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CIRCULAR TO ALL STAKEHOLDERS ON GUIDELINES FOR LICENSING AND REGULATION OF PAYMENT SERVICE BANKS IN NIGERIA

The Central Bank of Nigeria on October 5, 2018 issued an Exposure Draft (ED) on the Guidelines for Licensing and Regulation of Payment Service Banks in Nigeria. Deadline for the receipts of comments and observations ended on October 19, 2018, and stakeholders' inputs arising therefrom have been used to update the Guidelines.

The essence of the Regulation is to leverage on technology to promote financial inclusion and enhance access to financial services to the rural poor, low income earners and financially excluded of the society.

Accordingly, the CBN hereby issues the Guidelines for Licensing and Regulation of Payment Service Banks (PSBs) in Nigeria.

A handwritten signature in blue ink, appearing to read 'Kevin N. Amugo', written over a horizontal line.

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CENTRAL BANK OF NIGERIA

**GUIDELINES FOR LICENSING AND
REGULATION OF PAYMENT SERVICE
BANKS IN NIGERIA**

OCTOBER 2018

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1 INTRODUCTION

The Central Bank of Nigeria (CBN), in furtherance of its mandate to promote a sound financial system in Nigeria and the need to enhance access to financial services for low income earners and unbanked segments of the society, continues to be innovative in deepening the financial services sector.

The National Financial Inclusion Strategy (NFIS) seeks to ensure that over 80 per cent of the bankable adults in Nigeria have access to financial services by 2020. The CBN in collaboration with stakeholders launched the NFIS on 23rd October, 2012 with a view to reducing the exclusion rate to 20 per cent by 2020.

Despite several initiatives including the Introduction of Microfinance banking, Agent Banking, Tiered Know-Your-Customer Requirements and Mobile Money Operation (MMO) in pursuit of this objective, the inclusion rate remains below expectation.

The CBN, in the circumstance and in collaboration with critical stakeholders in the digital financial ecosystem, such as the Nigerian Communication Commission, commercial banks, mobile money operators and telecommunication companies have conducted several study tours of other jurisdictions that have made significant progress in driving financial inclusion.

In view of the challenges to effective outreach to rural communities as well as the need to complement the services provided by other licensed entities, the CBN issues this regulation to provide for the licensing and operations of Payment Service Banks (PSBs) in Nigeria. PSBs are expected to leverage on mobile and digital channels to enhance financial inclusion and stimulate economic activities at the grassroots through the provision of financial services.

Accordingly, PSBs are envisioned to facilitate high-volume low-value transactions in remittance services, micro-savings and withdrawal services in a secured technology-driven environment to further deepen financial inclusion and help in attaining the policy objective of 20 per cent exclusion rate by 2020.

This Guidelines is issued pursuant to powers conferred on the CBN Governor by the CBN Act 2007 and BOFIA 1991 (as amended). It covers the definition; objectives; eligible promoters; licensing requirements; corporate governance; business conduct; and permissible activities. The requirements for prudential regulation; supervision; Know Your Customer (KYC), consumer protection as well as Risk Management of the proposed Payment Service Banks in Nigeria are also covered.

2. OBJECTIVE

The key objective of setting up PSBs is to enhance financial inclusion by increasing access to deposit products and payment/remittance services to small businesses, low-income households and other financially excluded entities through high-volume low-value transactions in a secured technology-driven environment.

3. STRUCTURE OF PAYMENT SERVICE BANKS

Payment Service Banks shall:

- i. Operate mostly in the rural areas and unbanked locations targeting financially excluded persons, with not less than 25% financial service touch points in such rural areas as defined by the CBN from time to time;
- ii. Enter into direct partnership with card scheme operators. Such cards shall not be eligible for foreign currency transactions;
- iii. Deploy ATMs in some of these areas;
- iv. Deploy Point of Sale devices;

- v. Be at liberty to operate through banking agents (in line with the CBN's Guidelines for the Regulation of Agent Banking and Agent Banking Relationships in Nigeria);
- vi. Roll out agent networks with the prior approval of the CBN;
- vii. Use other channels including electronic platforms to reach-out to its customers;
- viii. Establish coordinating centres in clusters of outlets to superintend and control the activities of the various financial service touch points and banking agents;
- ix. Be technology-driven and shall conform to best practices on data storage; security and integrity; and
- x. Set up consumer help desks (physical and online) at its main office and coordinating centres.

The Payment Service Banks shall use the words "Payment Service Bank" in its name to differentiate it from other banks.

Furthermore, the name of a PSB shall not include any word that links it to its parent company.

4. PERMISSIBLE AND NON-PERMISSIBLE ACTIVITIES

4.1 Permissible Activities

Payment Service Banks shall carry out the following activities:

- i. Accept deposits from individuals and small businesses, which shall be covered by the deposit insurance scheme;
- ii. Carry out payments and remittances (including inbound cross-border personal remittances) services through various channels within Nigeria;
- iii. Sale of foreign currencies realized from inbound cross-border personal remittances to authorized foreign exchange dealers;
- iv. Issue debit and pre-paid cards on its name;

- v. Operate electronic wallet;
- vi. Render financial advisory services;
- vii. Invest in FGN and CBN securities; and
- viii. Carry out such other activities as may be prescribed by the CBN from time to time.

4.2 Non-Permissible Activities

Payment Service Banks shall not carry out the following activities:

- i. Grant any form of loans, advances and guarantees (directly or indirectly);
- ii. Accept foreign currency deposits;
- iii. Deal in the foreign exchange market except as prescribed in 4.1 (ii & iii) above;
- iv. Insurance underwriting;
- v. Undertake any other transaction which is not prescribed by this Guidelines;
- vi. Accept any closed scheme electronic value (e.g. airtime) as a form deposit or payment;
- vii. Establish any subsidiary except as prescribed in the CBN Regulation on the Scope of Banking and Ancillary Matters, No 3, 2010.

5. ELIGIBLE PROMOTERS

The following may promote PSBs:

- i. Banking Agents;
- ii. Telecommunications companies (Telcos), through subsidiaries;
- iii. Retail chains (supermarkets, downstream petroleum marketing companies);
- iv. Postal services providers and courier companies;

- v. Mobile Money Operators (MMOs that desire to convert to Payment Service Banks shall comply with the requirement of this Guideline);
- vi. Financial technology companies (Fintech);
- vii. Financial Holding Companies; and
- viii. Any other entity on the merit of its application subject to the approval of the CBN.

Where the promoter of a PSB is a regulated entity, it shall be required to obtain approval or a 'no objection letter' from its primary regulator and submit same at the licensing application stage to the CBN.

Switching companies which already have record/data of the financial system operators shall not be allowed to own PSB to avert conflict of interest.

6. LICENSING REQUIREMENTS

The promoters of a PSB shall be required to submit a formal application for the grant of a Payment Service Bank licence addressed to the Governor of the CBN.

The promoters of a PSB shall make a formal presentation of the proposal to the Director, Financial Policy and Regulation Department (FPRD), CBN. The proposal should cover the following amongst others:

- i. business case;
- ii. vision and strategy;
- iii. governance arrangements;
- iv. risk management;
- v. compliance; and
- vi. financial viability.

6.1 Requirements for grant of Approval-In-Principle (AIP)

A) The application shall be accompanied with the following:

- i. A non-refundable application fee of ₦500,000 (five hundred thousand Naira only) in bank draft, payable to the Central Bank of Nigeria or such other amount as the CBN may specify from time to time;
- ii. Evidence of minimum capital deposit in line with Section 6.6 of this Regulation, to be verified by the CBN;
- iii. Evidence of capital contribution made by each shareholder;
- iv. Evidence of name reservation with the Corporate Affairs Commission (CAC);
- v. Detailed business plan or feasibility report which shall, at a minimum, include:
 - a) Objectives of the PSB;
 - b) Justification for the application;
 - c) Proposed ownership structure in a tabular form, indicating the names of potential investors, profession/business and percentage shareholdings;
 - d) Detailed bio-data/resume of proposed shareholders;
 - e) Source(s) of funding of the proposed equity contribution for each investor. Where the source of funding the equity contribution is a loan, such shall be a long-term facility of at least 7-year tenor and shall not be taken from the Nigerian banking system;
 - f) Board and board committee charters stating the roles and responsibilities of the board and sub-committees;
 - g) Criteria for selecting board members;

- h) Board composition and detailed resumes of proposed directors. The total number of directors shall be between 5 and 7, including at least two independent directors;
 - i) Completed Fitness and Propriety Questionnaire; and sworn declaration of net worth executed by the proposed directors and significant shareholders;
 - j) Bank Verification Number (BVN) and Tax Clearance Certificate of each proposed director and significant shareholders;
 - k) Organizational structure, showing functional units, responsibilities, reporting relationships and grade of heads of departments/units;
 - l) List of proposed top management staff (AGM and above) and their detailed resumes, stating qualification (including photocopies of academic and professional credentials), experience, and records of accomplishments, etc;
 - m) Schedule of services to be rendered;
 - n) Sales, distribution and marketing strategy showing geographic coverage;
 - o) Five-year financial projection of the proposed bank indicating expected growth, profitability and the underlying assumptions; and
 - p) Details of information technology requirements and facilities.
- vi. For corporate investors, promoters shall forward the following additional documents:

- a) Certificate of Incorporation and certified true copies of other incorporation documents;
 - b) Board resolution supporting the company's decision to invest in the equity shares of the proposed bank;
 - c) Names and addresses (business and residential) of owners, directors and their related companies, if any; and
 - d) Audited financial statements & reports of the company and Tax Clearance Certificate for the immediate past 3 years.
- vii. Draft copy of the company's Memorandum and Articles of Association (MEMART). At a minimum, the MEMART shall contain the following information:
- a) Proposed name of the bank
 - b) Object clause
 - c) Subscribers to the MEMART
 - d) Procedure for amendment
 - e) Procedure for share transfer/disposal
 - f) Appointment of directors
- viii. A written and duly executed undertaking by the promoters that the bank will be adequately capitalized for the volume and character of its business at all times, and that the CBN shall have powers to supervise and regulate its operations;
- ix. For regulated foreign institutional investors, an approval or a 'no objection letter' from the regulatory authority in the country of domicile;

- x. Shareholders' agreement providing for disposal/transfer of shares as well as authorization, amendments, waivers, reimbursement of expenses;
- xi. Statement of intent to invest in the bank by each investor;
- xii. Technical Services Agreement;
- xiii. Detailed Manuals and Policies, particularly:
 - a) Manual of Operations;
 - b) Asset/Liability Management Policy (ALM Policy) that highlights the bank's permissible assets and liabilities, sets the standards for managing its interest rate, duration risk and liquidity risk, and delineates the composition, duties, and operational procedures for the bank's Asset/Liability Management Committee;
 - c) Financial Management Policy that highlights the bank's financial management policies and procedures, and system of internal controls. The Policy should include, at a minimum:
 - i. Accounting policies and principles;
 - ii. Roles and responsibilities of the senior management officials responsible for financial management;
 - iii. Treasury operations, including funds management, vouchers, payroll and procurement;
 - iv. Financial record keeping and reporting; and
 - v. Auditing and periodic testing of internal controls.
 - d) Anti-Money Laundering and Combating Financing of Terrorism (AML/CFT) Policy;

- e) Enterprise-Wide Risk Management Framework;
 - f) Code of Ethics and Business Conduct that specifies high standards for honesty, integrity, and impartiality for the bank's employees, officers, and directors and provides guidance on avoiding conflicts of interest, self-dealing, and other types of impropriety as specified in the BOFIA or by the Bank. Every director and officer of the bank shall be required to sign the Code of Ethics and Business Conduct;
 - xiii) Any other information that the CBN may require from time to time.
- B) Following the receipt of an application with complete and satisfactory documentation, the CBN shall communicate its decision to the applicant within 90 days. Where the CBN is satisfied with the application, it shall issue an Approval-in-Principle (AIP) to the applicant.
- C) The proposed bank shall not incorporate/register its name with the CAC until an AIP has been obtained from the CBN in writing, a copy of which shall be presented to the CAC for registration.

6.2 Requirements for Granting of Final License

Not later than six (6) months after obtaining the A.I.P, the promoters of a proposed PSB shall submit application for the grant of a final licence to the CBN. The application shall be accompanied with the following:

- i. Non-refundable licensing fee of ₦2,000,000.00 (Two Million Naira Only) in bank draft payable to the Central Bank of Nigeria;
- ii. Certified True Copy (CTC) of Certificate of Incorporation of the bank;
- iii. CTC of MEMART;

- iv. CTC of Form CAC 1.1;
- v. Evidence of location of Head Office (rented or owned) for the take-off of the business;
- vi. Schedule of changes, if any, in the Board and Shareholding after the grant of AIP;
- vii. Evidence of ability to meet technical requirements and modern infrastructural facilities such as office equipment, computers, telecommunications, to perform the bank's operations and meet CBN and other regulatory requirements;
- viii. Copies of letters of offer and acceptance of employment in respect of the management team;
- ix. Detailed resumes of top management staff ;
- x. Completed Fitness and Propriety Questionnaire; and sworn declaration of net worth executed by top management staff;
- xi. Bank Verification Number (BVN) and Tax Clearance Certificate of each top management staff;
- xii. Comprehensive plan on the commencement of the bank's operations with milestones and timelines for roll-out of key payment channels; and
- xiii. Board and staff training programme.

6.3 Conduct of Pre-Licensing Inspection

As a requirement to the grant of final licence, the CBN shall conduct an inspection of the premises and facilities of the proposed bank to, amongst others:

- a. Check the physical structure of the office building and infrastructure provided for take-off of the PSB;

- b. Sight the original copies of the documents submitted in support of the application for license;
- c. Meet with the Board and Management team whose resumes had earlier been submitted to the CBN;
- d. Verify the capital contributions of the promoters; and
- e. Verify the integration of its infrastructure with the National Payments System.

6.4 Requirements for commencement of operations

The bank shall, through a letter, inform the CBN of its readiness to commence operations and such information shall be accompanied by one copy each of the following:

- i. Shareholders' Register;
- ii. Share certificate issued to each investor;
- iii. Opening statement of affairs signed by at least two directors and auditors;
- iv. Enterprise Risk Management Framework (ERMF);
- v. Internal control policy;
- vi. Minutes of pre-commencement board meeting; and
- vii. Evidence of integration of the bank's infrastructure with the National Payments System.

6.5 Post-commencement Requirements

A PSB shall:

- i. Comply with all guidelines and regulations issued by the CBN and other sector regulators.

- ii. Maintain adequate accounting system and keep records that capture information which reflect the financial condition of the bank.
- iii. Maintain an unimpaired minimum capital at all times.
- iv. Always comply with the requirements incidental to the authorization to perform banking operations as stipulated by the CBN.

6.6 Financial Requirements

The minimum capital requirement, application and licensing fees for PSBs are as follows:

Minimum capital	₦5,000,000,000.00
Non-refundable application Fee	₦500,000.00
Non-Refundable Licensing Fee	₦2,000,000.00
Change of name fee	₦1,000,000.00

The CBN may vary these requirements from time to time.

Promoters should note that in compliance with the BOFIA, the investment of the Share Capital Deposit shall be subject to availability of investment instruments. Upon the grant of license or otherwise, the CBN shall refund the sum deposited to the applicant, together with the investment income, if any, after deducting administrative expenses and tax on the income.

7. CORPORATE GOVERNANCE

7.1 The provisions of the CBN code of corporate governance for banks shall be applicable to PSBs.

7.2 The provisions of the Revised Assessment Criteria for Approved Persons' Regime for Financial Institutions shall be applicable to PSBs.

7.3 Where a PSB is a related company to an existing infrastructure provider which provides services to other financial institutions, the PSB shall ensure that its dealings with the infrastructure provider are at arms-length.

8. BUSINESS CONDUCT (FAIR COMPETITION)

A) The following conditions shall guide business conduct between PSBs, their parent companies and other related entities (where applicable):

i. A parent company or any other related entity of a PSB, which renders services to its PSB shall extend similar services to other entities that so desire on the same terms and conditions. In other words, all intra-group transactions shall be at arms-length.

ii. A parent company or any other related entity of a PSB is prohibited from offering any preferential treatment, which negate fair competition, to its subsidiary.

iii. Preferential treatment by a parent company or any other related entity shall, among others, include:

a. Precluding its subsidiary's competitor from using its infrastructure or services.

b. Offering lower quality of service to its subsidiary's competitors.

c. Offering such infrastructure or services at differential pricing

d. Precluding any specific infrastructure or service as may be prescribed by the CBN from time to time.

B) Failure of a parent company or any other related entity to abide by these fair competition clauses may lead to revocation of license of the PSB.

C) All services between the parent company and subsidiary shall be guided by service level agreements and/or shared services agreements which shall be submitted for CBN approval prior to implementation.

9. PRUDENTIAL REGULATION

9.1 Minimum Capital Requirement

- i. The minimum capital of PSBs shall be ~~N~~5,000,000,000.00 (Five Billion Naira only) or such other amount that the CBN may prescribe from time to time.
- ii. Maintenance of Statutory Reserves by PSBs shall be in line with Section 16 of BOFIA.
- iii. The CBN may, as it deems appropriate, require a PSB to maintain additional capital for specific risks.

9.2 Payment of Dividend

A PSB shall not declare or pay dividend on its shares until it has:

- i. Completely written-off all its preliminary and pre-operational expenses;
- ii. Made adequate provisions to the satisfaction of the CBN for actual and contingent losses;
- iii. Satisfied the minimum Capital Adequacy Ratio requirement as stipulated in Section 9.3 of this Regulation;
- iv. Met all matured obligations;
- v. Comply with all relevant CBN regulations on dividend payments; and
- vi. Obtained the approval of the CBN in respect thereof.

9.3 Capital Adequacy Ratio

- i. The capital adequacy ratio of a PSB shall be measured as the percentage of its shareholders' funds unimpaired by losses to its total risk weighted

assets. The minimum Capital Adequacy Ratio (Qualifying Capital/Total Risk Weighted Assets) for PSBs shall be 10 per cent or as may be prescribed by the CBN from time to time.

- ii. Capital measurement approach for PSBs shall be as applicable to Deposit Money Banks (DMBs) or as may be prescribed by the CBN from time to time.

9.4 Investment of Deposit Liabilities

- i. PSBs shall maintain not less than 75% of their deposit liabilities in CBN securities, Treasury Bills (TBs) and other short-term federal government debt instruments at any point in time.
- ii. PSBs shall have the privilege to make their investments from the CBN window.
- iii. All funds in excess of the PSB's operational float should be placed with DMBs.

9.5 Participation in Payment and Settlement System

Payment Service Banks shall participate in the payment and settlement system and have access to the inter-bank and the CBN collateralised repo window for its temporary liquidity management.

9.6 Cash Reserve Requirement

Cash Reserve Requirement shall be prescribed by the CBN from time to time

9.7 Limit of Investment in Fixed Assets (Including Branch Expansion)

Investments in fixed assets by PSBs shall be as may be prescribed by the CBN from time to time.

9.8 Revaluation of Fixed Assets

Requirement for revaluation of fixed asset shall be in line with the Prudential Guidelines for DMBs or as may be prescribed by the CBN from time to time.

10. SUPERVISION OF PAYMENT SERVICE BANKS

- 10.1 PSBs shall be supervised by the Central Bank of Nigeria.
- 10.2 Where a PSB is a subsidiary or associate of a legal entity, the entity shall be required to comply with all extant CBN Guidelines and circulars as they relate to the PSB's operations.
- 10.3 PSBs shall render quarterly returns indicating the number of financially excluded customers on-boarded during the quarter to which the returns relate.
- 10.4 PSBs shall render such other returns, in such format and frequency, as the CBN may prescribe from time to time.

11. KNOW YOUR CUSTOMER (KYC) REQUIREMENTS

PSBs shall comply with relevant provisions of the Money Laundering (Prohibition) Act, 2011 (as amended), Terrorism Prevention Act, 2011 (as amended), CBN AML/CFT Regulations for Banks and Other Financial Institutions 2013, other extant laws and regulations on KYC issued by the CBN.

- 11.1 PSBs shall adopt risk-based approach in the conduct of KYC and ensure that every customer complies with the KYC requirements. All accounts shall be subjected to continuous suspicious transactions monitoring and any suspicious transaction shall be reported to the appropriate agency.
- 11.2 PSBs shall maintain robust, effective and efficient AML/CFT software solutions to monitor thresholds as may be prescribed by the Bank from time to time. They shall also designate officers to monitor compliance.

11.3 For the purpose of KYC, customers under the Tier 1 account category shall require name and phone number as identification requirements.

11.4 Tier 2 and 3 account category customers shall be required to comply with the requirements of Tiered KYC.

12. CONSUMER PROTECTION

The CBN Consumer Protection Framework shall be applicable to PSBs.

13. RISK MANAGEMENT

13.1 Credit Risk Management (Including credit concentration risk)

In accordance with Section 4.2 (i) of this Regulation, PSBs are not permitted to grant any form of loans and advances. As such, the provisions for management of credit risk applicable to DMBs shall not apply to PSBs.

13.2 Capital Measurement Approach for Credit Risk

Without prejudice to Section 13.1 above, Capital measurement approach for credit risk for PSBs shall be as applicable to DMBs or as may be prescribed by the CBN from time to time.

13.3 Management of other Risks

Management of other Risks (such as Market, Operational, Liquidity, Strategic, Information Technology and Reputational Risks) shall be as may be prescribed by the CBN from time to time.

13.4 Internal Controls

- i. The provisions regarding internal controls, audit and compliance by the PSBs shall be as applicable to DMBs, with appropriate enhancements to take care of the Information System related aspects and operations through agents.

- ii. PSBs shall implement appropriate controls to ensure strict confidentiality of customers' data and information.

14. PAYMENT SYSTEM SECURITY

All CBN regulations on operations of electronic payment channels shall be applicable to PSBs.

15. REVOCATION OF LICENSE

This shall be in line with the provision of BOFIA or through voluntary liquidation subject to the approval of the CBN.

16. GLOSSARY

For the purpose of this Guidelines, the following terms will have the meanings assigned hereunder:

S/N	TERM	MEANING
1.	Arm's-length	This describes a relationship/dealing between two parties, who act freely and independently of each other (keeping personal relationship aside where this exists). It means that terms of a transaction between related parties should not differ from the terms that would have applied between unrelated persons in a comparable transaction.
2.	Banking Agent	An entity engaged by a financial institution to provide specific financial services on its behalf using the agent's premises.
3.	Coordinating Centre	An office of a PSB that coordinates activities of its financial services touch points within a particular cluster/zone/region.
4.	Financial service touch points	A location where a customer can access basic financial service including cash-in, cash-out and transfers/remittances
5.	Electronic wallet	A pre-loaded system-based account, which may be operated using an electronic device
6.	Rural Areas	Rural areas include villages, settlements, hamlets and the hinterlands, as well as such other areas without adequate banking facilities as may be

S/N	TERM	MEANING
		prescribed by the CBN from time to time.
7.	Service Level Agreement	Service level agreement (SLA) is a contract between a service provider (either internal or external) and the end user that defines the level of service expected from the service provider.
8.	Shared services agreements	Provision of a service by one part of an organization or group where that service had previously been found in more than one part of the organization or group
9.	Significant shareholder	A shareholder who owns (directly or indirectly) up to five per cent of the equity shares of a financial institution
10.	Small Business	This is an independently owned and operated company that is limited in size and revenue, that is, has less than 300 employees and total assets that is less than 100 million Naira