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## **REGULATORY UPDATE**

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### **PAYMENT SERVICE PROVIDERS' CONNECTIVITY TO PAYMENT TERMINAL SERVICE AGGREGATORS FOR THE PROCESSING OF ELECTRONIC TRANSACTIONS**



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## Introduction

On 11<sup>th</sup> September, 2024, the Central Bank of Nigeria (“CBN”) issued a new circular to all Payment Service Providers (“PSPs”) regarding their connectivity to Payment Terminal Service Aggregators (“PTSAs”) (the “Circular”). This is pursuant to the CBN’s power to promote and facilitate the development of efficient and effective systems for the settlement of transactions (including electronic transactions) in Nigeria. In this regard, the Circular introduced new routing guidelines for Point of Sale (“PoS”) transactions to improve oversight and monitoring of electronic transactions within the Nigerian payments system. The CBN’s initiative is part of its broader strategy to decentralise PoS transactions routing and address various concerns of stakeholders associated with the centralisation of all PoS transactions under a single aggregator, the Nigeria Interbank Settlement System Plc (“NIBSS”). As a demonstration of this policy shift, the CBN had, earlier in April 2024, granted a PTSA license to Unified Payment Services Limited (“UPSL”) to operate alongside NIBSS as the two PTSAs. This was also aimed at fostering competition and enhancing efficiency in electronic payments processing within Nigeria.

Consequent to the above, the Circular requires PSPs to begin regularisation with the PTSAs and to submit written confirmation of their compliance to the CBN within 30 days from the date of the Circular – that is, 11<sup>th</sup> September, 2024. Some of the key changes introduced by the CBN that the various participants in the Nigerian payments system are required to implement are discussed below.

## Routing of transactions

Acquirers are required to route all transactions from PoS terminals at merchant and agent locations, whether on physical or electronic PoS terminals, through any of the PTSAs.

## Use of processors

PTSAs are, on their part, required to send PoS transactions to only processors certified by the relevant payment scheme, nominated by the acquirer and licensed by CBN. This makes it clear that unlicensed processors are not permitted in the Nigerian electronic payments system.

## Processors integration with PTSAs

All CBN-licensed processors must be integrated with the two PTSAs. This is aimed at allowing acquirers the flexibility to choose which processor(s) and PTSA to utilise to process their transactions.



## Configuration of PoS devices

All Payment Terminal Service Providers (“PTSPs”) that provides PoS machines for electronic transactions are required to ensure that their PoS devices and applications are configured to route transactions through any of the PTSAs as directed by the acquirer.

## Rendering of returns

To ensure closer monitoring of operations, all PTSPs are required to submit monthly returns of their transactions to the CBN. The returns shall contain details of the number of merchants and agents they manage along with the PTSA services used to route the corresponding transactions. Similarly, each of the PTSAs is required to submit monthly returns to the CBN. The returns shall provide details of all transactions processed through their platforms.

The PTSPs and PTSAs are expected to submit their respective returns to the Director, Payments System Management Department of the CBN, not later than 7 (seven) days after the end of each month.

## Compliance and sanctions

Compliance with the above requirements is mandatory. Where any CBN-licensed entity fails to take steps to comply with the requirements, the CBN could impose the appropriate sanctions on the defaulting entity. Such sanctions include the imposition of monetary penalties.

## Conclusion

The new transactions processing requirements introduced by the CBN in the Circular are expected to significantly enhance transparency and efficiency in electronic payments processing within Nigeria's electronic payments ecosystem. By setting clear standards for connectivity and routing of electronic payments, the CBN aims to streamline processes and ensure more reliable and secure electronic payments transactions. We believe that these measures will, if efficiently implemented, bolster the integrity and security of payments processing within Nigeria. With improved oversight and decentralised routing of transactions, the implementation of the changes could help to reduce vulnerabilities involved in transactions settlement, foster competition among the participants, and promote a more robust and trustworthy electronic payments infrastructure within Nigeria.

*This publication has been provided by Joseph Eimunjeze and Itoro Uwemedimo Etim of the Fintech team at Udo Udoma & Belo-Osagie. For more information about our Fintech practice group offerings, please visit our website at [www.uubo.org](http://www.uubo.org) or email us at [uubo@uubo.org](mailto:uubo@uubo.org).*

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