

# CBN issues circular on the categorisations of payment service providers



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## Background

On 9 December 2020, the Central Bank of Nigeria (“CBN”) issued a circular (the “Circular”) introducing new licence categorisation for Nigerian payments systems. The Circular classifies payment service providers into four major categories and introduces permissible activities for each of the licence category.

## Highlights of the Circular

The Circular sets out the new licence category as follows:

- **Regulatory Sandbox:** Due to the innovative nature of FinTech, regulators usually set up a “Regulatory Sandbox” as a framework that allows FinTech startups and innovators to conduct live experiments in a controlled environment under the Regulator’s supervision. This class of license is expected to stimulate innovation and increase financial inclusion. Applicants who wish to operate under this category may be licensed institution, fintechs, innovators and researchers. Their products will be reviewed by CBN during implementation. Although this class of licence has no specified minimum capital requirement, an applicant will still need a no objection letter from the Payment System Management Department of CBN.
- **Super Agent:** Super Agents are expected to drive financial inclusion through cash transfers in local communities by forming an agent network to deploy banking and financial payments services. The minimum share capital for a Super Agent’s licence is ₦50 Million. The permissible activities for Super Agents are agent recruitment, management and other activities set out in the Regulatory Framework for Licensing Super Agents in Nigeria.
- **Mobile Money Operations (MMO):** The minimum share capital for MMO operators is ₦2 Billion. Permissible activities for MMOs are issuance of e-money, wallet creation and management, pool account management. They are also permitted to carry on all the activities of a Super Agent, in addition.

MMOs are the only licensees (under the payment system licensing) permitted to hold customer funds.

- **Payment Terminal Service Provider (PTSP):** The minimum share capital for this category of licence is ₦100 Million. The permissible activities for a PTSP licensee is POS terminal deployment and services, POS terminal ownership, Payment Terminal Application Developer (PTAD), merchant/agent training and support.
- **Payment Solution Service Provider (PSSPs):** The minimum share capital for PSSPs is ₦100 Million. PSSPs can engage in payment processing gateway and portals, development of payment solution/application and merchant service aggregation and collections services.
- **Payment Solutions Services (PSSs):** The minimum share capital for a PSSs operator is ₦250 Million. A licensee can combine the permissible activities of Super Agent, PTSP and PSSP.
- **Switching and Processing (Switch Cos):** The minimum share capital for this category is ₦2 Billion Naira. Switch Cos are authorised to engage in switching, processing of cards, clearing transactions /settlement agents, non-bank acquiring services and the listed activities for Super-Agent, PTSP and PSSP.
- **HoldCo requirement for certain combination of activities:** Applicants who intend to conduct dual licence activities of MMOs and Switch Cos can do so only under a holding company (Holdco) structure, such that the activities of the subsidiaries are clearly delineated to avoid commingling.

## Takeaway

The Circular harmonises and consolidates the various activities of payment systems companies. It also helps define what is permissible and out of scope for each category of licence. For example, it is clear that:

- only MMOs can hold funds in the ordinary course of supporting customers with payment solutions.

- a group of companies that operate switching business and mobile money solutions must have two separate companies carrying out each activity and must set up a holding company structure that would require the approval of the CBN.

## It is important to note the following:

1. All applicants for licences covered under the Circular must obtain a non objection letter from the Payment System Management Department of CBN.
2. The memorandum and articles of association of payment service providers must be limited to the permissible activities under their licensing authorisation. This restricts section 35(1) of the Companies and Allied Matters Act 2020 (which allows unlimited objects subject to restrictions in the articles of association) for companies operating in this space.
3. Collaborations between licensed payment companies, banks, financial institutions is subject to prior approval by CBN.
4. Existing licensees are required to comply with the Circular no later than end June 2021.

The various categories of licences were previously issued under existing CBN Guidelines and Regulations (the “Regulations”). The Regulations are still valid, therefore, licensees will still have the compliance obligations under the Regulations.

For a deeper discussion, please contact any member of our team below or your usual contact with PwC Nigeria:

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