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# CBN AML/CFT Regulations, 2022: Key Compliance Measures for Financial Institutions in Nigeria

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The Central Bank of Nigeria (CBN) Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT) Regulations, 2022 are designed to strengthen the regulatory framework for financial institutions in Nigeria. These regulations aim to safeguard the financial system by preventing money laundering (ML) and terrorism financing (TF) activities. The CBN regulations align with international best practices, such as the Financial Action Task Force (FATF) recommendations, and empower financial institutions with critical compliance tools, including the power to block accounts and implement a risk-based approach to customer due diligence.

This article provides a detailed summary of the CBN AML/CFT Regulations, 2022, with an emphasis on financial institutions' to monitor accounts, identify low and high-risk businesses, implement tiered Know Your Customer (KYC) processes, and manage Politically Exposed Persons (PEPs).



# Key Provisions of the CBN AML/CFT Regulations, 2022

## 1. General Requirements for Financial Institutions

The CBN AML/CFT Regulations apply to all financial institutions regulated by the CBN, including banks, microfinance banks, insurance companies, and other financial entities. These institutions must implement and maintain robust AML/CFT programs to detect and prevent illicit financial activities. Key obligations include:

- **Establishing AML/CFT Programs:** Financial institutions are required to implement comprehensive programs designed to prevent money laundering and terrorism financing. These programs must include policies, procedures, and internal controls tailored to the institution's risk profile.
- **Risk-Based Approach:** Financial institutions must adopt a risk-based approach to identify, assess, and manage risks related to money laundering and terrorism financing. This means that the level of scrutiny and the measures applied should be proportionate to the level of risk posed by customers, transactions, or geographic locations.

## 2. Customer Due Diligence (CDD) and Enhanced Due Diligence (EDD)

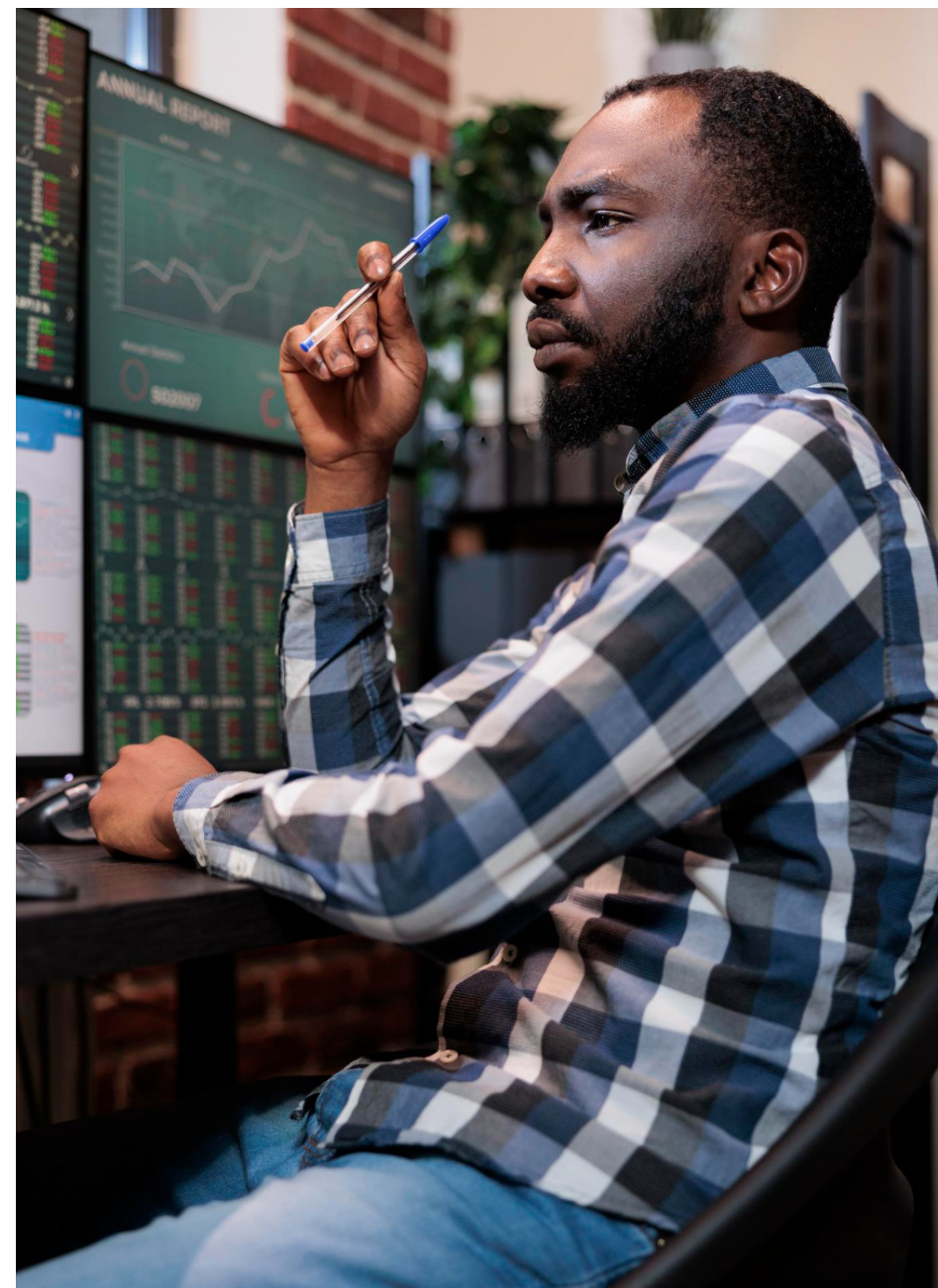
- **Financial institutions must carry out robust Customer Due Diligence (CDD) measures to verify the identity of their customers and monitor their activities.** These CDD procedures include the collection and verification of identification information (such as names, addresses, dates of birth, and official documents) to confirm the legitimacy of customers and prevent identity fraud.
- **Enhanced Due Diligence (EDD):** For high-risk customers, including Politically Exposed Persons (PEPs), foreign nationals, or customers from high-risk jurisdictions, institutions are required to conduct Enhanced Due Diligence. This involves obtaining more detailed information about the customer's source of funds and transaction history.

### 3. Monitoring and Reporting of Suspicious Activities

- **Suspicious Transaction Reports (STRs):** Financial institutions are obligated to monitor transactions for suspicious activities. When they detect transactions that may involve money laundering or terrorism financing, they are required to report these to the Nigerian Financial Intelligence Unit (NFIU).
- **Suspicious Activity Monitoring:** The regulations emphasize the need for continuous monitoring of customer accounts and transactions to detect suspicious patterns or behaviors that could indicate illicit financial activity.
- **Reporting to Authorities:** Financial institutions must submit Currency Transaction Reports (CTRs) for large cash transactions and Terrorist Financing Reports when transactions are suspected to be related to terrorism financing.

### 4. Risk-Based Approach to Customer Due Diligence (CDD)

The regulations mandate financial institutions to implement Customer Due Diligence (CDD) procedures as a key measure in identifying and assessing the risks posed by customers and transactions. This includes:





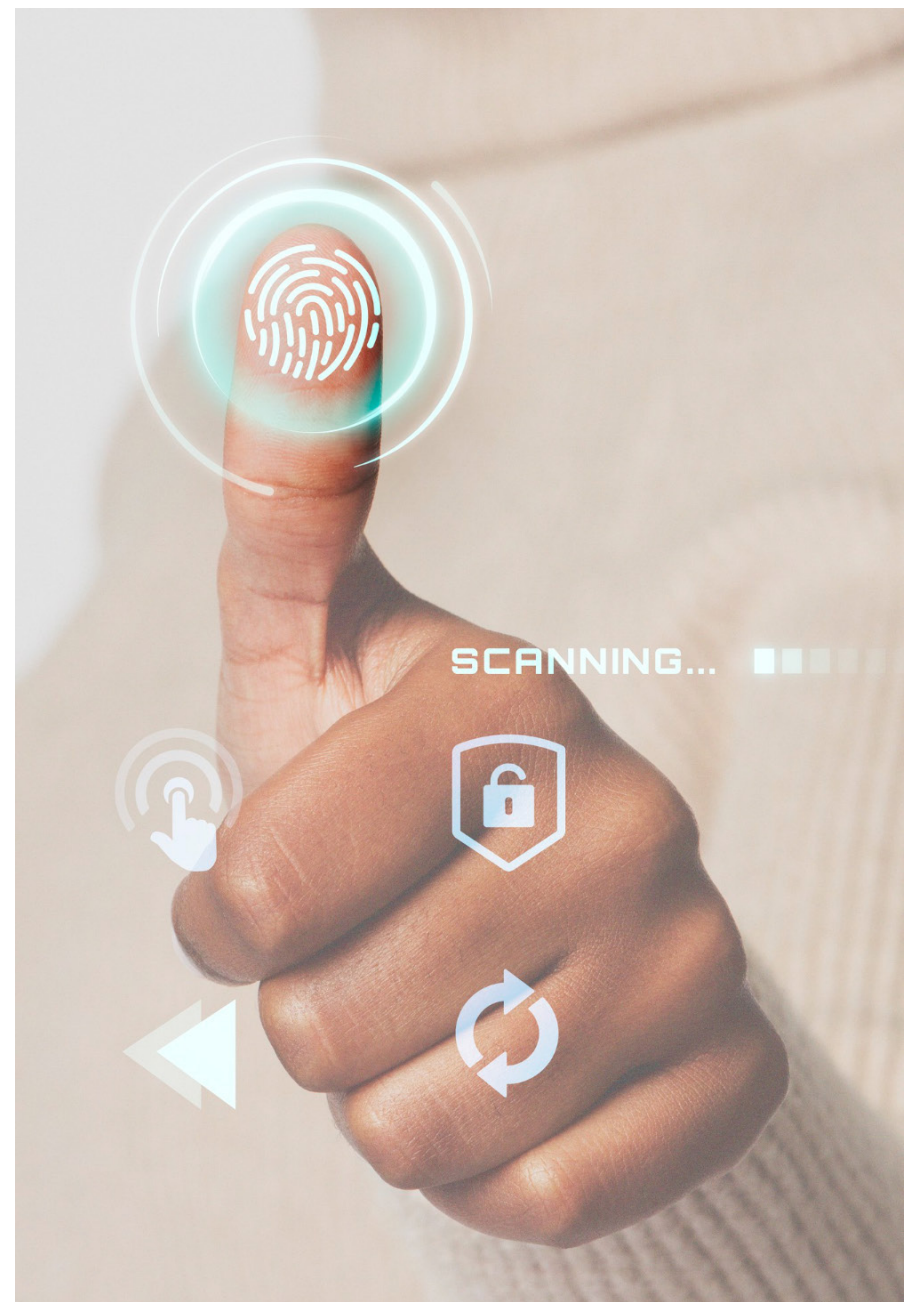


- **Identifying Low and High-Risk Businesses:** Financial institutions must classify businesses and customers based on risk. Businesses considered low-risk may have fewer scrutiny requirements, while those deemed high-risk should be subject to Enhanced Due Diligence (EDD). High-risk businesses typically include those operating in high-risk sectors or regions, or involving complex structures designed to obscure ownership.
  - a. **Low-Risk Businesses:** Low-risk businesses are typically characterized by their straightforward business models, transparency, and minimal exposure to illicit activities. These businesses may include small retail businesses or entities operating in well-regulated sectors.
  - b. **High-Risk Businesses:** High-risk businesses include those that operate in sectors vulnerable to money laundering, such as gambling, real estate, and certain online industries. Businesses from high-risk countries or regions, or businesses with complex ownership structures or high-value transactions, would be considered high-risk.
  - c. **Enhanced Due Diligence (EDD):** High-risk customers and businesses must undergo Enhanced Due Diligence (EDD). EDD entails more stringent checks, including obtaining detailed information about the customer's source of funds, reviewing their transaction history, and conducting more in-depth investigations into the customer's business activities.

## 5. Tiered KYC Process

The Tiered KYC approach allows financial institutions to apply different levels of scrutiny depending on the risk profile of the customer. The regulations provide a structured framework for determining the extent of due diligence required for different categories of customers:

- **Basic KYC (Low Risk):** For customers deemed to be low risk, financial institutions can perform basic KYC. This typically includes verifying the customer's identity, such as through government-issued identification, and confirming their address. Basic KYC is sufficient for low-risk customers where the risk of money laundering or terrorism financing is minimal.
- **Standard KYC (Medium Risk):** For medium-risk customers, financial institutions must carry out standard KYC checks. This includes more detailed verification of the customer's identity, sources of wealth, and the nature of their business activities.
- **Enhanced KYC (High Risk):** High-risk customers require enhanced KYC measures, which involve a deeper level of scrutiny. This includes obtaining additional information about the customer's business operations, the origin of funds, and their relationships with other parties. Institutions must also assess the nature of the customer's transactions and the jurisdictions involved.



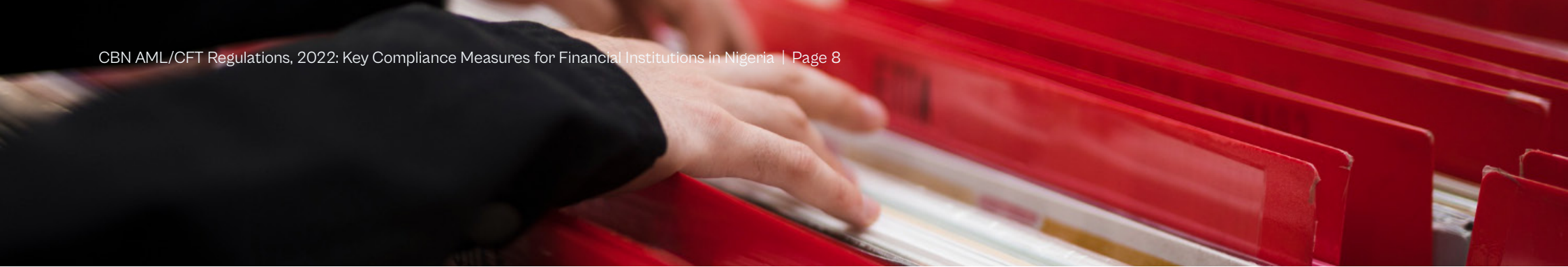


## 6. Politically Exposed Persons (PEPs)

Politically Exposed Persons (PEPs) are individuals who hold or have held prominent public functions, such as heads of state, government officials, or executives of state-owned corporations. PEPs represent a higher risk for money laundering and corruption, and financial institutions are required to exercise enhanced due diligence when dealing with such individuals.

- **Definition of PEPs:** The regulations define PEPs as individuals who are entrusted with prominent public functions or their immediate family members and close associates. This includes politicians, senior government officials, judicial officials, military leaders, and senior executives of state-owned enterprises.
- **Enhanced Due Diligence for PEPs:** Financial institutions must carry out Enhanced Due Diligence (EDD) for PEPs, ensuring that they understand the source of the PEP's wealth and whether there are any links to illicit financial activities. The institution must also monitor the transactions of PEPs more closely and report any suspicious activity.
- **Ongoing Monitoring:** Financial institutions are required to continuously monitor the accounts and transactions of PEPs to ensure that their activities do not raise red flags. This includes reviewing their transactions for unusual patterns and ensuring that the funds are consistent with the PEP's known sources of income.





## 7. Ongoing Monitoring and Record-Keeping

- **Ongoing Monitoring:** Financial institutions must continuously monitor customer accounts and transactions to detect any unusual or suspicious activity. This involves tracking the frequency, value, and nature of transactions and cross-checking them against known risk profiles.
- **Record Keeping and Documentation:** Financial institutions must maintain detailed records of customer transactions and identification documents. These records should be kept for a minimum of Five (5 ) years after the transaction or business relationship ends. This retention period ensures that institutions can comply with regulatory investigations and audits, and also helps authorities trace illicit financial flows.

## 8. Internal Controls and Compliance

- **Compliance Officer:** Each financial institution must appoint a Compliance Officer who is responsible for overseeing the implementation of the AML/CFT program. The Compliance Officer ensures adherence to the regulations, monitors suspicious activities, and coordinates the filing of reports to the relevant authorities.
- **Internal Audits:** Financial institutions are required to conduct internal audits to assess the effectiveness of their AML/CFT programs. These audits help identify weaknesses in the system and ensure compliance with regulatory standards.
- **Training and Capacity Building:** Financial institutions are required to conduct regular training for staff on identifying suspicious activities, understanding the regulatory obligations, and knowing how to file suspicious transaction reports. Training must also cover emerging trends in money laundering and terrorism financing.



## 9. Penalties for Non-Compliance

Non-compliance with the CBN AML/CFT Regulations can result in severe penalties for financial institutions, including:

- **Fines:** Financial institutions may be subjected to substantial fines for failing to comply with regulatory obligations such as due diligence, reporting requirements, or the blocking of suspicious accounts.
- **Suspension or Revocation of License:** In cases of serious non-compliance, the CBN may suspend or revoke the operating license of a financial institution.
- **Criminal Prosecution:** Individuals or entities found to be directly involved in money laundering or terrorism financing may face criminal charges and, if convicted, penalties such as imprisonment.

## Conclusion

The CBN Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT) Regulations, 2022 establish a robust framework for financial institutions in Nigeria to prevent, detect, and report illicit financial activities. By empowering financial institutions to block accounts, implement tiered KYC processes, classify businesses as low or high-risk, and apply enhanced due diligence to PEPs, the regulations strengthen the financial system's resilience against money laundering and terrorism financing.

Financial institutions are expected to fully integrate these regulations into their operations, ensuring that they take proactive steps to safeguard the integrity of the financial system while contributing to global efforts to combat financial crimes.

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