



Regulatory Update: NIBSS Directive to Disconnect Switches, Payment Solution Service Providers, and Super Agents from NIBSS Instant Payment (NIP) Outwards System

The Nigerian central clearing system, the Nigeria Inter-Bank Settlement System PLC ("**NIBSS**"), handles the clearing and settlement of transactions in the Nigerian payment system. In this role, NIBSS acts as a quasi-regulator. In this regard, NIBSS issued a directive on 5th December, 2023 titled " Directive to Disconnect Switches, Payment Solution Service Providers ("**PSSPs**") and Super Agents ("**SAs**") from NIBSS Instant Payment (NIP) Outwards System" to all entities licensed by the Central Bank of Nigeria ("**CBN**") and the general public (the "Directive") regarding participation in NIBSS Instant Payment ("**NIP**"). The NIP facilitates the instant clearing and settlement of transactions. The entities include deposit money banks, merchant banks, switches, mobile money operators, payment service banks, microfinance banks, mortgage banks, PSSPs, SAs, and Other Financial Institutions.

NIBSS, through the Directive, mandated CBN licensed entities to delist non-deposit taking financial institutions (such as Switches, PSSPs, and SAs) from being beneficiaries on the NIP outward transfer channels. The consequence of the Directive is that non-deposit taking institutions are prohibited from receiving inflows of funds from customers and deposit taking institutions are no longer permitted to clear and settle such funds through the NIP fund transfer channels. The prohibition does not restrict Switches, PSSPs, and SAs from processing inward transfers to banks and other deposit-taking institutions.

The rationale for NIBSS' directive is that allowing the affected entities as beneficiaries for outward transfers in the NIP (a) contravenes the CBN Guidelines on Electronic Payment of Salaries, Pensions, Suppliers and Taxes in Nigeria of February 2014. For clarity, Switches, PSSPs and SAs may process outward transfers as inflows to Banks; (b) breach the terms of their licenses as the licenses do not permit them to hold customers' funds; and (c) is not consistent with the CBN Circular titled "Permissible Services and Products of PSSP Operation in Nigeria" with Ref: BPD/DIR/GEN/CIR/05/004 dated 11th May, 2018.

The Directive does not apply to deposit-taking institutions that are licensed as such by the CBN. As a result, deposit-taking banks, microfinance banks, merchant banks, payment service banks, and primary mortgage institutions will continue to be beneficiaries in the NIP fund transfer channels.

The impact of the Directive on the operations of PSSPs, Switches, and SAs in the Nigerian payment system is that banks will delist PSSPs, Switches, and SAs from all NIP outward transfer channels.