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REVIEW OF THE CENTRAL BANK'S REGULATIONS ON END-TO-END ELECTRONIC PAYMENTS

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INTRODUCTION

Technology has steadily infused every sector of the economy around the globe with unprecedented innovations; one of which is the concept of an electronic system of payment. To keep abreast of the international practices in the banking and financial sector, the Central Bank of Nigeria (CBN) in January 2018 released the Regulations on End-to-End Electronic Payment of Salaries, Pensions and Other Remittances, Suppliers and revenue collections in Nigeria (the Regulation).

The Regulation seeks to promote safe and effective mechanisms for expediently making and receiving all types of payments from any location and at any time, through various electronic channels. To achieve this, the Regulation provides for the operational procedures and regulations that will guide the end-to-end electronic payment by all the stakeholders. The Regulation defines stakeholders as all public and private sector organisations who maintain relationship with employees, pensioners, suppliers and taxpayers and other entities.[1]

The term ‘end-to-end’ refers to products or solutions that cover every stage in a particular process, often without any need for anything to be supplied by a third party[2]. It basically embraces a philosophy that eliminates as many middle layers or steps as possible to optimise performance and efficiency in any process.[3] End-to-End Electronic Payment therefore allows payers to independently monitor and obtain electronic feedback on the status of their payments, at any time without depending on any third party, manual or semi-manual means.[4]

The Regulation envisages two categories of stakeholders: the CBN regulated stakeholders such as Deposit Money Banks (DMBs), Other Financial Institutions and Financial Services Providers (OFIs) and Payment Solution Service Providers (PSSP); and the non-CBN regulated stakeholders such as payers, beneficiaries, suppliers, taxes, levies, dues (& other revenue) collecting organisations, Pension Fund Administrators (PFAs) and Pension Fund Custodians (PFCs).

[1] The Regulation, section D, ‘Glossary of Terms,’ (xix)
[2] Kenton, W. (2018) End-to-End (Online). Available at: https://www.investopedia.com/terms/e/end-to-end.asp (Accessed: 20 March 2019)
[3] Ibid.
[4] The Regulation, section D, ‘Glossary of Terms,’ (vii).

Obligations of the CBN

The scope of the Regulation encompasses all CBN regulated entities such as the DMBs, OFIs and PSSPs who are obligated to adopt and implement the provisions of the Regulation. It however also applies to non-regulated stakeholders as it provides directions to guide them in the adoption of end-to-end electronic payment, although it does not mandate their compliance with the Regulation. The Regulation reiterates the power of the CBN to regulate, monitor and promote the end-to-end electronic payment system.[5]

Obligations of CBN Regulated Stakeholders

The Regulation requires stakeholders regulated by the CBN to promote and adopt end-to-end electronic payments for payers and beneficiaries by providing them with electronic payment (e-payment) enabled bank accounts with DMBs, OFIs or any other approved channel for receiving payments. While the stakeholders are to ensure that the selected e-payment solution is approved by the CBN, the payments must also be concluded within the timelines stipulated by the CBN and processed using existing payments system and clearing system rules. The stakeholders are also required to file mandatory returns to the CBN, on a monthly or other stipulated basis.

Sanctions for Non Compliance

To demonstrate its determination to make e-payment work in Nigeria, the Regulation provides sanctions for non-compliance with these obligations by the DMBs, OFIs, Mobile Money Operators and PSSPs. Some of them are:

· The CBN regulated stakeholders are to pay a N5, 000 penalty for each day for which a monthly report is not provided to the CBN.[6]

· Submission of false reports by DMBs and OFIs to CBN will attract a penalty of N250, 000 and a warning letter will be given to the Managing Director of the company.[7] This sanction also applies to PSSP although the N250, 000 penalty is reduced to N50, 000.[8]

[5] Ibid. section A, 'The Role of the Central Bank of Nigeria,' (a-i)
[6] Ibid. section B, 'Deposit Money Banks, Other Financial Institutions and Mobile Money Operators-Infractions and sanctions,' 3(a)
[7] Ibid. 3(b)
[8] Ibid. 'Payment Solution Service Providers-Infractions and sanctions,' 5(b)

· DMBs are to pay N2, 500,000 for every repeated failure to ensure CBN approves the 3rd party end-to-end e-payment solution used by it.[9]

· The CBN regulated stakeholders are to pay N1, 000 for any transaction not completed within the timelines stipulated by the CBN.[10]

Obligations of Non-CBN Regulated Stakeholders

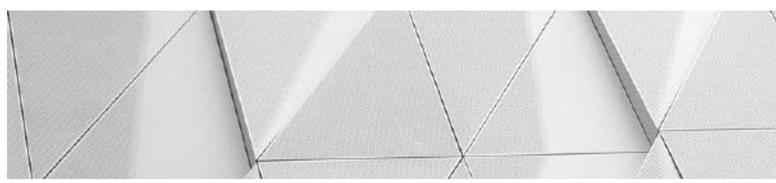
There are Operational Standards which the non-CBN regulated stakeholders must comply with to ensure a seamless operation of the end-to-end electronic payment system. They are all to adopt end-to-end electronic payment for payment of salaries, pensions, fund, taxes, and levies; maintain e-payment enabled account and use only validated account details with DMBs and OFIs.[11]

The payers must provide basic infrastructure and training for their employees to ensure an effective implementation[12] and remit taxes[13] and contributory pension funds u sing the platform.[14]

The beneficiaries and suppliers who are the recipients of these funds are to report cases of non-payment and wrong or delayed payments to the payers.[15] While there are no express sanctions for not complying with the standards by the payers, the beneficiaries and suppliers are to report cases of non-compliance to CBN.[16]

The Taxes, Levies, Dues (& other revenue) Collecting Organizations, Pension Fund Administrators (PFAs) and Pension Fund Custodians (PFCs) must provide basic infrastructure for confirming receipt of these e-payments[17] and provide evidence of payment to payers at the point of payment.[18]

It should be noted that organisations with more than twenty (20) employees can no longer transmit payment instructions for salaries, pensions, supplies and taxes to DMBs through unsecured channels, such as paper-based mandates, flash drives, compact discs (CD) and email attachments.[19] This means that such transactions must now be made through e-payments.



[9] Ibid. section B, 'Deposit Money Banks, Other Financial Institutions and Mobile Money Operators-Infractions and sanctions,' 5(c)
[10] Ibid. 2(a) and Ibid. 'Payment Solution Service Providers-Infractions and sanctions,' 3(a)
[11] Ibid. Section C 'Payers,' (i), (ii) and (vi); 'Employees and Pensioners-Salaries & Contributory/Defined Pension,' (a) and (b); 'Suppliers,' (a) and (b); 'Taxes, Levies, Dues (& other revenue) Collecting Organizations,' (a); 'Pension Fund Administrators (PFAs) and Pension Fund Custodians (PFCs),' (a)
[12] Ibid. Section C 'Payers,' (v)
[13] Ibid (vi)
[14] Ibid (vii)
[15] Ibid. Section C 'Employees and Pensioners- Salaries & Contributory/Defined Pension' (c)
[16] Ibid. (f)
[17] Ibid. 'Taxes, Levies, Dues (& other revenue) Collecting Organizations,' (e) and (h) and 'Pension Fund Administrators (PFAs) and Pension Fund Custodians (PFCs),' (d) and (f)
[18] Ibid. Section D 'Compliance,'
[19] Ibid

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Applicability and Implementation (Challenges and Prospects)

As commendable as the provisions of the Regulation are, there may be challenges facing their implementation by the target stakeholders. For example, for the non-CBN regulated stakeholders, the provisions are non-binding operational standards. This may constitute a drawback on achieving the Regulation's intent.

Security challenges; high cost of internet; poor network connection; epileptic power supply; lack of awareness and ; resistance to the end-to-end electronic payment system by the various stakeholders are also other possible problems.

However, despite these challenges, the Regulation has the potential to improve the national economy as many benefits are to be derived by all the stakeholders from compliance with the Regulation. For example, it would provide banks with more liquidity for lending to the needy sectors of the economy at attractive rates. Generally, it may also reduce the overall time and cost of banking and payments.

The Regulation is expected to increase tax collections because of the convenient means of payment. It is also expected to improve the auditing process and investigation of the stakeholders through the readily available electronic records and mandatory filing of reports.

The Financial Technology (Fin-tech) companies have also been expanding with technological innovations and automation in different areas and have been prompting the CBN and the Banks to come up with different strategies and policies to stay relevant because of the challenges posed by the competitions. The provisions of the Regulation may therefore help to secure the stakeholders in the forefront of the competition and help them to derive benefits from the use of financial technology.

CONCLUSION

This Regulation is a welcome development in Banking and Finance in Nigeria as it seeks to keep Nigeria at pace with the global trend in this sector by promoting a cashless and electronically based system of payment through-out all spheres of the economy.

While this Regulation is in force, it is necessary that the CBN puts in place measures to drive compliance with it to ensure the derivation of maximum benefit from its provisions.

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