

## **A COMMENTARY ON THE CBN GUIDELINES FOR LICENSING AND REGULATION OF PAYMENT SERVICE BANKS IN NIGERIA 2020**

### **INTRODUCTION:**

In furtherance of its mandate to promote financial inclusion and following the recent advancements concerning the interplay between Financial Technology (Fintech) and access to financial services in the Nigerian Banking Sector, the Central Bank of Nigeria (CBN) recently reviewed and updated the 2018 Guidelines for Licensing and Regulation of Payment Service Banks in Nigeria (2018 Guidelines). The newly issued Guidelines for Licensing and Regulation of Payment Service Banks in Nigeria 2020<sup>[1]</sup> (the 2020 guideline(s), New rules, Updated rules) now serves as the effective ruleset guiding the operationality of Payment Service Banks (PSBs) in Nigeria. Despite replacing the 2018 guidelines, the 2020 guidelines are not a complete overhaul of its predecessor, seeing that there exists a great deal of similarity between them. Nevertheless, there are a few changes that need highlighting.

### **BUSINESS CONDUCT (FAIR COMPETITION):**

The 2018 guidelines only restricted related entities of a PSB from offering preferential treatment to its subsidiary. However, the updated guideline now stops parent, associate, or a related entity to a PSB from offering discriminatory and/or differential product or service pricing to other non-related entities, PSBs or any CBN licensed institution. And non-compliance in this regard could lead to the revocation of PSB's license.<sup>[2]</sup> In addition to raising transfer pricing considerations, this update is a update to the 2018 rules in that it reiterates, albeit more expansively, the desire to promote fair competition in the Nigerian Banking sector.

### **REVOCAION OF LICENSE**

Under the 2018 guideline revocation of license was stated to be "in line with the provisions of BOFIA<sup>[3]</sup> or through voluntary liquidation subject to the approval of

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the CBN”.<sup>[4]</sup> However, the 2020 guideline now provides that revocation of PSB license may follow:

- a. Failure to comply with any of the provisions of the PSB Guidelines or other circulars and Guidelines issued by the CBN from time to time.
- b. Failure to comply with the provisions of the BOFIA.
- c. Voluntary liquidation by a PSB with the prior written approval of the CBN

Essentially, as opposed to its predecessor which only provides at best, generic instances for PSB license revocation; the 2020 guideline not only expands the grounds for revocation, it brings some form of clarity and specificity concerning the subject of license revocation.

### **ELIGIBLE PROMOTERS**

The 2018 guideline did not list switching companies as eligible to promote a PSB. Thereunder, switching companies already having a record or data of the financial system operators were not allowed to own a PSB to prevent conflict of interest.<sup>[5]</sup> However, this is no longer the case. The 2020 guideline now expressly lists switching companies as eligible promoters of a PSB.<sup>[6]</sup> Mainly, this supports the possible increase in the establishment of PSBs and potentially, occasions the advancement of access to financial services in Nigeria.

### **SUPERVISION OF PAYMENT SERVICE BANKS**

As an update to the 2018 guideline, the new ruleset encourages systemic synergy in the banking sector. Unlike the 2018 regulation, its successor now mandates all PSBs to interface with the Nigeria Inter-bank Settlement System (NIBSS) platform to promote interconnectivity and interoperability of operations within the Nigerian banking system.<sup>[7]</sup> Furthermore, it subjects to regulation the charging rates to be imposed by a parent, associate or related entity of any PSB on any CBN regulated institution and/or their customers on mobile payment and other payment platforms. These charges are now subjected to the “Guide to Charges by Banks, other

Financial and Non-bank institutions (where applicable) or subject to the prior written approval of the CBN as the case may be.[8]

## **CONCLUSION**

Overall, the 2020 guidelines do not completely overturn the provisions of its 2018 predecessor. From the highlighted changes, one thing is however exact concerning the regulatory trajectory of the CBN. It is clear that the CBN's demeanour towards the role of PSBs in promoting financial inclusion in Nigeria is expansive and enabling oriented.

[1] Issued August 27, 2020

[2] Para. 8 B 2020 Guidelines

[3] Banks and other financial Institution Act 1991 (as amended)

[4] Para 15 2018 Guidelines

[5] Para 5 2018 Guidelines

[6] Para 5 (vi) 2020 Guidelines

[7] Para 10.5 2020 Guidelines

[8] Para 10.6 2020 Guidelines