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CIRCULAR TO ALL DEPOSIT MONEY BANKS, PAYMENT SERVICE PROVIDERS AND OTHER FINANCIAL INSTITUTIONS

ISSUANCE OF THE REGULATORY FRAMEWORK FOR NON-BANK ACQUIRING IN NIGERIA

The Central Bank of Nigeria, in furtherance of its mandate to promote a sound financial system and facilitate the development of electronic payment systems in Nigeria, hereby issues the Regulatory Framework for Non-Bank Acquiring in Nigeria.

The framework sets out the rules for the operation of Non-Bank Merchant Acquiring in Nigeria as a regulated service and provides minimum standards and requirements for the operations of Non-Bank Acquiring in Nigeria, including the rights and obligations of the parties involved in the process. It also compels Non-Bank Merchant Acquirers to meet the minimum standards of operations, as approved by the Bank.

This Regulatory Framework shall guide activities of the participants in the provision of Non-Bank Acquiring services in Nigeria.

All stakeholders are required to ensure strict compliance with the framework and all other regulations, as the CBN continues to monitor developments and issue guidance as may be appropriate.

A handwritten signature in black ink, appearing to read 'Musa I. Jimoh'.

Musa I. Jimoh
Director, Payments System Management Department



CENTRAL BANK OF NIGERIA

REGULATORY FRAMEWORK FOR NON-BANK ACQUIRING IN NIGERIA

Preamble

In exercise of the powers conferred on the Central Bank of Nigeria (CBN), by Sections 2 (d), 47 (2), of the CBN Act, 2007 and Section 69 (1) of the Banks and Other Financial Institutions Act, 2020, to promote a sound financial system and facilitate the development of electronic payment system in Nigeria; the Central Bank of Nigeria (the Bank) hereby issues the Regulatory Framework for Non-Bank Acquiring in Nigeria.

1.0 Scope

The Framework sets out the procedures for the operation of Non-Bank Merchant Acquiring in Nigeria, including the rights and obligations of the parties involved in the process. It also compels Non-Bank Merchant Acquirers to meet the minimum standards of operations, as approved by the Bank.

1.1 Objectives

The objectives of this Framework are to:

- i. Establish Non-Bank Acquiring as a regulated service in Nigeria;
- ii. Provide minimum standards and requirements for the operations of Non-Bank Acquiring in Nigeria.

1.2 Participants in Non-Bank Acquiring in Nigeria

This Regulatory Framework shall guide activities of the participants in the provision of Non-Bank Acquiring services in Nigeria. Participants are as follows:

- i. Non-Bank Acquirer
- ii. Settlement Bank/Sponsor Bank
- iii. Merchant's Deposit Money Bank
- iv. Card Schemes
- v. Other Payment Schemes
- vi. Nigeria Central Switch (NCS)

2.0 Roles and Responsibilities of Participants

2.1 Non-Bank Acquirers

Only Licensed Switching and Processing Companies, other than Acquiring Banks, shall be allowed to process and settle transactions on behalf of merchants in Nigeria. The Bank shall approve non-Bank Acquirers, as it deems necessary, from time to time.

2.2 Settlement Bank/Sponsor Bank

The role of the Settlement/Sponsor Bank shall be as prescribed in the Guidelines for the Operations of Electronic Payment Channels in Nigeria and other relevant regulations.

2.3 Merchant's Deposit Money Bank

The role of the Merchant's Deposit Money Bank shall be as prescribed in the Guidelines for the Operations of Electronic Payment Channels in Nigeria and other relevant regulations.

2.4 Payment Schemes/NCS

The role of the Payment Schemes/NCS shall be as prescribed in the Guidelines for the Operations of Electronic Payment Channels in Nigeria and other relevant regulations.

3.0 Documents and Policies

Non-bank Acquirers shall have in place adequate policies for the management of risks associated with the acquiring services. Furthermore, necessary agreements shall be executed with parties to the acquiring services.

3.1 Policies

The Non-Bank Acquirer shall have and implement policies that include minimum standards established by the payments schemes (including card schemes) to mitigate risk to the payment system. The policies shall be approved by the acquirer's Board of Directors or as appropriate, an executive management committee. Upon request, these policies shall be made available to relevant scheme.

3.2 Merchant Agreements

The Non-Bank Acquirer shall maintain merchant agreements that meet the respective scheme's minimum requirements for disclosure, and clearly define obligations of acquirer, merchant and other parties. Furthermore, it shall have appropriate merchant agreement(s) in place with each merchant, prior to provision of transaction acquiring services.

4.0 Merchant Underwriting

The Non-Bank Acquirer shall:

- i. Control merchant approvals as per pre-determined policies and procedures.
- ii. Provide Payment Scheme acceptance privileges, in accordance with the respective Payment Scheme Rules.

5.0 Merchant Risk Monitoring

The Non-Bank Acquirer shall maintain minimum standards in accordance with the Guidelines on Electronic Payment Channels in Nigeria and risk controls to monitor merchant activity. This shall be to ensure compliance with the respective payment scheme rules while protecting stakeholders such as merchants, consumers, schemes and other participants. A fraud monitoring/behavioral management solution shall be put in place.

6.0 Settlement Arrangements

Non-Bank Acquirers shall:

- i. not directly access or hold merchants' funds, whether from/for settlement, reversals or any other reason.

Notwithstanding (i) above,

- ii. stipulate its responsibilities to the merchant, for the security and settlement of transaction amounts to merchant accounts.
- iii. ensure that Merchants' accounts are credited in respect of the acquired transactions, as agreed in executed Service Level Agreements (SLAs).
- iv. strictly comply with respective scheme rules.
- v. have controls in place, related to establishing and changing merchants' bank accounts where settlement funds are deposited.

7.0 Sponsorship Arrangements

The application for approval by the entity intending to provide Non-Bank acquiring shall be sponsored by at least one acquiring Bank, where settlements shall be domiciled.

The roles and responsibility of a sponsor for each financial institution in a payment scheme shall include:

- i. Generation of financial/transaction data
- ii. Computation of settlement position.

8.0 Payment Scheme Licence/Approval

The Non-Bank Acquirer shall execute agreement with each payment scheme whose transactions it wishes to acquire. Provisional arrangements/agreements may be considered for in the process of applying for approval.

9.0 Risk Management

- i. Non-Bank acquirers shall develop and provide an appropriate governance structure, to manage the risk inherent in the acquiring service.
- ii. There shall be documented and approved policies in place; which support the risk management function and highlight the acquiring programme strategy, including targeted merchant segments, various entities/agents involved, their responsibilities, likely risks and mitigation procedures.
- iii. Non-Bank Acquirers shall comply with all applicable security standards, and shall ensure all merchants who store, transmit and use sensitive card data are Payment Card Industry Data Security Standard, PCI DSS- certified.
- iv. Non-Bank Acquirers shall perform due diligence before on-boarding new merchants as stated in the CBN Know Your Customer (KYC) Policy Document and Anti-Money Laundering/Combating Financing of Terrorism (AML/CFT) requirements.
- v. Non-Bank Acquirers shall undertake measures to prevent the use of their networks for purposes associated with money laundering, financial crimes and other illicit activities.

- vi. Non-Bank Acquirers shall not acquire transactions of merchants that are neither registered nor operating in Nigeria.
- vii. Non-Bank Acquirers shall verify that merchants have obtained necessary approvals from appropriate regulatory agencies in respect of their area of trade or activities.
- viii. Non-Bank Acquirers shall have a process to ensure adequate merchant agreements are effected.

10.0 Requirements for Regulatory Review and Approval

The CBN requirements to provide Non-Bank acquiring in Nigeria are as follows:

- i. The company shall be a CBN-licensed Switching Company or any other company as approved by the Bank.
- ii. In addition, to (i) above, the following documentation shall be required:
 - a. Evidence of engagement with a card scheme
 - b. Due Diligence and Merchant Onboarding Process
 - c. Merchant Risk Monitoring Framework
 - d. Sponsorship letter from one (1) Settlement Bank
 - e. Draft merchant agreements
 - f. Details of its settlement arrangements
 - g. Service Level Agreement (SLA) with Settlement Bank
 - h. Business Continuity Plan
 - i. Any other document(s) as may be required by the Bank.

11.0 Termination of Approval

The Bank shall terminate a Non-Bank Acquirer's Approval in the event of any of the following:

- a. Failure to meet the conditions for renewal of operating licence, as a switching and processing company in Nigeria;
- b. Revocation of licence/approval by the Bank;
- c. Termination of agreement with or approval of payment scheme(s);
- d. Inability to maintain relationship with at least two (2) payment schemes;
- e. Operational failures that lead to significant losses/fraud; or
- f. Any other reason(s) as may be determined by the Bank, from time to time.

12.0 Consumer Protection/Dispute Resolution

Any dispute arising out of, or in relation to this Framework, shall be settled in accordance with CBN's Consumer Protection Regulation. If unresolved, may be referred to an arbitration panel, as provided under the extant Arbitration and Conciliation Act or as maybe defined by the Bank from time to time.

13.0 Compliance and Sanctions

All parties shall comply with the provisions of this Framework, and other related Guidelines issued by the CBN. Non-compliance shall attract appropriate sanctions by the CBN.

14.0 Conflict with prior regulations

This Framework shall prevail, on matters of non-bank acquiring service, in the case of conflict with any prior Guidelines issued by the CBN.

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Central Bank of Nigeria, Abuja