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HIGHLIGHTS OF THE CBN'S NEW GUIDELINES AND REGULATORY FRAMEWORK FOR MOBILE MONEY SERVICES IN NIGERIA

Introduction

In line with its mandate to drive financial inclusion, build a robust payments system, and promote effective monetary policy implementation and economic efficiency, the Central Bank of Nigeria (CBN), on July 9, 2021 released Guidelines and Regulatory Framework for the operations of Mobile Money Services (MMS) in Nigeria.

The New Framework replaces the 2015 CBN Regulatory Framework and Guidelines for MMS. The New Regulatory Framework and Guidelines serve to reiterate the CBN's stance on most of the provisions in the old Regulatory Framework whilst introducing much needed changes to effectively, cover all aspects of MMS in Nigeria. The New Framework addresses business rules governing the operation of MMS, and specifies basic functionalities expected of any MMS and solution in Nigeria. It identifies the participants and defines their expected roles and responsibilities in providing MMS in the system. In addition, it sets the basis for the regulation of services offered at different levels and by the participants.

The New Framework defines the regulatory environment as a policy path towards achieving availability, acceptance and usage of mobile payments services (MPS). Mobile payments has evolved as a veritable channel for facilitating the growth of commerce. The use of the mobile phone for the initiation, authorization and confirmation of the transfer of value out of a current, savings or stored value account has been recognized as a development

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that is expanding the growth of commerce among the financially included and non-included units in the economy.

The guidelines on the other hand addresses the permissible and non-permissible activities for mobile money operators (MMOs), the business rules, the roles of the different stakeholders in the system, the rules and modalities for the operation of the various account and card types, standards, business continuity, risk management and sanctions for violations of the guidelines.

This Newsletter highlights the changes introduced by the CBN's New Regulatory Framework and Guidelines for MMS in Nigeria.

Background to the Guidelines and Regulatory Framework for MMS

According to the Access to Financial Services in Nigeria, at least 55% of the Nigerian population as at 2020 still remains unbanked. While the highest contributing factor to this remains low income, the next on the list is lack of access to banking services as 44% of the unbanked population live in rural areas.

About 70 million Nigerians live in rural areas where banks are too far from where people live or work. At least two-thirds of the number is part of the unbanked, a small percentage of whom use informal methods of banking systems such as saving groups or co-operatives. The rest, which forms the majority, do not use these banking services, whether formal or informal. Of the 1.2 billion Mobile Money accounts that exist globally, West Africa contributes a significant 192 million accounts to the number with at least 15.3 million Nigerians contributing to the number.

CBN seems to be prioritizing a significant reduction of this number by providing simplified access to MMS. Since 2018, the percentage of Nigerians with bank accounts has increased by 5% at least, and a lot of this is owed to the rapid increase in mobile money services.

With the introduction of this robust payments system, the CBN sets to achieve a nationally utilized and internationally recognized payments system that will bring informal payment transactions into the formal system.

Highlights of the key changes in the New Regulatory Framework and New Guidelines

Modes for the Implementation of MMS

The CBN Framework has identified two models for implementing MMS: Bank-Led Model (Bank and/or its Consortium as Lead Initiator) and Non-Bank-Led Model (a corporate organization duly licensed by the CBN as Lead Initiator).

The Bank-Led Model is a model in which a bank, either alone or as part of a consortium of banks, aims to supply financial services through MMS. This model can be used in situations where

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the bank operates independently or in partnership with other banks and other permitted organizations. A bank or a group of banks will serve as the Lead Initiator.

The Non-Bank-Led Model permits a corporate entity that has been properly licensed by the CBN to provide MMS to users. A corporate organization excluding a deposit money bank, a national primary mortgage bank, a national microfinance bank, or a telecommunication corporation that has been explicitly licensed by the CBN to provide MMS in Nigeria, shall be the Lead Initiator.

The Framework excludes the implementation of MMS via the telco-led model i.e where the lead initiator is a Mobile Network Operator (MNO). This exclusion will enable the CBN have full control of the monetary policy operations, minimise risks and ensure that the offering of financial services are driven by organizations that have been licensed by the CBN.

Participants in the MMS system

The Framework identifies the Participants in the MMS. The Participants are grouped into six categories;

- The Regulators - CBN and Nigerian Communications Commission(NCC)
- Mobile Money Operators (MMOs) – Banks and Corporate Organizations
- Infrastructure Providers – Telecommunication companies and Inter-Scheme Settlement Provider
- Other Service Providers
- Consumers
- Mobile Money Agents

The Framework defines the roles and responsibilities of the Participants in providing MMS as well as the basis for regulating the services offered by the Participants.

Various Components of Mobile Money System In Nigeria

The Mobile money system in Nigeria refers to the various components required to deliver mobile money services to the banking and non-banking community. The providers of these services and solutions are required to operate within the CBN regulatory framework and guidelines issued by the CBN. The CBN is responsible for defining and monitoring the mobile money systems in Nigeria.

Mobile money services or transactions can be carried out in Nigeria through any of the following mobile money systems;

- Bank Account Based
- Card Account Based
- Stored Value (e-Wallet)

Bank Account Based

Transactions may be carried out through bank accounts of customers. These accounts include current, savings, and

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domiciliary. The types of Bank Account Based include, but not limited to Pull-based account transactions (debits through a mobile money solution) and push-based account transactions (credits through a mobile money solution). A pull-based transaction shall be authorized by the account holder via a verifiable mode before the transaction is consummated.

Card Account Based

This involves linking payment card to a mobile phone for the purpose of initiating and concluding payment transactions. The types of card – driven payments recognized by the framework include credit, debit, and Pre-Paid.

Stored Value Account Based

Transactions may be carried out through a system-based account. The system-based account must comply with the standards defined within the framework. The various options recognized by the framework include Re-loadable Stored Value Account, Pre-paid Account, etc.

Operations of Savings Wallet

The New Guidelines provide that MMOs can now offer savings wallet services to meet the demands of the unbanked in Nigeria. Where MMOs decide to offer savings wallet, such MMOs shall be required to obtain a Letter of No Objection from the CBN as a prerequisite for the commencement of savings wallet offering. MMOs that intend to operate savings wallets shall maintain two accounts with a settlement bank, to wit, a Savings Wallet Principal Pool Account and a Savings Wallet Interest Pool Account.

To ensure the safety of funds in savings wallet and guarantee the liquidity of MMOs, paragraph 10.1.2. of the New Guidelines limit the investment of funds in savings wallets to Nigerian Treasury Bills and mandates MMOs to determine the appropriate cash balance on its Savings Wallet Principal Account that will meet its savings wallets customers' withdrawal requirements at every point in time. To further protect the funds of customers, the fees and charges on savings wallets may not exceed 10% of interest income on savings wallet funds investment and MMOs are prohibited from diminishing a wallet account holder's funds on account of fees or charges . This prohibition also extends to Deposit Money Banks (DMBs) that serve as settlement banks as DMBs are prohibited from off-setting transactions of the MMOs against the funds in the Savings Wallet Principal Pool Accounts and Savings Wallets Interest Pool Account.

The inclusion of the provision on savings wallet is an important addition given that before now, MMOs were only permitted to receive deposits but not offer savings products. Thus, this new feature would potentially unlock more market-defining products by the MMOs (such as investment of the savings in accordance with the New Guidelines) while deepening further participation in the financial system by the users.

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Insurance of Funds

By paragraph 21 of the New Guidelines, Nigeria Deposit Insurance Corporation (NDIC) is required to provide deposit insurance to cover and guarantee the mobile money deposit wallet subscribers. Funds collected in the savings wallet must be insured with the NDIC under the pass-through insurance arrangement. This ensures that in the event of the failure of a DMB acting as a settlement bank, customers of the MMOs are secured up to the maximum coverage level of N500,0007. However, in the event of the failure of a MMO, the CBN shall facilitate the transfer and assumption of the failed MMO and its subscriber funds by another MMO or Other Financial Institution.

This is also an important inclusion given that the Old Regulatory Framework was silent on the insurance of deposits by the MMOs, although the NDIC stepped in by issuing the Pass-Through Deposit Insurance Guidelines on Mobile Payments System, which mandated MMOs to insure customers' deposit. Pursuant to the New Guidelines MMOs now have an express obligation to insure the funds in the wallet of the subscribers.

Express Stipulation of Permissible and Non-permissible Activities

To remove the uncertainty surrounding the permissible activities of MMOs and consistent with the provisions of the New Licence Categorizations issued by the CBN in December 2020, paragraph 7.2.1 and 7.2.2 of the New Guidelines stipulate the permissible and non-permissible activities of an MMO. Thus, MMOs may carry out the following activities:

- Wallet creation and management;
- Electronic money issuance;
- Agent recruitment and management
- Pool account management
- Non-bank acquiring; and
- Card acquisition.

Conversely, MMOs are expressly prohibited from:

- Directly or indirectly granting any form of loans, advances, and guarantees;
- Accepting foreign currency deposits;
- Dealing in the forex market;
- Insurance underwriting;
- Accepting any closed scheme electronic value as a form of deposit of payment
- Establishing any subsidiary
- Undertaking any transactions not prescribed in the New Guidelines.

With respect to the prohibition against dealing in the forex market, the New Guidelines provide MMOs may carry out payments and remittances services within Nigeria and sell foreign currencies realised from inbound cross-border personal remittances to authorised foreign exchange dealers.

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Transaction Limits

The New Guidelines have incorporated the provisions of the CBN Three-Tiered KYC Requirements; accordingly, transactions have been divided into three tiers and in accordance with the Know Your Customer (KYC) information procured by the MMO with respect to a customer.

Accordingly, customers at KYC tier 1 have a daily transaction limit of ₦50,000 with a cumulative balance limit of ₦300,000 whilst customers with KYC tier 2 have a daily cumulative limit of ₦200,000 with a cumulative balance limit of ₦500,000. Customers at KYC tier 3 have a daily transaction limit of ₦5,000,000 with no limits on their balance.

Prohibition of Preferential Treatment and Further Restrictions on the Activities of Telecommunication Companies

Given the critical importance of MNOs in the provision of MMS vis-à-vis the likelihood of MNOs posing huge threats to traditional financial institutions (considering that MNOs are now permitted to offer limited financial services through the PSB regulations), paragraph 8.4 of the New Guidelines prohibit MNOs from giving preferential treatment to any financial institution in terms of required access, traffic and pricing.

Furthermore, pursuant to paragraph 8.4 of the New Guidelines, MNOs are required to ensure that their customers are free to use any mobile money scheme of their choice, this expectedly would prevent any MNO from restricting their customers to a mobile money scheme owned by the MNO. Importantly, and consistent with the general prohibition of the use of airtime as a store of value or payment for goods and services by MMOs/MNOs, MMOs are now prohibited pursuant to paragraph 7.2.2.(e) of the New Guidelines from accepting any closed scheme electronic value (e.g., airtime) as a form of deposit or payment.

Dispute Resolution Mechanisms

Paragraph 19.0 of the Guidelines provide for Alternative Dispute Resolution (ADR) in the event of disputes between institutions within the mobile money scheme. Disputes arising between institutions shall be settled among them within 14 days. Where a resolution is not achieved after 14 days, the institutions may thereafter refer the matter to Arbitration.

Conclusion

Modern financial services can often be untrustworthy and this has contributed to the increasing number of unbanked individuals. From transfer errors, to debit alerts, and unresponsive customer service, there are a number of reported mishaps regarding mobile money services available online.

The issuance of the New Regulatory Framework and Guidelines is a welcome development as it incorporates recent progressive developments and capabilities in the mobile payment sector in Nigeria.

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Author

Miracle Akusobi, Esq
Managing Partner
miracle.akusobi@threshold-attorneys.com



Chioma Ugwu
Partner

c.ugwu@threshold-attorneys.com

Contributor



Kalat Jatau
Senior Associate

k.jatau@threshold-attorneys.com

Contributor

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We are focused on delivering excellent bespoke service to our Clients and towards achieving this objective, we configure teams according to each Client's needs in a system that ensures that personnel with specialist knowledge are always assigned to their areas of specialization.

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