



CBN ISSUES FRAMEWORK FOR QUICK RESPONSE (QR) CODE PAYMENTS IN NIGERIA



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Introduction

On 13 January 2021, the Central Bank of Nigeria (the “CBN”) issued a framework for Quick Response (QR) code payments in Nigeria (the “QR Framework”). The QR Framework was issued in line with the CBN’s mandates to (a) ensure the safety and stability of the Nigerian Financial System; (b) promote the use and adoption of electronic payments; and (c) foster innovation in the payments system in Nigeria.

What are QR codes?

Basically, a QR code works in the same way as a barcode at the supermarket or a restaurant. QR codes consist of a number of black squares and dots which represent certain information that can instantly be read using a QR code scanner (most smartphones come with inbuilt scanners). With respect to digital payments, the information contained in the QR codes can include merchants’ details, transaction details etc. For example, upon scanning the QR code, it either opens a payment link in the code, confirms payment, or does any other operation as specified.

Who are the Participants?

The participants in a QR code transaction cycle include merchants, issuers, customers, acquirers, switches, and payment system service providers. For example, Tola (customer) goes to Shoprite (merchant) with a First Bank of Nigeria Limited (“FBN”) (issuer) Mastercard (card scheme) to buy groceries. After purchasing the groceries, Tola scans a QR code from Shoprite. The QR code opens a payment link from Flutterwave (payment processor) and Tola inputs the transaction amount and his card details. Flutterwave authenticates the card and securely shares Tola’s details with Access Bank Plc (acquirer) directly or indirectly through Interswitch (switch) to deduct the amount for the groceries and receive the money from FBN (issuer) on behalf of Shoprite (merchant).

Each issuer (e.g., FBN) may also offer QR code payment within their mobile application. For example, FBN mobile app has an option to pay with QR code. Once Tola scans the displayed QR code at Shoprite, Shoprite’s detail is captured, transaction amount is entered, and PIN verified on the mobile app. After successful authorisation, a debit is passed to Tola’s account and simultaneously a credit is made to Shoprite (merchant) account.

Scope

The Framework provides the QR code payment implementation standards, the roles of participants in the system, interoperability of the participants and the applicable risk management principles.

QR Code Specifications for Payments in Nigeria

Pursuant to the Framework, the following specifications apply to the implementation of QR code for payments in Nigeria:

- (a) QR code payments in Nigeria will be based on the Europay Mastercard and Visa (EMV) ® QR code specification for payment systems;
- (b) the CBN may also approve the implementation of any other QR code standard, provided it meets the prescribed security, interoperability and cost-benefit requirements;

- (c) QR code payments implementation in Nigeria are to support account wallet, card and token based QR code operations; and
- (d) implementation of QR code for payments in Nigeria will be based on the merchant-presented mode (where merchants present the QR code for buyers to accept in order to conclude payment transactions) specification;

Participants and their Responsibilities

Participants in the QR code payment process in Nigeria will have the following responsibilities:

- (a) Merchants are mandated to (i) use and display only approved QR codes in Nigeria; (ii) comply with service agreements executed with the acquirer and cooperate with acquirer to investigate any reported fraudulent transaction; and (iv) comply with relevant CBN guidelines and regulations. Examples of merchants include restaurants, supermarkets, bars, boutiques, pharmacies etc.;
- (b) Customers are to (i) use the exact QR code payments applications provided by the issuer; (ii) adhere to all minimum-security guidelines as stipulated by the issuer; and (iii) report any inappropriate/unauthorised QR code Payment transaction on their accounts/wallets. A customer is an individual or corporate patronising a merchant;
- (c) Issuers (including banks, mobile money operators and other financial institutions) are required to, among other things, (i) provide QR code payment application upon their customer's request; (ii) execute service agreement with their customers; (iv) agree appropriate transaction limits based on their customers' risk profile assessment; (v) comply with QR code payment specifications stipulated in the Framework; (v) update or patch its QR code payment application and prohibit any transaction where the customer does not apply for an update within 14 days of the availability of the update or patch; and (vi) comply with relevant CBN guidelines and regulations. An issuer is a bank that issues the card used by a customer;
- (d) Acquirers are required, to among other things, (i) execute service agreement with merchants; (ii) agree appropriate transaction limits based on their merchants' risk profile assessment; (iii) comply with QR code payment (security) specifications stipulated in the Framework; (iv) give merchants value for QR code transaction within T+1 or as may be agreed with the merchant; and (v) comply with relevant CBN guidelines and regulations. An acquirer is a bank engaged by a merchant to receive payments made by customers from their card issuers; and
- (e) Other Payment Service Providers (Switches and PSSPs) are required to (i) support processing and settlement for all issuers and acquirers; (ii) facilitate interoperability of QR code Payments for all issuers and acquirers; and (iii) ensure full compliance with this Framework and other extant guidelines on electronic payments and transaction processing. An example of a switch company is Interswitch while payment solutions service providers include Paystack, Flutterwave etc.

Risk Management and Compliance

Pursuant to the Framework, the operations of the QR codes payments in Nigeria will be guided by the following risk management principles:

- (a) issuers and acquirers are to clearly define risk management policy and guidelines for the operation of the QR code scheme and agree minimum due diligence guidance for on-boarding and fraud detection systems;
- (b) QR codes will, at a minimum, be encrypted (AES) and/or signed;
- (c) QR code payments applications, updates and patches are to be duly certified by the Payment Terminal Service Aggregator (PTSA); and
- (d) issuers are to provide quarterly risk management assessment report to the Director, Payments System Management Department.

Dispute Resolution and Sanctions

All consumer complaints are to be resolved in accordance with the CBN Consumer Protection Framework. The Framework does not prescribe sanctions for infringement of the Framework however, it provides that the CBN will apply appropriate sanctions to any party that fails to comply with the Framework and other relevant guidelines issued by the CBN.

Conclusion

QR codes enable the mobile channels and facilitate payments which may likely result in a surge in electronic payments for micro and small enterprises. This is a welcome development, especially during a pandemic because the QR codes allow merchants and customers complete transactions in a safe, secure, and convenient environment.



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