products shall have the following features –

- (a) Simplicity - The policies, conditions, procedures and marketing must be simple
- (b) Ease of Understanding – The risk pooling method, procedures and coverage must be unambiguous and easily understood
- (c) Ease of Accessibility – Micro insurance products must be accessible to the target market in terms of purchase, premium payments and claims
- (d) Valuable – Micro insurance products or services shall be designed to meet the needs of clients, be beneficial, fair in price and coverage; and.
- (e) Efficiency - The delivery or distribution channels must be efficient to both the insurer and the policy holders.

The Guideline established a framework for specialized micro insurance providers and conventional insurer to provide the service.

Chart 2.3.1: Stakeholders of Microinsurance



Takaful insurance products are similar to conventional insurance products and classified as FIPs because it allows people hitherto excluded from having insurance due to mutuality and ethical finance consideration. Takaful insurance is open to all people regardless of faith and background and is compatible with the principle of the Islamic Law. Takaful Regulatory Guidelines provide guidance for Takaful Insurance with the desire of enhancing financial inclusion in Nigeria and to ensure that Takaful-Insurance providers are not disadvantaged. In terms of scope, it covers the establishment of Takaful-insurance operating models, specific governance standards for operators and their specific operational requirements including capital, fund management methods, management of participants and reporting requirements.

2.4 PENSION

The National Pension Commission (PenCom) is responsible for regulating, supervising and ensuring the effective administration of pension matters in Nigeria. PenCom issues guidelines for the investment of pension funds, approving, licensing, regulating and supervising pension fund administrators, custodians and other institutions related to matters that the Commission may determine from time to time. They establish standard rules and guidelines for management of pension funds receive and investigate complaints of impropriety. According to PenCom Annual Report 2010, pension fund assets stood at N2.029 billion with total market capitalization of 4.5%. Currently there exist twenty one (21) Pension fund administrators and four (4) pension fund custodians.

PenCom in collaboration with EFINA commissioned a qualitative study to understand how to incorporate the informal sector in Nigeria into the contributory pension scheme by exploring the current savings habits, current use of financial products, awareness about pensions, motivating factors, challenges and incentives and channel for receiving payments and communication channels. Pensions penetration is expected to be driven either by the expansion of the current scheme to cater for the informal sector or the development of new scheme that caters specifically for the informal sector.

Pension products are accessed in three main forms which are Pensions Retirement and Savings Account, Pensions Programmed withdrawal and Pensions Annuity. The Micro pension scheme for the informal sector is targeted at people who are self-employed and mandatory for businesses with up to three employees.

In order to encourage financial inclusion in the pension sector, PenCom is in the process of developing a Guideline for micro pension schemes.

2.5 NON-BANK MICRO FINANCE INSTITUTIONS

Non-bank Microfinance Institutions (MFIs), which include financial NGOs, financial co-operatives, self-help groups, trade associations and credit unions play a role in

financial inclusion strategy of the country. These entities provide micro credit to their members, especially in the rural and semi-urban areas. Some of these entities such as NGOs are registered by the Corporate Affairs Commission (CAC) as legal entities while others like the Co-operatives are registered by the Registrar of Co-operatives at Federal or State level. They are mostly members of the Association of Non-Bank Microfinance Institution of Nigeria (ANMFIN) which serves as a quasi-supervisory body. ANMFIN was inaugurated by CBN in 2010 with the support of Rural Finance Institute Building Programme (RUFIN).

Other bodies also exist with related functions to that of ANMFIN. In 2015 National Association of Co-operative Credit Unions of Nigeria (NACCUN) rebranded and is now called National Co-operative Financing Agency of Nigeria (CFAN), with purpose to offer financial service to all registered primary co-operative societies, formulate policies, issue guidelines and grant approval for members seeking to offer front office service activities. They further claim to manage the sales and transfer of co-operative shares, administer operating approvals, carry out compliance functions and pursue co-operative development. There is also the Co-operative Federation of Nigeria. These Associations are affiliated to other international Co-operative bodies. None of them has complete autonomy on the MFIs and membership is not a prerequisite. Their functions dovetail but they generally represent the interest of their members in different aspects of co-operative.

3.0 FINANCIAL INCLUSION PRODUCTS RISK ASSESSMENT

3.1 SCOPE OF FINANCIAL INCLUSION PRODUCT RISK ASSESSMENT

The financial inclusion products risk assessment was carried out on products offered by entities in the formal sector which are regulated by the CBN, SEC, and NAICOM and some semi-formal sector such as Non-Bank Micro Finance Institutions and Nigeria Postal Service (NIPOST).

The assessment covered the period of January 2012 to December 2015 considering that the National Financial Inclusion Strategy was developed in 2012 although some development partners and other organizations such as Alliance for Financial Inclusion (AFI), Bangkok, and EFINA had been working on financial inclusion in the country prior to 2012.

3.2 OBJECTIVES OF FINANCIAL INCLUSION PRODUCTS RISK ASSESSMENT

The aim of the study is to evaluate Money Laundering and Terrorist Financing (ML/TF) risks stemming from both existing and emerging or new Financial Inclusion (FI) products offered in Nigeria. This is in compliance with Recommendation 1 of the

FATF Standards which requires countries to identify, assess, and understand the money laundering and terrorist financing risks for the country, and take action aimed at ensuring that the risks are mitigated effectively. Based on that assessment, countries are required to apply a risk-based approach (RBA) to ensure that measures to prevent or mitigate money laundering and terrorist financing are commensurate with the risks identified.

It is expected that the result of the assessment would help the Regulators and operators understand the risks in existing FIPs and formulate AML/CFT measures to mitigate identified risks where such has not been done. The assessment will also enable Regulators introduce new financial inclusion products in some sectors bearing in mind the inherent ML/TF risks and also redesign existing products and enhance the mitigation measures, where necessary.

3.3 METHODOLOGY

The study applied the use of survey questionnaires, interview of key relevant stakeholders in the industry and observation of secondary data obtained from custodians of such. The Secondary data included Annual Reports, Guidelines and Circulars. The study also explored the use of open source information like the World Wide Web and news publications.

In conducting a critical assessment of Financial Inclusion (FI) products in the financial sector, two separate sets of questionnaires were designed with one targeted for market players and the other directed to the supervisors. The questionnaire for market players (Annex A) sought for information on products or services relating to FI Products that were offered to customers by the operators. The questionnaire for supervisors (Annex B) sought for information relating to guidelines issued and availability of products assessed and approved by the supervisors.

Both questionnaires required the respondent to provide a perspective to their definition of financial inclusion, characteristics of the institution and specific features of the financial inclusion products. The questionnaire was designed based on the guidelines of the World Bank's Financial Inclusion Product Risk Assessment Tool (FIRAT). The tool was designed to identify the features of current and potential FIPs, assess the risks found in the products and develops appropriate mitigating measures.

The questionnaires, which requested for certain information on product and services relating to financial inclusion, were sent to Compliance Officers of 21 Licensed Deposit Money Banks (DMBs), 65 Licensed Micro Finance Banks (MFBs); 60 Insurance Companies and 21 Licensed Mobile Money Operators (MMOs) that operated during the period of study. Questionnaires were sent to all the MFBs through their national association but only a few responded. To address this challenge,

the Group sent another set of questionnaires to 58 MFBs that are in the Federal Capital Territory (FCT) and followed up with visits and phone calls.

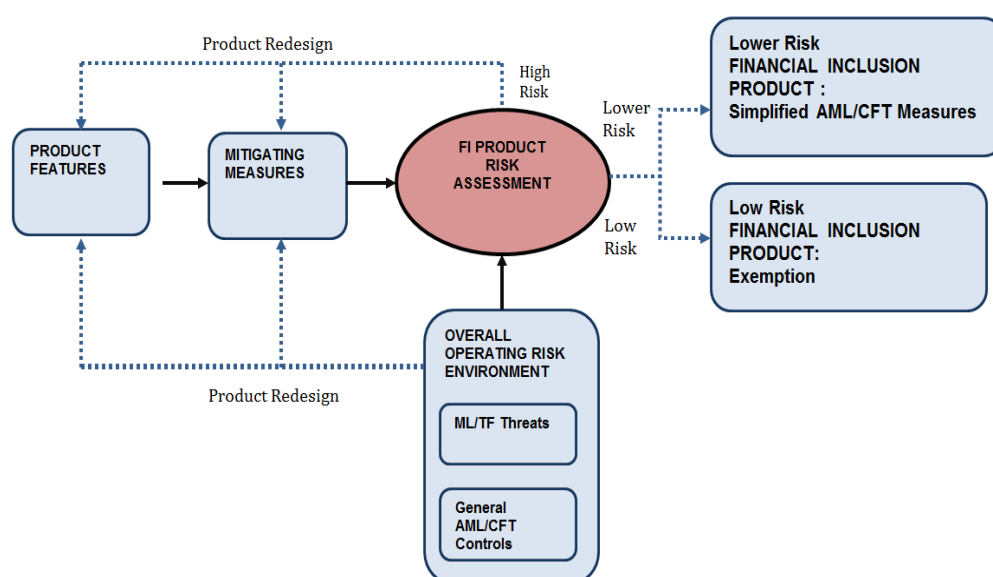
Furthermore, additional information was sought and obtained through field interviews. Information collected or obtained from the field work was transcribed and further categorized to identify main themes and sub - themes through the application of analytical tools.

Key officers in all the regulatory agencies of the financial sector, selected financial institutions; representative of the Financial Inclusion Secretariat and ANMFIN were also interviewed. In keeping with ethical consideration, the Group emphasized that the information obtained will be treated as strictly confidential and only aggregated data will be used for the purpose of NRA.

The World Bank Financial Inclusion Product Risk Assessment Tool (FIRAT) was employed in assessing the Frameworks issued by the CBN and SEC. The FIRAT was also used to assess some products offered in the industry. The first part of the tool includes all the key questions mainly focusing on specific features of the financial inclusion product.

The Second part of the tool covers the overall ML/TF risk environment in the country. Thus, taking these answers into account, the potential threats of ML/TF in the country and the associated control measures in place were evaluated.

The third and final part of the tool provided the initial ML/TF risk level for each specific framework or product feature.



3.4 SURVEY QUESTIONNAIRE

39% of the financial institutions Financial Institutions responded within a short period of time (two weeks) and the remaining percent of institutions replied that they do not offer financial inclusion products. A breakdown of the questionnaires administered to market players is shown in the Table below.

Table 3.4.1: Response to Survey Questionnaire

S/NO.	INSTITUTION	NO. OF QUESTIONNAIRE ADMINISTERED	NO. OF RESPONSES RECEIVED
1.	Licensed Deposit Money Banks (DMBs)	22	15
2.	Licensed Micro Finance Banks (MFBs)	68	8
3.	Licensed Insurance Companies	26	17
4.	Licensed Mobile Money Operators (MMOs)	21	12
TOTAL		137	51

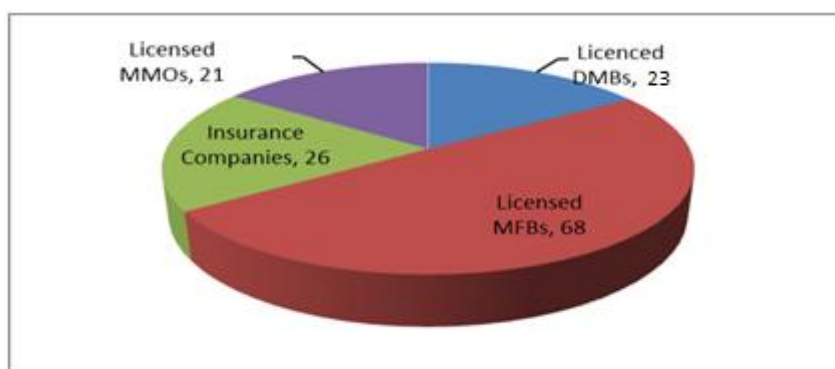
3.5 FINDINGS

Based on the result of the survey questionnaire, there were 98 FI products offered by the 132 Financial Institutions that responded. However, interview session with the banking supervisors revealed that based on the Tiered KYC requirement issued by the CBN (Annex 3), a compliance spot check showed that 21 of the 23 DMBs have financial inclusion products.

Table 3.5.1: Level of availability of FI products in Nigeria

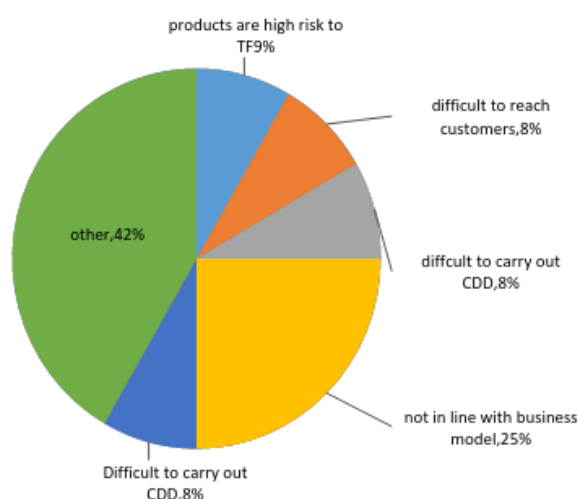
Institution	FI Products available Institutions	FI Products non-available Institutions
Licensed Deposit Money Banks (DMBs)	95%	5%
Licensed Micro Finance Banks (MFBs)	87%	13%
Insurance Companies	47%	53%
Licensed Mobile Money Operators	100%	0%
TOTAL	78%	22%

Chart 3.5.1: Number of Financial Inclusion Products' availability in different Sectors



Furthermore, the survey results showed that 9 institutions from the insurance sector and 1 institution from the DMBs do not have FI products. While some respondents were not clear on the reason for non-availability of FIPs, some revealed that it was not in line with their business model. Most respondents stated that discussions are on-going within their Firms to come up with FIPs and others opined that the products are high risk for Terrorist Financing and difficult to reach the customer for the conduct of even the simplified Customer Due Diligence required.

Chart 3.5.2: Reason for non-availability of FIPs



Some Financial Institutions did not have a clear understanding of the definition and objectives of Financial Inclusion. This is highlighted in the survey by some Financial Institutions that also reported the regular savings and loans products that require the standard customer due diligence as financial inclusion products.

3.5.1 FINANCIAL INCLUSION (FI) PRODUCTS IN NIGERIA

The financial inclusion products in the banking and other financial institutions sector are mainly savings, credit and payments channels. The CBN issued the Three Tiered Know-Your-Customer guideline³ which provides simplified customer identification process for low and medium value savings accounts. These are savings accounts that have been assessed to pose lower ML/TF risks.

All deposit taking institutions (especially deposit money banks, microfinance banks and primary mortgage institutions) are required to comply with the guidelines. The agent banking serves as a delivery channel for offering banking services in a cost effective manner. The agent banking guideline issued by the CBN provides a framework for the use of non-bank businesses, such as supermarkets and retail outlets, by licensed deposit-taking Financial Institutions to deliver services to their clients.

14 out of 15 DMBs that responded indicated that they have FI products. Interview with some staff of CBN revealed that 21 out of the 23 DMBs have FI products. 12 of the licensed MMOs that responded indicated that they had FI products.

As said earlier, the financial inclusion products in the insurance sector are classified under Micro Insurance and Takaful Insurance. The financial inclusion products are offered by only insurance companies that have approval to operate through a specialized window or stand-alone unit licensed for the sole purpose of offering Micro insurance or Takaful insurance. Takaful insurance products, which are similar to conventional insurance products, are classified as FIPs by the Regulator because it allows the inclusion of people hitherto excluded from having insurance due to mutuality and ethical finance considerations. However, using the World Bank FIRM, Takaful insurance does not qualify as a FI product. This is based on the consideration that though it targets disadvantaged social groups, it does not have identification simplification and the risk level is similar to conventional insurance products. Takaful insurance is assessed to have medium low risk.

Analysis of the response from NAICOM shows that within the period of study, six insurance companies applied and received approval for nine (9) Financial Inclusion Products. This indicates that only 5% of Insurance operators are statutorily recognised by the NAICOM to provide financial inclusion products or services. However, the responses from the operators indicate that a total of twenty - one (21) Financial Inclusion products are on sale by the operators within the industry.

Considering that the Micro Insurance and Takaful Insurance Guidelines were issued in December 2013, and given the regulatory process, it can be said that the penetration of financial inclusion products in the Nigerian Insurance Sector is very low.

³ Three Tiered Know-Your-Customer guideline

3.5.2 PRODUCT FEATURES

The main task of the assessment was to identify the main features of the financial inclusion products offered by financial institutions in Nigeria and evaluate the risks and recommend mitigation measures. The responses by the financial institutions were to provide a balanced perspective of the products available in the country. However, it was observed that some of the supervisors (CBN and NAICOM) had issued guidelines for financial inclusion products.

Some of the market players provided information on products that do not qualify as financial inclusion products. Review of responses from DMBs and MFBs showed that the financial inclusion products are mainly savings accounts based on the Tiered Know-Your-Customer Requirements issued by the CBN. Each of the financial inclusion products offered by the Insurance Companies has its unique features and was individually approved by NAICOM based on the guidelines on financial inclusion issued by the supervisor.

3.5.3 PUBLIC AWARENESS AND FINANCIAL LITERACY

Based on interviews conducted, some of the respondents have low awareness of financial inclusion including Law Enforcement Agencies and the Financial Institutions. There were cases where some law enforcement agencies categorize cases involving ATM cards as crimes involving financial inclusion products.

4.0 FINANCIAL INCLUSION PRODUCTS ANALYSIS

The World Bank FIRAT will assist authorities in evaluating money laundering and terrorist financing risks arising from both existing and emerging financial inclusion products. It can be used as a basis for designing a risk-based approach to minimize the risk from ML/TF. It can also be used by Regulators to design low or lower ML/TF risk financial products.

The first part of the tool includes all the key questions mainly focusing on specific features of the financial inclusion product.

The Second part of the tool covers the overall ML/TF risk environment in the country. Thus, taking these answers into account, the potential threats of ML/TF in the country and the associated control measures in place have been identified and evaluated.

The third and final part of this tool provides authorities with the initial ML/TF risk level for each product feature. The tool offers guidance questions on mitigating potential high risks. The objective is to assist Financial Institutions to design the risk-based control measures to develop financial products in the country, within a safe and sound AML/CFT regulatory environment.

4.1 OVERALL OPERATING RISK ASSESSMENT

All the financial sector Regulators have issued AML/CFT Regulations which amongst other matters, clearly addresses the customer due diligence requirements and monitoring, detecting and reporting suspicious transactions based on the FATF Standards. However, there are no specific guidelines to assist Financial Institutions to distinguish and report unusual or suspicious customers or transactions when dealing with FI products. This can be attributed to the relatively new introduction of FI products in the country and low awareness by the FIU, law enforcement and the public. Also, there are laws and regulations on market entry and controls for providers of financial inclusion products. Furthermore, the CBN and NAICOM have issued specific Guidelines for financial inclusion products while the PenCom and SEC are in the process of developing and issuing their own Guidelines. It is observed that the Fund Managers Association in Nigeria (FMAN), in its Strategic document for 2014 to 2018, highlighted the use of CIS for financial inclusion and the need to simplify the KYC requirement.

There are significant amounts of proceeds of crime generated in Nigeria and the money laundering combating ability of the country was assessed to be medium low during the NRA exercise. However, the controls provided in the guidelines for FI products, especially in the bank and other Financial Institutions sector is expected to mitigate the ML/TF risk in FI Products. There were 4,498 ⁴(Four thousand four hundred and Ninety Eight) terrorist attacks in the country between 2010 and 2014. A trends and typology report, 2013 by the NFIU indicates that terrorist financing is very minimal in Financial Institutions and that most terrorist funds are channelled through the informal sector and DNFBPs. In addition, there are no records of suspicious transactions involving FI products. This buttresses the need to encourage financial inclusion to reduce the volume of transactions in the informal sector.

4.2 PRODUCTS GROUPS

Based on the survey questionnaire, there were 98 FI products offered by the 132 Financial Institutions that responded. However, interview session with the banking supervisors revealed that based on the Tiered KYC requirement⁵ issued by the CBN, a compliance spot check was carried out and it was recorded that 21 of the 22 DMBs have financial inclusion products. Thus, for banking and other financial institutions, instead of products, the following frameworks were assessed-

- (a) Three Tiered KYC requirement – for Tier 1 and Tier 2 savings accounts offered by banks, micro finance banks and mobile money operators;
- (b) Agent Banking; and

⁴ Report of Nigeria National Risk Assessment on Money Laundering and Terrorist Financing

⁵ Three Tiered Know-Your-Customer guideline

- (c) Mobile money guidelines.

4.3 PRODUCTS ANALYSIS

4.3.1 PRODUCT OR SERVICE SPECIFIC RISK

Analysis of the products features showed that most of the products classified as financial inclusion products have limits on the value and number of transactions that can be carried out with the FI product. This indicates that the supervisors (CBN and NAICOM) are aware of the potential ML/TF risks that may arise if the products are allowed to be used as other conventional products bearing in mind the simplified level of KYC requirement.

The response from most of the operators is in line with the limits set by the supervisors in their respective guidelines. However, some institutions, especially in the insurance sector, had different threshold limit for the number of transactions using FI products. Some of the respondents in the Insurance sector stated that the threshold was determined based on the analysis of the target market and the benefits of the product. Others were based on retention limit of individual life and by risk exposure to the company.

In compliance with provisions of the AML/CFT Regulations issued by the Regulators which prohibits the maintenance of anonymous accounts, all the respondents indicated that the FI products cannot be used anonymously.

Most of the FI products allows for non-face-to-face account opening. 39% of the respondents indicated that non-face-to-face account opening is permitted and this is done through online banking and mobile phones. However, there is a national requirement for all SIM cards to be registered with a minimal KYC and a centralized database is maintained by the Regulator of the telecommunication industry (NCC). 51% of the respondents indicated that their products allows for non-face-to-face transactions. These transactions are mainly done through ATMs and e-channels.

There are no reported cases relating to any suspicious financial crime perpetrated using these type of products. The total volume and value of transactions are very low due to customers' income level, set thresholds and customer KYC requirements. However, possibility of suspected financial crime such as fraud cannot be totally ruled out.

4.3.2 GEOGRAPHICAL-COUNTRY RISK

All the respondents reported that the FI products do not allow customers to conduct cross border transactions. Thus, they may not have additional risks visible from cross border transfers. In Nigeria, foreign funds transfers by financial institutions are carried out through bank accounts and these accounts are required to have a higher level of

CDD. Therefore, the risk of funds received from or sent to high risk jurisdictions is very low, especially for FI products.

4.3.3 CUSTOMER RISK

The FI products are not offered to non-resident. Respondents from DMBs indicated that legal persons are not allowed to open an account of financial inclusion product type. Reported products are mainly targeted for low income persons and individuals who operate a small scale business. However, some respondents, particularly in the MFBs, considered the petty traders and small scale businesses as legal persons.

Respondents from the insurance subsector indicated that products that can be accessed by non-residents accounted for 30% while about 80% is offered to non-citizens that reside in the country. Most of the products are also offered to legal persons except for about only 20%. KYC documents obtained for legal persons include certificate of Incorporation, Memorandum and Articles of Association, Corporate Affairs Commission Form C07, confirmation of Legal status and verification of corporate profile.

The products also have controls which have been introduced to prevent the use of the product for anything other than financial inclusion purposes-Some of the factors considered in the insurance products include:

- I. Very low premiums charged
- II. All payouts go through the Banking System
- III. Payout on policies are made to exact claimants
- IV. Products are sold to low income individuals
- V. Periodic monitoring of policy holders through the statutory requirements
- VI. Filing and completing Know your Policy Holders Forms
- VII. Risk based approach is used to determine the level of monitoring

39 out of the 98 respondents (40%) indicated that the FI products use agents. This is as a result of the National Financial Inclusion Strategy of using licensed Mobile Money Operators for dispersion. However, the supervisors had issued guidelines for agent banking which also addresses customer due diligence requirements.

4.4 OBJECT SPECIFIC PRODUCTS

4.4.1 NORMAL SAVINGS ACCOUNT FROM DMBS AND MFBS

Financial inclusion savings products offered by DMBs and MFBs are Tier 1 and Tier 2 Savings accounts which are based on simplified KYC requirement. It provides for flexible account opening requirement for low and medium value accounts. These products targets low income earners and small business owners (especially in rural

areas) who are unable to open bank accounts due to lack of identification. The requirement for transaction monitoring and reporting of suspicious activity minimizes the ML/TF risks in these products.

4.4.2 MICRO FINANCE CREDIT SCHEMES FROM LICENSED MFBS AND DFI

Micro Finance Banks and Development Finance Institutions (such as Bank of Industry) provide micro finance schemes for lower income groups. The value of transaction and number of loan transactions are limited. These customers are not allowed to carry out cross border transactions.

4.4.3 MOBILE MONEY PRODUCTS FROM LICENSED MMOS

The CBN had licensed 21 mobile money operators as at December 2015 and 7 of these MMOs are bank-led. A regulatory framework which addresses business rules (including AML/CFT) governing the operations of mobile payments services in Nigeria was issued. The MMOs have FI products that target the un-banked, semi-banked and fully banked.

A guideline for the regulation of agent banking and agent banking relationships was also issued by the CBN.

4.4.4 NIPOST

The Nigerian Postal Service (NIPOST) is an Agency established by Government and charged with the responsibility for the regulation of courier and postal services in Nigeria. One of NIPOST's mandates is to provide and operate facilities for remittance of money through the money or postal order systems. The money transfer products are targeted at those who don't have access or have limited access to the formal banking system. This service precedes the banking sector's money transfer service and has evolved from paper based postal order and money order into electronic form. There are about 3,083 Post Offices located across the country.

The financial inclusion product offered by NIPOST is called Post Cash i.e International Financial Service (IFS)). It is an electronic transfer service made from one post office to the other. A customer can send money through a post office at any location in the country to another recipient to receive in another post office. The recipient does not necessarily need to possess valid government identification. The recipient is required to provide certain information that must correspond with that provided by the sender. The maximum amount that can be sent on the platform is ₦200,000.00.

The transactions carried out are mostly between family members. AML/CFT measures that are presently in place to forestall any criminal activity include an audit trail of the transactions that can be recalled when needed since the platform is

electronic. A red flag is raised when frequent transactions to a particular individual are observed. Other red flags include volume of transaction, amount involved and customer profile. It was observed that there is low patronage of the service due to limited publicity and sensitization hence the public is not really aware even though the operation of the service is prompt and safe.

Post Cash has an international dimension because the post is a universal family which relates with other post offices around the world. Money can be sent and received from any post office around the world in countries that bilateral agreement has been established. The transaction is similar to the domestic operation. However, customers that access the international service need to provide valid identification, purpose of transaction, evidence of source of money. Transactions are not sent to high risk jurisdictions and there is threshold of \$2,000 per transaction except for some exemptions like school fees payment.

The post has a central electronic system where transactions are monitored to ensure they comply with requirements before approval is granted. There have not been any reported cases of use of the platform for money laundering and terrorist financing. Each Post Cash station has a compliance officer. Staffs that provide post cash services are trained on financial services including compliance, although it is not seen to be adequate in terms of the scope of NIPOST.

NIPOST is collaborating with some internet based payment platforms. They have also signed MOU with mobile money operators like PAGA, Teasy Money and First Money. Although the aforementioned companies do not have physical presence for their customers to walk in and process transactions such as utility bills payment, the mobile money operators leverage on the wide spread of post offices. Money can also be transferred to individuals through the mobile money platforms. Here, the transaction is made and the code sent to the recipient who can go to a post office outlet and pick it up.

NIPOST is also in partnership with some microfinance banks to provide agency banking services. They have established relationships with MFBs in four states and the MOU allows for account holders in the MFBs to make deposits, withdrawals and utility bills payment at the post office. The service is also looking forward to go into partnership with Interswitch for the same purpose of capitalizing on their wide spread to bring the service to the financially excluded and underserved persons.

4.5 CURRENT LAWS AND PRACTICES

Section 3 of the Money Laundering (Prohibition) Act, 2011 (as amended) and the AML/CFT Regulations, 2013 issued by the different sector Regulators requires Financial Institutions to conduct customer due diligence. Every Financial Institution shall, obtain from natural persons an official personal identification number or any

other identification (e.g. passport, national identity card, driving license) that bears a photograph of the customer and verify the information submitted to it, by confirming the permanent address (e.g. utility bills, tax assessment, bank statement, a letter from a public authority, Certificate of a Government Agents officer or electoral registration). Above documents must be obtained from a potential customer to ensure that KYC requirements are sufficiently fulfilled.

However, to facilitate financial inclusion in Nigeria, the sector Regulators had issued guidelines that require simplified KYC for lower risk customers and lower amount thresholds for on-boarding customers. This is to encourage certain segments of the society, i.e. low income, rural persons like farmers and persons involved in cottage industries that do not possess identification or address verification documents to initiate a relationship with a Financial Institution.

4.5.1 KNOW YOUR CUSTOMER (KYC) IN LOW INCOME GROUPS

The AML/CFT Regulations issued by the Regulators requires Financial Institutions to conduct risk assessment and profile all its customers and where lower ML/TF risks are identified, apply simplified KYC (e.g Regulation 24 and 46 CBN AML/CFT Regulation 2013). Also, the respective financial inclusion product guidelines requires Financial Institutions to continuously monitor the transactions of their customers and report noncompliance with set thresholds and report suspicious transactions to the Nigerian financial Intelligence Unit (NFIU).

4.5.2 ACCESSIBILITY AND CONVENIENCE OF TRANSACTIONS

The dispersion of financial service providers in Nigeria is very low. Most of the branches of banks are located in the urban centres. According to the Nigerian Financial Inclusion Secretariat, as at 2015, 42% of the adult population in Nigeria had at least one savings product and 5.9% branches of DMBs, 2.1% MFBs and 17.1% ATMs per 100,000 adults. Thus, for the country to achieve a baseline financial inclusion rate of 80% in year 2020 compared to the current rate of 61% (2014), the following targets have been set-

- Savings products – 60%
- Credit (loans) - 40%
- Insurance products – 40%
- Pension – 40%

One of the country's strategies involves the use of existing networks of postal service, telecommunications, supermarkets; e.t.c spread throughout the country to deepen

financial inclusion. Also, Financial Institutions have established agent networks and the use of mobile banking is increasing becoming popular and reliable in Nigeria.

5.0 FUTURE OF FINANCIAL INCLUSION PRODUCTS IN NIGERIA

Financial inclusion is vital in poverty reduction, bridging the gap of inequality and economic growth of a country. Innovative modes of financial services delivery can have a transformative effect on low income earning households. We know how greater access to even small amounts of credit can dramatically improve welfare – such as women being able to engage in small-scale businesses. With the increased awareness, the access to a wider set of financial services provides the low-income population the capacity to increase or stabilize their income, build assets and have much greater resilience to economic shocks.

Financial Inclusion (FI) is an important policy goal both from the perspective of realization of growth opportunities as well as improved risk management for low income earning households. FI indicates the ability of every individual to access basic financial services, flexible in terms of access and design and reliable in terms of payout.

In identifying the importance of FI, several policy interventions have been undertaken to address this in the Nigerian context. The most important of these include the encouragement of the use of mobile banking and electronic payment channels. Despite these well-intentioned efforts, the state of access to finance leaves much to be desired. Design aspect of the financial system architecture is crucial to the universality of access. One key requirement is an environment that promotes the emergence of sustainable financial service providers to work in the under-served markets.

Financial literacy is important for promoting access to finance. Awareness building programmes can be conducted in the areas of financial literacy covering topics such as savings and saving habits, budgeting, financial management of households, availability of financial products/services at formal Financial Institutions, using credit wisely, risk on dealing with unauthorized Financial Institutions and prohibitive schemes.

Payment systems is a major pillar of a country's financial infrastructure which can be quite costly and may pose a challenge to providing a medium to financial access thus, development of FI. However, the challenge can be addressed by Financial Institutions pooling their resources together. Ideally this system should be configured to have a ceiling amount for transfer in order that high value transactions do not clog the transaction volume.

Another causal factor for FI is the lack of accessibility. Therefore, we can utilize existing networks spread throughout the country to mobilise and deliver deposits,

loans and collect funds such as the postal network, telecommunication network, schools and super market chains by appointing persons to collect funds on behalf of the Financial Institutions.

Mobile banking is a good medium to facilitate the increasing accessibility of financial services. Although hugely popular, the potential has not been fully utilized to capture all bankable persons. The mobile banking option should be taken to the far flung villages coupled with other incentives such as free mobile handsets, free airtime, souvenirs, etc. There is an urgent need to ramp up technology based delivery channels particularly in the rural areas. The challenge would be to identify a delivery channel that is not only cost effective but user friendly, given the literacy levels of potential users in the rural areas and migrant labour. The introduction of low cost biometric identification is helping to bridge the gap for identification purposes. However, there is need to introduce cheaper and effective hand-held data capturing machines to facilitate the BVN procedure in rural areas.


6.0 RECOMMENDATIONS

- a) The Financial Inclusion Secretariat (FIS) should expedite the implementation of the National Financial Literacy Framework.
- b) The NFIU should issue guidelines on identifying suspicious activity or transaction involving financial inclusion products to reporting entities. Also, sensitisation or awareness seminar on FIP should be organised for financial crime law enforcement officers.
- c) NFIU should carry out periodical reviews on available FI products in the market to assess their risks and vulnerabilities to control identified ML/TF risk.
- d) The CBN should issue guidelines allowing limited cross border transfers by resident non-nationals using Tier 2 accounts of the TKYC requirement. This will discourage the use of informal money transfer services by the immigrants, especially those from the ECOWAS region.
- e) Regulators and Supervisors should further deepen awareness on the simplified KYC requirements for FI products especially in the MFBs subsector.
- f) The SEC should expedite action to provide a guideline on simplified identification requirement for Unit Trusts and also issue framework to guide the fund managers in marketing the Collective Investment Scheme as a financial inclusion product.
- g) The PenCom should consider using the WB FIRAT in developing its FIP Guideline for micro pensions.


- h) The FIS and the NFIU should engage the Nigerian Postal Service with a view to ensuring the inclusion of AML/CFT measures in their post cash product.
- i) There is the need to introduce cheaper and effective hand-held data capturing machine to facilitate the BVN procedure in rural areas.

ANNEXURE

Annex I: QUESTIONNAIRE FOR FINANCIAL INSTITUTIONS

 Federal Republic of Nigeria MONEY LAUNDERING AND TERRORISM FINANCING NATIONAL RISK ASSESSMENT SECRETARIAT Financial Inclusion Products (FIP) Survey Questionnaire							
The information collected is primarily for the National Risk Assessment process and will not be used for any other purpose.							
1	Institution Name (Optional) :						
2	Type of Business:	Regulator/Supervisor	<input type="checkbox"/>	Operator	<input type="checkbox"/>	Law Enforcement	<input type="checkbox"/>
3	Nature of Business :	Deposit Money Bank (DMB)	<input type="checkbox"/>	Micro Finance	<input type="checkbox"/>	Capital Market	<input type="checkbox"/>
4	How do you (your organization) define financial inclusion?						
5	Do you have financial inclusion product / products? (Please state "Yes" or "No")						
6	If your answer to Q5 is "NO", please indicate the correct reason/reasons for non availability of a financial inclusion						
	Not in line with the business model						
	Products are high risk						
	Difficult to reach the customers						
	Difficult to carry customer due diligence						
	Other (Briefly explain)						
7	If your answer to Q5 is "YES", please respond to the questions below:						
8	Financial Inclusion Product Name :	Product 1	Product	Product	Product	Product	Product
9	Product Introduced Date :						
10	Product objective:						
11	Main features of the product						
12	Target market of the product						
13	What is the maximum value of transaction (for Loan/Deposit?)						
14	Financial Inclusion Product Features :						
	Product/Service Specific Risks: (Please state YES or NO)						
15	Is there any threshold for the value of the transactions that can be carried out through the product?						
16	Is there any threshold for the number of the transactions that can be carried out through the product?						
17	If your answer to Q14 is yes, please state the threshold for the maximum amount allowed per transaction?						
18	How was the threshold limits in Q13 and Q14 set? (State whether by quantitative or qualitative analysis)						
19	Is the anonymous use of the product possible?						
20	Is non-face to face account opening permitted?						
21	Is non-face to face transactions permitted?						
22	Is there evidence of ML-TF cases using the product?						
23	What is the total volume of transactions involving the financial inclusion products?						
	Geographical - Country Risks (Please state YES or NO)						
24	Is cross border transactions using financial inclusion products allowed?						
25	If cross border transfers are allowed, are they sent to high risk countries or if new products, are they expected to be sent to high risk countries?						
26	If cross border transfers are allowed, are they received from or if new products, are they expected to be received from high risk countries?						
	Customer Risk (Please state YES or NO)						
27	Is the product offered to non-resident customers?						
28	Is the product offered to, and used by non-citizen customers?						
29	Is the use of product by non-resident and/or non-citizen customers significant?						
30	Is legal person/business allowed to open an account or conduct business?						
	Agent Risk (answer if applicable) (Please state YES or NO)						
31	Does this product use banking correspondents or agents?						
32	What are the CDD steps taken on the agent?						
33	Does the agent have a clear understanding of their AML/CFT obligations?						
34	Has the agent been trained on their AML/CFT obligations?						
35	Does the agent and/or principal provider have liability for any breach of AML/CFT obligations?						
	ENVIRONMENT RISK (Please state YES or NO)						
36	Are potential or existing providers of FI products, actually have appropriate monitoring mechanism to detect unusual and suspicious transactions?						
37	Do the staff of your organisation receive adequate training to distinguish and report unusual/suspicious customers/transactions, when dealing with FI product?						
38	Do you have the awareness and commitment regarding AML/CFT?						
39	Is there any guidelines from your supervisor/regulator to assist the financial institutions to distinguish and report unusual/suspicious customers/transactions, when dealing with FI product?						

ANNEX 2: QUESTIONNAIRES FOR SUPERVISORS

 Federal Republic of Nigeria MONEY LAUNDERING AND TERRORISM FINANCING NATIONAL RISK ASSESSMENT SECRETARIAT Financial Inclusion Products (FIP) Survey Questionnaire											
<i>The information collected is primarily for the National Risk Assessment process and will not be used for any other purpose.</i>											
1	Institution Name : _____										
2	Type of Business: <div style="display: flex; justify-content: space-around;"> <div> Regulator/Supervisor <input type="checkbox"/> <input type="checkbox"/> </div> <div> Operator <input type="checkbox"/> <input type="checkbox"/> </div> <div> Law Enforcement <input type="checkbox"/> <input type="checkbox"/> </div> <div> Others <input type="checkbox"/> <input type="checkbox"/> </div> </div>										
3	Nature of Business: <div style="display: flex; justify-content: space-around;"> <div> Bank <input type="checkbox"/> <input type="checkbox"/> </div> <div> Capital Market <input type="checkbox"/> <input type="checkbox"/> </div> <div> Insurance <input type="checkbox"/> <input type="checkbox"/> </div> <div> Others (please state) <input type="checkbox"/> <input type="checkbox"/> </div> </div>										
4	Total number of insurance companies in Nigeria _____										
5	How do your organization define financial inclusion? _____										
6	Do you have financial inclusion product / products in your sector? (Please state "Yes" or "No")										
7	If your answer to Q6 is "NO", please indicate the correct reason/reasons for non availability of a financial inclusion product in your sector.										
	<table border="1" style="width: 100%;"> <tr> <td>Not in line with the business model</td> <td></td> </tr> <tr> <td>Products are high risk</td> <td></td> </tr> <tr> <td>Difficult to reach the customers</td> <td></td> </tr> <tr> <td>Difficult to carry customer due diligence</td> <td></td> </tr> <tr> <td>Other (Briefly explain)</td> <td></td> </tr> </table>	Not in line with the business model		Products are high risk		Difficult to reach the customers		Difficult to carry customer due diligence		Other (Briefly explain)	
Not in line with the business model											
Products are high risk											
Difficult to reach the customers											
Difficult to carry customer due diligence											
Other (Briefly explain)											
	If your answer to Q6 is "YES", please respond to the questions below by stating "YES" or "NO"										
8	Total number of insurance companies offering financial incl										
9	Are there Market Entry/Controls (including "fit and proper") for the providers of financial inclusion (FI) products?										
10	Are potential/existing providers of FI products obliged to establish monitoring mechanisms to detect unusual and suspicious transactions?										
11	Do potential/existing providers of FI products have appropriate monitoring mechanisms to detect unusual and suspicious transactions?										
12	Do you have policies/procedures and guidelines to examine/monitor the risks arising from FI products?										
13	Do you have resources to allocate to the oversight and/or supervision of FI products?										
14	Do staff in relevant financial institutions receive adequate training to distinguish and report unusual/suspicious customers or transactions when dealing with FI products?										
15	Do the managements of institutions offering FI products have awareness and commitment regarding AML/CFT?										
16	Are there any guidelines to assist financial institutions with distinguishing and reporting unusual/suspicious customers or transactions when dealing with FI products?										
17	Are there significant amounts of proceeds of crime generated in your industry?										
18	Are there records of ML/TF committed using financial inclusion products in your industry?										

ANNEX 3

Financial Inclusion Products Risk Assessment Survey 2015

Table showing number of institutions surveyed, responses received and institutions having FIPs

S/NO.	INSTITUTION	NO. OF INSTITUTIONS QUESTIONED	No. OF INSTITUTIONS RESPONDED	INSTITUTIONS HAVING FI PRODUCTS
1	Licenced DMBs	22	15	29
2	Licensed MFBs	68	8	16
3	Insurance Companies	26	17	21
4	Licensed MMOs	21	12	32
TOTAL		137	52	98

Graph showing the number of Institutions surveyed

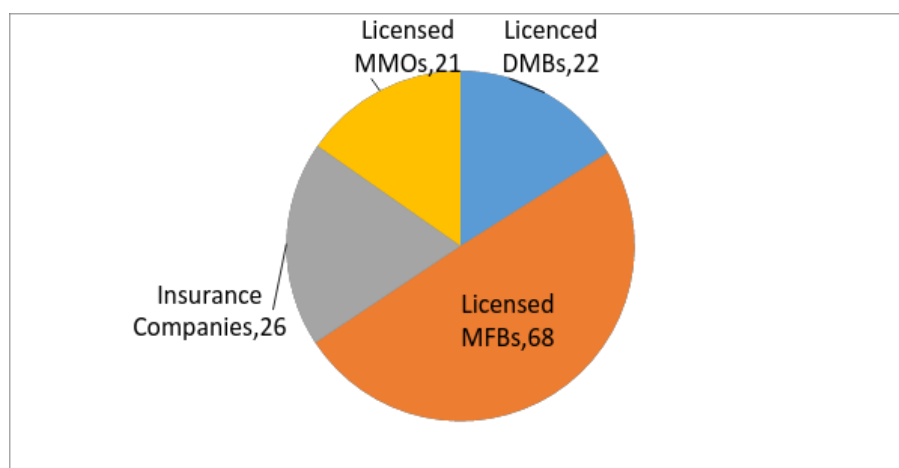


Table showing the rate of response to survey questionnaires

S/N	INSTITUTION	NO. OF INSTITUTIONS QUESTIONED	No. OF INSTITUTIONS RESPONDED	INSTITUTIONS HAVING FI PRODUCTS
1	Licenced DMBs	100%	68%	29
2	Licensed MFBs	7%	12%	16
3	Insurance Companies	45%	65%	21
4	Licensed MMOs	100%	57%	32
TOTAL		13%	38%	98

Graph showing the rate of response to survey questionnaires

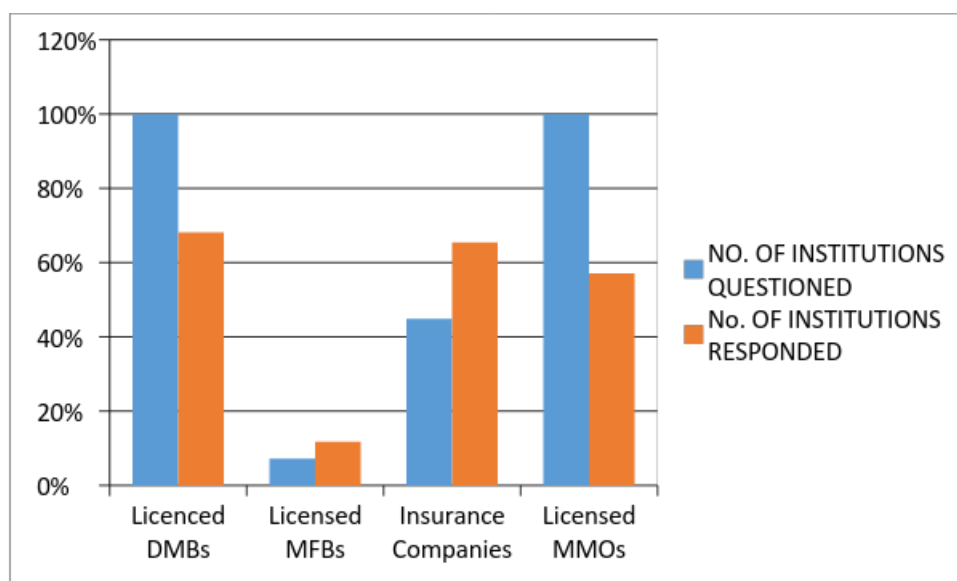


Table showing institutions claiming to have financial inclusion products and those that actually have

S/NO.	INSTITUTIONS	INSTITUTIONS HAVING FI PRODUCTS	NO. OF PRODUCTS CLAIMED BY INSTITUTIONS
1	Licensed DMBs	21	29
2	Licensed MFBs	8	16
3	Insurance Companies	8	21
4	Licensed MMOs	12	32
	TOTAL	49	98

Graph showing institutions claiming to have financial inclusion products and those that actually have

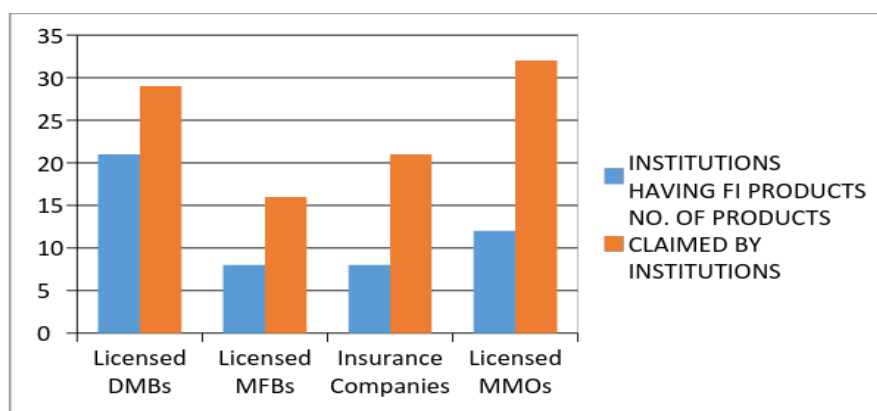
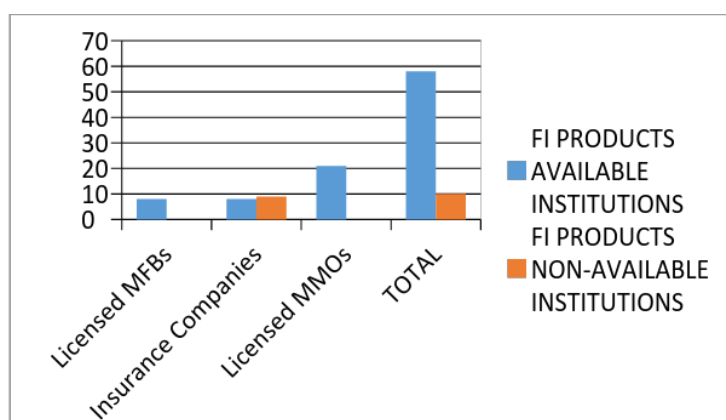


Table showing number of respondents that have financial inclusion products

S/NO.	INSTITUTIONS	FI PRODUCTS AVAILABLE INSTITUTIONS	FI PRODUCTS NON-AVAILABLE INSTITUTIONS
1	Licensed DMBs	21	1
2	Licensed MFBs	8	0
3	Insurance Companies	8	9
4	Licensed MMOs	21	0
	TOTAL	58	10

Graphical representation of institutions with financial inclusion products



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