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THE CBN FRAMEWORK FOR QUICK RESPONSE CODE PAYMENTS IN NIGERIA

Introduction

On 13 January 2021, the Central Bank of Nigeria (**CBN**) issued the Framework for Quick Response (QR) Code Payments in Nigeria 2021, in furtherance of its mandates to ensure the safety and stability of the Nigerian Financial System, promote the use and adoption of electronic payments, and foster innovation in the payments system.

The Framework provides regulatory guidance for the operation of QR Code payment services in Nigeria with the objective of ensuring the adoption of appropriate QR code standards for safe and efficient payments services in Nigeria.

This Newsletter examines the key provisions of the Framework.

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Definition of a QR Code

Under the Framework, a QR Code is defined as a kind of matrix barcode representing information presented as square grids, made up of black squares against a contrasting background that can be scanned by imaging device, processed and transmitted by appropriate technology. These codes can be used to present, capture and transmit payments information across payments infrastructure. The technology enables mobile channels to facilitate payments and presents another avenue for promoting electronic payments to micro and small enterprises.

Essentially, QR Codes are used to store data for the purposes of facilitating quicker payments. Although the use of QR Codes is not a recent invention, its increased adoption became prominent in the wake of the covid-19 pandemic because of the need to deter less hygienic payment methods and increase the adoption of contactless payments.

Scope and Objectives of the Framework

The Framework provides regulatory guidance for the operation of QR code payment services in Nigeria and aims to ensure the adoption of appropriate QR code standards for safe and efficient payments services in Nigeria. To implement this, the Framework stipulates the following in relation to QR payments in Nigeria:

- The acceptable QR code standards
- Interoperability of issuers, acquirers, switches, processors, and other participants
- Roles and responsibilities of participants in QR payments and
- Risk management principles.

Categories of Participants in QR Code Payments Ecosystem

The Framework identifies the following categories of participants as making up the QR codes payments ecosystem:

- Merchants
- Customers
- Issuers (Banks, Mobile Money Operators (MMOs) and Other Financial Institutions)
- Acquirers (Banks, MMOs and Other Financial Institutions) and
- Payments Service Providers

Responsibilities of Participants in QR Code Payments in Nigeria

- Merchants must comply with service agreements executed with the acquirer; comply with the rules

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and regulation of the acquirer; cooperate with the acquirer to investigate any reported fraudulent transaction; and report suspicious use of QR Codes for payments to the acquirer.

- Customers are required to use QR Code payment applications availed by the issuer and for the intended purpose without modifications; adhere to all minimum security guidelines as stipulated by the issuer; and report inappropriate / unauthorised QR Code Payment transaction(s) on their accounts/wallets.

- The Issuers must provide QR Code Payment application to customers upon request; execute a service agreement with their customers; comply with Card Scheme Rules (where applicable); determine and agree appropriate transaction limits with customers for QR Code Payments based on their customers' risk profile assessment; ensure appropriate configurations on QR Code Payment application in conformity and compliance with requirements of QR Code regulations; deploy necessary updates and patches on its QR Code Payment application; provide adequate support to customers and resolving all disputes in line with CBN's customer protection regulations; and comply with all applicable CBN guidelines and regulations.

- The Acquires must execute service agreement with merchants; determine and agree appropriate transaction limits with merchants for accepting QR Code Payments based on its risk profile assessment of the merchant; ensure appropriate configurations and use of QR codes at Merchant applications in conformity and compliance with requirements of QR Scheme(s) and QR Code regulations; ensure that appropriate security protocols are applied; provide adequate training, support and security guidelines to merchants on the use of QR code for payments; ensure that hardware, software, protocols used for QR Code for payments are in conformity with the requirements of operations of QR Code payments regulations; give merchants value for QR Code transaction within T+1 or as may be agreed with the merchant; and comply with all applicable CBN guidelines and regulations.

- Payment Service Providers are essentially partners that make payment processing seamless. They are permitted to support processing and settlement for all issuers and acquirers; and facilitate interoperability of QR Code Payments for all issuers and acquirers. They are also required to comply with the Framework and all other applicable guidelines from the CBN.

QR Code Specifications for Payments in Nigeria

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Under the QR Framework, QR code payments must be implemented in accordance with the following specifications:

- QR code payments must be based on the EMV QR Code Specification for Payment Systems. The EMV QR Code Specifications are globally renowned and have been described as a system that simplifies and broadens the acceptance of QR Code payment solutions globally. Some of the benefits of EMV QR Code include technical interoperability, confirmed functionality and consumer familiarity.

- The CBN may also approve any other QR Code Standard, provided it meet the prescribed security requirements within the framework, demonstrates interoperability with other existing implementation in the industry and/or has cost benefits to end-users (merchants and customers).

- QR code payments implementation in Nigeria must support account, wallet, card, and token-based QR code operations.

- QR code payments in Nigeria must be based on the Merchant-presented mode specification.

Risk Management and Compliance

To ensure the safety and stability of the QR code payment system, the Framework introduces certain risk management principles that guide the operations of QR code payments. As a starting point, QR Codes must at the minimum be encrypted to advanced encryption standards, and/or signed.

The Framework mandates issuers and acquirers to define risk management policies and guidelines for the operation of the QR Code Scheme, which must include detailed stipulations as to the risk management responsibilities of all participants. Issuers are also expected to provide quarterly risk management assessment reports to the Director of the Payments System Management Department of the CBN.

Interoperability requirements

The Framework requires all Issuers, Acquirers, switches, processors and other participants in QR payments ecosystem to ensure full interoperability of QR Code Schemes.

Dispute Resolution and Sanctions

All consumer complaints shall be resolved in accordance with the CBN Consumer Protection Regulation.

The CBN shall impose appropriate sanctions on any of the participants that fail to comply with the Framework.

Conclusion

With the QR Framework, the CBN has taken another positive step in furtherance of its mandate to ensure the safety and stability of the Nigerian Financial System, promote the use and adoption of electronic payments, and foster innovation in the payments system.

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