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ARTICLE SERIES

AN OVERVIEW OF THE CENTRAL BANK OF NIGERIA'S REGULATORY FRAMEWORK FOR NON-BANK ACQUIRING

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On 25 May 2021, the Central Bank of Nigeria ("CBN"), recently issued a circular to deposit money banks, payment service providers and other financial institutions notifying them of the release of the Regulatory Framework for Non-Bank Acquiring in Nigeria ("the Framework").

Introduction

The CBN states that the Framework is made further to its mandate to facilitate the development of electronic payment systems and promote a sound financial system in Nigeria [1]. The Framework sets out the operating rules and regulatory requirements for Non-Bank Merchant Acquiring in Nigeria. It also obligates Non-Bank Merchant Acquirers to meet the minimum standards of operation approved by the CBN, and sets the rights and obligations of the parties involved in the process.

What is 'Acquiring'?

Simply put, 'Acquiring' is the process by which acquirers (typically banks) process electronic payments (such as debit card and credit card transactions) on behalf of merchants or businesses. The Framework will regulate the operations of providers of Non-Bank Acquiring services in Nigeria.

Objectives of the Framework and Participants in Non-Bank Acquiring in Nigeria

The objective of the Framework includes establishing Non-Bank Acquiring as a regulated service in Nigeria and providing minimum standards and requirements for the operations of Non-Bank Acquiring in Nigeria [2]. Participants in the provision of Non-Bank Acquiring services are:

- **Non-Bank Acquirers**
  These are the entities that process and accept electronic payments for merchants or businesses through a payment service provider/processor and card network. The Framework provides that other than Acquiring banks, only licensed Switching and Processing Companies can process and settle transactions on behalf of merchants in Nigeria. The CBN shall approve non-Bank Acquirers as it deems necessary.

[1] Sections 2(d) and 47(2) of the Central Bank of Nigeria Act, 2007, and Section 69(1) of the Banks and Other Financial Institutions Act 2020
[2] Paragraph 1.1 of the Framework

- **Settlement Banks/Sponsor Banks**
This is the bank that receives and reports the settlement of a payment transaction between two entities. The role of the Settlement Bank/Sponsor Bank shall be as provided in the Guidelines for the Operations of Electronic Payment Channels in Nigeria and other relevant regulations.

- **Merchant's Deposit Money Bank**
This is the bank that receives payments for the merchant. The role of the Merchant's bank shall be as provided in the Guidelines for the Operations of Electronic Payment Channels and other relevant regulations in Nigeria.

- **Card or Payments Schemes/the Nigeria Central Switch**
Card schemes are payment networks connecting debit cards or credit cards. Banks and financial institutions may become members of a card scheme and issue cards to customers under the scheme, e.g., Visa card scheme. The Nigeria Central Switch ("NCS") ensures card acceptance interconnectivity of switching [3] companies in Nigeria. The role of Payment Schemes and the NCS shall be as prescribed in the Guidelines for the Operations of Electronic Channels and other relevant regulations in Nigeria.

Particularly, the Framework provides for the regulatory obligations of Non-Bank Acquirers.

Regulatory Requirements for Non-Bank Acquirers

The Framework provides that Non-Bank Acquirers must implement adequate policies for management of risks associated with the provision of acquiring services.

Policies and Procedures

Non-Bank Acquirers must implement operating policies that include the minimum standards established by the payment and card schemes, to mitigate the risk to the payment system. The policies must be approved by the Acquirer's Board of Director or an executive management committee, as appropriate.

Merchant Agreements

Non-Bank Acquirers must ensure that they execute all necessary agreements with parties/participants to the acquiring services.

[3] Switching means a system that captures electronic financial transactions from touch-points, determines destinations and delivers transactions with appropriate feedback.

Also, before the provision of transaction acquiring services, it must execute the necessary merchant agreement with the relevant merchant. The merchant agreements they maintain must clearly define the obligations of the acquirer, merchant and other parties, and must meet the minimum requirements for disclosure of the respective schemes.

Further, Non-Bank Acquirers must control merchant approvals in accordance with pre-determined policies and procedures and provide payment scheme acceptance privileges in accordance with the rules of the respective payment scheme.

In addition, Non-Bank Acquirers must maintain minimum standards in accordance with the Guidelines on Electronic Payments Channels in Nigeria and must maintain the minimum standards in risk controls to monitor merchant activity, to ensure compliance with the rules of the respective payment schemes and protect stakeholders such as merchants, consumers, schemes and other participants. A fraud monitoring/behavioural management solution must also be put in place.

Settlement Arrangements and Risk Management

Non-Bank Acquirers must comply with the regulations issued by the CBN concerning their settlement arrangements and risk management, including:

- Non-Bank Acquirers shall not directly hold or access merchant's funds, whether from or for settlement, reversals or any other reason;
- They shall stipulate their responsibilities to the merchant, for the security and settlement of transaction amounts to merchant accounts;
- They shall ensure that merchants' accounts are credited in respect of the acquired transactions, as agreed in executed Service Level Agreements;
- They shall strictly comply with the rules of the respective schemes;
- They must have controls in place, related to establishing and changing merchants' bank accounts where settlement funds are deposited;

- They must develop and provide an appropriate governance structure, to manage the risk inherent in the provision of acquiring services;
- They must implement approved policies that support the risk management function and highlight the acquiring programme strategy, including targeted merchant segments, various entities/agents involved, their responsibilities, likely risks and mitigation procedures; and
- Non-Bank Acquirers shall not acquire transactions of merchants that are not registered nor operating in Nigeria.

Non-Banks Acquirers must comply with all of the above and other requirements in the Framework in their provision of acquiring services.

Regulatory Requirements for Approval as a Non-Bank Acquirer

The requirements to be approved by the CBN as a Non-Bank Acquirer includes:

- The proposed Acquirer must be a CBN-licensed Switching company or any other company as approved by the CBN;
- The proposed Acquirer must be sponsored by at least one acquiring bank where settlements shall be domiciled [4]
- Evidence of engagement with a card scheme
- Due Diligence and Merchant Onboarding Process
- Merchant Risk Monitoring Framework
- Sponsorship letter from one (1) Settlement Bank
- Draft merchant agreements
- Details of its settlement arrangements
- Service Level Agreement (SLA) with Settlement Bank
- Business Continuity Plan
- any other document(s) as may be required by the CBN.

The Non-Bank Acquirer shall execute agreement with each payment scheme whose transactions it wishes to acquire. Provisional arrangements/agreements may be considered for in the process of applying for approval.

[4] The roles of a sponsoring bank shall include generation of financial/transaction date and computation of settlement position

On the other hand, the CBN shall terminate a Non-Bank Acquirer's approval on the occurrence of the following:

- Failing to meet the conditions for renewal of its operating licence as a switching and processing company in Nigeria;
- Revocation of licence/approval by the CBN;
- Termination of agreement with or approval of payment scheme(s);
- Inability to maintain relationship with at least two (2) payment schemes;
- Operational failures that lead to significant losses/fraud; or
- any other reason(s) as may be determined by the CBN.

In addition, Non-Bank Acquirers must comply with the provisions of the Framework and other related Guidelines issued by the CBN or they will be sanctioned as deemed by the CBN.

Dispute Resolution

The Framework provides that the Framework shall prevail on matters relating to non-bank acquiring services in the event of conflict with any prior Guidelines issued by the CBN.

Further, any disputes arising out of or in relation to the Framework shall be settled in accordance with the CBN's Consumer Protection Regulation. If unresolved, the dispute may be referred to arbitration under the Arbitration and Conciliation Act or as maybe defined by the CBN.

Conclusion

Acquiring is a central aspect in the financial services space and key to a merchant's payment process. The acquirer acts as the middleman between the merchant and the card issuing bank by accepting and processing electronic payment methods on behalf of the merchant, such as authorizing and authenticating debit card transactions. Traditionally, banks took on the responsibility of being acquirers; however, with the growth of technology in the financial services sector in Nigeria, there is a spurt of non-bank third party providers.

This is a commendable step by the CBN to regulate the activities of Non-Bank Acquirers and their relationships with Settlement Banks/Sponsor Banks, the Merchants' Banks, Card or Payment Schemes, and ensure the protection of merchants and the paying public.

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