

ARTICLE SERIES

**CBN'S INTRODUCTION OF NATIONAL PAYMENT CARDS –
EXAMINING ITS IMPACT ON THE FINANCIAL SERVICES SECTOR**



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The Central Bank of Nigeria (CBN) and the Nigeria Inter-Bank Settlement Systems Plc (NIBSS) recently announced that from January 16th 2023, a national card scheme will be rolled out that will improve the payment system in Nigeria[1].

In explaining the rationale for this introduction, CBN and NIBSS explained that the benefits in introducing the domestic card scheme would include:

- Reduction in costs and use of foreign exchange;
- Protect data sovereignty;
- Enable locally relevant propositions;
- Making the cards and payments more accessible and affordable for Nigerians;
- Allow banks and other institutions offer a variety of solutions including debit, credit, virtual, loyalty and tokenized cards; and
- The acceleration of financial inclusion.

They further disclosed that the scheme will be delivered through NIBSS in conjunction with the Bankers' Committee and other stakeholders. The CBN spokesman was also quoted as saying the following:

“The CBN recognises the significant benefits from delivering Africa’s first central bank-driven, domestic card scheme, which, when delivered at scale, has the potential to become the largest in Africa and one of the largest in the world[2].”

Although the CBN has not provided full details of how the scheme will work, it is expected that the national domestic card will rival some of the present card schemes being used in Nigeria.

In this article, we explore what card schemes are and the impact of CBN’s domestic card scheme may have on the financial services sector in Nigeria.

WHAT IS A CARD SCHEME?

A card scheme is a central payment network linked to payment cards, such as credit and debit cards, that are used to process payments.

The primary role of a card scheme is to manage payment transactions, including operations and clearing. These transactions are managed through a set of rules and procedures that enable cardholders use their cards with third parties such as service providers and retailers.

With card schemes, you can easily purchase and pay bills, online or in-store, without the need for cheques or cash being exchanged. They are therefore very useful tools in a cashless economy.

[1] Chimgozirim Nwokoma (2022) The CBN wants to create ATM cards that could compete with Mastercard, Visa, and Verve. Techpoint [Online]. October 26, 2022. Available from: <https://techpoint.africa/2022/10/26/cbn-domestic-card-scheme>

[2] Deepening Financial Inclusion with Domestic Payment Scheme Available from: <https://www.thisdaylive.com/index.php/2022/11/14/deepening-financial-inclusion-with-domestic-payment-scheme/>

Some of the notable global brands that operate card schemes include VISA, MasterCard and American Express. In a country like Nigeria for instance, Mastercard, Verve and VISA are the card schemes used by most financial institutions considering that they are accepted in many parts of the world.

ELIGIBILITY TO ISSUE CARDS

It is important to note that most card scheme companies do not directly issue debit or credit cards. Rather they work with eligible financial institutions to assist merchants and retailers facilitate payments. The few exceptions to this are companies like American Express that operate as a card scheme company and also as an issuer.

The CBN determines who can issue payment cards. Consequently, it provides in its Guidelines for Card Issuance and Usage in Nigeria^[3] that only licensed banks with clearing capacity shall issue payment cards in Nigeria. However, financial institutions without clearing capacity can enter into a partnership with another bank and get CBN's approval to issue cards.

Generally, eligible financial institutions can apply for membership to any of the existing card schemes and then issue payment cards directly to consumers, acquiring money from transactions. So for instance, First Bank can be a member of Mastercard's scheme and so issue Mastercard debit or credit cards directly to its customers.

Furthermore, different types of businesses, such as fintechs and retail outlets that run loyalty programs can issue cards to customers. However, these cards will be backed by a financial institution.

HOW THE CARD SCHEME WORKS

Even though consumers use these schemes globally, there is usually no direct relation between the card scheme and consumers. This is because different players are involved in any given credit card transaction - not just the consumer and the card scheme.

The card schemes typically work with four parties that make up an open-loop system which allows consumers purchase goods and services from merchants, while the payment processors and banks work behind the scenes to consummate the transaction.

THE CARDHOLDER



The cardholder is the holder of the debit or credit card issued by the bank.

[3] CBN's Guidelines for Card Issuance and Usage in Nigeria Available here; <https://www.cbn.gov.ng/out/2014/bpsd/approved%20guidelines%20for%20card%20issuance%20and%20usage%20in%20nigeria%20.pdf>

THE CARD ISSUER



The card issuer is the eligible financial institution that is a member of a card scheme. The card scheme provides the 16 digit numbers and other features on the card which enables customers use the card anywhere in the world. The card issuer then issues the card to the cardholder.

Even when the card is branded by Walmart or Shoprite for instance, an eligible financial institution will be backing the card so it can be used for financial transactions.

THE MERCHANT



This is a service provider/retailer that sells goods or services to the cardholder.

THE ACQUIRER



The acquirer is a financial institution that provides a merchant service agreement to the merchant and processes the card transactions on their behalf.

Their role requires them to collect card based payments which have been accepted from merchants. They aggregate and separate those payments and then send them to the card issuer. These payments are debited to the card issuer and ultimately the cardholder.

The card issuer then sends a credit for all their daily payments via the card schemes to the acquirer, who completes the cycle by funding the merchant's nominated bank account.

There are also other secondary intermediaries that facilitate the transaction, such as the payment gateway and payment processor. A payment gateway processes online payments, authenticating and safely passing cardholder data among the parties within the transaction flow. Conversely, a payment processor transmits card data from a merchant's point-of-sale system to card networks and banks involved in the transaction.

RELEVANCE OF A DOMESTIC CARD SCHEME

It was reported by Globaldata[4] in April 2022 that the annual value of card transactions in the Nigeria cards and payments market was \$18.2 billion in 2021. It was also predicted that the market would grow at a compound annual growth rate of more than 18% during the forecast period. This indicates that a lot of transactions are carried out using card schemes in Nigeria. With CBN's recent policies around cash withdrawal limits, as well as other aspects of its Payment Systems Vision 2020 which seeks to increase the resilience of the payment system infrastructure and work-streams to encourage the usage of electronic payment methods, the use of cards for transactions may see a significant uptick in 2023.

[4]Global Data (2022) Nigeria Cards and Payments – Opportunities and Risks to 2025. Global Data. [Online]. April 2022. Available from : <https://www.globaldata.com/store/report/nigeria-cards-and-payments-market-analysis/>

A few countries, such as India, China and Russia, have tapped into having a national domestic card scheme with varying degrees of success. One of the popular schemes is RuPay which was established by the National Payments Corporation of India (NPCI), an umbrella organization set up by the Reserve Bank of India (RBI) and the Indian Banks' Association (IBA).

LESSONS LEARNT FROM RUPAY

In 2011, almost half of the adult Indian population did not have bank accounts as account holders were required to have a minimum balance to maintain an account. To resolve this, the Indian government launched a financial inclusion program in 2012, which included the setting up of a national card scheme, RuPay. Subsequently, in 2014, it rolled out a program that enabled customers open zero-balance savings accounts and Basic Savings Bank Deposit Accounts. Customers were then offered a free RuPay debit card upon opening an account.

These actions led to an upsurge in the financial inclusion scheme in India as over 400 million bank accounts have been opened since then and card transactions have multiplied.

For instance, at the time RuPay was introduced in 2014, Visa and Mastercard were the primary card schemes in the Indian market[5].

However, it was reported that by November 2020, more than 600 million RuPay cards had been issued by over 1,100 banks[6]. Furthermore, the Indian government directed all public sector banks (PSUs) to issue only RuPay cards to their customers. Thus, even though it was estimated that Visa held a market share of 44%, followed by Mastercard at 36% and RuPay hovering at about 20%, RuPay accounted for 63% of India's issued 952 million debit and credit cards.

To increase its customer reach and international acceptance, RuPay has also entered into partnerships with Discover Financial Services (DSF) of the US, Japan Credit Bureau (JCB), Union Pay of China and other regional and international financial bodies.

The advantages RuPay has over the international card schemes (ICS) for the issuers and customers include the following:

- **Data localization** – Being a domestic payment network, data is processed locally and so takes less time to verify in contrast to foreign card schemes that send the information to servers outside the country, thereby increasing processing time. This is advantageous for domestic transactions.

[5] Satyaki Bhattacharya (2022) The rise of RuPay. Online. LinkedIn. July 24, 2022. Available from : https://www.linkedin.com/pulse/rise-rupay-satyaki-bhattacharya/?trk=pulse-article_more-articles_related-content-card

[6] Reuters December 15, 2021 India OKs \$170-mln plan to promote RuPay debit cards, rivaling Visa, Mastercard By Manoj Kumar <https://www.reuters.com/world/india/india-approves-170-mln-incentive-plan-promote-rupay-debit-cards-2021-12-15/>

- **Data protection** – Processing data outside also increased the chances of data being compromised. RBI also issued directions on Storage of Payment System Data which required conscious effort on localization of data.
- **No fees on transactions** – The government eliminated all Merchant Discount Rate charges on RuPay debit cards which meant no fees could be levied to merchants for transactions on these networks. Along with this, all Indian companies with an annual turnover greater than 500,000,000 Rupees had to offer RuPay payment options to their customers.
- **No membership fees** – Banks had to pay membership fees to card schemes like Mastercard & Visa. However, with RuPay, operating costs are lower since no such fee is charged. This makes it a cheaper option.
- **Lower cost of transactions:** RuPay charges the banks one-third the amount paid to other scheme cards. Savings on this increases the earnings for bankers and merchants.
- **Insurance coverage** – All RuPay cardholders are provided with accidental insurance coverage unlike foreign card schemes.
- **Product Origination:** It would be easier to build customized products that (may) require changes in the network standards or some enhancements – at a domestic level than with the ICS.

It would indeed be quite beneficial to the banks and customers in Nigeria if the domestic scheme to be introduced by the CBN meets most of these standards.

Furthermore, in its National Payments Scheme Report, the Anthemis Group, a UK investment and advisory firm, projected that domestic card schemes can be beneficial to local economies on the following premise:

- Based on the data collected across five continents, cost to the economy by using arouting domestic card transactions via a local switch can lower costs, create services more suited to local market needs and minimise significant outflow of foreign exchange.
- Domestic scheme compared to an ICS could be as low as 25%.

The Report further stated that the biggest reason to use a domestic scheme is that in most markets less than 5% of cardholders carry out international transactions, but the card schemes charge assessment fees on every single transaction, domestic or international.

Most Central Banks would therefore favour low-cost domestic payment schemes as an aid to economic efficiency and believe that such schemes and local infrastructures provides a significantly lower cost option.

However, it must be said that in implementing the domestic card scheme, CBN should allow the market forces play out naturally and permit banks and customers to decide if they want to adopt the domestic cards rather than coerce them into its usage.

We note, as seen in other jurisdictions, that issuing the domestic cards may lower operating costs for the issuers. The effect of this would be that the issuers (banks) can then reduce what they charge customers for card issuances (they currently charge between ₦800 (\$1.6) and ₦1,100 (\$2) for debit card issuance). If the domestic cards do not attract any fees or are significantly lower, it is likely that customers may patronize them rather than the ICS.

Also, another factor here is that issuers can pay the domestic card scheme operator in Naira in order to be a member of the scheme and issue cards on their behalf. This would be in contrast to the present arrangement where they may usually have to pay the ICS in foreign currency (FX) in order to issue their cards.

Consequently, being CBN-driven, the costs for the issuers and acquirers are significantly lower than the ICS who are required to do more within the market in order to attract and keep customers.

It is also hoped that the CBN will not toe the path of the Indian government that mandated public banks to only issue RuPay cards, and also mandated business owners with an annual turnover of 500,000,000 Rupees to offer RuPay payment options to their customers.

Thus, the CBN has to ensure that its direct participation in the market does not crowd out the competition or disrupt the market structure and innovation by other card schemes.

CONCLUSION

The indices imply that key advantages of domestic schemes over ICS are lower cost, a better understanding of what consumers and merchants need from payments, and greater flexibility and responsiveness to market needs.

It is hoped that clear guidelines will be issued by the CBN before the national scheme cards are rolled out to ensure that all the market players are aware of how the different schemes will interact in the ecosystem.

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