



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



## Introduction

On 3<sup>rd</sup> August 2021, the Central Bank of Nigeria (**CBN**) issued a circular forwarding the Guidelines for Licensing and Regulation of Payments Service Holding Companies in Nigeria (the "**Guideline**"). The Guideline was released further to the CBN circular dated 9<sup>th</sup> December 2020 outlining the New License Categorisations for the Nigerian Payments System which also directed that companies seeking to combine the activities under the Switching and MMO categories will be required to operate only under a holding company structure with the subsidiaries clearly delineated to prevent comingling.

The Guideline directs companies seeking to operate more than one license category to set up a Payments Service Holding Company (**PHSC**) with the activities of the subsidiaries clearly delineated. The affected licensing categories for the setup of a PHSC are (a) Mobile Money Operations (MMO); (b) Switching and Processing; (c) Payment Solution Services (PSS) and (d) other activities as may be approved by the CBN. Under the Guideline, a PHSC is a company whose principal object clause include the business of a holding company set up for the purpose of making and managing investment in two or more companies being subsidiaries holding the relevant payment service provider license. The Guidelines were issued to set out permissible and non-permissible activities of PSHCs, and the requirements for the operation, ownership and control, licensing, and corporate governance of PSHCs.

## Key Takeaways from the Guidelines

**Business and Incorporation:** A PSHC is required to be a non-operating entity whose principal object clause include the business of a holding company set up for the purpose of making and managing investment in two or more companies being subsidiaries holding the relevant payment service provider licence. The PSHC shall be incorporated in Nigeria and licensed by the CBN. A PSHC shall have a board of 5 – 10 members or as may be determined by the CBN Corporate Governance Guidelines.

**Structure:** A PSHC is permitted to have two hierarchies. That is PSHC may have a subsidiary which is a parent of another subsidiary (intermediate company). The PSHC may acquire controlling stake in any financial and/ or technological company, subject to the prior approval of the CBN where controlling interest represents a minimum of 51% of the share capital.

**Licensing Requirements:** The promoters of a PSHC shall submit a formal application addressed to the Director, Payments System Management Department, for the grant of a licence. The application shall be accompanied by the required application documents.



**The Licensing process shall be in two phases:** Approval-in-Principle and Final Licence. The application fee for an Approval-in-Principle is a non-refundable sum of N1,000,000 (One Million Naira). Within six months of the grant of the Approval-in-Principle, the promoters shall apply for the grant of a Final License accompanied by a non-refundable fee of N5,000,000 (Five Million Naira) accompanied by the requisite documents.

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

**Capital requirements:** A PSHC is required to 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 by the CBN. This applies where the PSHC holds 100% equity in all the subsidiaries. However, where the PSHC owns less than 100% of the equity of the subsidiaries, its minimum paid-up capital must exceed the sum of its holding in the subsidiaries.

The guideline also stipulates that a PSHC's total exposure on contingent liabilities on behalf of its subsidiaries shall not exceed 20% of the PSHC's shareholders' funds unimpaired by losses.

**Corporate Governance:** The board shall include, at least, one individual with requisite experience in the business(es) of the subsidiaries within the group. Appointment to the board and management positions shall be in line with the requirements of Assessment Criteria for Approved Persons' Regime for Financial Institutions or any applicable regulation, issued by the CBN. The PSHC shall comply with the provisions of the 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.

In addition, any regulation that prohibits the appointment of a person as a member of the Board or management of Other Financial Institutions also applies to PSHCs. A PSHC must also 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.

**Ownership and Control:** The approval of the CBN is required for the acquisition of shares of 5% and above in a PSHC, or any change in ownership that results in a change in control of the PSHC. Where the shares are acquired through the secondary market, the approval of the CBN must be sought within seven days. A subsidiary is prohibited from acquiring shares in the PSHC or any of the other subsidiaries.

Where a PSHC loses control of its subsidiaries – MMO and Switching subsidiaries – its license shall be cancelled, and it shall cease to be a PSHC.

**Permissible and Non-Permissible Activities:** The business of a PSHC is limited to holding equity in the subsidiaries. However, the PSHC can provide shared services and/or enter into a technical or management service contract with any of its subsidiaries, with the prior written approval of the CBN.



A PSHC is prohibited from establishing, divesting from, or closing any of its subsidiaries without the approval of the CBN. A PSHC is also prohibited from deriving income from any other sources other than the dividend from its subsidiaries, income from share services, interest from funds invested in government securities, profits from the divestment from its subsidiaries, and patents, royalties, and copyrights.

**Supervision:** A PSHC shall render returns to the Payments System Management Department of the CBN every quarter, or in such frequency prescribed by the CBN.

## Conclusion

The Guideline puts in place a general framework for setting up of PSHCs for the payment service sector and provides an opportunity for fintech companies to establish complementary payment service businesses to enhance the delivery of financial services using technology. Also, through shared services, the payment service businesses controlled by the PSHC will be able to run efficiently and take advantage of economies of scale. At the same time, the CBN through its oversight function is able to ensure that the activities of the respective businesses are not co-mingled and facilitate effective risk management for the respective businesses.

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