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ARTICLE SERIES

EXAMINING THE RELEVANCE OF PAYMENT SERVICE BANKS TO NIGERIA'S FINANCIAL SERVICES SECTOR

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INTRODUCTION

Payment Service Banks ("PSBs") have, since their introduction into the financial space, remained a veritable vehicle for financial inclusion across countries. In July 2021, the Central Bank of Nigeria ("CBN") issued a Supervisory Framework for Payment Service Banks [1] ("the Framework"), to supplement the existing Guidelines for the Licensing and Regulation of Payment Service Bank ("the Guidelines"), (issued in 2018 and revised in 2020).

Subsequently, in November 2021, it was announced that two mobile telecommunications companies, Airtel and MTN, had obtained PSB licences from the CBN and are set to soon roll out operations.
In this article, we discuss PSBs and explore their relevance to the Nigerian financial services sector.

What are Payment Service Banks?

PSBs are regarded as a hybrid of conventional banks and fintech companies, as they provide banking solutions with the flexibility, accessibility and technology tools employed by fintech companies in driving the financial inclusion ambitions of the CBN.

According to the Framework, PSBs *"are expected to leverage on technology to provide services that would be easily accessed by the unbanked population and those who are in hard-to-reach areas of the country"*. PSBs provide their banking services through physical access points or digital interfaces, including mobile or internet-enabled platforms [3].

The Guidelines contain, amongst others, extensive provisions on licensing requirements/documentation (pre and post-commencement), the financial requirements, charging rates, revocation of licence, business conduct in relation to fair competition for PSBs.

On the other hand, the Framework contains a set of regulations that are targeted at streamlining the operations of PSBs, ensuring transparency in their operations as well as ensuring adequate customer protection.

[1] Supervisory Framework for Payment Service Banks available at https://www.cbn.gov.ng/Out/2021/CCD/Supervisory%20Framework%20for%20PSBs.pdf
[2] Guidelines for the Licensing and Regulation of Payment Service Banks available at https://www.cbn.gov.ng/Out/2020/CCD/APPROVED%20REVIEWED%20GUIDELINES%20FOR%20LICENSING%20AND%20REGULATION%20OF%20PAYMENT%20SERVICE%20BANKS%20IN%20NIGERIA-27AUG2020.pdf
[3] https://thenationonlineng.net/financial-inclusion-ray-of-hope-as-cbn-licenses-psbs/#:~:text=The%20guidelines%20issued%20by%20CBN%20stipulate%20that%20PSBs,per%20cent%20of%20their%20presence%20in%20these%20areas.

Highlights of the Framework

Structure of Payment Service Banks

The Framework retains the structure of PSBs as prescribed by the Guidelines [4] and reiterates that the words "Payment Service Bank" are to be included in the name of a PSB to differentiate it from other banks. The name of a PSB must, however, not include any word that links it to its parent company or promoter.

Also, in line with the objective for setting up PSBs, they are to operate mostly in the rural areas and unbanked locations targeting financially excluded persons with not less than 25% financial service touch points in such rural areas as defined by the CBN from time to time.

Permissible Activities

PSBs are permitted to:

- Accept deposits from individuals and small businesses, which shall be covered by the deposit insurance scheme;
- Carry out payments and remittances (including inbound cross-border personal remittances) services through various channels within Nigeria;
- Sell 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 wallets;
- Render financial advisory services; and
- Invest in FGN and CBN securities.

Non-Permissible Activities

PSBs are prohibited from:

- Granting any form of loans, advances and guarantees (directly or indirectly) [5];
- Accepting foreign currency deposits;
- Dealing in the foreign exchange market except as permitted;
- Insurance underwriting;
- Undertaking any other transaction not prescribed by the Framework;

[4] See Paragraph 3 of the Guidelines
[5] They may,however, lend to their employees in line with their employee loan policy, subject to the approval of their Board.

- Accepting any closed scheme electronic value (e.g. airtime) as a form deposit or payment; and

- Establishing any subsidiary [6]

Corporate Governance / Regime and Competency Framework for Principal Officers

PSBs are required to adopt sound corporate governance culture which inculcates structures and practices that will protect the interest of all stakeholders.

The Framework contains extensive corporate governance provisions in relation to board structure, composition, method of appointment, committee meetings, appraisal of performance of board members. It also makes contains provisions on the roles, responsibilities and minimum qualifications for principal officers of PSBs.

In relation to board composition, PSBs are required to have a minimum of five (5) and a maximum of thirteen (13) directors including at least one (1) non-executive director as independent director and at least two (2) non-executive directors with banking or related financial industry experience.

PSBs are also mandated to comply with the provisions of the Assessment Criteria for Approved Persons' Regime for Payment Service Banks which stipulates the roles, responsibilities, minimum qualifications and/or experience for principal officers of PSBs.

Know Your Customer (KYC) & Anti-Money Laundering and Combating The Financing Of Terrorism (AML/CFT)

In line with the provisions of the Framework, PSBs are to ensure that their systems are not used for money laundering and the financing of terrorism. They are to comply with the provisions of the Central Bank of Nigeria (Anti-Money Laundering and Combating the Financing of Terrorism in Banks and Other Financial Institutions in Nigeria) Regulation 2019 (as amended) and extant laws aimed at combatting money laundering and the financing of terrorism.

The Framework covers the following:

- Key areas of Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) policy: PSBs are required to adopt policies stating their commitment to comply with Anti-Money Laundering ("AML") and Combating Financing of Terrorism ("CFT") obligations under subsisting laws, regulations and regulatory directives and to actively prevent any transaction that otherwise facilitates criminal activity, money laundering or terrorism. Each PSB is also expected to formulate and implement internal controls and other procedures to deter criminals from using its facilities for money laundering and terrorist financing and adopt a risk-based approach in the identification and management of their AML/CFT risks in line with the requirements of the Framework.

[6] Except as prescribed in the CBN Regulation on the Scope of Banking and Ancillary Matters, No 3, 2010.

- Designation of a Chief Compliance Officer: PSBs are to designate competent chief compliance officers ("CCO") who would be saddled with the responsibility of developing an AML/CFT Compliance Programme; receiving and vetting suspicious transaction reports from staff; filing suspicious transaction reports with the Nigeria Financial Intelligence Unit (NFIU); filing other regulatory returns with the CBN and other relevant regulatory and supervisory authorities, etc. The CCO is to head the compliance unit and be the liaison officer between his institution, the CBN and NFIU and a point-of- contact for all employees on issues relating to money laundering and terrorist financing.

Reporting Obligations in relation to Suspicious Transactions

PSBs are required to identify and file suspicious transaction reports with the NFIU, where funds, assets or property are suspected to have been derived from criminal activities stated in the Framework. These include participation in an organized criminal group and racketeering; terrorism, including terrorist financing; trafficking in human beings and migrant smuggling; sexual exploitation, including sexual exploitation of children; illicit trafficking in narcotic drugs and psychotropic substances, amongst others.

Provisions relating to Customer Due Diligence ("CDD")

The Framework mandates PSBs to put in place CDD measures to ensure that necessary checks are in place before signing up a customer. A higher level of due diligence is required for higher-risk customers, business accounts or transactions. These include non-resident customers; legal persons or legal arrangements, politically exposed persons and any other business, activities or professionals as may be prescribed by the regulatory, supervisory or competent authorities.

For lower risk customers, PSBs are to apply reduced or simplified CDD measures. This is to ensure that the measures are not very stringent so as to exclude the very people that the PSBs were set up for. Such instances of lower risk include where: (a) the risk of money laundering or terrorist financing is lower; (b) information on the identity of the customer and the beneficial owner of a customer is publicly available; or (c) adequate checks and controls exist elsewhere in the national systems.

Also, the Framework provides for the utilisation of a three-tiered KYC standard to ensure application of flexible account opening requirements for low value and medium value accounts which shall be subject to caps and restrictions as the amounts of transactions increase.

PSBs are also required to identify and assess the money laundering or terrorist financing risks that may arise in relation to the development of new products and new business practices (including new delivery mechanisms) and the use of new or developing technologies for both new and pre-existing products.

CONCLUSION

The Framework is indeed an attempt by the CBN to provide a robust guide and check on the activities of PSBs, considering the role they play, which is similar to the role of regular deposit money banks. Also, the need for adequate AML/CFT policy/regulations cannot be overemphasised as the non-financial institutions who are permitted to operate as PSBs may not be familiar with existing AML/CFT/CDD requirements.

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