

CBN Framework For Regulatory Sandbox Operations & QR Payments:

WHAT YOU NEED TO KNOW.



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INTRODUCTION

In view of the increasing consumer appetite for payment solutions and emerging disruptive technology in the financial services space, the Nigerian Central Bank ("CBN"), in January 2021 released an updated regulatory framework for fintech sandbox operations and for entities operating Quick Response (QR) code payments in Nigeria. In June 2020, the apex bank had released a draft framework for comments from banks, mobile money operators and payment services providers.



FRAMEWORK FOR SANDBOX OPERATIONS

In the tech space, a sandbox is a testing environment system in which new or untested software or coding can be run securely. A regulatory sandbox is a formal process for firms to conduct live tests of new, innovative products, services, delivery channels or business models in a controlled environment, with regulatory oversight, subject to appropriate conditions and safeguards.

Regulatory sandboxes enable eligible applicants to test their technology and enable financial solutions for a certain period of time (subject to conditions the regulator imposes). The concept of a regulatory sandbox was borne from a need by regulators to not stifle fintech

innovation with unsuitable archaic financial services regulations. As such, the regulatory sandboxes were geared towards enabling selected Fintech companies test their products without formal licences; whilst the regulators are able to better understand the product and develop suitable regulations.

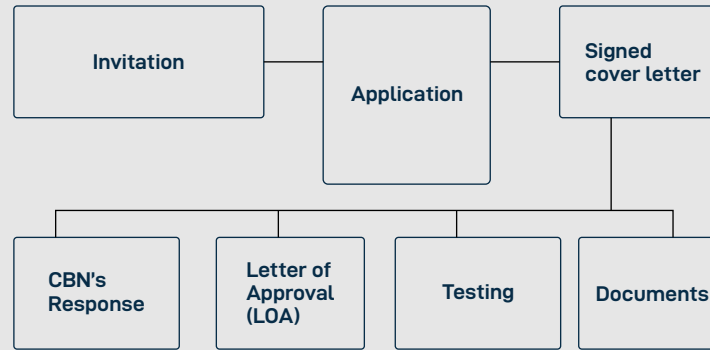
The Framework issued by CBN would enable the CBN stay abreast of innovations while promoting a safe reliable and efficient Payments System to foster innovation without compromising on the delivery of its mandate and it is a welcome development. Below are highlights of the issued framework:

Eligibility for participation:

The sandbox application process is open to both existing CBN licensees (financial institutions with fintech initiatives) and fintech and telecom companies looking to test innovative payment products. Fintech companies proposing non-regulated financial products and services using emerging technologies are also eligible to apply.

Scope of Products:

The sandbox encourages innovation that can improve the design and delivery of payment services and therefore proposed products, services or solutions that are either not contemplated under the prevailing laws and regulations or do not precisely align with existing CBN regulations will qualify. Innovative products or services previously rejected shall be considered for sandbox trials on a case-by-case basis. However, products and services that are outrightly unlawful under the laws of the Federal Republic of Nigeria shall not qualify for sandbox trials.



Admission Criteria:

For an application to be made, there must be an invitation placed on the CBN website. Once the application is made, an acknowledgement is sent within Five (5) working days of receipt of the application. Firms wishing to enter into the CBN's Regulatory Sandbox shall apply to the CBN through the Regulatory Sandbox online application platform accessed via the CBN's official email address: sandbox@cbn.gov.ng

The application must be submitted with a cover letter signed by an authorized signatory of the entity and addressed to the Director, Payments System Management Department, Central Bank of Nigeria, Abuja. The CBN will inform an applicant of its eligibility and approval to participate in the sandbox, 45 working days after the closure of the application window. A Letter of Approval (LOA) would be issued to the Innovator which would allow sandbox participants to test their innovation upon entry into the sandbox. Certain documentary requirements will be requested of the applicants such as documentary requirements the presentation of the Certificate of Incorporation, Memorandum of Incorporation, Form CAC 1.1, evidence of a patent certificate or patent registration etc and other operational filing and reporting requirements.

Testing Duration:

The applicant is to advise on the duration required to test the product; the volume of consumers and the value of the product to be accessed during the testing period; subject to the CBN's approval. As part of the evaluation phase the CBN and the innovator shall agree on a set of consumer safeguards in order to mitigate the risk to customers participating in the testing exercise.



Evaluation & Review of approval

The CBN will evaluate and review an approval to participate in the sandbox at any time before the end of the testing period. The CBN would thereafter decide whether to allow the product or solution to be introduced fully into the Nigerian market.



FRAMEWORK FOR QR CODE PAYMENTS

QR is an abbreviation for Quick Response. The QR Code is a two-dimensional code. It has a pattern of black squares that are arranged on a square grid with a white background. Imaging devices such as smartphone cameras can be used to read these QR Codes. A QR Code is quite similar to a bar code except for the fact that it can store a larger amount of information per unit area.

The framework issued by CBN which provides regulatory guidance for the operation of the QR Code payment services is divided into four parts which are

- (i) the acceptable QR code standards for implementing QR Payments in Nigeria;
- (ii) interoperability of QR Payments in Nigeria;
- (iii.) roles and responsibilities of participants in QR payments in Nigeria and
- (iv.) the Risk management principles for QR code payments in Nigeria.

According to the framework, QR Code payments are based on the EMV QR Code Specification for payment systems. Notwithstanding this, the bank may also approve the use of any other QR Code standard so far it meets the prescribed security requirements within the framework, demonstrates interoperability with other existing implementations and has a cost benefit to the end users. The QR Code implementation is to support account, wallet, card and token based QR code operations and uses the merchant presented mode for the implementation of QR Code payments.

Furthermore, there are about five participants in the QR Code Payment system in Nigeria and they are: merchants, customers, issuers (banks, MMOs and other financial institutions), acquirers (banks, MMOs and other financial institutions) and payment service providers. These participants are to ensure that they have full interoperability of the QR Code schemes in Nigeria. The Guidelines provides responsibilities for each of these participants.





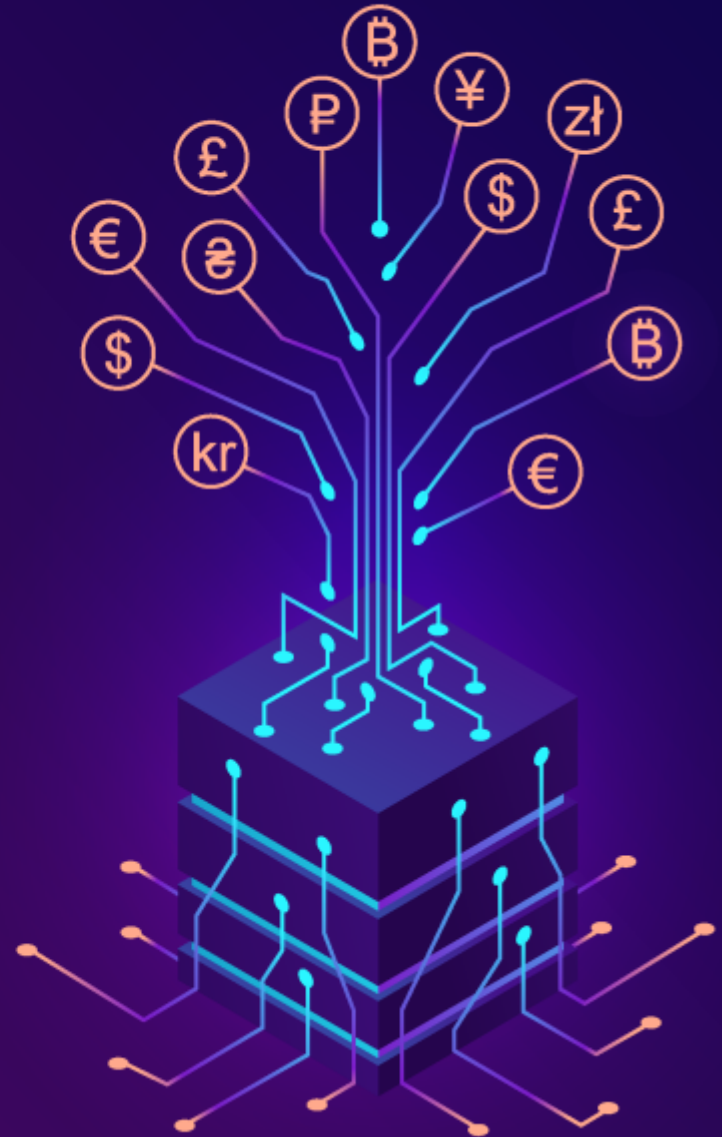
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Quoted from

**Framework for
Sandbox Operations**

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In order to guide the operations of the QR Code payment system, the framework provides certain risk management and compliance principles which include but is not limited to:

i. issuers and acquirers shall clearly define risk management policy and guidelines for the operations of the QR Code scheme.

ii. QR Codes shall, at a minimum be encrypted (AES) and/or signed

iii. QR Code Payment applications, updates and patches shall be duly certified by the Payment Terminal Service Aggregator (PTSA);

iv. issuers and acquirers are to agree on a minimum due diligence guidance for merchant on-boarding without prejudice to the KYC/AML requirements of the CBN.

Finally, where there is a complaint on the QR Code payment system, it shall be resolved in accordance with the CBN consumer protection regulation. The framework gives the CBN the power to apply appropriate sanctions to any party that fails to comply with the provisions of the framework and any relevant guidelines.

Conclusion

The two regulatory frameworks for fintech sandbox operations and for entities operating Quick Response (QR) code payments are in fact a step in the right direction as both frameworks will define the establishment, rules and operations of a regulatory sandbox and QR code payment systems for the entire Nigerian payment ecosystem. The frameworks will help promote effective competition, embrace new technology, encourage financial inclusion and improve customer experience, with a view to engendering public confidence in the financial system.

Disclaimer

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