



The New Licence Categorisations for the Nigerian Payments System



December 2020

INTRODUCTION

On 9 December 2020, the Central Bank of Nigeria (CBN) issued a circular on the New Licence Categorisations for the Nigerian Payments System (the “**New Licence Categorisations**”).

KEY PROVISIONS OF THE NEW LICENCE CATEGORISATIONS

Streamlining of Permissible Payment Systems Activities: The New Licence Categorisations streamlines the permissible activities for payment systems licensing into the following four (4) categories:

- i. **Switching and Processing:** Switching and Processing companies are permitted to provide services such as switching, card processing, transaction clearing and settlement agents’ services as well as non-bank acquiring services.
- ii. **Mobile Money Operations:** Mobile Money Operators (MMOs) are licensed by the CBN to provide mobile money services in Nigeria. Banks or other licensed corporate organisations are eligible to operate as MMOs.

MMOs engage in the issuance of electronic money, creation and management of wallets, and pool account management, etc. By virtue of the New Licence Categorisations, only MMOs are permitted to hold customer funds in the Nigerian payments system framework.

- iii. **Payment Solution Services (PSS):** the licences that fall into permissible activities for PSS include:
 - a. **Super-Agent Licence**, which grants the licensee responsibility for monitoring and supervising the activities of the agents¹, whose activities include; acceptance of cash deposits and withdrawal, bill payment, utility payment, operation of fund transfer services (local money value transfer) etc.

The super-agents’ platform is used to manage and monitor the activities of its agents only and has visibility of its agents’ transactions through integration with Nigeria Inter-Bank Settlement System Plc (NIBSS), and does not hold electronic money value. **The New Licence Categorisations restate the permissible activities of the Super-Agents under the Regulatory Framework for Licensing Super-Agents;**

- iii. **Payment Terminal Service Provider (PTSP) Licence**, which permits the licensee to deploy, maintain and provide support for Point of Sale (POS) terminals in Nigeria.² The New Licence Categorisations provides that the PTSP shall be responsible for the POS Terminal deployment and services, POS terminal ownership, merchant/agent training and support; and

¹ The Regulatory Framework for Licensing Super-Agents provides for a minimum of 50 agents.

² CBN Circular on the Guidelines on Operations of Electronic Payment Channels in Nigeria issued on 31 May 2020

- c. **Payment Solutions Service Provider (PSSP) Licence**, which permits the provision of payment processing gateway and portals, payment solution/application development, merchant service aggregation and collection.

By virtue of the New Licence Categorisations, a PSS company may also hold a PSSP licence, PTSP licence, Super-Agent licence or a combination of any of these licences.

- iv. **Regulatory Sandbox**: is a framework set up by a regulator that allows Financial Technology Companies (FinTech) start-ups and other innovators to conduct live experiments in a controlled environment under a regulator's supervision. **In order to promote innovation in financial services, effective service delivery, healthy competition and financial inclusion, the CBN published a draft Framework for Regulatory Sandbox Operations in June 2020, an approved framework is yet to be published by the CBN.**

Holding Structure: The New Licence Categorisations confirm that a company desirous of operating as both a switch and MMO is permitted to do so only under a holding company structure with the subsidiaries clearly delineated to prevent co-mingling. This will mean that separate companies (subsidiaries) are to be set up, to distinctly provide switching and mobile money services.

No Objection to Hold Other Licences: Existing licensed payment service providers are required to obtain a no-objection from the Payments System Management Department of the CBN in the event that they currently hold or seek to obtain any other CBN issued licences.

Object Clauses to be Limited to Permissible Activities: **The object clauses of the memorandum and articles of association of payment service providers are to be limited to the permissible activities under their respective licensing authorisations.** It is worthy to note that entities that seek PSSP licenses are required to incorporate a local Nigeria company prior to applying to the CBN for the licence. The Corporate Affairs Commission (CAC) will not approve objects which contain the permissible activities without an approval/no-objection from the CAC. It is not clear whether the right sequence based on the foregoing should be:

- I. Seek CBN No-Objection;
- II. Incorporate with the object clauses containing the permissible activities;
- III. Seek CBN Licence. We will seek CBN clarification in this regard.

Collaboration involving CBN Licensees: The CBN's prior approval is now required for collaborations involving licensed payment companies, banks, and other financial institutions in respect of products and services. This is expected to enable the CBN monitor all collaborations and partnerships in the financial industry to ensure compliance with its existing regulatory requirements and frameworks.

Minimum Capital Requirements: Under the New Licence Categorisations, the minimum capital requirements for the payment systems licensing category are:

Licence Categories	Minimum Capital (NGN)
Regulatory Sandbox	Not Applicable
Super-Agent	50,000,000.00
PTSP	100,000,000.00
PSSP	100,000,000.00
Super-Agent, PTSP and PSSP	250,000,000.00
Mobile Money Operation	2,000,000,000.00
Switching and Processing	2,000,000,000.00

Timeline for Compliance

All new licensing requests, including those with approvals-in-principle, are required to comply with the New Licence Categorisations immediately. However, existing licensed companies are expected to comply with the requirements (where applicable) not later than end of June 2021.

Conclusion

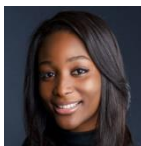
The New Licence Categorisations provide better clarity to the various participants in the Nigerian payments systems ecosystem on the permissible activities they may engage in.

We note that the minimum capital for mobile money operations has significantly reduced from NGN5,000,000.00 to NGN2,000,000.00.

It is envisaged that the implementation of the New Licence Categorisations will encourage and promote innovation, effective and healthy competition in the Financial Services sector, and enhance financial inclusion in Nigeria.



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