

INTRODUCTION OF THE PAYMENT SERVICE HOLDING COMPANY LICENSE

Introduction

In our previous newsletter, we analyzed the Central Bank of Nigeria (“CBN”) categorization of the Fintech licenses into four categories based on CBN circular dated December 9, 2020 (the “**Circular**”). Further to the categorization, the CBN indicated that operating more than one license category must be done through a holding company. This is to ensure that the activity of each subsidiary is clearly delineated and the CBN can maintain regulatory oversight over each fintech subsidiary.

Sequel to the Circular, the CBN on August 3, 2021, issued the Guidelines for licensing and regulation of payments Service Holding Companies in Nigeria (the “**Guidelines**”). In this article, we analyze the provisions of the Guidelines.

1. Which licensing categories are affected?

Companies wishing to operate the licenses in the following categories under one umbrella, are required to set up a Payment Service Holding Company (“**PSHC**”) which will be the holding company of the various subsidiaries holding the fintech licenses (“**Subsidiaries**”):

- i. Mobile Money Operations;
- ii. Switching and Processing; and
- iii. Payment Solutions Services.

2. How is a PSHC established?

A PSHC shall be a company registered under the Corporate Affairs Commission, and licensed by the CBN.

3. What is the role of the PSHC?

The PSHC will be a non-operating company and will hold equity investment in the Subsidiaries. The PSHC shall have capital-raising capabilities to support its Subsidiaries. The PSHC shall, however, not be involved in the day-to-day management and operations of the subsidiaries.

4. What is the minimum paid up capital of the PSHC?

Where the PSHC wholly owns the subsidiaries, the minimum paid-up capital of the PSHC must exceed the total of the required minimum capital of all its subsidiaries. Where the PSHC owns less than 100% of the subsidiaries, its minimum paid-up capital must exceed the total of its shareholding in the Subsidiaries.

5. How should the PSHC be structured?

The PSHC should have at least two subsidiaries which include a Mobile Money Operator (MMO) and a Switching company. Subject to the approval of the CBN, the

PSHC can acquire controlling interest (51% shares) in any financial or technology company.

6. What are the permissible activities?

In addition to holding equities in the subsidiaries, PSHC may provide board policy direction, shared services or enter into technical or management service contract with any of its subsidiaries with respect to Human Resources services; Risk management and Internal Control services; compliance and legal services; and facilities.

7. What are the non-permissible activities?

PSHC are not permitted to establish, transfer or close any subsidiary without the consent of the CBN. They are also not permitted to receive income from sources except from dividend income; income from shared services, patents, copyrights and royalties; profits from divestment from subsidiaries; interest from investment of funds in government securities or placement with licensed financial institutions; or any other source approved by the CBN.

8. How to apply for a PSHC license?

The license can be obtained by applying to the CBN with the following supporting documents:

- i. Evidence of minimum paid up capital;
- ii. Detailed business plan;
- iii. Draft of the memorandum and articles of association; and
- iv. And other required documents;

upon which an approval in principles will be obtained. Within 6 months of the issuance of the approval in principle, an application is to be made to the CBN for the issuance of the final license.

Conclusion

The new PSHC will provides a tidier way for fintech companies to utilize several fintech license under one umbrella. It is important to note that the Guidelines and the PSHC licensing regime is relatively novel. Therefore, the impact of the PSHC in the fintech industry is to be monitored with a keen eye.