

THRESHOLD
ATTORNEYS & SOLICITORS

OVERVIEW OF THE CBN'S SUPERVISORY FRAMEWORK FOR PAYMENT SERVICE BANKS IN NIGERIA

Introduction

The Central Bank of Nigeria (CBN) has released a Supervisory Framework for Payment Service Banks (PSBs) to streamline their operations, deepen financial inclusion, and ensure adequate customer protection.

The Framework, released on the 8th of July 2021, is a follow-up to the CBN Guidelines for the Licensing and Regulation of PSBs issued in 2018 and subsequently revised in 2020. The New Framework is issued for the purpose of enhancing access to financial services for the unbanked persons and those who are in the rural areas, thereby deepening financial inclusion in Nigeria.

The Framework covers the structure as well as permissible and non-permissible activities of the PSBs. To ensure a sound corporate governance culture, the Framework highlights the corporate governance requirements to be complied with by PSBs in addition to other applicable Corporate Guidelines. The Framework sets out specific Know-Your-Customer (KYC) and Anti Money-Laundering and Combating the Financing of Terrorism (AML/CFT) Guidelines for the purpose of guiding PSBs against their systems being used for money laundering or for financing of terrorism activities.

This Newsletter examines the changes introduced by the CBN's Supervisory Framework for PSBs, while highlighting the key provisions relating to Corporate Governance, KYC and AML/CFT.

info@threshold-attorneys.com
www.threshold-attorneys.com
Threshold Attorneys & Solicitors

HIGHLIGHTS OF THE KEY PROVISIONS OF THE FRAMEWORK

Requirements For Operations

To streamline their operations, PSBs, are expected to comply with the following requirements,

- They are expected to leverage on technology to provide services to persons mostly in the rural areas and unbanked locations with not less than 25 percent financial service touch points in such areas.
- Use the words ''Payment Service Bank'' in its name without including any word that link them to their parent company or promoter
- Enter into direct partnership with card scheme operators that are not eligible for foreign currency transactions
- Deploy Automated Teller Machines (ATM) and Point of Sale (POS) devices to those rural areas and unbanked locations
- Operate through banking agents in line with the CBN's Guidelines for the Regulation of Agent Banking Relationships in Nigeria
- Roll out agent networks with the approval of CBN
- Use other channels including electronic platforms to reach-out to its customers
- Establish coordinating centres in clusters of outlets to superintend and control the activities of the various financial service touch points and banking agents
- Be technology-driven and conform to best practices on data storage, security and integrity
- Set up consumer help desks (physical and online) at its main office and coordinating centres.

Corporate Governance

To ensure sound corporate governance, all PSBs are required to adopt structures and practices that will protect the interest of all stakeholders. The Framework provides for the required board structure, method of appointment and composition of the board and appraisal of the performance of the members of the board. All of these are required to be documented in the PSB's board charter. Similarly, all PSBs are required to comply with the provisions of the assessment criteria for approved persons, which clearly stipulate the roles, responsibilities, minimum qualifications, and experience for principal officers of the PSB.

The Framework outlines the specific responsibilities, qualifications and years of experience required for certain members of the board and officials of the PSBs, including, but not limited to, the roles of the Managing Director and Chief Executive Officers (CEO), Executive Directors and Deputy Managing Director, Non-Executive Director and Independent directors.

info@threshold-attorneys.com
www.threshold-attorneys.com
Threshold Attorneys & Solicitors

Express Stipulation Of The Permissible And Non-Permissible Activities Of PSBs

The permissible activities of PSBs under the framework are as follows;

- Accept deposits from individuals and small businesses which must be covered by the deposit insurance scheme
- Carry out payments and remittances (including inbound cross-border personal remittances) services through various channels within Nigeria
- Sale foreign currencies realized from inbound cross-border personal remittances to authorized foreign exchange dealers
- Issue debit and pre-paid cards on its name
- Operate electronic wallet
- Render financial advisory services
- Invest in FGN and CBN securities
- Carry out such other activities as may be prescribed by the CBN from time to time.

Conversely, PSBs are expressly prohibited from engaging in the following activities

- Grant any form of loans, advances and guarantees (directly or indirectly). However, PSBs may lend to their employees in line with their employee loan policy, subject to the approval of their Board
- Accept foreign currency deposits
- Deal in the foreign exchange market
- Carry Insurance underwriting
- Undertake any other transaction which is not prescribed by the Framework
- Accept any closed scheme electronic value (e.g. airtime) as a form deposit or payment
- Establish any subsidiary except as prescribed in the CBN Regulation on the Scope of Banking and Ancillary Matters, No 3, 2010.

AML/CFT And KYC Requirements

The Framework requires all PSBs to ensure that their systems are not used for money laundering and financing of terrorism. PSBs are also required to comply with the provisions of the CBN on AML/CFT and all other extant laws on AML/CFT. Particularly, the Framework provides that all PSBs are required to adopt policies stating their commitments to comply with AML/CFT obligations under subsisting laws, and regulatory directives to actively prevent any transaction that would otherwise facilitate criminal activity, money laundering and terrorism.

To mitigate any AML/CFT risks, PSBs are required to take appropriate steps to identify and understand the AML/CFT

info@threshold-attorneys.com
www.threshold-attorneys.com
Threshold Attorneys & Solicitors

risks of their customers and take adequate steps to mitigate these risks. The Framework also outlines the designation and duties of AML/CFT Compliance Officer who is expected to be appointed by the management of the PSBs. PSBs are required to identify and file suspicious transaction reports to the Nigeria Financial Intelligence Unit (NFIU). The reports are to be filed with the NFIU where funds, assets or property are suspected to have been derived from certain criminal activities listed in the Framework.

Where a PSB intends to deploy a new technological product, it is required to ensure that risk assessment is carried out on the product and business practices. The use of the technology is required to be documented and appropriate measures are to be used to manage and mitigate any attendant risks.

To further deepen financial inclusion, the Framework requires that the 3-tiered KYC approach be utilised by the PSBs to ensure the adoption of flexible account opening requirements for low value and medium value account which can be subject to caps and restrictions as the amounts of transactions increase where the account opening requirement increases progressively with less restrictions on operations stated in the Framework.

The Framework has set out the specific KYC requirements that must be met by the customers of PSBs, thereby expanding the provisions contained in the previous Guidelines, which only at a high level, made reference to the 3-tiered KYC requirements.

Shared Services

PSBs with the approval of the CBN can enter into shared services agreement with their parent companies or subsidiaries, provided that the recipient entity does not have the expertise and capacity to carry out these services. Importantly, the Framework further provides that PSBs are required to comply with all provisions of the Guidelines for Shared Services Arrangement for Banks and Other Financial Institutions.

Compliance With Extant Laws And Regulations

PSBs are required to comply with the relevant regulations issued for CBN licensed financial institutions and/or service providers. The applicable regulations include Nigerian Financial Services Industry IT Standard Blueprint Version 2.1, Nigeria Payment System Risk and Information Security Management Framework issued by the CBN, Cyber Security Framework issued by the CBN, Data Protection Regulations, Guidelines for the Operation of Electronic Payment Channels in Nigeria, Regulation on Agent Banking, Regulations on Mobile Money Operations in Nigeria, Guidelines on Card Issuance and usage in Nigeria, Real-Time Gross Settlement Rules and Regulations, as well as other regulation the Bank may issue.

Monitoring and Evaluation

According to the Framework, PSBs are now required to render monthly returns indicating the number of financially

info@threshold-attorneys.com
www.threshold-attorneys.com
Threshold Attorneys & Solicitors

excluded customers on-boarded during the month to which the returns relate, and the number of access points and cumulative access points deployed to ensure continuous monitoring and evaluation by the CBN.

Sanctions

To ensure strict compliance with extant regulations, appropriate financial and administrative sanctions shall be imposed on erring PSBs and/or their principal officers as provided for in relevant laws, regulations and guidelines.

Data Infrastructure And Cyber Security

A PSB shall comply with the provisions of the Nigerian Financial Services Industry IT Standard Blueprint and the Risk Based Cyber Security Framework as well as all other regulations the Bank may issue regarding ICT infrastructure for banks.

In line with the Nigerian Financial Services Industry IT Standard Blueprint, a PSB shall maintain level 3 maturity where IT Standards are defined, documented, and Integrated into organizational practices via policy and procedures, or communicated through training and ensure that automation and tools are not used in a limited and fragmented way.

Conclusion

In 2012, the CBN launched its financial inclusion strategy to achieve 80 percent financial inclusion by 2020. Despite many initiatives and interventions to extend access to financial products and services to unbanked and underserved Nigerians, the CBN did not meet the target. According to the survey by Enhancing Financial Innovation and Access data, showed 51 percent of the adult Nigerians are financially included, an improvement from 49 percent in 2018.

Recognizing the likelihood of the PSPs becoming integral to Nigeria's financial system, the CBN has issued the Framework to further strengthen the financial system in the country and ensure transparency in the operations of the PSBs. Although there are only four PSBs licensed by the CBN now, the CBN is clearly looking ahead and is preparing for a scenario where many more PSBs will be operating in the financial system.

By this Framework, the CBN has further reinforced its commitment to ensuring that the PSBs (like other deposit money banks and other financial institutions) conduct their operations in a manner that continues to guarantee the stability of the financial system.

References

https://www.cbn.gov.ng/Out/2021/CCDSupervisory%20Framework%20for%20PSBs.pdf

https://m.guardian.ng/news/nigeria/national/cbn-releases-supervisory-framework-for-payment-service-banks/

https://www.olaniwunajayi.net/blog/newsletter-on-the-new-cbn-supervisory-framework-for-payment-service-banks-in-nigeria/

info@threshold-attorneys.com
www.threshold-attorneys.com
Threshold Attorneys & Solicitors

THRESHOLD
ATTORNEYS & SOLICITORS

KEY CONTACTS



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



Chioma Ugwu
Partner
c.ugwu@threshold-attorneys.com



Kalat Jatau
Senior Associate
k.jatau@threshold-attorneys.com

About Us

THRESHOLD
ATTORNEYS & SOLICITORS

Threshold Attorneys & Solicitors is a fully integrated commercial law firm that delivers exceptional legal services in the diverse areas of Litigation and Dispute Resolution, Corporate and Commercial, Real Estate, Tax, Intellectual Property, Banking and Finance, Energy and Natural Resources, Aviation, Maritime, Telecommunication, Media, and Technology, Labour and Immigration, Debt Recovery, Joint Venture and Foreign Investments.

The firm's strong reputation is founded on its unique ability to provide innovative, competent, cost-effective and well-timed solutions to complex legal issues in a manner tailored to the client's individual needs. We adopt a visionary approach to client's service which enables us to anticipate industry challenges.

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.

info@threshold-attorneys.com
www.threshold-attorneys.com
Threshold Attorneys & Solicitors