



PAYMENTS SYSTEM MANAGEMENT DEPARTMENT

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November 6, 2018

To: All Deposit Money Banks, Merchant Banks, Primary Mortgage Banks, Micro Finance Banks, Development Finance Institutions, Mobile Money Operators, any Other Financial Institution and the general public.

EXPOSURE DRAFT ON THE “REGULATION FOR THE OPERATION OF INDIRECT PARTICIPANTS IN THE PAYMENTS SYSTEM”

The Central Bank of Nigeria (CBN), in furtherance of its mandate for the development of electronic payments system in Nigeria, hereby issues the exposure draft on the Regulation for the Operation of Indirect Participants in the Payments System for your review and comments.

Kindly forward your comments, in hard copy to the Director, Payments System Management Department and the soft copy to toladimeji@cbn.gov.ng and ehaniemeke@cbn.gov.ng, on or before November 26, 2018.

Thank you for your usual cooperation

A handwritten signature in blue ink, appearing to read 'S. Okojere', with a date '18' written below it.

Sam C. Okojere

Director, Payments System Management Department

REGULATION
FOR THE OPERATION OF INDIRECT PARTICIPANTS IN THE
PAYMENTS SYSTEM

EXPOSURE

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Authors and Participants

Participants:
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Committee of Heads of Banking Operations (CHBO)
Mortgage Bank Association of Nigeria, (MBAN)
National Association of Microfinance Banks (NAMB)
Other Financial Institutions Supervision Department (OFISD), CBN
Banking and Payments System Department, CBN
Nigeria Inter-Bank Settlement System Plc. (NIBSS)
ACH, Cheque & Instant Payments Scheme Board

Distribution List

Name
CBN, DMBs, NIBSS, OFIs, ACH, Cheque & Instant Payments Scheme Board

1. Background

In exercise of the powers conferred on the Central Bank of Nigeria (CBN) under Sections 2(d), 33 (1)(b) and 47(2) of the CBN Act 2007 to promote sound financial system in Nigeria, issue guidelines, facilitate the development of an efficient and effective payments system in Nigeria, the CBN hereby issues this Regulation for the efficient operation of Indirect Participants in the payments system. This is in a bid to standardize the operation of Indirect Participants in the Payments System, given their critical role in driving Financial Inclusion.

1.2 Scope

The Regulation sets out the procedures for effective integration of Indirect Participants in the Payments System in Nigeria.

1.3 Objectives

The objectives of this Regulation shall be to:

1. standardise the operation of Indirect Participants in the payments system, taking into cognisance their operational risks;
2. provide mechanism and framework for the clearing and settlement of indirect participants payment instruments through the settlement banks;
3. strengthen indirect participants for effective contribution to digital financial services in Nigeria.

1.4 Indirect Participants

The following constitutes Indirect Participants in the Payments System:

1. Merchant Banks
2. Primary Mortgage Banks (PMB)
3. Micro-Finance Banks(MFBs)
4. Development Finance Institutions
5. Mobile Money Operators
6. Any other financial institutions as may be approved by the CBN

2. Minimum Criteria

To qualify as an Indirect Participant, an institution shall:

1. have a satisfactory risk-based rating from the CBN and secure a letter of recommendation from its settlement bank, signed by the Chief Risk Officer and an Executive Director of the settlement bank.
2. Comply with the NUBAN scheme.

3. General Principles

1. Only clearing banks are permitted to settle payment obligations of Indirect Participants.
2. An Indirect Participant shall settle all its payments obligations through only one clearing bank.
3. The relationship between a Clearing bank and an Indirect Participant shall be governed by a Settlement Agreement.
4. Where the account of an Indirect Participant with a Clearing bank is not adequately funded, the Clearing Bank may decline further settlement services to the Indirect Participant and inform the payment processor accordingly.
5. Except as otherwise agreed, a Clearing Bank or an Indirect Participant shall give at least thirty (30) days' notice to the other party before terminating the Settlement Agreement for any other reason apart from the circumstances in 3 above. The terminating party shall notify the payment processor of its intention to terminate.
6. A tripartite agreement shall be executed between the Indirect Participant, Clearing Bank, and the Payments Service Provider (PSP) to guide relationships.
7. Where the clearing bank is not a settlement bank, it shall obtain written consent of its settlement bank prior to establishing settlement relationship with an indirect participant.
8. Indirect Participants shall process their e-reference instruments through the Clearing Bank or directly through the Nigeria Inter-Bank Settlement System (NIBSS).

- a. In the latter option, NIBSS shall clearly indicate the source (Bank, Indirect Participant) of the e-reference requests.
- b. The receiving bank shall not discriminate between e-references originating from Banks and from Indirect Participants.

4. Obligations of Indirect Participants

An Indirect Participant shall:

1. comply with the Nigeria Bankers' Clearing System Rules for settlement.
2. open a settlement account(s) with the Clearing Bank wherein the net settlement position of the Indirect Participants shall be credited or debited as may be appropriate after each settlement session (hereinafter called "the Settlement Account").
3. pledge collateral in an amount as agreed with the Settlement bank which shall serve as security for settlement obligations.
4. indemnify and hold the Clearing Bank harmless in respect of any liability and/or loss whether direct or indirect that may arise as a result of this agreement. Accordingly, Indirect Participants hereby undertake to be primarily responsible and liable for all instruments presented for processing.
5. pay an annual settlement fee to the Clearing Bank as agreed.
6. make up any shortfall in the clearing collateral before the commencement of the next settlement window from the date of re-discount in order to bring the aggregate value of the investment up to the minimum collateral value as specified in the Settlement Agreement or subsequent review of the collateral amount.
7. undertake to bear the cost of re-discounting the collateral necessitated by a need to recover the debit balance in the Settlement Account.

5. Components of the Payments System

The relevant key components of the Payments System in Nigeria include:

- a. Cheque Clearing
- b. EFT & Bulk Payments
- c. Instant Payments
- d. Card Issuance
- e. Card Transaction Acquiring (ATM, POS, Web, etc.)
- f. Portals (e-Reference, Anti-Fraud, e-Signatory, e-Passport, etc.)
- g. Bank Verification Number System
- h. And any other approved by the CBN.

Specific conditions applicable to Indirect Participants for the individual component are described below.

5.1 Cheque Clearing

Relevant provisions of the Nigeria Cheque Standards and the NBCS Rules shall apply

5.2 EFT, Bulk Payments, and Instant Payments

1. The Indirect Participant shall provide end-to-end electronic payment services to its customers, leveraging its relationship with the clearing bank and payment processor.
2. The Indirect Participant shall process its instruments through the Clearing Bank or directly through the payment processor.
3. The Clearing Bank has obligation to ensure compliance of its Indirect Participants to the rules and regulations guiding the EFT operations.
4. All other relevant provisions of the Regulation on Instant (Inter-bank) Electronic Funds Transfer Services in Nigeria shall apply.
5. Clearing banks and Indirect Participants shall provide necessary functionalities on deployed service delivery channels to enable their customers to seamlessly transfer and receive funds.

5.3 Card Issuance

1. Indirect Participants may issue payment cards only on the authority of licensed payment card issuers
2. The licensed payment card issuer shall be responsible for the operations of the Indirect Participants.

5.4 Card Transaction Acquiring (ATM, PoS, Web, etc.)

1. Indirect Participants may acquire payment card transactions only on the authority of licensed acquirers.
2. The licence acquirer shall be responsible for the operation of the Indirect Participant

5.5 Industry Portals

5.5.1 Electronic Reference System (e-Reference)

1. The Indirect Participant shall process its e-References through the Clearing Bank or directly through the payment processor.
2. Where the Indirect Participant processes its e-References directly, the payment processor shall clearly indicate source (Bank, Indirect Participant) of the e-reference requests.
3. The receiving bank shall not discriminate between e-references originating from Banks and Indirect Participant(s).
4. The Clearing Bank shall be responsible for the operations of the Indirect Participant(s).

5.5.2 Bank Verification Number System

1. The Indirect Participant shall enrol its customers on its own or through a clearing bank.
2. The Indirect Participant shall process its validation and verification requests on its own or through a Clearing Bank.
3. The Indirect Participants shall comply with the approved regulatory framework for BVN Operations and Watch-list.

5.5.3 Others (Anti-Fraud, e-Signatory, e-Passport)

1. Indirect Participants shall comply with all relevant Regulations relating to Anti-Fraud, e-Signatory, e-Passport.

6. Adjudication of Disputes

Any dispute between Indirect Participant and its Clearing bank shall be referred to the CBN for adjudication. The decision of the CBN shall be binding.

7. Abuse and Sanctions

The prescribed sanctions in the relevant platform Regulation shall apply.

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8. Amendments

Amendment(s) to this Regulation may be proposed by any stakeholder through a written request addressed to the Director, Payments System Management Department of the Central Bank of Nigeria.

EXPOSURE

April, 2018

9. Appendix: Definitions

The terms below shall have the following meaning for the purpose of this Regulations.

1. BVN means Bank Verification Number
2. CBN means Central Bank of Nigeria
3. Clearing Bank means a Direct Participant who performs Settlement function to an Indirect Participant.
4. EFT means Electronic Funds Transfer
5. Indirect Participants means payments service providers who are non-clearing financial institutions but settle their payments obligations through clearing banks.
6. NIBSS means Nigeria Inter-Bank Settlement System
7. NUBAN means Nigeria Uniform Bank Account Number
8. PSP means Payments Service Providers
9. NBCS means Nigeria Bankers' Clearing System