

Regulatory Alert: Directive to Disconnect Switching Companies, Payment Solution Service Providers, and Super Agents from NIBSS Instant Payment (NIP) Outwards System

Introduction

On 5 December 2023, the Nigerian Inter-Bank Settlement System PLC (“NIBSS”) issued a notice directing all deposit money banks, merchant banks, payment service banks, microfinance banks, mortgage banks, and mobile money operators (“MMOs”) to delist non-deposit-taking financial institutions (“NDFIs”) such as switching and processing companies, Payment Solution Service Providers (“PSSPs”), and Super Agents (“SAs”) as beneficiary institutions on their respective NIP funds transfer channels.

To contextualise the implication of this notice, we have outlined the scope of permissible activities for the following NDFIs:

1. **Switching and Processing Companies:** These companies provide infrastructure for electronic payments and ensure the seamless flow of funds across the financial system. They connect the various participants in the payment ecosystem, including issuing banks, merchants, and payment gateways.
2. **Payment Solution Service Providers:** PSSPs are companies that provide payment solutions/application development, payment processing gateways and portals, merchant service aggregation and collection. They help merchants accept credit and debit card payments.
3. **Super Agents:** SAs are entities licensed to conduct certain banking activities within a community. They are positioned to drive financial inclusion, through cash transfers in communities. Unlike traditional banks, they are restricted from holding electronic money value and can only perform very limited cashless transactions.

These NDFIs cannot hold customer funds, as was outlined by the Central Bank of Nigeria (“CBN”) in its circular, ‘New Licence Categorisations for the Nigerian Payment’s System’ (“CBN Licencing Directive”) of 9 December 2020. By that circular, the CBN directed that only MMOs are permitted to hold customers’ funds, and other payment service providers such as the NDFIs are not permitted to hold customers’ funds.

The NIBSS circular is in line with the CBN Licencing Directive.

Key Takeaways from the NIBSS Circular

- Deposit-taking financial institutions (“DFIs”) such as commercial banks, microfinance banks, and MMOs that are permitted to receive and hold customers’ funds, and other CBN-licensed entities are no longer allowed to transfer money to any of the NDFIs but can receive money from them.





- NDFIs cannot operate e-wallets or otherwise hold customer funds. NDFIs can only receive and process customers' funds for onward transfer to DFIs.
- Further to the issuance of the NIBSS notice, DFIs and other CBN-licensed entities that continue to list NDFIs as NIP outward transfer channels will be sanctioned accordingly by the NIBSS and the CBN.

Options for NDFIs

Following the implementation of this directive, an NDFI that intends to be listed as an NIP outward transfer channel will have to:

- Acquire a licence that permits it to hold customers' funds and function as a DFI.
- Partner with DFIs that have the licence to receive customer deposits, where no such partnership currently exists, subject to what is permissible under relevant CBN regulations.

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