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KEY HIGHLIGHTS OF THE CBN REGULATORY GUIDELINES ON THE ENAIRA



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INTRODUCTION

In an attempt to provide legal and regulatory clarity on the proposed eNaira (which is Nigeria's official central bank digital currency), the CBN has issued the Regulatory Guidelines on the eNaira (the Guidelines) which will in the main, regulate the issuance and use of the eNaira and will apply to all financial institutions(FIs) and users of the eNaira. The eNaira is the digital form of the fiat currency issued by the CBN, and it will be exchangeable with the digital currencies of other Central Banks.

The Guidelines seek to provide simplicity in the operation of the eNaira, encourage general acceptability and use, promote the low cost of transactions, drive financial inclusion while minimizing inherent risks of disintermediation or any negative impact on the financial system.

In this Newsletter, we examine the key provisions of the Guidelines, including the provisions on the nature of eNaira, the participants in the eNaira ecosystem, their roles, and responsibilities, and other security measures that are applicable to eNaira.



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HIGHLIGHTS OF THE REGULATORY GUIDELINES

The Nature of the eNaira

The Guidelines provide clarity on the CBN's vision of its CBDC and how it is intended to operate vis-à-vis the Naira. It is envisaged that the eNaira will form part of the Naira in circulation and would be at par with the Naira. Thus, the Guidelines have laid to rest any issues in respect of whether the eNaira is a fiat currency. As a corollary to the foregoing, the CBN intends that the typical monetary measures/ policies employed by the CBN to control the supply of Naira will also extend to the eNaira. Further, by assigning the eNaira the status of a fiat currency, the CBN essentially promises the integrity, credibility, settlement finality, and consumer protection typically associated with transactions facilitated using the Naira whether physically or electronically.

Upon the formal issuance of the Guidelines, it is expected that merchants, ministries, departments, and agencies of government (MDAs) will commence the use of the eNaira for receipt of payments and revenues. Merchants are to be onboarded by FIs, while the CBN is responsible for onboarding FIs and MDAs.



The eNaira Technology Infrastructure

The eNaira is to be administered by the CBN through the Digital Currency Management System (DCMS or the Platform) which will be used by the CBN to mint and issue eNaira. The eNaira platform (i.e. DCMS) is also expected to host eNaira wallets for different stakeholders (including the FIs, MDAs, merchants, and consumers). The FIs are required to integrate their backend systems with the DCMS for efficient transfer of eNaira between bank accounts and eNaira wallets.

PARTICIPANTS OF THE ECOSYSTEM

The Central Bank of Nigeria

The CBN is exclusively responsible for minting, issuing, distributing, redeeming, and destroying the eNaira.

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It will determine the technical, regulatory, and operational standards for the eNaira and manage unresolved eNaira issues and complaints escalated from the FIs. It is expected that the CBN will issue regular directives and guidelines in this regard.

Financial Institutions

The FIs are to serve as the intermediaries between the CBN and the customers. They shall be responsible for facilitating eNaira wallet onboarding for bank customers (merchants and customers). The FIs are also responsible for integrating the eNaira wallet feature into their digital banking channels, requesting eNaira from CBN for themselves, and on behalf of its customers, manage the eNaira across their branches. There is also a reporting obligation on FIs to include all inquiries and complaints in their periodic reports to CBN.

Merchants

Merchants are to provide customers with alternative channels for making transactions using eNaira, provide cashback services for customers, publicize the option of eNaira payment for transactions at merchant locations and protect their eNaira wallet credentials against fraudulent access.

Ministries, Departments, and Agencies (MDAs)

MDAs are permitted to receive revenue in eNaira and make payments in eNaira. MDAs shall be onboarded by the CBN upon receipt of the appropriate mandate.

Consumers

Consumers are the end-users of the eNaira and their roles include creating eNaira wallets and funding them, utilizing eNaira as an alternative payment option for legitimate transactions, protecting their eNaira wallet access credentials, and notifying financial institutions in the event of fraud/complaints/disputes.

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THE USE OF WALLETS

The eNaira ecosystem requires the use of electronic wallets by all participants; thus, the Guidelines recognize the following wallets that will be used for transactions involving the eNaira by different participants:

- **Treasury eNaira wallet:** this will be maintained by FIs for holding, warehousing, and managing eNaira received from the CBN eNaira Stock Wallet. The Treasury eNaira wallet will be hosted on the Financial Institutions Suite (FI Suite) which is available on the Platform, the primary application to be used by FIs to manage their eNaira holdings, requests, and redemption with the CBN. FIs may create eNaira sub-treasury wallets for branches tied to it and fund from its single Treasury eNaira wallet with the CBN.

- **eNaira Stock Wallet:** this belongs solely to the CBN and it will warehouse all minted eNaira.

- **eNaira Merchant Wallets:** this shall be used solely for receiving and making eNaira payments for goods and services.

- **eNaira Consumer wallets:** this shall be created for each end-user of the eNaira to enable transactions on the Platform.

SAFETY OF THE ENAIRA

Given that the eNaira is account-based, the Guidelines provide that its safety will be ensured by the implementation of a two-factor authentication system and 'other measures'. The Guidelines do not provide much clarity on what such 'other measures' may include however we envisage that these other measures may be connected with additional Know-Your-Customer requirements likely to be imposed on users.



The Guidelines provide that FIs must comply with applicable Anti-Money Laundering/ Combating the Financing of Terrorism (AML/CFT) laws and set out the KYC documentation requirements for different users. This is to ensure the detection and prevention of fraud and other transactions considered illegal on the Platform. Users of eNaira are also expected to be subjected to a tiered structure with transaction and balance limits. The tiered structure includes Tier 0, Tier 1, Tier 2, Tier 3, and merchant.

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Documentation requirements for Tier 0 users include passport photographs, personal information, and telephone number. Tier 0 users have a transfer limit of ₦20,000 and a balance limit of ₦120,0000. Documentation requirements for Tiers 1, 2, and 3 areas stipulated in CBN Circular on Tiered Know Your Customer (T-KYC). Tier 1 users have a daily transfer limit of ₦50,000 and a balance limit of ₦300,000. Tier 2 users are restricted to sending and receiving ₦200,000 daily and a balance of ₦500,000 and Tier 3 users can transact up to ₦1,000,000 daily with the balance limit set at ₦5,000,000. There are however no transaction or balance limits for merchants.

Further requirements at the point of onboarding will include Tax Identification Number, Bank Verification Numbers of MD/CEO, email address, and business category.

CHARGES AND COST STRUCTURE

As provided in the Guidelines, transactions that originate from the eNaira platform shall be free for the first 90 days commencing from October 25, 2021. After the 90 days period, transactions on the eNaira platform shall attract charges as outlined in the Guidelines to Charges by Banks, Other Financial, and Non-Bank Financial Institutions issued by the CBN.



DISPUTE RESOLUTION

Complaints by consumers/end-users arising from the usage of the eNaira are to be referred to the end-users' preferred FI Helpdesks. If unresolved, such consumer complaints are to be escalated to the eNaira helpdesk. Similarly, complaints from FIs or disputes arising between FIs are to be reported to the eNaira Helpdesk Team and resolved within two weeks.

In case of disputes where one or both parties are unsatisfied with the resolution, the issue shall be referred to an arbitration panel, as provided under the extant Arbitration and Conciliation Act or as may be defined by the CBN from time to time.

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CONCLUSION

According to the CBN, the introduction of the eNaira is expected to promote some monetary and economic objectives of the CBN such as improving the monetary policy effectiveness of the CBN, enhancing the government's capacity to deploy targeted social interventions, and boosting remittances through formal channels. Indeed, it is debatable whether the CBN would achieve these gains (with the eNaira) in view of the relentless pressure on Naira and the wider systemic macro/microeconomic conditions in the country. Also, the sophisticated nature of the eNaira poses significant concerns on how attractive the financially excluded Nigerians would find the eNaira. These Nigerians often reside in the countryside, with limited access to quality internet infrastructure; therefore, their use of internet facilities is constrained compared to their counterparts in urban and suburban parts of Nigeria.

Conclusively, it remains to be seen whether the 'zero cost' transaction component of the eNaira would incentivize the financially excluded Nigerians to further participate in the financial market (with eNaira) regardless of the legacy challenges.

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