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**October 10, 2019**

To: All Deposit Money Banks; and Other Financial Institutions.

**CIRCULAR ON THE REGULATION FOR THE OPERATION OF INDIRECT PARTICIPANTS IN THE PAYMENTS SYSTEM**

The Central Bank of Nigeria (CBN), in furtherance of its mandate for the development of electronic payments system in Nigeria, hereby issues the Regulation for the Operation of Indirect Participants in the Payments System, **with effect from 11<sup>th</sup> November, 2019.**

Please, be guided accordingly.

**Thank you for your usual cooperation**

A handwritten signature in blue ink, appearing to read 'S. Okojere' with a date '10/10/19' written below it.

**Sam C. Okojere**  
**Director, Payments System Management Department**

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**REGULATION**  
**FOR THE OPERATION OF INDIRECT PARTICIPANTS IN THE**  
**PAYMENTS SYSTEM**

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**Date: November 11, 2019**

## **1.0 Preamble**

In exercise of the powers conferred on the Central Bank of Nigeria (CBN) under the CBN Act 2007 to promote sound financial system in Nigeria, issue regulations to facilitate the development of an efficient and effective payments system in Nigeria, the CBN hereby issues the Regulation for the Operation of Indirect Participants in the Payments System (this Regulation).

### **1.1 Objectives**

The objectives of this Regulation shall be to:

- 1.1.1. set out the procedures for effective integration of indirect participants in the payments system in Nigeria;
- 1.1.2. standardise the operation of indirect participants in the payments system, taking into cognisance their operational risks;
- 1.1.3. provide mechanism and framework for the clearing and settlement of indirect participants payment instruments through the direct participating banks; and
- 1.1.4. strengthen indirect participants for effective contribution to digital financial services in Nigeria.

## **2.0 Minimum Criteria**

To qualify as an indirect participant, an institution shall:

- 2.1.1 have a satisfactory risk-based rating from the CBN and secure a letter of recommendation from its direct participating bank, signed by the Chief Risk Officer and an Executive Director of the direct participating bank; and
- 2.1.2 comply with the NUBAN Standards.

## **3.0 General Principles**

- 3.1 Only direct participating banks are permitted to settle payment obligations of indirect participants.
- 3.2 An indirect participant shall settle all its payments obligations through only one direct participating bank per payment scheme at any given time.

- 3.3 The relationship between a direct participating bank and an indirect participant shall be governed by a Settlement Agreement.
- 3.4 Where the account of an indirect participant with a direct participating bank is not adequately funded, the direct participating bank may decline further settlement services to the indirect participant and inform the payment processor accordingly.
- 3.5 Except as otherwise agreed, a direct participating bank or an indirect participant shall give at least thirty (30) days' notice to the other party before terminating the Settlement Agreement for any other reason apart from the circumstances in 3.4. The terminating party shall notify the Payments Service Provider (PSP) of its intention to terminate.
- 3.6 A direct participating bank and an indirect participating bank shall enter into a bilateral agreement to guide the relationship.
- 3.7 Where an indirect participant connects directly to a PSP for transaction processing, the indirect participant, direct participating bank, and the PSP shall enter into a tripartite Agreement.
- 3.8 Where the direct participating bank is not a settlement bank, it shall obtain written consent of its settlement bank prior to establishing settlement relationship with an indirect participant.
- 3.9 The settlement limits agreed between the direct and indirect participants shall be monitored and enforced as agreed by the parties.
- 3.10 Indirect participants shall process their e-reference instruments through the direct participating bank or directly, through the Nigeria Inter-Bank Settlement System (NIBSS).
- a. In the latter option, NIBSS shall indicate the source (bank, indirect participant) of the e-reference requests.
  - b. The receiving bank shall not discriminate between e-references originating from banks and indirect participants.

#### **4.0 Obligations of Indirect Participants**

An indirect participant shall:

- 4.1 comply with the applicable provisions of the Nigeria Bankers' Clearing System Rules (NBCS);
- 4.2 maintain a settlement account(s) with the direct participating bank wherein the net settlement position of the indirect participants shall be credited or debited as may

be appropriate after each settlement session (hereinafter called “the Settlement Account”);

- 4.3 pledge collateral in an amount as agreed with the direct participating bank which shall serve as security for settlement obligations;
- 4.4 indemnify and hold the direct participating bank harmless in respect of any liability or loss whether direct or indirect that may arise as a result of this agreement; accordingly, indirect participants hereby undertake to be primarily responsible and liable for all instruments presented for processing;
- 4.5 pay settlement fee to the direct participating bank annually or as may be agreed by the parties;
- 4.6 make up any shortfall in the clearing collateral before the commencement of the next settlement window in the event of a shortfall or re-discount to bring the aggregate value of the collateral up to the agreed minimum value as specified in the Settlement Agreement or subsequent review of the collateral amount; and
- 4.7 undertake to bear the cost of re-discounting the collateral necessitated by a need to recover the debit balance in the Settlement Account.

## **5.0 Components of the Payments System**

Indirect participants may take part in any of the following payments operations:

- a. Cheque Clearing;
- b. EFT & Bulk Payments;
- c. Instant Payments;
- d. Card Issuance;
- e. Card Transaction Acquiring (ATM, POS, Web, etc.);
- f. Portals (e-Reference, Anti-Fraud, e-Signatory, e-Passport, etc.);
- g. Bank Verification Number System; and
- h. Any other component approved by the CBN.

Specific conditions applicable to indirect participants for the individual component are described below.

## **5.1 Cheque Clearing**

Relevant provisions of the Nigeria Cheque Standards and the NBCS Rules shall apply.

## **5.2 EFT, Bulk Payments, and Instant Payments**

- 5.2.1 An indirect participant shall provide end-to-end electronic payment services to its customers, leveraging its relationship with its direct participating bank and PSP.
- 5.2.2 An indirect participant shall process its instruments through its direct participating bank or directly through the PSP.
- 5.2.3 A direct participating bank shall ensure that its indirect participant(s) comply with the rules and regulations guiding EFT operations.
- 5.2.4 All relevant provisions of the Regulation on Instant (Inter-bank) Electronic Funds Transfer Services in Nigeria shall apply.
- 5.2.5 Direct participating banks and indirect participants shall provide necessary functionalities on deployed service delivery channels to enable their customers to transfer and receive funds seamlessly.

## **5.3 Card Issuance**

- 5.3.1 Indirect participants may issue payment cards only on the authority of licensed payment card issuers.
- 5.3.2 The licensed payment card issuer shall be responsible for the operations of the indirect participants.

## **5.4 Card Transaction Acquiring (ATM, PoS, Web, etc.)**

- 5.4.1 Indirect participants may acquire payment card transactions only on the authority of licensed acquirers.
- 5.4.2 The licensed acquirer shall be responsible for the operation of the indirect participant.

## **5.5 Industry Portals**

### **5.5.1 Electronic Reference System (e-Reference)**

- 5.5.1.1 An indirect participant shall process its e-References through its direct participating bank or directly through a PSP.

- 5.5.1.2 Where the indirect participant processes its e-References directly, the PSP shall clearly indicate source (bank, indirect participant) of the e-reference requests.
- 5.5.1.3 A receiving bank shall not discriminate between e-references originating from direct participating banks and indirect participant(s).
- 5.5.1.4 A direct participating bank shall be responsible for the operations of its indirect participant(s).

## **5.5.2 Bank Verification Number System**

An indirect participant shall:

- 5.5.2.1 enrol its customers by itself, through a direct participating bank or a licensed Super-Agent.
- 5.5.2.2 process its validation and verification requests by itself or through a direct participating bank.
- 5.5.2.3 comply with the approved Regulatory Framework for BVN Operations and Watch-list for the Nigerian Banking Industry.

## **5.5.3 Others (Anti-Fraud, e-Signatory, e-Passport, etc.)**

- 5.5.3.1 Indirect participants shall comply with all relevant Regulations relating to Anti-Fraud, e-Signatory, e-Passport and other relevant portals.

## **6.0 Adjudication of Disputes**

Any dispute between indirect participant and its direct participating bank shall be resolved according to the provisions of the Agreement between the parties. However, where a resolution could not be reached, such disputes shall be referred to the CBN for adjudication.

## **7.0 Abuse and Sanctions**

**The prescribed sanctions in the regulation for the relevant payment operation shall apply.**

## **8.0 Amendments**

Any amendment to this Regulation may be proposed by a stakeholder through a written request addressed to the Director, Payments System Management Department of the Central Bank of Nigeria.

## 9.0 Appendix: Definitions

The terms below shall have the following meaning for the purpose of this Regulations.

**BVN** means Bank Verification Number

**CBN** means Central Bank of Nigeria

**Direct Participating Bank** means a Direct Participant who performs Settlement function to an Indirect Participant.

**EFT** means Electronic Funds Transfer

**Indirect Participant** means a licensed deposit-taking institution which is a non-clearing financial institution but settle its payments obligations through direct participating bank.

**NIBSS** means Nigeria Inter-Bank Settlement System Plc

**NUBAN** means Nigeria Uniform Bank Account Number

**PSP** means Payments Service Providers which process payments for licensed financial institutions

**NBCS** means Nigeria Bankers' Clearing System.