

CBN-ONSA Cybersecurity Levy: One Circular Too Many.



Image Credit: Proshare Graphics

Issue Date:

Thursday, May 09, 2024

A Market Intelligence and
Strategic Advisory Group Report

Production:

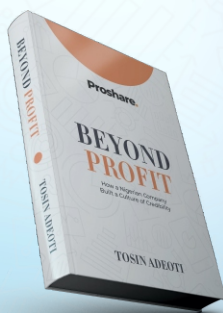
Proshare Graphics.

BEYOND PROFIT

How a Nigerian Company Built a Culture of Credibility

Available at the following Outlets:

amazon books ProshareStore. RovingHeights
Rakuten kobo Selar



The recent cybersecurity levy circular by the Central Bank of Nigeria (CBN) was one circular that was one too many. It drove a sharp dagger into the hearts of bank depositors as it added another layer of costs to an already overburdened bag of levies and taxes, which includes stamp duties, value-added tax (VAT), account maintenance fees, and electronic transfer fees charged by banks. According to one bank customer who requested anonymity, *'With the new bank levy, you get a surreal feeling of being serially raped by fiscal gangsters.'*

The crucial issues that require addressing include, but are not limited to, the following:

- ❶ Can public institutions be funded directly by bank deposit levies with the CBN as the collecting agent?
- ❷ Can the Office of the National Security Adviser (ONSA) receive unappropriated funding for activities?
- ❸ Since banks already charge fees for electronic transfers, does the electronic transfer levy for cybercrime protection not represent double taxation?
- ❹ Since cybercrime goes beyond bank accounts, would the levy not result in the problem of 'free riders', where people who do not conduct digital transactions are shielded from paying the levy while others bear the total cost of financial and digital identity protection?

- ❏ Should the levy not be seen as regressive since it penalises people for electronic/digital transactions that can be monitored while encouraging the use of anonymous cash, the primary source of funding illicit activities?
- ❏ Should ONSA be allowed to be a revenue-generating arm of government?
- ❏ Public officers miss the point about the cybercrime protection levy. It is not the size that is worrisome, but the notion that account holders will pay the government for a service already covered by financial institutions in their digital transfer charges. Besides, depositors' funds up to N5m are already covered by the Nigeria Deposit Insurance Company (NDIC); why can the NDIC not manage deposit protection, whether cyber or noncyber, in collaboration with the ONSA?
- ❏ How is it operationally feasible for banks to identify wage/salary payments for informal employment or activities for exceptions?
- ❏ How do we reconcile the disparities in the levy quoted in the 2018 and 2015/2024 circular (see illustration 1 below)?

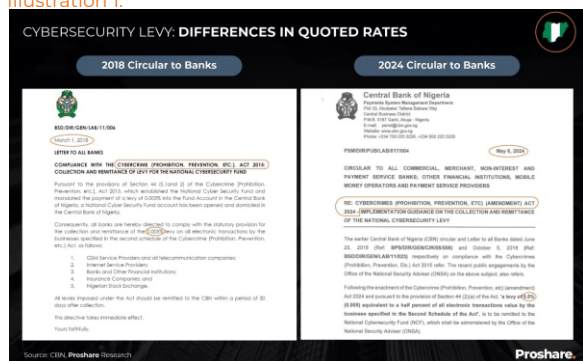
seen as undesirable, high-handed, and disruptive. The levy announcement has stirred sections of society to react.

For example, an economist and macroeconomic policy strategist wondered why the legislature would approve a bill that allows a federal government office through the CBN to levy charges on bank depositors for amounts not subject to appropriation and approval by the National Assembly (NASS). According to the economist, *'You easily get lost in a maze of fiscal banditry and questionable public sector logic. For example, who decides how the Office of the National Security Adviser (ONSA) spends the funds raised? What are the budget head items for the spending? How is spending accountability assured? How constitutional is funding a national security office through bank deposit debits? Will bank deposits be the only areas of cyber protection?'* Analysts note that *'If cyber protection goes beyond bank deposits, why should the funding of ONSA rely on money in customers' deposit accounts and electronic transactions from these accounts?'*

Proshare analysts observe that global best practice is to establish a 'black budget' for cyber protection-related issues, which has Senate Security Committee oversight. The funding is a fiscal arrangement based on standard operating protocols (SOPs) and does not distort the pricing of commercial activities such as electronic transactions on customer deposit accounts. To stretch the argument, if the naira were to come under a currency attack, would the CBN levy depositors' bank accounts to repel the action of foreign currency speculators? If it did, how legal would it be? Fiscal intentions may be good, but policy execution frameworks are equally crucial; killing a child to solve the problem of a headache gets the job done but leaves a bigger ethical problem.

Therefore, fiscal policy observers believe there is something viscerally wrong with the CBN levying customers' bank accounts to fund a government office or agency's activities. According to a Public Sector Finance lecturer at one of the local universities, *'the monetary authorities appear to be internalising a fiscal externality by getting the CBN to cover expenses for an activity unrelated to banking directly'*. He notes that banks already spend hefty sums protecting their operations from cyber threats, and the ONSA's role should be to provide a broader canopy of protection funded through a regular budgetary process.

Illustration 1:



The bank depositors' anger, frustration, and disgust are real. Considering that bank customers have to deal with the consequences of double-digit inflation, that takes a swipe at the actual value of their savings and the depreciation of the naira in the foreign exchange (FX) market, which raises the cost of domestic goods and services, the fiscal authorities' decision to pile an additional levy on individuals and households is like *'kicking a critically injured lion to death'*. According to the earlier bank depositor, the Act is neither brave nor worthy. Nevertheless, it must be understood that the Act imposing the levy is not new, as it was first passed into law in 2018 and then amended in 2024; however, the logic behind the Act and the governance implications have been generally

For context, the levy supposedly aims to improve cybersecurity efforts in Nigeria through the ONSA. However, with a significant proportion of bank capital expenditure (capex) already invested and still being invested in cybersecurity infrastructure and compliance as mandated by the CBN, analysts question the need for an additional levy and the efficacy of cybersecurity efforts by entities other than financial sector operators.

More so, the right of the ONSA to raise extra-budgetary revenue directly from Nigerians without the National Assembly's approval as a government agency becomes difficult to accept. Analysts have also questioned the benefits to Nigerians of the social contract inherent in the levy: Is there a guarantee of minimal or no cyberattacks on Nigerians because the ONSA cyber levy has been charged to bank depositors? This is unlikely.

Furthermore, Public Sector economists have argued that diverting funds directly to the ONSA bypasses established best-practice financial oversight mechanisms. One analyst argued that *with the large volume of electronic payment transactions at a record high of N600trn in 2023, a levy of 0.5% would mean a sum of between N1trn and N1.5trn would be debited (adjusting for transaction exemptions – see illustration 5), of which a significant proportion would be allocated to ONSA with little to no audit oversight. This would mean transforming the national security office into an income-generating body, which would eventually become a distraction from its vital security roles.*

The imposition of the cybersecurity levy also contradicts the CBN's initiative to promote cashless transactions and enhance cybersecurity measures within the banking sector. Instead of incentivising digital payments, the levy imposes an additional financial burden on customers with high transaction costs.

Banks and the Cybersecurity Whirlpool.

Technological evolution drives innovation, growth, and development in Nigeria, allowing cybercrimes to thrive. Multiple cyberattacks have occurred at deposit money banks and payment service providers, with significant funds/amounts lost. According to the Nigeria Interbank Settlement Systems, Nigerian banks lost N159bn between 2000 and 2013 and recently lost N50.5bn between 2019 and July 2023.

To show the prevalence of cybercrime, some banks included the amount lost to fraud and

forgery in the FY 2023 audited financial statement: Access Corp had the highest loss at N6.15bn, followed by Fidelity Bank at N2.09bn, Wema had N685.60m, and GTCO had N198.88m. The data provided shows the high frequency of attacks and low recovery compared to previous years. This consistent rise in cyberattacks raises questions about the quality of cybersecurity measures and the alignment of cybersecurity measures to new technologies (see table 1).

Table 1:

Banks	Amount lost to Fraud	Number of Fraud Incident	Fraud Expense
Access Corp	N6.15bn	6,634	--
Fidelity	N2.09bn	3,079	--
FCMB	--	--	N908.35m
GTCO	N198.88m	16,965	--
Wema	N685.60m	1,195	--

Note: The remaining listed banks data was not available as of time of compilation
Source: Bank's Financial Statement

According to the Risk-Based Cybersecurity Framework and Guidelines for DMBs and PSBs implemented in January 2019 and revised on February 24, 2024, DMBs and PSBs must have a stand-alone cybersecurity budget. The private enterprise adopting a budgetary approach to tackling cybersecurity should be adequate; an extra tax levy on vulnerable Nigerians for cybersecurity seems heavyhanded and a fiscal overkill. It implies that citizens' accounts are debited (the amount cannot be quantified or audited) to develop cybersecurity measures, which should be the role of financial sector operators and their regulators, as is the practice in other countries.

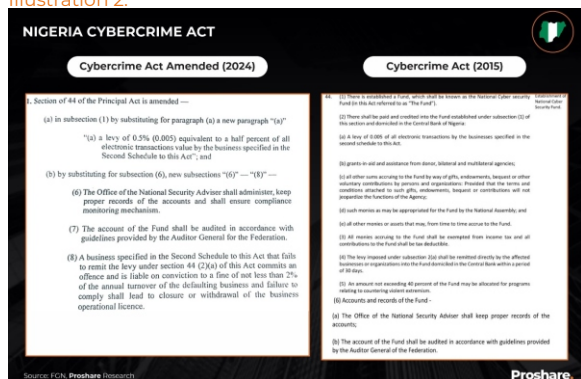
Funding the ONSA.

It is often believed that there is light at the end of every tunnel. However, it has become evident that while running through several economic and existential tunnels, Nigerians do not see the light but the openings of new tunnels.

Under the provision of Section 44 (6) of the Cybercrime (Prohibition, Prevention, etc.) (Amendment) Act 2024, *“the office of the National Security Adviser shall administer, keep proper records of the accounts and shall ensure compliance monitoring mechanism.”* The amendment has broadened the scope of functions of the NSA, simultaneously empowering the NSA as the administrator and record keeper of the National Cybersecurity fund flows and compliance agency.

Proshare analysts note that administering a 0.5% cybersecurity levy on online transactions has been a longstanding provision of the Cybercrime Act of 2015. Despite its inclusion in the legislation, the government has not enforced the levy since its inception, and rightly so; it smacks of fiscal arm-twisting and public sector brigandage. The ONSA's funding must sit within a budgetary framework with all the necessary guardrails (see illustration 2).

Illustration 2:



While the cybersecurity levy could potentially improve national cybersecurity infrastructure, concerns arise regarding its impact on citizens' financial situation and the government's approach to addressing cybersecurity concerns.

Citizens question whether the Act was meant to generate more revenue for the government. If so, is it not against the Nigerian constitution? Specifically, section 14(2)(b) of the Nigerian Constitution of 1999 [as amended] provides that "the security and welfare of the people shall be the primary purpose of government." Is this provision in line with the security and welfare of the people, or are there fiscal imperatives behind the amended Act beyond security concerns?

The guidelines outlined in the CBN Risk-Based Cybersecurity Framework for Deposit Money Banks (DMBs) and Payment Service Banks (PSBs) stipulate that banks need a cybersecurity budget to allocate resources toward cybersecurity measures. Notably, banks within Nigeria's financial sector are already committing substantial investments to adopt cybersecurity technologies.

Given the potential ramifications for national security, it is worth questioning why the government did not opt to incorporate provisions for cybersecurity within the budget allocated to the National Security Adviser but to put an additional bullet item on the list of bank levies (see illustration 3).

Illustration 3:



Avoiding a Fiscal Extortion Racket.

A recent report by SBM Intelligence revealed that up to 98% of Nigerians operating in the informal economy are subjected to daily taxes of up to N3,000 for different groups. Contrary to the narrative of Nigerians paying the lowest taxes anywhere in the world, this paints a grim picture of the already overtaxed and overburdened population, particularly the low-income earners.

Amidst the current runaway food inflation (40% in March 2024) and headline inflation (33.20% in March 2024), depreciating FX, and high cost of living, analysts have expressed concerns over the government's unsubtle tax moves. In the current low-income situation, these levies further burden poor Nigerians struggling to make ends meet. Analysts believe introducing more levies could reverse the progress recorded in the country's financial inclusion drive.

Coincidentally, FBNH, like other banks, recently explained to customers that it is reintroducing fees for deposits exceeding N500,000 for individuals and corporate account holders. Such charges on customer transactions have already driven some Nigerians out of the banking system, with individuals opting to hold more significant cash balances. As a temporary relief, the CBN, in a May 6, 2024 circular, extended the suspension of such deposit processing fees until September 30, 2024, which suggests moving the (evil) days forward.

The cumulative effect of these charges, alongside existing taxes such as stamp duty, transfer commission, VAT, levies, and SMS fees, has exacerbated the financial strain on individuals and businesses, especially SMEs reliant on electronic money transfers for daily transactions. With the proposed cybersecurity levy in the next two weeks, analysts warn that the government's approach resembles nothing short of a public extortion racket.

Critics have also pointed out that the Taiwo Oyedele-led Presidential Committee on Fiscal Policy and Tax Reforms should have been consulted to see how the new levy fits into a harmonised national tax system that does not nibble away at Nigerian incomes by a thousand little bites. Taxation should not be seen as a punishment but as a citizen’s obligation to national development, security, and social harmony. However, if the basis of the tax is difficult to understand, taxation without representation becomes tyranny. Fiscal policy analysts have argued that the Committee’s efforts at streamlining taxation would be lame if the government habitually charges levies on every deposit or income in sight to balance a serially leaky fiscal book. Rather than impose levies on electronic financial transactions, economists have recommended that the government look for cost savings in its activities and increase the budget of the ONSA to cover the cost of cybersecurity (see illustration 4).

Illustration 4:

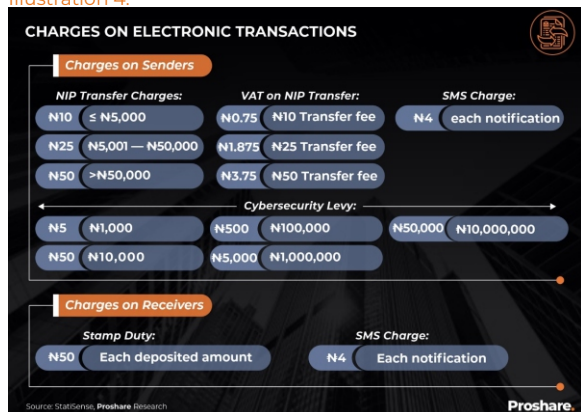
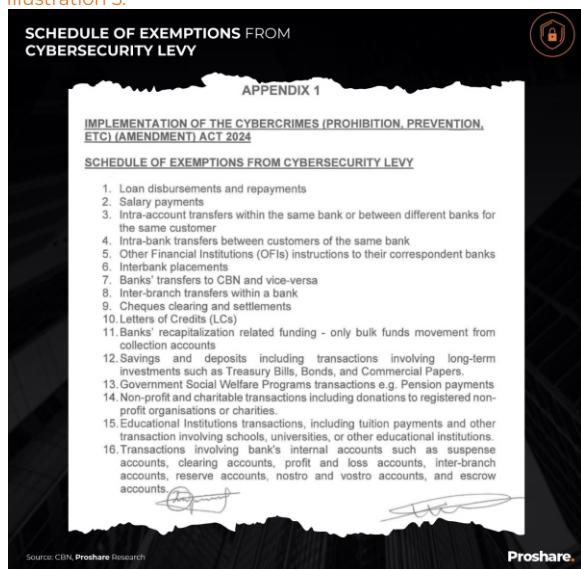


Illustration 5:



Related Items..

1. Understanding the Transcorp Power Listing: The Purpose, Pricing, and People.
2. BUA Cement Plc Q1 2024 Results: +51.51% Growth in Cement Sales Pushes Revenue to N161.13bn.
3. Cybercrimes (Prohibition, Prevention, Etc) (Amendment) Act, 2015.
4. Cybercrimes (Prohibition, Prevention, Etc) (Amendment) Act, 2024.
5. CBN Issues Circular to all Commercial Banks on Implementation of Cybersecurity Levy.
6. Zenith Bank FY 2023 Result: +167% Growth in Trading Gains Drives Profit up +180%.
7. Oando Consolidated Accounts and Lessons in Post-Regulatory Action - A Flashback on the Future.
8. Fidelity Bank's FY 2023 Result under the Pre-Recapitalisation Microscope: Net Profit Grows +112.85% Despite Higher Loan Loss Provisions.
9. UBA FY 2023 Result: Diversification Cushions Rising Operating Costs, PBT Grows +277.19%.
10. FG Unfolds Plans to Cut Cost of Tax Administration, Provide Tax Incentives.
11. Nigeria's Banking Recapitalisation: A Crucial Game, A Risky Gamble, and A Lingering Gap.
12. Rising Cyber Threats Pose Concerns for Financial Stability.
13. NERC Approves 300% Tariff Increase for Band A, Nigerian Electricity Consumers.
14. The Other view of CBN's 200 basis points Policy Rate Hike to 24.75%.
15. The Two Sides of the AMCON Shut-Down Coin: The Battle Between Buddies.
16. Nigeria's Interior Minister Steps Down Expatriate Employment Levy.
17. Unwrapping CBN's February MPC Decisions: Navigating the Economic Gains, Pains, and Uncertainties.
18. 2024 New Year Message: President Tinubu Assures Nigerians That Fiscal and Tax Reforms Will be Codified and Simplified.
19. Banks' Right Issue: Of Capital Raise, Revaluation Gains, and Recapitalisation.
20. Company Income Tax Increased by 14% QoQ to N1.8trn in Q3 2023.
21. Of A CBN Governor's Speech and A Country's Growing Realities.
22. Nigeria's New Tax Gamble: Avoiding Fiscal Boobytraps and Finding Quick Wins.
23. Nigeria's 2023 Budget Implementation Report, 2024 Budget and the Troubled State of Economic Assumptions.

24. Ransomware Attacks in Nigeria Increased by 7% in H1 2023 Compared to H1 2022.
25. African Nations Feature Prominently in Global Top100 for Online Threats.
26. Kaspersky Reports on New Mobile Advanced Persistent Threat (APT) Campaign Targeting iOS Devices.
27. Keeping the Economic Bike Rolling; President Tinubu and His Inaugural Speech.
28. Why World Password Day Matters: Protecting your Digital Life.
29. ICT Officer Tasks Nigerian Financial Institutions on Strengthening Cybersecurity and Customer Data Protection.
30. The Growing Demand for Cyber Insurance in Nigeria: Questions, Thoughts and Concerns of Industry Analysts.
31. 8.7% of Users Encountered Phishing Attacks in Africa in 2022, Global Number of Attacks Exceeds 500m.
32. 2023 Elections: ISSAN Tasks FG, INEC On Secured Cyber Systems.
33. Access Holdings; Evaluating the New Corporate Game Plan.
34. ISSAN Confab: CBN to Collaborate with Stakeholders to Check Rising Cyber Attacks.
35. 38% of Industrial Computers Were Under Attack in the Middle East, Turkey and Africa (META) Region in January-September 2022, More Attacks Expected to Come.
36. Africa Data Centres Extends Edge Cloud Capability Through Unitellas Partnership at Lagos Facility.
37. The SIM Card, Catching the Elusive Mole of Cybersecurity.
38. Kaspersky Expands its Cyber Immune Offering for Internet of Things (IoT) Protection with New Kaspersky IoT Secure Gateway 1000.
39. The Anatomy of Crude Oil Theft in Nigeria: Understanding the Graft, Impact, and Implications.

Access to News. Data. Analysis. and Reports.
 Reliable, Timely and Credible Intelligence...

Market Intelligence. Impact Research. Digital Media. Strategic Advisory. Stakeholder Relations.

Subscribe

0700-PROSHARE
 info@proshare.co
 www.proshare.co @proshare

Proshare.

Tier 1 Banks
Recapitalizing Tier 1 Banks: The Consequences of Getting Bigger Faster.
 A Proshare Report **Out Soon.**

3rd Edition

www.proshare.co Proshare.

CEO Remuneration 2023: How CEOs Intend Fixing the Future of Work.

5th Edition: November 2024

2019 2020 2021 2022

0700-PROSHARE
 info@proshare.co
 www.proshare.co @proshare

Proshare.

Advice To Users of This **Report.**

Proshare, founded in 2006, is a trusted professional practice and financial information hub dedicated to serving as a critical bridge between the markets, investors, regulators, and stakeholders. By delivering credible, reliable, and timely engagements, we assist the marketplace to shape thought-led conversations premised on evidence-based insights that hold the firm accountable collaboratively.

Practice Ethos and Disclaimer

Proshare does not guarantee any results or investment returns based on the information contained in this report. Although we have used our best efforts to provide the most accurate information, we do not promise verbally or in writing that you will earn a profit when or if you use the information contained therein and/or take the actions that might have been prescribed here by the author or our analysts, any reliance you place on our content for decision making is at your own risk. Reports often contain complex technical language, kindly seek expert analysis or expert opinions to help interpret the findings accurately. Context is key, and understanding is essential to grasp the report's true implications. We encourage our discerning readers to seek additional education and insights as you navigate the complexities of the report. As consumers of news and information, we play a role in responsible reporting, be cautious of spreading unverified or misleading information about the report's contents or corporate entities mentioned in the report.

Copyright

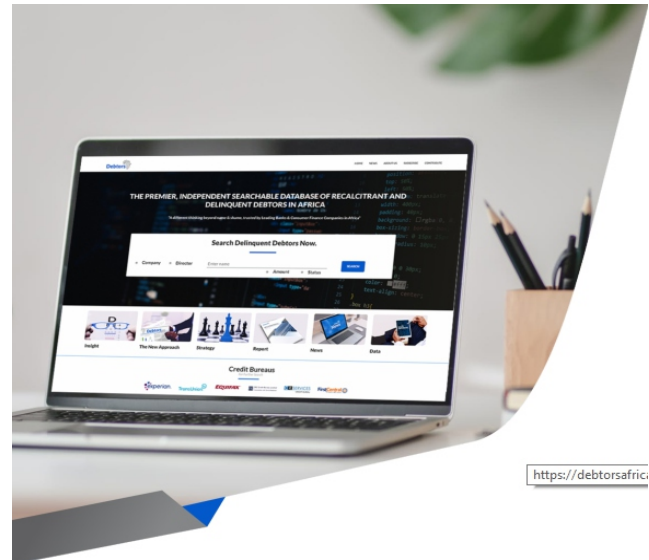
The copyright of the materials in this report belongs to Proshare Nigeria Ltd. While we encourage the dissemination of our work, permission to reproduce or republish any portion of the report should be directed to the office of the MD/CEO of Proshare Nigeria Ltd. This work is licensed under the Trademark and Copyrights Laws of the Federal Republic of Nigeria and is registered accordingly at the National Library and other relevant agencies. Proshare's Reports are critical to its education, empowerment, and enlightenment. It is designed to provide market impact commentary on economic, financial, and business developments. While the partners and acknowledged references are responsible for their work, the report issued is designed to document facts.

Creation Date

This report was published on May 09, 2024, and is based on the best publicly available information at that time. The PDF version was created on May 09, 2024. For comments, feedback, and updates, kindly send us an e-mail via research@proshare.co. Thank you.


Teslim SHITTA-BEY
 Managing Editor/CE


Tosin IGE
 Head, Research



<https://debtorsafrica.com>






Got Recalcitrant Debtors and Worried about Recoveries?

Take Action Now!

✉ info@debtorsafrica.com
 🌐 www.debtorsafrica.com
 📞 **0700 DEBTORS**
 📱 Debtors Africa | 🌐 Debtors_Africa | 📺 DebtorsAfrica | 📘 Debtors Africa


[Become a Contributor!](#)



 Market Intelligence.	 Impact Research.	 Digital Media.	 Strategic Advisory.	 Stakeholder Relations.
--	---	--	---	--

Contacts.

 Olufemi AWOYEMI , <i>mni</i> ceo@proshare.co	 www.proshare.co
 Teslim SHITTA-BEY teslim.bey@proshare.co	 +234 902 407 5284
 Tosin IGE research@Proshare.co	 @proshare
 Ademidun SHOGO ireconomist@Proshare.co	 proshare.co
	 proshare.co
	 proshare.co

 Plot 590b, Lekan Asuni
 Close, Off Toyin Omotosho Street,
 Omole Phase 2, Isheri Olowora
 Ikeja, Lagos, Nigeria **PC: 105102**
 Tel: **0700 – PROSHARE**
 E-mail: info@proshare.co