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CIRCULAR TO ALL DEPOSIT MONEY BANKS, PAYMENT SERVICE PROVIDERS AND OTHER FINANCIAL INSTITUTIONS ON ISSUANCE OF THE GUIDELINES FOR LICENSING AND REGULATION OF PAYMENTS SERVICE HOLDING COMPANIES IN NIGERIA

The Central Bank of Nigeria (CBN) recently issued the CBN Circular on New Licence Categorisations for the Nigerian Payments System (ref: PSM/CIR/GEN/CIR/01/22) which requires companies, desirous of offering switching and processing services and mobile money services, to set up a Payments Service Holding Company (PSHC) structure, such that the activities of the subsidiaries are clearly delineated.

The CBN, hereby issues the Guidelines for Licensing and Regulation of Payments Service Holding Companies in Nigeria to facilitate the understanding of regulatory requirements for operations of a Payments Service Holding Company (PSHC) in Nigeria.

All stakeholders are required to ensure strict compliance with these Guidelines and all other regulations.

Please be guided accordingly.


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**GUIDELINES FOR LICENSING AND REGULATION OF
PAYMENTS SERVICE HOLDING COMPANIES IN
NIGERIA**

APPROVED

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1.0 INTRODUCTION

The Central Bank of Nigeria (CBN), in line with its commitment to promote an efficient and credible payments system, approved new licence categorisations for participants in the payments system. The regulation requires companies desirous of operating more than one licence category, to set up a Payments Service Holding Company (PSHC) (hereinafter referred to as a Payments Service Holding Company (PSHC)), with activities of subsidiaries clearly delineated. This arrangement would prevent commingling of activities, facilitate management of risks and enable the Central Bank of Nigeria exercise adequate regulatory oversight on all the companies operating within the Group.

The affected regulated payment activities are:

- I. Mobile Money Operations
- II. Switching and Processing
- III. Payment Solution Services
- IV. Any other activity as may be approved by the CBN

Under this arrangement, a Non-operating PSHC shall be formed to hold equity investment in the separate companies in a “parent-subsidiary” arrangement. In serving as a source of financial strength to its subsidiaries, a PSHC shall maintain financial flexibility and capital-raising capabilities to support its subsidiaries. It shall also be capable to provide and use available resources to augment the capital of its subsidiaries, in the event of financial stress or adverse conditions.

Issued in exercise of the powers conferred on Central Bank of Nigeria, under the Central Bank of Nigeria Act (2007) and the Banks and Other Financial Institutions Act, Cap B3, Laws of the Federation of Nigeria, 2020 (BOFIA), these Guidelines shall complement the CBN Circular on New Licence Categorisations for the Nigerian Payments System (ref: PSM/CIR/GEN/CIR/01/22) and other subsidiary legislations made under these Acts, as well as other Directives, Notices, Circulars, Policies, Frameworks, issued by CBN and other regulators in the Nigerian financial services sector, from time to time.

These Guidelines are intended to facilitate understanding of the requirements for the adoption and operations of a PSHC in Nigeria and covers the definition and

structure of a PSHC, licensing requirements, ownership and control, corporate governance, permissible and non-permissible activities, as well as supervision.

2.0 DEFINITION AND STRUCTURE OF PSHC

2.1 Definition

For the purpose of this regulation, a PSHC is a company whose principal object clause include the business of a holding company set up for the purposes of making and managing equity investment in two or more companies, being its subsidiaries, which are Payments Service Providers across the following categories:

- I. Mobile Money Operations
- II. Switching and Processing
- III. Payment Solution Services

2.2 Non-Operating

2.2.1 The PSHC shall be non-operating, existing solely to carry out investment in approved subsidiaries without engaging in the day-to-day management and operations of subsidiaries.

2.2.2 A PSHC shall be a corporate body, registered with the Corporate Affairs Commission (CAC), and licensed, supervised and regulated by the Central Bank of Nigeria. It shall have a board size of between 5 and 10 or as determined by applicable CBN Corporate Governance Guidelines.

2.3 Structure

2.3.1 For any PSHC structure to emerge, there shall be at the minimum, two subsidiaries, which include a Mobile Money Operator (MMO) and a Switching company.

2.3.2 A PSHC is permitted to have only two hierarchies. Given the permissible level of hierarchies, the PSHC may have a subsidiary which is a parent to another subsidiary (intermediate company).

2.3.3 A PSHC may acquire controlling interest in any permissible financial and/or technological company, subject to prior approval of the CBN, where controlling

interest represents a minimum of 51% of authorised share capital of the entity.

2.3.4 A PSHC that elects to change to mono-line payments service provider shall seek the prior approval of CBN. Such PSHC shall submit along with its request for approval, the following:

- a. Annual audited financial statements of the immediate past three years under the arrangement/structure it seeks to discontinue;
- b. Divestment plan from subsidiaries; and
- c. Any other requirements as may be determined by the CBN from time to time.

2.4 Excise of Subsidiary from a Payments Service Holding Company

The CBN may, by order, direct a PSHC to divest from a subsidiary where, in the opinion of CBN, the PSHC is being run in a manner that is detrimental to the subsidiary and/or stability of the financial system.

3.0 LICENSING REQUIREMENTS

The promoters of the PSHC shall be required to submit a formal application for the grant of a licence. The application shall be addressed to the Director, Payments System Management Department. The Licensing process shall be in two phases: Approval-in-Principle and Final Licence.

A Financial Holding Company, with a payment service provider as a subsidiary, that had been licensed prior to the issuance of these Guidelines, needs not apply for a PSHC licence.

3.1 Requirements for grant of Approval-In-Principle (AIP)

The application shall be accompanied with the following:

3.1.1 A non-refundable application fee of N1,000,000.00 (One Million Naira only) or such other amount that the CBN may specify from time to time; payable to the Central Bank of Nigeria, through electronic transfer.

3.1.2 Evidence of meeting the prescribed minimum paid-up capital as defined in Section 7.1 of the Guidelines, subject to the satisfaction of the CBN.

3.1.3 Detailed business plan or feasibility report which shall, at a minimum, include:

- a. Objectives of the PSHC and those of the subsidiaries it intends to establish/acquire;
- b. Justification for applying for the payments service holding company;
- c. Ownership structure in a tabular form indicating the name of proposed investor(s), profession/business and their percentage shareholdings;
- d. Biodata, resume/curriculum vitae of proposed investors;
- e. Indication of sources of funding of the proposed equity contribution for each investor;
- f. Where the source of funding the equity contribution is a loan, it shall be a long-term facility of, at least, a 7-year tenor, and shall not be obtained from the Nigerian banking system or foreign subsidiaries of Nigerian banks;
- g. Corporate Governance Charter of the PSHC stating the roles and responsibilities of the board and its sub-committees, among other things;
- h. Criteria for selecting board membership;
- i. Biodata and detailed resumes of directors and Board composition;
- j. List of identified top/senior management staff, biodata and detailed resumes stating qualifications, experiences, records of accomplishment, etc.;
- k. National Government-issued Identity documents (International Passport, etc.) biodata and Bank Verification Numbers (BVNs) of proposed Board and Management staff of the company;
- l. The Tax Identification Number (TIN) of the company and its Tax clearance certificate where applicable;
- m. A schedule of services that will be shared in the group;
- n. Five-year financial projection on the operations of the PSHC indicating expected growth and profitability, and details of the assumptions that form the basis of the financial projection;
- o. Details of Information Technology (IT) infrastructure proposed to be deployed; and

p. Information on and pictorial representation of the corporate group structure with shareholding percentage by the PSHC in each of the subsidiaries and their principal businesses and registered Head offices.

3.1.4 A written and duly executed undertaking by the promoters that the PSHC shall be adequately capitalized for the volume and character of its business at all times, and that the PSHC shall be under the supervisory authority of the CBN, as an Other Financial Institution (OFI).

3.1.5 For regulated foreign institutional investors, the CBN shall require a no-objection letter from the regulatory body in the home country.

3.1.6 Shareholders' agreement providing for disposal/transfer of shares as well as authorisation, amendments, waivers, reimbursement of expenses, etc.

3.1.7 Statement of intent to invest in the PSHC to be made by each investor in the PSHC.

3.1.8 Technical Services Agreement, where applicable.

3.1.9 Draft copy of the company's Memorandum and Articles of Association (MEMART). At a minimum, the MEMART shall contain the following information:

- a. Proposed name of the PSHC;
- b. Object clause which shall be limited to the permitted activities of its licence;
- c. Subscribers to the MEMART;
- d. Procedure for amendment;
- e. Procedure for share transfer or disposal; and
- f. Appointment of directors.

3.1.10 Where the promoters of the PSHC are corporate investors, the CBN shall require them to forward the following additional documents:

- a. Certificate of Incorporation;

- b. Board resolution supporting the company's decision to invest in the equity shares of the proposed PSHC;
- c. Names, biometrics, BVNs and addresses (business and residential) of owners, directors and their related companies, if any;
- d. Audited financial statements and reports of the company, including Tax Clearance Certificate for the immediate past 3 years;
- e. Certified True Copies of the company's CAC forms showing the details of allotment and particulars of directors; and,
- f. Any other document/information that the CBN may require from time to time.

If satisfied with the application of the promoter(s), the CBN may grant an Approval in Principle (AIP).

3.2 Requirements for Granting a Final Licence

Not later than six (6) months after obtaining the AIP, the promoters of a proposed PSHC shall submit an application to the CBN for the grant of a final licence. The application shall be accompanied with the following:

- 3.2.1 Non-refundable licensing fee of N5,000,000.00 (Five Million Naira only), or such other amount that the CBN may specify from time to time, payable to the Central Bank of Nigeria by electronic transfer;
- 3.2.2 Evidence of promotion or investment of a payment service company;
- 3.2.3 Evidence of payment of capital contribution by each shareholder;
- 3.2.4 Evidence of location of Head Office (rented or owned) for the take-off of the PSHC;
- 3.2.5 Schedule of changes, if any, in the Board, Management, IT infrastructure and significant shareholding since the grant of AIP;
- 3.2.6 Evidence of ability to meet technical requirements and modern infrastructural facilities such as office equipment, computers, telecommunications, etc. to perform PSHC operations and meet CBN and other regulatory requirements;

3.2.7 Organisational structure, showing functional units, responsibilities, reporting relationships and grade (status) of heads of departments/units; and

3.2.8 Board and staff training programme.

3.3 Requirements for commencement of operations

The PSHC shall inform the CBN of its readiness to commence activities and such information shall be accompanied with one copy of each of the following:

- I. Shareholders' Register;
- II. Share certificate issued to each investor;
- III. Enterprise Risk Management Framework (ERMF);
- IV. Internal Control Policy;
- V. Minutes of pre-commencement board meeting;
- VI. Opening statement of affairs signed by directors and auditors; and
- VII. Date of Commencement of Activities.

3.4 Post commencement requirements

A PSHC shall:

3.4.1 Comply with relevant guidelines and regulations issued by the CBN and relevant extant laws.

3.4.2 Maintain adequate accounting system and keep records that capture all information which reflect the financial condition of the PSHC.

3.4.3 Ensure that it and all its subsidiaries are adequately capitalised at all times.

4.0 CORPORATE GOVERNANCE

The following provisions designed to strengthen the governance structure of the PSHC, shall apply:

- a. The board shall include, at least, an individual with requisite experience in the business(es) of the subsidiary payments service companies within the Group.

- b. Appointment to the board and management positions shall be in line with the requirements of Assessment Criteria for Approved Persons' Regime For Financial Institutions (The Approved Persons' Regime), or any other applicable regulation, issued by the CBN from time to time.
- c. Regulations on the disqualification of Board and management, applicable to Other Financial Institutions (OFIs), shall apply to Payments Service Holding Company.
- d. A PSHC shall:
 - I. Comply with the provisions of applicable CBN Corporate Governance Guidelines and demonstrate evidence of existence of competent and independent board, with requisite capacity to provide oversight on internal controls and risk management practices.
 - II. Comply with the provisions of the Securities and Exchange Commission (SEC) Corporate Governance Guidelines for publicly quoted companies and listed entities in Nigeria, where applicable.
 - III. Include its audited financial statements among the contents of its website.

4.1 Ownership and Control

- a. Prior approval of the CBN shall be obtained for any shareholding of 5.0 per cent and above, or any change in ownership which results in change in control of the PSHC.

Where such shares are acquired through the secondary market, the PSHC shall apply for approval from the CBN within seven (7) days of the acquisition.

- b. Subsidiaries of a PSHC are prohibited from acquiring shares in the PSHC.
- c. Subsidiaries are prohibited from acquiring shares of other subsidiaries of their parent PSHC.

For the purpose of sub-sections (b) and (c) of this section, "subsidiaries" include those of intermediate companies.

- d. Where a PSHC loses control of any of the two payments services subsidiaries - switching and processing company or mobile money operator

- in the group, for a period exceeding six (6) consecutive months, the PSHC shall cease to be a PSHC and will be required to return its licence to the Central Bank of Nigeria for cancellation.
- e. Where a PSHC with only two subsidiaries, loses its controlling interest in either of the subsidiaries, for a period exceeding six (6) consecutive months, the PSHC shall cease to be a PSHC and will be required to return its licence to the Central Bank of Nigeria for cancellation.
- f. Where a PSHC loses controlling interest in a subsidiary under 4.1 (d) or (e), and subsequent to the cancellation of its licence, the PSHC shall divest wholly and completely from that subsidiary within a period of six (6) months or any other period as may be determined by the CBN, to enable the subsidiary continue operations as an independent entity.
- g. Where a PSHC loses controlling interest in a subsidiary under 4.1 (d) or (e), and the subsidiaries include a Switching and Processing company, and Mobile Money operator, the former and the latter shall continue to operate independent of one another.

For the purpose of these Guidelines, “control” is as defined by IFRS 10, i.e.:

- I. Power over the investee, where the investor has existing rights that gives it the ability to direct activities that significantly affect the investee’s returns;
- II. Exposure, or rights to variable returns from involvement in the investee; and,
- III. The current ability to use power over the investee to affect the amount of the investor’s returns.

4.2 Change in Ownership Structure

Except with the prior written approval of the CBN, no PSHC’s director, shareholder, agent or instrumentality of such an entity or its shareholders shall enter into an agreement or arrangement:

- I. Which results in:
 - a. a change in the control of the PSHC; and
 - b. the transfer of shareholding of 5 per cent and above in the PSHC;

Provided such change(s) in control or transfer of shares is effected through the

secondary market, the PSHC shall notify the CBN not later than 7 days after the transfer.

- II. For the sale, disposal or transfer howsoever of the whole or any part of the business of the PSHC;
- III. For the issuance of New shares;
- IV. For the amalgamation or merger or takeover of the PSHC with any other person;
- V. For the reconstruction of the PSHC; or
- VI. To employ a management agent or to be managed by or to transfer its business to any such agent.

5.0 PERMISSIBLE ACTIVITIES

5.1 Except as listed in Section 5.2, the activities of the PSHC shall be restricted to the holding of equities in financial and technological subsidiaries that facilitate and/or enhance innovative digital financial services.

5.2 The PSHC can provide broad policy direction, shared services and/or enter into technical or management service contract with any of its subsidiaries, with the prior written approval of the CBN, in respect of the following areas:

- I. Human Resources services;
- II. Risk Management services;
- III. Internal Control services;
- IV. Compliance services;
- V. Information and Communication Technology;
- VI. Legal services;
- VII. Facilities (office accommodation including electricity, security, cleaning services in that accommodation); and,
- VIII. Any other services as may be approved by the CBN from time to time.

5.3 Shared services shall be provided on arm's length basis. Transactions in respect of such services shall require the consent of the Board of Directors of the subsidiary.

6.0 NON-PERMISSIBLE ACTIVITIES

A PSHC is prohibited from undertaking the following activities:

- I. Establishment, divestment and closure of subsidiaries, without the prior written approval of the CBN.
- II. Deriving or receiving income from sources other than as listed herein:
 - a. Dividend income from its subsidiaries/associates;
 - b. Income from shared services, where applicable;
 - c. Interest earned from idle funds invested in government securities or placement with licensed financial institutions;
 - d. Patents, royalties and copyrights;
 - e. Profit on divestment from subsidiaries/associates; and,
 - f. Any other source as may be approved by the CBN.

6.1 Internal Management of Subsidiaries

6.1.1 No PSHC shall:

- I. Arrogate to itself any of the powers or functions of the Board of Directors, or internal management responsibilities and obligations, of any of its subsidiaries or associates of any such subsidiary;
- II. Interfere in the day-to-day activities of the subsidiaries;
- III. Be involved in the administration and approval process of its subsidiaries, if applicable;
- IV. Require its subsidiaries or any of its agents to take directives or act on the instructions of the PSHC in its internal decision-making process, without prejudice to the definition of control as defined in Section 4.1 above.
- V. Have any of its officers or employees, while in the employment of the PSHC, work for any subsidiary, except employees engaged in shared services arrangements;
- VI. Engage the services of any employee of any of its subsidiaries;
- VII. Purchase/dispose assets from/to its subsidiaries, without the prior written approval of the CBN.

6.2 Intra-Group Transactions

6.2.1 No PSHC shall:

- I. Engage in any transaction or maintain any business relationship with any of its subsidiaries, except such transaction or business relationship is at arm's length;
- II. Borrow from the Nigerian banking system for the purpose of capitalizing itself or any of its subsidiaries;

6.3 Appointment of Directors and Top Management

- a. With reference to the CBN Corporate Governance Guidelines, relevant provisions of Company and Allied Matters Act (CAMA) and the Financial Reporting Council of Nigeria's Code of Corporate Governance, no PSHC shall appoint:
 - I. As director, any person, who at the relevant time is a director of any of its subsidiaries, except with the prior written approval of the CBN.

Where such an appointment is approved, the aggregate number of directors from the subsidiaries and associates, at any point in time, shall not exceed 30 per cent of the membership of the Board of Directors of the PSHC.

- II. A person who has served as a director (executive or non-executive) for the maximum allowable period as stipulated by the CBN, into any subsidiary, or an associate of such a subsidiary until after a minimum period of three (3) years after the expiration of the tenure of such director, and vice versa.
- b. No director of the PSHC shall be a director of the subsidiary, except with the written approval of the Central Bank of Nigeria.

Where such an appointment is approved, the number of directors from the PSHC, at any point in time, shall not exceed 30 per cent of the membership of each of the subsidiaries.

6.4 Intra-Group Transfer of Non-Current Assets

Intra-group transfer of non-current assets shall be carried out in a transparent manner and at arm's length.

7.0 PRUDENTIAL REGULATION OF PSHC

7.1 Minimum Paid-Up Capital and Capital Reserves

A PSHC shall have a minimum paid-up capital which shall exceed the sum of the minimum regulatory capital/ total equity of all its subsidiaries, as may be prescribed from time to time by the Central Bank of Nigeria (where the PSHC owns 100 per cent of the subsidiaries).

Where the PSHC owns less than 100 per cent of the subsidiaries, its minimum paid-up capital shall exceed the summation of its proportionate holding in the subsidiaries. Excess capital in one subsidiary shall not be used to make up a shortfall in another subsidiary.

It is the capital of the PSHC that is applied to the subsidiaries.

7.2 Payment of Dividends

A PSHC shall not pay dividends on its shares except:

- I. All its operational, preliminary and organisational expenses, losses incurred and other capitalised expenses, not represented by tangible assets (excluding goodwill), have been completely written off.
- II. Adequate provisions have been made to the satisfaction of the CBN for actual and contingent losses.
- III. It has complied with any capital requirements as stipulated in Section 7.1 of these Guidelines.

7.3 Acquisition of Subsidiaries

In determining the acquisition of subsidiaries, the CBN shall be satisfied that a PSHC has adequate capital resources by way of free funds to carry out the acquisition.

In all cases, the consideration for the acquisition of subsidiaries shall be on cash basis only or any other arrangement proposed by the PSHC and approved by the CBN.

7.4 Investment in Non-Current Assets

A PSHC shall ensure that it has adequate free funds to support any acquisition of non-current assets (property, plant and equipment, IT infrastructure/ platforms, etc.)

7.5 Limit on Contingent Liabilities

A PSHC's total exposure on contingent liabilities on behalf of its subsidiaries shall not exceed 20% of the payments service holding company's shareholders' funds unimpaired by losses.

7.6 Minimum Capital Requirements of Subsidiaries

A PSHC shall ensure that its subsidiaries comply with the minimum capital requirements for each licence category in the group.

8.0 SUPERVISION

8.1 Responsibility for Supervision of PSHC

PSHCs shall be supervised by the Central Bank of Nigeria. The subsidiaries within the group shall also be supervised by the Central Bank of Nigeria.

8.2 Supervision of Payments Service Holding Companies

8.2.1 A PSHC and its subsidiaries shall be supervised on a consolidated basis.

8.2.2 PSHCs shall be required to render returns to the Payments System Management Department of the CBN on a quarterly basis, or in frequency and format, prescribed by the CBN from time to time.

The returns shall include information on:

- I. Compliance with corporate governance guidelines
- II. Whistle blowing
- III. Assets and liabilities of the PSHC and its subsidiaries
- IV. Risk management
- V. Internal control
- VI. Intra-group transactions

9.0 GUIDE NOTES

- I. Pursuant to Extraordinary Gazette No. 38 of December 29, 2011, a financial holding company is a company whose principal object includes the business of a holding company set up for the purpose of making and managing equity investment in two or more companies, being its subsidiaries, engaged in the provision of financial services, one of which must be a bank. Bank means commercial, merchant or specialized bank.
- II. A PSHC is a company whose principal object clauses include the business of a holding company set up for the purposes of making and managing equity investment in two or more companies, being its subsidiaries, with at least one Mobile Money Operator and one Switching company.
- III. Regulatory minimum capital is the CBN stipulated minimum capital threshold for each Payment Service Provider (PSP) licence type.
- IV. Agent is any staff, employee, director, shareholder, contractor or representative of the subsidiary and/or PSHC.
- V. Fitness and propriety of the promoters shall be ascertained through security screening and status enquiry.
- VI. Promoters of a proposed PSHC shall not incorporate the company until an Approval-in-Principle has been obtained from the CBN, a copy of which shall be presented to the Corporate Affairs Commission for that purpose.
- VII. The CBN may interview the promoters, proposed directors and senior management personnel in the course of processing the application.
- VIII. The CBN may also inspect the books and records of a proposed PSHC to satisfy itself about the representations made or information furnished by the promoters.
- IX. The Approval-in-Principle is not an authority for the promoters to commence operations or perform any of the activities stated in Section 5.0.
- X. Subsequent to the issuance of the Approval-in-Principle, the promoters may proceed to carry out the activities stated in the Approval-in Principle.
- XI. The CBN shall issue a PSHC licence where it is satisfied with the promoters' status of compliance with the conditions stated in Section 3.2 of these

- Guidelines, as well as the organisational, security, infrastructural, risk management and internal control arrangements.
- XII. The CBN may, at any time and without recourse, vary or review any condition of a licence or impose additional conditions.
- XIII. Where a licence is granted subject to conditions subsequent, the promoters of a PSHC shall, within such prescribed period, comply with those conditions to the satisfaction of the CBN, as the latter may deem appropriate in the circumstance(s). Any PSHC that fails to comply with such conditions shall be deemed to be in contravention of these Guidelines.
- XIV. In constituting the Board of Directors of a Payments Service Holding Company, consideration shall be given to core competencies in the areas of operation of the subsidiaries.
- XV. PSHC licences shall be granted for an indefinite period of time or such period as the CBN deems necessary and shall not be transferable.
- XVI. An affiliate is an organisation, business entity or individual that is related to, and often, controlled by another entity.
- XVII. Control is the direct or indirect authority to influence or direct the management and policies of an entity whether through ownership, voting rights or by contract. Control is defined by IFRS 10 as the sole basis for consolidation and comprises the following three elements:
- a. Power over the investee, where the investor has existing rights that gives it the ability to direct activities that significantly affect the investee's returns;
 - b. Exposure, or rights, to variable returns from involvement in the investee; and
 - c. The current ability to use power over the investee to affect the amount of the investor's returns.
- XVIII. Intra-group transactions refer to direct and indirect claims which entities within the financial conglomerate hold on each other.
- XIX. Free funds are shareholders' funds less investment in non-current assets, equities in other financial institutions and unaudited losses.

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