



BANWO & IGHODALO

FINTECH UPDATE

SYNOPSIS OF THE NEW CBN REGULATORY REGIME FOR PAYMENT SERVICE BANKS

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Introduction

On July 8, 2021, the Central Bank of Nigeria (“**CBN**”), Nigeria’s apex financial and monetary regulator, issued a new regulatory regime for Payment Service Banks (“**PSBs**”), which complements the existing governing framework¹; by introducing new rules covering corporate governance, prudential issues, anti-money laundering, credit risks, shared services, business continuity, and other governance-related matters.

Titled **Supervisory Framework for Payment Service Banks** (“**Supervisory Framework**”), the new regulatory regime aims at streamlining the operations of PSBs and ensuring adequate transparency in their operations, as well as putting in place a workable mechanism for adequate customer protection and risks management.

This article provides a synopsis of the key provisions of the Supervisory Framework and highlights the likely implications for market operators.

Prescribed Structure for PSBs

PSBs are required to use the words “Payment Service Bank” in their names to differentiate them from other banks, and they shall, among other things, operate as follows:

- Carry on their business mostly in the rural areas and unbanked locations, targeting financially excluded persons;



- Enter into direct partnership with card scheme operators, provided cards issued by PSBs shall not be eligible for foreign currency transactions;
- Deploy Automatic Teller Machines (ATMs) in some of the areas covered by their operation;
- Deploy Point of Sale (POS) devices;
- Be at liberty to carry out their operation through banking agents (in line with the *CBN’s Guidelines for the Regulation of Agent Banking and Agent Banking Relationships in Nigeria*);
- Roll out agent networks with the prior approval of the CBN but also use other channels, including electronic platforms, to reach-out to their customers;
- Be technology-driven, and conform to best practices on data storage, security and integrity; and
- Set up consumer help desks (physical and online) at their main offices and coordinating centres.

¹ *Guidelines for Licensing and Regulation of Payment Service Banks in Nigeria* (August 2020) & *Circular on New License Categorizations for the Nigerian Payments System* (December 2020)

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Permissible and Non-Permissible Activities

- PSBs are permitted to accept deposits from individuals and small businesses, which are to be covered by the deposit insurance scheme;
- PSBs are allowed to carry out payments services as well as process in-bound cross-border personal remittances of foreign currencies. They are further allowed to sell proceeds of the personal remittances to authorised foreign exchange dealers, in strict compliance with the provisions of the extant CBN's *Foreign Exchange Regulations*;
- PSBs are permitted to issue debit and pre-paid cards on their names, and are also allowed to operate electronic wallets;
- PSBs are permitted to invest in securities issued by the Federal Government of Nigeria and the CBN; and
- They can render financial advisory services, and carry out any other CBN-prescribed activities.

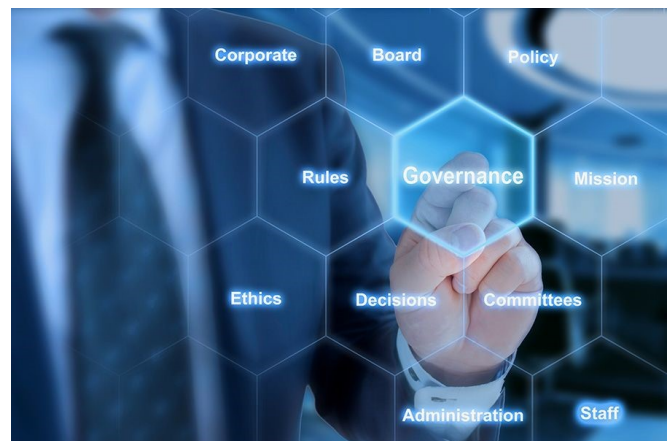
However, PSBs are prohibited from:

- accepting foreign currency deposits;
- issuing any form of loans, advances and guarantees (directly or indirectly), except for their employees in line with their employee-loan policies;
- carrying out insurance underwriting; and
- establishing any subsidiary, except as prescribed in the *Regulation on the Scope of Banking and Ancillary Matters* issued by the CBN.

Ownership and Licensing Requirements

- Ownership structure and licensing requirements for PSBs shall continue to be governed by the

CBN's *Revised Guidelines for Licensing and Regulation of Payment Service Banks (2020)*, or the extant Regulation on the subject at any material time.



Corporate Governance

- PSBs are required to comply with the *Corporate Governance Guidelines for Payment Service Banks*;
- The Supervisory Framework makes extensive provisions covering board composition, board diversity, board's and board committees' meetings, disclosure of memberships by directors, and the position of an independent director, among other issues;
- PSBs are required to carry out annual Board Appraisal, the report of which is required to be forwarded to the CBN by March 31st after each accounting year; and
- Membership requirements, responsibilities of respective board members, committees and officers of a PSB are clearly specified in the Supervisory Framework.

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Approved Persons Regime & Competency Framework

- The Supervisory Framework makes provisions for the roles, responsibilities and minimum qualifications and/or experience for principal officers of PSBs, in line with the CBN's *Assessment Criteria for Approved Persons' Regime for Payment Service Banks*.

Anti-Money Laundering Provisions & Know-Your-Customer Requirements



- PSBs are required to comply with the CBN's extensive *Anti-Money Laundering/Combating Financing of Terrorism (AML/CFT) & Know-Your-Customer (KYC)* requirements;
- PSBs are required to create AML/CFT policies and make necessary periodic returns/reports to regulatory agencies like the CBN, Economic and Financial Crimes Commission (EFCC), and the Nigerian Financial Intelligence Unit (NFIU);
- Every PSB is required to appoint a Chief Compliance Officer (CCO), and comply with the extant KYC and other Customer Due Diligence policies of the CBN; and
- Failure to comply with the AML/CFT/KYC measures and guidelines of the CBN may attract

a sanction of ₦10,000,000.00 (10 Million Naira) in addition to the prosecution of principal officers of the erring PSB and possible winding up of the corporate body.

Shared Services Arrangement

- PSBs are permitted to enter into shared service arrangements with their parent companies;
- Shared service arrangements between PSBs and their parent companies must be reviewed by an independent third party and are required to be approved by the CBN; and
- PSBs are also under obligation to comply with the *Income Tax (Transfer Pricing) Regulations* issued by the Federal Inland Revenue Service (FIRS) and the provision for shared services is also to be taken in concert with the CBN's *Guidelines for Shared Service Arrangements for Banks and Other Financial Institutions*.

Other key provisions under the Supervisory Framework relate to *Prudential Ratios*. In this regard, the required capital adequacy, liquidity and cash reserve ratios shall be as provided in the extant CBN's *Guidelines for Licensing and Regulation of Payment Service Banks*.

There are also specifications on *Data Infrastructure & Cybersecurity*, relating to the expected standards and framework which PSBs are mandated to comply with, in order to prevent or minimise incidences of data breach and cybercrime in the course of providing their services.

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On *Inter-operability*, the Supervisory Framework mandates PSBs to integrate their services into the Nigerian financial switching system and comply with the provisions of the *Guidelines on Transactions Switching in Nigeria*, and any other relevant guidelines.

The Supervisory Framework also provides for *Business Continuity Management System*, by mandating PSBs to assume the roles and responsibilities of acquirers/acquiring bank and/or issuer/issuing bank, as stipulated in all regulations on electronic payments. Further, the framework prohibits PSBs from the abuse of a dominant position in the market or engaging in any form of anti-competition agreements/practices. There are also provisions on compliance with the extant *Guidelines on Global Standing Instruction ("GSI")*. In this regard, PSBs are mandated to execute the *GSI Mandate Agreement* with the Nigeria Inter-Bank Settlement System (NIBSS), as Participating Institutions in the GSI scheme.

Other key issues include the requirements for PSBs to comply with relevant extant laws and regulations for CBN-licensed financial institutions and service providers, and render monthly returns in prescribed form for the purposes of effective *Monitoring & Evaluation* by the CBN. The Supervisory Framework emphasises imposition of appropriate statutory financial and administrative *Sanctions* on erring PSBs and/or their principal officers, as a way of ensuring strict compliance with all applicable extant laws and regulations.

Remarks

The deepening of access to financial inclusion in the Nigerian economy continues to be a major challenge for the CBN. In view of the apex bank's commitment to reach 80% overall financial inclusion by 2020² (a target that remained unmet as at December 2020), the new regulatory framework is a push to review current financial inclusion strategies put in place by the CBN and support the private sector operators that may be interested in participating in the sector. As at September 2020, only three (3) PSBs have been licensed by the CBN to operate³.

We note that the operation of PSBs is targeted at financially excluded locations (mostly in the rural and hard-to-reach areas of the country). Usually, these places are mostly populated by the unbanked segment of the population that do not possess acceptable identity verification documents. Therefore, compliance with the AML/CFT/KYC provisions, as outlined in the Supervisory Framework, may prove challenging for current operators. It is expected that the tiered KYC framework introduced by the CBN will mitigate some of these anticipated challenges.

Beyond the challenges, it is expected that the operation of PSBs will go a long way to reduce the financial inclusion gap in the country and help attract more investment into the Fintech space.

The Supervisory Framework can be accessed [here](#) and for further clarification, you may reach out to us by email: banwigo@banwo-ighodalo.com or through any of our contact persons below:

² <https://www.cbn.gov.ng/out/2019/ccd/national%20financial%20inclusion%20strategy.pdf>

³ <https://www.cbn.gov.ng/Out/2020/FPRD/PSB%202020.pdf>

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