



CENTRAL BANK OF NIGERIA

Financial Policy and Regulation Department
Central Business District
P.M.B. 0187
Garki, Abuja.

Tel: 09-46237401

E-mail: fprd@cbn.gov.ng

FPR/DIR/GEN/CIR/07/013

OCTOBER 05, 2018

LETTER TO ALL BANKS, TELECOMUNICATION COMPANIES, MOBILE MONEY OPERATORS, BANKING AGENTS AND NIGERIAN COMMUNICATION COMMISSION

EXPOSURE DRAFT ON THE GUIDELINES FOR LICENSING AND REGULATION OF PAYMENT SERVICE BANKS

In an effort to promote financial inclusion and enhance access to financial services for low income earners and unbanked segments of the society through leveraging on technology, the Central Bank of Nigeria (CBN) is proposing the establishment of Payment Service Banks. This is in furtherance of its mandate to promoting a sound financial system in Nigeria as well as being innovative in deepening the financial services sector.

The Exposure Draft Guideline for Licensing and Regulation of Payment Service Banks in Nigeria is hereby issued for comments and observations. The document may be assessed on the CBN website: www.cbn.gov.ng

We would be pleased to receive comments on the draft guidelines through the Director, Financial Policy and Regulation Department, Central Bank of Nigeria, Abuja by Friday, October 19, 2018. Softcopies of your comments may also be forwarded to cnwanja@cbn.gov.ng and magiwa@cbn.gov.ng

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

KEVIN N. AMUGO
DIRECTOR, FINANCIAL POLICY AND REGULATION DEPARTMENT



CENTRAL BANK OF NIGERIA

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

OCTOBER 2018

- 1 Introduction**
- 2 Objectives of Payment Service Banks**
- 3 Structure of Payment Service Banks**
- 4 Permissible Activities and Non-Permissible Activities**
 - 4.1 Permissible Activities
 - 4.2 Non-permissible Activities
- 5 Eligible Promoters**
- 6 Licensing Requirements**
 - 6.1 Requirements for grant of Approval-In-Principle (AIP)
 - 6.2 Requirements for granting a Final license
 - 6.3 Requirements for commencement of operations
 - 6.4 Post commencement requirements
 - 6.5 Financial Requirements
- 7 Corporate Governance**
- 8 Business Conduct (Fair Competition)**
- 9 Prudential Regulation of Payment Service Banks**
 - 9.1 Minimum Paid-Up Capital and Capital Reserves
 - 9.2 Payment of Dividend
 - 9.3 Capital Adequacy Ratio
 - 9.4 Investment of Deposit Liabilities
 - 9.5 Liquidity Ratio and Cash Reserve Requirement
 - 9.6 Investment in Fixed Assets (Including Branch Expansion)
 - 9.7 Revaluation of Fixed Asset
 - 9.8 Prohibition of Related-party Lending
- 10 Supervision:**
 - 10.1 Responsibility for Supervision of Payment Service Banks
 - 10.2 Rendition of Returns
- 11 Know Your Customer (KYC) Requirement**
- 12 Risk Management**
- 13 Revocation of License**

1 INTRODUCTION

The Central Bank of Nigeria (CBN), in furtherance of its mandate to promoting 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% of the bankable adults in Nigeria have access to financial services by 2020. The Central Bank of Nigeria in collaboration with stakeholders launched the NFIS on 23rd October, 2012 with a view to reducing the exclusion rate to 20% 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 draft regulation to provide for the licensing and operations of Payment Service Banks (PSBs) in Nigeria. PSBs are expected to leverage on mobile and digital services to enhance financial inclusion and stimulate economic activities at the grassroots through the provision of financial services. PSBs will also enable high-volume low-value transactions in remittance services, micro-savings and withdrawal services in a secured technology-driven environment.

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 of 20% exclusion rate by 2020

This draft Guidelines is being issued in pursuant to 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) as well as Risk Management of the proposed Payment Service Banks in Nigeria are also covered.

2. OBJECTIVE

The key objective of setting up Payment Service Banks is to enhance financial inclusion in rural areas by increasing access to deposit products and payment/remittance services to small businesses, low-income households and other 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 centres and unbanked locations, with not less than 50% physical access points in 'rural areas' as defined by the CBN from time to time;
- ii. Establish ATMs in some of these areas;
- iii. 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);
- iv. Use other channels including electronic platforms to reach-out to its customers;
- v. Establish coordinating centres in clusters of outlets to superintend and control the activities of the various access points and banking agents;
- vi. Be technology-driven and shall conform to best practices on data storage; security and integrity;
- vii. Set up consumer help desks at its main office and coordinating centres to attend to consumer-related issues.

4. PERMISSIBLE AND NON-PERMISSIBLE ACTIVITIES

4.1 Permissible Activities

Payment Service Banks shall carry out the following activities:

- i. Maintain savings accounts and accept deposits from individuals and small businesses, which shall be covered by the deposit insurance scheme;
- ii. Carry out payments and remittance (including inbound cross-border personal remittances) services through various channels within Nigeria;
- iii. Issue debit and pre-paid cards;
- iv. Operate electronic purse;

- v. Invest in FGN and CBN securities; and
- vi. 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;
- ii. Trade in the foreign exchange market except as in 4.1 (ii) above;
- iii. Insurance underwriting;
- iv. Undertake any other transaction which is not prescribed by this Payment Service Bank guidelines;
- v. Establish any subsidiary except as prescribed in the CBN Regulation on the Scope of Banking and Ancillary Matters, No 3, 2010

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

5. ELIGIBLE PROMOTERS

- i. Banking Agents
- ii. Telecommunications companies (Telcos), through subsidiaries
- iii. Retail chains (Supermarkets)
- iv. Mobile Money Operators (MMOs that desire to convert to Payment Service Banks shall comply with the requirement of this Guideline)

The CBN may from time to time, consider any other entity as the above list is not exhaustive.

6. LICENSING REQUIREMENTS

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

The application for a licence shall be preceded by a formal presentation of the proposal to the CBN's management.

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 that may be specified by the CBN 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 name reservation with the Corporate Affairs Commission (CAC);
- iv. Detailed business plan or feasibility report which shall, at a minimum, include:
 - a) Objectives of the Payment Service Bank;
 - b) Justification for the application;
 - c) Ownership structure in a tabular form indicating the name of proposed investor(s), profession/business and percentage shareholdings;
 - d) Detailed bio-data/resume of proposed shareholders;
 - e) Sources of funding of the proposed equity contribution for each investor;
 - f) 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;
 - g) Board and board committee charters stating the roles and responsibilities of the board and sub-committees;
 - h) Criteria for selecting board members;
 - i) Board composition and directors' detailed resumes. Note - the total number of directors shall be between 5 and 7, including at least two independent directors.
 - j) Completed Fitness and Propriety Questionnaire; and sworn declaration of net worth executed by the proposed shareholders, directors and management personnel;

- 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 detailed curriculum vitae stating their qualification (including photocopies of academic and professional credentials), experience, records of accomplishments;
 - m) Schedule of services to be rendered;
 - n) Five-year financial projection of the proposed bank indicating expected growth, profitability and the underlying assumptions.
 - o) Details of information technology requirements and facilities; and
 - p) Bank Verification Number (BVN) and Tax Clearance Certificate of each member of the Board and significant shareholders.
- v. 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;
 - d) Audited financial statements & reports of the company and Tax Clearance Certificate for the immediate past 3 years; and
- vi. 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) Objects clause
 - c) Subscribers to the MEMART

- d) Procedure for amendment
- e) Procedure for share transfer/disposal
- f) Appointment of directors
- vii. 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;
- viii. For regulated foreign institutional investors, an approval or a 'no objection letter' from the regulatory authority in the country of domicile;
- ix. Shareholders' agreement providing for disposal/transfer of shares as well as authorization, amendments, waivers, reimbursement of expenses;
- x. Statement of intent to invest in the bank by each investor;
- xi. Technical Services Agreement;
- xii. 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.
- C) 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.
- D) 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 Payment Service Bank shall submit application for the grant of a final licence to the CBN. The application shall be accompanied by the following:

- i. Non-refundable licensing fee of ₦2,000,000.00 (Two Million Naira Only) in a bank draft payable to the Central Bank of Nigeria;
- ii. Evidence of capital contribution made by each shareholder;
- iii. Certified true copy (CTC) of Certificate of Incorporation of the bank;
- iv. CTC of MEMART;

- v. CTC of Form CAC 1.1;
- vi. Evidence of location of Head Office (rented or owned) for the take-off of the business;
- vii. Schedule of changes, if any, in the Board, Management and Shareholding after the grant of AIP;
- viii. 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;
- ix. Copies of letters of offer and acceptance of employment in respect of the management team;
- x. Comprehensive plan on the commencement of the bank's operations with milestones and timelines for roll-out of key payment channels; and
- xi. 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 CVs 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 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 their infrastructure with the National Payments System.

6.5 Post-commencement Requirements

A Payment Service Bank 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 financial requirements which may be varied as the CBN considers necessary 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

Promoters should note that in compliance with BOFIA, the investment of the Share Capital Deposit shall be subject to availability of investment instruments and upon the grant of license or otherwise, the Bank 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)

The following conditions shall guide business conduct between PSBs and their Parent companies (where applicable)

- i. Parent companies of a PSB, which render services to its PSB shall be open to extend similar services to other PSBs that so desire at the same terms and conditions.
- ii. Parent companies of PSBs are prohibited from offering any preferential treatment, which negate fair competition, to its subsidiary.
- iii. Preferential treatment by a Parent company 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.
 - e. Failure of Parent companies to abide by this fair competition clause may lead to revocation of license of the PSB.

9. PRUDENTIAL REGULATION

9.1 Minimum Paid-Up Capital and Capital Reserves

- i. The Minimum Paid-up Capital of PSBs shall be ₦5,000,000,000.00 (Five Billion Naira Only) or such other amount that may be prescribed by the CBN from time to time.
- ii. Maintenance of Statutory Reserves by PSBs shall be as applicable to DMBs and in line with Section 16 of BOFIA or as may be prescribed by the CBN from time to time.
- iii. The CBN may require a PSB to maintain additional capital as appropriate in respect of specific risks faced by the bank.

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 6.3 of this Regulation;
- iv. Met all matured obligations;
- v. Obtained the approval of the CBN in respect thereof; and
- vi. Comply with all relevant CBN regulations on dividend payments.

9.3 Capital Adequacy Ratio

- i. The capital adequacy ratio of a PSB shall be measured as a percentage of the shareholders' funds unimpaired by losses to its risk weighted assets. The minimum Capital Adequacy Ratio (Capital/Risk Weighted Assets Ratio) 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 be required to maintain not less than 75% of their deposit liabilities in 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 PSBs' operational float should be placed with any DMB.

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 applicable to DMBs or 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 Payment Service Banks shall be supervised by the Central Bank of Nigeria.

10.2 Where a Payment Service Bank is a subsidiary or associate of a legal entity, the entity shall be required to comply with all extant CBN Guidelines and circulars.

10.3 Payment Service Banks shall be required to render returns to the Banking Supervision Department in a format and frequency as may be prescribed by the CBN 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 transactions 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 and dedicate officers to monitor compliance.

12. RISK MANAGEMENT

12.1 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 provision of credit risk management for DMBs shall not apply.

12.2 Capital Measurement Approach for Credit Risk

Without prejudice to sub-section 9.1 above, Capital measurement approach for credit risk for PSBs shall be as applicable to Deposit Money Banks (DMBs) or as may be prescribed by the CBN from time to time.

12.3 Management of other Risks

Management of other Risks (e.g. Market, Operational, Liquidity, Strategic, and Reputational Risks) shall be as applicable to DMBs or as may be prescribed by the CBN from time to time.

12.4 Internal Controls

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.

13. REVOCATION OF LICENSE

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