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CBN APPROVED NEW LICENSE CATEGORIZATION REQUIREMENTS FOR THE NIGERIAN PAYMENTS SYSTEM

Introduction

On December 9, 2020, the Central Bank of Nigeria issued a circular highlighting the New License Categorisations for the Nigerian Payments System ("License Categorisation Circular"). In line with the License Categorisation Circular, the Central Bank of Nigeria on Monday, May 24, 2021 released new license requirements for Payment System operators in Nigeria.

This new license is contained in a document stating the eligibility criteria for each license category in the country. The categories listed include the Payment Terminal Service Providers (PTSPs), Payment Solutions Service Providers (PSSPs), Payment Solution Services (PSSs), Super Agents, Mobile Money Operators (MMOs), Switching and Processing.

The new license requirements make provisions for capitalization of each service category, documentation, application and license fee and the license validity.

Potential applicants into Nigeria's lucrative financial services sector will have to grapple with meeting the stringent conditions included in these licensing requirements. For example, potential FinTechs looking to take on large GSM companies as Mobile Money Operators will have to stump up Two billion Naira (2,000,000,000.00) in capital requirements.

This article examines the significant changes introduced by the CBN approved new licence categorization requirements for payments system in Nigeria.

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Categories of payments system under the approved new license requirements

Switching and Processing Companies

These companies facilitate transactions and the exchange of money between merchants, their customers and the various financial institutions. Examples include NIBBS, Etranzact, Interswitch and Visa. By the new regulations, they are eligible once they "are registered with the Corporate Affairs Commission with their Memorandum and Articles of Association". Their capital requirements stipulate a Two Billion Naira (2,000,000,000.00) shareholder capital fund, unimpaired by losses and an escrow of a refundable sum of Two Billion Naira (2,000,000,000.00) into the CBN PSP share capital fund, which must be paid in one lump sum.

The new regulation further stipulates a non-refundable application fee of One Hundred Thousand Naira (100,000.00) and a license fee of One Million Naira (N1,000,000.00) if the application is successful.

The license is renewable by the CBN "upon satisfactory performance of operations.

Mobile Money Operators (MMOs)

These companies provide financial and payments services through mobile phones and mobile telephone networks. They may be network operators, Fintechs, payment services, financial institutions, banks and so on. Examples include MTN's Momo, Paga, Kudi Mobile, Polaris Sure Padi and FirstMonie by FirstBank. By the new regulations, they are eligible once they "are registered with the Corporate Affairs Commission with their Memorandum and Articles of Association".

The capital requirements for this group is the same as switching companies; Two Billion Naira (N2,000,000,000.00) shareholder capital fund, unimpaired by losses and an escrow of a refundable sum of Two Billion Naira (N2,000,000,000.00) into the CBN PSP share capital fund, which must also be paid in one lump sum.

They must also pay a non-refundable application fee of One Hundred Thousand Naira (100,000.00) and a license fee of One Million Naira (1,000,000.00) if the application is successful.

Payment Terminal Service Providers (PTSPs)

These are companies that deploy, support and maintain point-of-sale (POS) terminals on behalf of acquiring banks. Sometimes, the service providers may even be the banks themselves. They essentially provide devices that interface with payment cards to make electronic funds transfers possible. Examples of companies providing these services in Nigeria include CitiServe, NetPlus, Geepay, Wipay and Opay. By the new regulations, they are eligible once they "are registered with the Corporate Affairs Commission with their Memorandum and Articles of Association".

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The capital requirements for these operators is significantly lower than MMOs and Switching Companies. They are capped at One Hundred Million Naira Only (100,000,000.00) in shareholder capital fund, unimpaired by losses and an escrow of a refundable sum of One Hundred Million (100,000,000,00) into the CBN PSP share capital fund, which must also be paid in one lump sum.

They will also pay a non-refundable application fee of One Hundred Thousand Naira (100,000.00) and a license fee of One Million Naira (N1,000,000.00) if the application is successful.

Payment Solution Services (PSSs)

A payment solution service is a company, often a Fintech startup that facilitates electronic payments, settlements and transactions for merchants and customers. It may be through an app, the web or through API configurations. They provide both a merchant account and a payment gateway, ensuring that businesses can collect and manage their payments in a simple and efficient way. Notable examples of payment solutions service in Nigeria include Paystack, Flutterwave, Remita, Interswitch, WebPay and eTranzact.

By the new regulations, they are eligible once they “are registered with the Corporate Affairs Commission with their Memorandum and Articles of Association”.

The capital requirements for these operators is at Two Hundred and Fifty Million Naira Only (250,000,000.00) in shareholder capital fund, unimpaired by losses and an escrow of a refundable sum of Two Hundred and Fifty Million Naira (250,000,000.00) into the CBN PSP share capital fund, which must also be paid in one lump sum. They will also pay a non-refundable application fee of One Hundred Thousand Naira (100,000.00) and a license fee of One Million Naira (N1,000,000.00) if the application is successful.

Any Fintech with this license can be a Super Agent, payment service terminal provider and payments services solutions provider. So, it is a 3-in-1 package for the startups that can acquire the funds to obtain the license, or they will have to choose one of the licenses.

Super-Agents

Going through the license requirements for this category of payments service, this group appears to be a mix of mobile money and money agent operators. It requires that they must have a minimum of fifty agents, and must also outline the strategy of their shared agent network including geographical spread. A super-agent may include a financial provider's retail arm, supporting transactions as well as person-to-person transfers and bill payments across a vast network of agents operating under it.

By the new regulations, they are eligible once they “are registered with the Corporate Affairs Commission with their Memorandum and Articles of Association”.

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The capital requirements for these operators is at Fifty Million Naira (50,000,000.00) in shareholder capital fund, unimpaired by losses and an escrow of a refundable sum of Fifty Million Naira (50,000,000.00) into the CBN PSP share capital fund, which must also be paid in one lump sum. They will also pay a non-refundable application fee of One Hundred Thousand Naira (100,000.00) and a license fee of One Million Naira (N1,000,000.00) if the application is successful.

Payment Solution Service Providers (PSSPs):

These are companies permitted to deploy payment processing gateway and portals, provide payment solutions and application development services, and provide merchant aggregation and collection services.

By the new regulations, they are eligible once they "are registered with the Corporate Affairs Commission with their Memorandum and Articles of Association".

PSSPs must comply with the minimum capital requirement for One Hundred Million Naira (100,000,000.00) shareholders' funds unimpaired by losses and an escrow of refundable One Hundred Million Naira (100,000,000.00) into CBN PSP Share Capital Deposit Account.

Click **here** for more information on Switching and Processing, MMOs, PTSPs, PSSs, Super Agents, PSSPs.

Conclusion

Nigeria has seen a rise of fintech in recent years and has produced some of Africa's most notable payment platforms. The best known are Flutterwave, Paystack and Interswitch.

The companies have raised billions of dollars in funding, but some analysts have raised concerns about the regulation of the novel sector constraining innovation in some ways. Regarding the application process, the license fees might pose a big problem for smaller startups seeking to enter the payments space. If the essence of these new regulations is to encourage entry into the Fintech space, it would be counterproductive for license fees to be capped at a higher sum if their application is successful. When certain services are streamlined with strict requirements, then there may be barriers to entry.

A bigger problem is the so-called Escrow Fund. The regulations do not provide much detail on it, only that it is a refundable amount of money that must be paid, in one lump sum into the CBN escrow account for the purposes of "investing in treasury bills". This is a very vague and problematic requirement. Startups now do not only need to raise funds from investors to meet shareholder requirements, they must also pay millions for licenses and still have enough liquidity to pay a lump sum into this escrow account.

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