

Payment Service Provider (PSP) Licensing in Nigeria: Legal Requirements Under BOFIA 2020 and CBN Regulations

An in-depth analysis of Payment Service Payment Provider (PSP) licensing requirements in Nigeria under BOFIA 2020 and CBN Guidelines. Capital thresholds, compliance duties, and enforcement risks explained

Introduction

Nigeria's digital payments ecosystem has experienced exponential growth over the past decade. Fintech operators, switching companies, payment gateways, and mobile money platforms now form critical infrastructure within the financial system.

However, payment services in Nigeria are not lightly regulated commercial activities. They fall squarely within the supervisory jurisdiction of the Central Bank of Nigeria (CBN) and are governed principally by the Banks and Other Financial Institutions Act (BOFIA 2020), alongside sector-specific CBN regulations. For founders, investors, and financial institutions, understanding the legal framework governing Payment Service Providers (PSPs) is not merely advisable, it is commercially imperative.

The Statutory Foundation: BOFIA 2020

BOFIA 2020 significantly expanded the regulatory powers of the CBN. The Act vests the CBN with authority to license, regulate, and supervise financial institutions, including entities engaged in payment services. Under BOFIA, no person may carry on banking or other financial business in Nigeria without a valid license issued by the CBN. The CBN may prescribe capital requirements, operational conditions, and compliance standards. The CBN may impose sanctions, including monetary penalties, license suspension, or revocation. Payment service operations, depending on their structure, fall within the regulatory perimeter of "other financial institutions" and are therefore subject to licensing oversight.

CBN Licensing Framework for Payment Service Providers

The CBN issued the Guidelines on Licensing and Regulation of Payment Service Providers (PSPs) to categorize and regulate payment operators within Nigeria's financial ecosystem.

The framework recognizes several PSP categories, including :

- Switching and Processing Companies
- Mobile Money Operators (MMOs)
- Payment Solution Service Providers (PSSPs)
- Payment Terminal Service Providers (PTSPs)
- Super Agents

For advisory on PSP licensing, fintech structuring, regulatory compliance, or CBN engagement, Pearlton Associates provides strategic legal counsel across Nigeria's evolving financial regulatory landscape.

Each category carries distinct regulatory expectations, capital thresholds, and operational limitations.

Capital Requirements

The CBN prescribes minimum paid-up capital requirements for each PSP category. These capital thresholds serve prudential objectives, including:

- Consumer protection
- Settlement risk mitigation
- Systemic stability
- Failure to maintain the prescribed capital may trigger regulatory intervention.

Regulatory Obligations of PSPs

Licensing is only the starting point. Ongoing compliance obligations are extensive and continuous.

1. Prudential and Operational Compliance

PSPs must comply with:

- CBN reporting requirements
- Risk management standards
- Cybersecurity and IT governance frameworks
- Settlement and safeguarding obligations (particularly for MMOs)

Operators are subject to periodic regulatory audits and supervisory review.

2. Anti-Money Laundering and Counter-Terrorism Financing

PSPs qualify as financial institutions for AML purposes and are subject to the Money Laundering (Prevention and Prohibition) Act.

This imposes obligations, including:

- Customer Due Diligence (KYC)
- Enhanced Due Diligence for high-risk clients
- Suspicious Transaction Reporting
- Record retention

Regulatory enforcement in this area has become increasingly stringent.

3. Data Protection and Consumer Protection

Payment operators process vast volumes of personal and financial data. Accordingly, compliance with the Nigeria Data Protection Act is mandatory. Additionally, the CBN Consumer Protection Framework imposes transparency and fair treatment obligations toward customers. Data breaches, unfair charges, or opaque transaction structures may attract significant regulatory exposure.

Regulatory Enforcement Powers

Under BOFIA 2020, the CBN retains wide enforcement powers, including:

- Monetary penalties
- Suspension of operational approvals
- Removal of officers
- Revocation of license

Importantly, BOFIA empowers the CBN to impose administrative sanctions directly where it determines that a regulated entity has contravened applicable provisions. Regulatory engagement in Nigeria has evolved from reactive supervision to proactive enforcement, particularly within the fintech sector.

Structuring Considerations for Fintech Operators

From a transactional and advisory perspective, several structural issues frequently arise:

- Whether the proposed business model falls within an existing PSP category.
- Whether a partnership model with a licensed institution is legally sustainable.
- Capital structuring and foreign investment compliance.
- Governance structures adequate for regulatory scrutiny.
- Early regulatory mapping significantly reduces restructuring risk at later growth stages.

Strategic Implications for Investors and Founders

For investors, PSP licensing status is a core consideration in due diligence. An unlicensed payment operator presents material regulatory risk, potentially affecting valuation and exit prospects.

For founders, regulatory non-compliance may result not only in financial penalties but also in operational shutdown. The regulatory perimeter surrounding payment services in Nigeria is now mature, structured, and actively supervised.

Conclusion

Payment services in Nigeria operate within a robust statutory and regulatory framework anchored in BOFIA 2020 and CBN licensing guidelines. Innovation in financial technology does not displace regulatory oversight. Rather, it operates within it. Proper licensing, capital adequacy, AML compliance, data protection adherence, and governance discipline are not optional; they are foundational to sustainable participation in Nigeria's financial services ecosystem.