

## **Licensing Policy for Institutions that Perform Payment-Related Work 2079 (2023 A.D.)**

### **Introduction**

Nepal Rastra Bank (“NRB”), the central bank of Nepal, on January 2, 2023, has brought into effect a new Licensing Policy for Institutions that Perform Payment-Related Work 2079 (2023 A.D.) (“Licensing Policy”) thereby replacing the prior Licensing Policy for Institutions/Mechanism that Perform Payment-Related Work 2076 (2019 A.D.).

The Licensing Policy was formulated under Rule 10 of NRB’s Payment and Settlement By-Laws, 2077 (2020 A.D.), to regulate establishment and licensing of institutions that perform work related to payment, clearing and settlement.

The Licensing Policy is applicable to institutions that are established in Nepal and carry out payment-related work inside or outside of Nepal, as well as to those institutions that are established outside Nepal and operate payment-related work in Nepal.

### **Permitted Activities**

A license under the Licensing Policy will be granted to institutions to engage in following two activities:

- Payment Service Provider (“PSP”)
- Payment System Operator (“PSO”)

The Licensing Policy permits a PSP to engage in following activities:

- to mediate and make payment through cards or other electronic medium for goods, service, assets and other obligation between a payer and a payee;
- to transfer money domestically;
- to operate by being affiliated to any payment-related service operator; and
- other activities prescribed by NRB.

The Licensing Policy permits a PSO to engage in following activities:

- automated clearing house related work;
- activity related to inter-affiliation of payment system;
- to operate network of electronic payment card;
- to operate payment switch; and
- other activities prescribed by NRB.

With the exception of banks and financial institutions, any other institution is eligible for a license to operate only one service among the above two sets of activities.

### **Letter of Intent**

An institution who wishes to obtain a license under the Licensing Policy must first file an application at NRB to obtain a Letter of Intent (“LOI”) upon depositing a non-refundable fee of NPR 100,000 in case of a PSP or NPR 500,000 for a PSO. NRB will grant its decision within 90 days.

### **Licensing**

Within 3 months of obtaining a LOI, the institution must apply for a license after registering itself in the Office of Company Registrar (“OCR”). The decision to grant or reject application for license shall be made within 60 days.

A license will be granted upon evaluation of various financial, organizational and technical capabilities of an applicant. An amount equal to 1 % of the issued capital must be kept as collateral in order to obtain a license. This amount is refundable upon closure of operations.

The license will be valid up to 5 years and is renewable for a term of 5 years at one time.

## Telecommunication Company

In case a telecommunication company, through its subsidiary, wishes to operate as a PSP, it must submit commitment to provide non-discriminatory treatment in price and service to other payment related service providers who use the former's telecommunication services.

### Capital Requirement

With the exception of banks and financial institutions, other institutions operating payment related services are required to have minimum capital as shown hereunder:

Nature of License		Minimum Capital (NPR)
PSP	Institutions operating instruments other than payment card	50 million
	Institutions operating other instruments with payment card	250 million
PSO	----	400 million
	Institutions that operate transactions within and outside Nepal through payment instruments issued in Nepal	800 million

The institutions which have obtained licenses prior to commencement of this Licensing Policy must meet the required paid up capital by July 16, 2028.

Promoter shares of a licensee institution cannot be transferred for 5 years from the date of obtaining a license. However, if capital has to be raised to bring in modern technology, or if new investors are added during merger of two or more institutions or it is justifiable to transfer promoter shares due to any reasonable cause, such promoter shares may be sold upon obtaining permission from NRB.

### Foreign Institutions

Foreign institutions that operate payment-related activities in 10 or more countries will be granted exemptions to following requirements:

- minimum capital requirement;
- manpower requirement;

- Fit & Proper Test Measurement;
- requirement to present documents prescribed to obtain LOI; and
- application fees and collateral requirement.

Such foreign applicants will be required to submit the following:

- copy of institution registration certificate;
- details related to ownership and final interest of the institution;
- details of countries that institution is operating on;
- names of people operating in senior management post;
- financial details of institution for last 3 years; and
- name, address, contact number and email address of contact office.

### Foreign Investment

Institutions that have obtained or applied for operating licenses can bring in foreign investment with permission from NRB. The maximum capital of foreign investment is 15% of the total paid up capital of a licensed institution. Following documents related to the investing institution will be required to be submitted to obtain permission to bring foreign investment:

- incorporation documents;
- information on operations in other countries;
- audited financial details; and
- decision of Board of Directors to invest in Nepal.

Along with above documents, the institution bringing foreign investment shall also submit reason for foreign investment, proposed investment sector, provision related to technology transfer, representation of foreign investor in the board of directors, due diligence audit and other related information.

A company operating in this sector having foreign investment shall be required to convert into a public company and issue shares to the public within three years of approval of investment or commencement of operation.

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