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Country Comparative Guides

Nigeria
FINTECH

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This country-specific Q&A provides an overview of fintech laws and regulations applicable in Nigeria.

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NIGERIA
FINTECH

1. What are the sources of payments law in your jurisdiction?

The primary laws that regulate payments in Nigeria are the Central Bank of Nigeria (Establishment) Act 2007 (CBN Act) and the Banks and Other Financial Institutions Act ("BOFIA") 2020 as amended. The CBN Act establishes the Central Bank of Nigeria ("**CBN**") as an independent entity to administer the CBN Act and BOFIA. These laws empower the CBN in efficiently exercising its oversight function in the financial services and payments sector which comprises banks and other financial institutions ("OFIs"), as well as financial technology ("Fintech") companies such as payment service providers, finance companies, international money operators (IMTOs), and payment service banks (PSBs).

In exercise of its oversight functions, the CBN has released several regulations/guidelines that are core to the Nigerian payment ecosystem. Recent regulations in this space include CBN Guidelines for Licensing and Regulation of Payments Service Holding Companies in Nigeria 2021; Regulatory Framework for Mobile Money Services in Nigeria 2021; Framework for Quick Response (QR) Code Payments in Nigeria, 2021; CBN Regulatory Framework for Open Banking in Nigeria 2022; CBN Guidelines for the Registration & Operation of Bank Neutral Cash Hubs (BNCH) in Nigeria2022; Guidelines for Contactless payments in Nigeria 2023; and Operational Guidelines for Open Banking in Nigeria 2023.

2. Can payment services be provided by non-banks, and if so, on what conditions?

In the Nigerian financial ecosystem, entities other than licensed banks can provide payment services. These entities are included in the categorisation of "Other Financial Institutions" (OFIs). The BOFIA defines OFIs to include as individuals, bodies, associations or groups of persons, whether corporate or unincorporated other than the banks licensed under the BOFIA, which carry on the business of a discount house; bureau de change; finance company; money brokerage; authorized buying of foreign exchange; international money transfer services; financial holding company: or payment service providers regardless of whether such businesses are conducted digitally, virtually or electronically only,

Payment service categories have been streamlined by the CBN's New License Categorisation for Nigerian Payments System, 2020, based on permissible activities. These categories include Switching and Processing, Payment Solution Services (which include the Super Agents, Payment Terminal Service Providers (PTSPs), Payment Solutions Service Providers (PSSPs); Mobile Money Operators (MMOs) and Regulatory Sandbox:

On 24th May 2021, the CBN issued a Circular on New License Requirements for the Payments System (the "New License Circular"). The Circular sets out amongst others, the eligibility criteria, application/licensing fees, documentary, and minimum share capital requirements to apply as a payment service provider in any of the categories below (regulatory sandbox excluded). By a joint reading of the New License Circular and a previous CBN circular dated 9th December 2020 and titled "New Licence Categorisation for the Nigeria Payment System", outlined below are the payment license categorisations, permissible activities, capital requirement and licensing fees of different payment services:

	Licence	Permissible Activities	Minimum Capital Requirement	Licensing Fee
1	Switching and Processing License	Switching, card processing, transaction clearing and settlement, agents services, non-bank acquiring services.	N2,000,000,000 (Two Billion Naira)	N1,000,000 (One Million Naira)
2	Mobile Money Operator License	E-money issuing, wallet creation and management, pool account management and all activities permissible under the Super agent, PTSP, and PSSP licenses as set out below.	N2,000,000,000 (Two Billion Naira)	N100,000 (One Hundred Thousand Naira)
3	Payment Terminal Service Provider (PTSP) License	Point of Sale (PoS) Terminal deployment and services, POS terminal ownership, Payment terminal application development (PTAD).	N100,000,000 (One Hundred Million Naira)	N1,000,000 (One Million Naira)
4	Payment Solution Service Provider	Payment processing gateway and portals, payment solution/application development. Merchant service aggregation and collections	N100,000,000 (One Hundred Million Naira)	N100,000 (One Hundred Thousand Naira)
5	Super Agent License	Agent recruitment management and other activities as specified in the regulatory	N50,000,000 (Fifty Million Naira)	N1,000,000 (One Million Naira)
6	Payment Solution Services (PSS)	All activities permissible under the PTSP, PSSP and Super Agent licenses.	N250,000,000 (Two Hundred and Fifty Million Naira) when applying for all the PTSP, PSSP and Super Agent license all at once.	N1,000,000 (One Million Naira)
	Regulatory Sandbox	Permissible activities are as determined in the Sandbox.	Not applicable	Not applicable

3. What are the most popular payment methods and payment instruments in your jurisdiction?

The most popular payment methods in Nigeria include;

a) Electronic Banking b) Point of Sale (POS) – Credit and Debit Card c) Cash d) Unstructured Supplementary Service Data ("USSD") Code e) Quick response (QR) code f) Cheque, Bank drafts and other negotiable instruments

The most popular payment instruments are as follows;

a) E-wallet b) Credit Card/Debit Card c) Cash d) Cheque

4. What is the status of open banking in your jurisdiction (i.e. access to banks' transaction data and push-payment functionality by third party service providers)? Is it mandated by law, if so, to which entities, and what is state of implementation in practice?

Nigeria kickstarted open banking in June, 2017, when a group of industry veterans formed an open banking working group to propose an adoption of the common application programming interface (API) standards for the nation which will allow the sharing of financial data with third party service providers. The Nigeria Data Protection Regulation ("**NDPR**") released in 2019 was also a foundational pillar for open banking.

Subsequently, in February 2021,the CBN released the Regulatory Framework for Open Banking in Nigeria. This framework laid the foundation for the issuance of the Operational Guidelines for Open Banking in Nigeria on the 8th of March 2023.

The implementation of open banking in Nigeria is still ongoing, with the CBN working towards fully operationalizing it. Adoption of open banking in Nigeria will foster the sharing customer-permissioned data between banks and third party firms to promote innovation and enhance customer-focused financial products and services. In practice, open banking is applied in the realms of agency banking, financial inclusion, know-you-customer (KYC), credit scoring /rating, etc.

5. How does the regulation of data in your jurisdiction impact on the provision of financial services to consumers and businesses?

The regulation of data in Nigeria plays a significant role in shaping the landscape of financial services provided to both consumers and businesses. Recent regulations on data have had a catalyzing effect on business innovations and engendered more customer-focused services. These companies, by leveraging customer-permissioned data, can develop innovative financial solutions that cater to the specific needs of consumers and businesses. This not only enhances the efficiency of financial services but also promotes financial inclusion.

For example, open banking operations in Nigeria is designed for all deposit money banks, microfinance banks, and OFIs. Further to the regulations on open banking, any entity that has data of customers which may be exchanged with other entities for the purpose of providing innovative financial services within Nigeria shall be eligible to participate in the open banking ecosystem. These entities may utilize the Open Banking API standards, a set of open-source non-profit API standards designed to be used by banks and OFIs in Nigeria for free.

As open banking and data exchange relies on portability and interoperability of data, there are risks of data privacy and protection. Personal data of customers and consumers alike are protected by the Nigeria Data Protection Act (NDPA) 2023 and the NDPR which mandate obtaining the prior consent of the data subject before any processing activity. Therefore, all activities carried in the provision of financial services must be in compliance with the NDPA and the NDPR.

6. What are regulators in your jurisdiction doing to encourage innovation in the financial sector? Are there any initiatives such as sandboxes, or special regulatory conditions for fintechs?

In recent years, Nigerian regulators and authorities have shown significant interest in the FinTech sector. This is showcased in the following ways.

CBN's Regulatory Sandbox

The CBN has encouraged new entrants into the payments system ecosystem by releasing the Framework for Regulatory Sandbox Operations (the "**Regulatory Sandbox**") in January 2021. The Regulatory Sandbox is a formal process for firms in Nigeria 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. This encourages Fintech innovators in Nigeria by providing them an opportunity to test their products, services, or solutions under regulatory supervision without the need to first obtain a license from the CBN.

SEC's Regulatory Incubation Program

Similarly, the Securities and Exchange Commission (**SEC**) has also developed its version sandbox known as the Regulatory Incubation Program for specific category of Fintech entrepreneurs, which is aimed at enabling Fintech operators to carry out capital market activities for a specified period without prior registration with the SEC. To qualify for the program, among others, the Fintech company shall be using innovative technology to offer a new type of product or service, the business must pertain to financial services, and the applicant must be ready for take-off with live customers. The SEC also created a Fintech & Innovation Office (FINO) to facilitate its communication with innovators within the Fintech sphere, regulate fintech businesses and engage with innovation hubs nationwide.

Guidelines for Contactless Payments

The regulators aim to drive financial inclusion through the institution of a contactless payment regime. In June 2023, The CBN issued the Guidelines for Contactless Payments in Nigeria to standardize payment operations while encouraging the deployment of innovative products in sustaining financial system stability. Contactless payment is an innovative means of concluding payment transactions without any contact between the payer and the acquirer.

Introduction of e-Naira

On 25th October 2021, the CBN launched the e-Naira, a Central Bank digital currency, which is stored in digital wallets, is capable of being transferred digitally and at no cost, and can be used for payment transactions. In July 2023, the CBN introduced e-Naira, as a payment option for the payout of diaspora remittances for international money transfer operators (IMTO). Some e-commerce Fintech companies operating in Nigeria have also added the e-Naira as payment option for merchants. This indicates an improvement in the acceptance level of the Nigerian government to digital currency.

Deemed Approval

To improve business processes, the Business Facilitation Act (**BFA**), 2023 provides for the mechanism of 'deemed approval'. The BFA provides that where an applicant makes an application to a ministry, department, or agency ("MDA") and such MDA refuses or neglects to communicate approval or rejection within the stipulated time, such application shall be deemed approved. This mechanism provides relief for applicants seeking Fintech licenses in cases where regulatory authorities experience delays in communicating their approval or rejection of an application.

Agency Banking

Agency banking is a Fintech solution that allows banks to extend their operations to areas where they lack a physical presence. In order to further drive financial inclusion, the CBN released an exposure draft of the Regulatory Framework for Agent Banking in Nigeria in March 2023. The draft regulatory framework notably provides for interoperability which will enable super-agent licensees to communicate with all their agents and have visibility over their agents' transactions through integration with the Nigeria Inter-Bank Settlement System ("NIBSS"). Therefore, NIBSS is a major party to agent banking transactions under the 2023 regulatory framework..

Investment Funds and Incentives under the Startup Act 2022

The Startup Act was enacted in October 2022 to serve as a legal and institutional framework for the development and operation of startups in Nigeria and for harnessing the potential of the Nigerian digital economy. The primary objective of the Act is to bridge the engagement gap between startups and regulators.

With the advent of the Startup Act, startups can now benefit from the Startup Investment Seed Fund established by the Startup Act which is will be managed by the Nigeria Sovereign Investment Authority. The Fund offers early-stage financing to Fintech startups.

The Startup Act also provides tax and fiscal incentives that will encourage startups generally including fintech startups and simplifies registration and access to government services through the Startup Support and Engagement Portal.

Payment Service Framework for Non-Banks

In 2018, the CBN introduced the Payment Service Banks (PSBs) framework, which allows non-bank entities, such as telecoms and retail chains, to offer deposit products and payment/remittance services to small businesses, low-income households, and other entities currently excluded from financial services, through a high-volume, low-value transaction approach in a secure, technology-driven environment.

Regulation for Virtual/Digital Assets

The SEC in May 2022 published the "Rules on Issuance, Offering Platforms and Custody of Digital Assets" (the "**Digital Assets Regulation**") to serve as a legal framework for the regulation of virtual financial assets and virtual financial asset exchanges. Under the regulations, individuals or entities looking to operate as a virtual asset service providers ("VASP") would have to get a VASP license. Furthermore, projects that would conduct initial coin offerings targeting Nigerians must register with the SEC. The Digital Asset Regulations also permit digital assets offering platforms (DAOPs) to provide custodial services in relation to digital assets.

7. Do you foresee any imminent risks to the growth of the fintech market in your jurisdiction?

The growth of Fintech in Nigeria has not been without its challenges. Challenges faced by Fintech companies include concerns around cybersecurity, and fraudulent transactions. These issues diminish public trust in Fintech services and further impede the growth of the fintech sector.

Certain risk is attributable to the decisions and actions of regulatory authorities and the government. For instance, on the 5th of December 2023, NIBSS directed banks and other financial institutions to disconnect switches, payment solution service providers, and super agents from its Instant Payment Outwards System. The Instant Payment Outwards Systems comprise USSD, mobile banking apps, Point of Sale (POS), Automated Teller machines (ATMs), as well as web and internet platforms, which facilitate fund transfer. As a rationale for the directive, NIBSS stated that the presence of these Fintech solutions on the banks' platforms' instant payment systems, is a breach of the provisions of extant regulations.[1] Such sudden directive poses a uncertainty to players in the Fintech sector and may present potential hindrance to the expansion of the sector.

High capital and operational costs involved in registration and obtaining operational licenses for Fintech operations can also create barriers to entry for intending Fintech companies. For example, to obtain a Mobile Money Operator ("MMO") license, the applicant must provide evidence of a minimum of N2,000,000,000 (Two Billion Naira) circa $2,526 ,000 (Two Million, Five Hundred and Twenty-Six Thousand Dollars) as its shareholders' funds. Similarly, on the 5th of December, the Corporate Affairs Commission ("CAC") issued a circular to enforce the 100,000,000 (one hundred million) capital requirement for companies with foreign participation. The new share capital requirement was introduced in the Revised Handbook on Expatriate Quota Administration 2022 and will be most likely visited by the government.

Footnotes:

[1] The CBN Guidelines on Electronic Payment of Salaries, Pensions, Suppliers and Taxes in Nigeria 2014.

8. What tax incentives exist in your jurisdiction to encourage fintech investment?

The Startup Act offers specific tax incentives for Fintechs designated as startups. These incentives encompass a 100% deduction for research and development expenses incurred exclusively in Nigeria, exemption from Industrial Training Fund contributions during the startup label period for in-house training, a reduced 5% withholding tax rate on income for non-resident companies providing services to Fintechs, a 30% investment tax credit for angel investors, venture capitalists, and other investors in Fintechs (applied to taxable gains), and an exemption from capital gains tax for investors disposing of fintech-related assets held in Nigeria for a minimum of 24 months.

There are other incentives that are generally available to companies and investors in Nigeria which are capable of promoting investment in the sector. For example, under the Companies Income Tax Act (as amended by the Finance Act 2019, 2020, 2021 and 2023), companies with a turnover of N25 million and below are exempted from paying companies income tax, value-added tax and tertiary education tax. The Finance Act 2023 also provides that companies with a turnover of above N25 million, and below N100 million are liable to pay companies income tax at the rate of 20% of taxable profits, lower than the 30% rate applicable to large companies (with annual turnover of over N100 million.

Section 26 of CITA also provides that companies that engage in research and development activities for commercialisation shall enjoy 20% investment tax credit on their qualifying expenditure for that purpose. The CITA also provides that the profits reserved by a company for purposes of research and development are tax-deductible, provided such reserves do not exceed 10% of the total assessable profits for that company.

Furthermore, companies classified as operating in a pioneer industry or engaged in the production of pioneer products (such as software companies, e-commerce companies, outsourcing companies, etc.) are entitled to apply for pioneer status incentive established under the Industrial Development (Income Tax Relief) Act, No 22 of 1971 and is a tax holiday which grants qualifying industries and products relief from payment of corporate income tax for an initial period of three years, extendable for one or two additional years.

Under the Venture Capital (Incentives) Act LFN 2004, companies that invest not less than 25% of the total amount required for a venture project is eligible for tax incentives specified under the Act. As it relates to Fintech, section 2 of the Act defines “venture projects” to include, amongst others, projects that are capable of accelerating industrialization by nurturing innovative ideas, projects, and techniques to fruition, and projects which encourage indigenous processes and technologies. Venture capital companies may enjoy the incentives

Some of the tax incentives available under the Act include:

a) An equity investment by venture capital in a venture project company shall for purposes of capital allowance under the CITA be treated as follows:

- for the first year deduct 30 per cent;
- for the second year deduct 30 per cent;
- for the third year deduct 20 per cent;
- for the fourth year deduct 10 per cent; and
- for the fifth year deduct 10 per cent.

b) Exemption from capital gains tax of up to 100% on disposal of equity interest.

c) A 50% reduction in withholding tax payable on dividend received from investment in venture projects companies within the first five years.

d) Export incentives such as export expansion grants if the venture project exports its products, exemption from payment of capital gains tax on gains realized by venture companies from a disposal of equity interest in the venture project.

e) Exemption from company income tax for a period of three years, which may be extended for an additional final period of two (2) years.

9. Which areas of fintech are attracting investment in your jurisdiction, and at what level (Series A, Series B etc)?

From observation of the trends in the fintech sector, investors are more attracted to the following sectors:

a) Payments, Mobile Money and Digital Banking (Series A and Series B) b) Lending (Series A) c) Savings, Investments and Crowdfunding (Series B) d) Enterprise Services & Infrastructure (Series C) e) Health/InsurTech (Series A) f) Cryptocurrency (Series A)

10. If a fintech entrepreneur was looking for a jurisdiction in which to begin operations, why would it choose yours?

Nigeria continues to be a viable location for fintech endeavors due to the following reasons:

a. Vast Local Market Potential

Nigeria, with a population exceeding 200 million people, presents a vast and largely untapped local market. Despite the financial exclusion rate, with a more specific figure of 26% according to EFInA, this untapped market provides a significant opportunity for businesses. The sheer size of the population creates a demand for various products and services, making it an attractive prospect for local and international investors.

b. Supportive Demographic Trends

The demographic trends in Nigeria contribute to a supportive environment for technology adoption and innovation. The country boasts a predominantly young population, with a substantial portion in the tech-savvy age group. This demographic trend not only fosters a receptive audience for technological advancements but also positions Nigeria as a promising market for technology-driven solutions, from mobile applications to online platforms.

c. Growing Economy and Investment Opportunities

Nigeria's economy is on a growth trajectory, creating numerous investment opportunities across various sectors. The country's resilience and ability to seize opportunities for economic expansion make it an attractive destination for investors. The growing economy implies an increased consumer base, making it conducive for businesses, especially those in the technology sector, to thrive and achieve substantial returns on investment.

d. Low Banking Penetration as an Investment Advantage

Low banking penetration in Nigeria serves as an advantage for investors seeking to fund tech players within the ecosystem, including agency banking and digital banking ventures. This low penetration suggests a significant portion of the population is not fully served by traditional banking systems, opening up opportunities for innovative financial solutions that can be addressed by technology-based platforms.

e. Government Support and Funding Options

The Nigerian government, through various regimes, actively supports small businesses by providing funding options at single-digit interest rates through institutions like the Bank of Industry. Additionally, grants are available through the Ministry of Finance, with some state governments and private institutions also offering financial support to new and growing businesses. These funding avenues contribute to creating a conducive environment for entrepreneurial ventures and tech startups to thrive.

11. Access to talent is often cited as a key issue for fintechs - are there any immigration rules in your jurisdiction which would help or hinder that access, whether in force now or imminently? For instance, are quotas systems/immigration caps in place in your jurisdiction and how are they determined?

While Nigeria does not have specific immigration rules that directly address the fintech sector, there are several regulations that could impact access to talent, particularly for companies looking to employ foreign nationals.

Nigeria operates an expatriate quota system, which allows companies to engage the services of expatriate personnel in fields where specific skills are in short supply or not available locally. The quota is granted for a period of three years initially and can be renewed biennially for two consecutive times within a lifespan of seven years. For each expatriate quota position granted and on which an expatriate is placed, two Nigerian understudies with minimum qualifications of bachelor's degree/HND or relevant training certificate must understudy that expatriate. This is designed to ensure effective transfer of technology to Nigerian understudies and eventual indigenization of the positions occupied by the expatriates.

Nigeria also has local content requirements which mandate certain percentages of goods and services to be sourced locally. For instance, in the ICT sector, the government hopes to achieve a target of 50% local content.

Additionally, advertising codes require models used in advertisements to promote products or services to be Nigerians except where the concept specifically requires non-Nigerians to act in this capacity.

These regulatory requirements could both help and hinder access to talent. On the one hand, they could limit the ability of Fintech companies to hire foreign talent. On the other hand, they could encourage the development and utilization of local talent, which could ultimately contribute to the growth of the Fintech sector in Nigeria.

12. If there are gaps in access to talent, are regulators looking to fill these and, if so, how? How much impact does the fintech industry have on influencing immigration policy in your jurisdiction?

There is a recognised talent gap in Nigeria's Fintech sector, and several initiatives are underway to address it. For instance, the National Information Technology Development Agency (NITDA) has collaborated with Co-Creation Hub (CcHUB) to launch the National Technology Talent Gap Analysis Research in 2022. This initiative aims to identify and address the talent gaps in the technology sector, including Fintech.

Several private sector initiatives are also in place to bridge the talent gap. Developer training services like Semicolon, a technology training institute and innovation hub based in Lagos that aims to increase gender balance in technology across Africa through its Semicolon Women in Technology (SWiT) initiative; Decagon, an immersive software engineering institute that produces industry-ready software engineers within 6 months by offering a comprehensive training curriculum delivered by experienced engineers in the industry); and AltSchool,a Nigerian startup that aims to equip Africans with in-demand tech and employability skills to help them launch their careers.. The HNG Internship (being a large scale, fast-paced virtual internship for people learning code, design, project management, and technical sales/marketing) finds, develops, and places software developers in a 3-month internship. These initiatives, while admirable, are considered inadequate given the growing maturity of Nigeria's tech ecosystem.

With respect to the impact of the fintech industry on immigration policy, the debilitating economic and socio-political conditions are spurring young Nigerians, including talents in the Fintech space to emigrate to favourable foreign climes such as Canada and Europe. This has been exacerbated by factors such as rising inflation, continual devaluation of the naira against the U.S. dollar, and the pandemic opening up international remote working opportunities. These factors have spurred local talent to seek foreign employers, which could potentially influence immigration policies.

13. What protections can a fintech use in your jurisdiction to protect its intellectual property?

Companies operating in the Fintech sector have the traditional intellectual property protections for their intellectual property rights (IPRs) such as copyright, trademark, inventions, etc. In addition these companies can develop systems and documentation to keep their processes and trade secrets confidential.

Patents and industrial designs protection: Patents in Nigeria is governed by the Patents and Designs Act Cap P2 LFN 2004, and protects industrial designs and inventions whether new or an improvement on an already-existing idea, provided they contain an inventive step. National phase patents can be filed in Nigeria. Patents provide inventors with a right of exclusivity granted for their creative work, usually for a period of 20 years, subject to the payment of annual maintenance fees.

Utility Model Registration: In similar fashion, utility model also grants an exclusive right to a right holder to prevent the unauthorised use and exploitation of the right holder's invention. In 2021, the Patents Registry issued a circular confirming utility model protection for business owners/inventors Utility models are similar to patents, but have less stringent conditions for their registration. Furthermore, the right of exclusivity granted to a utility model subsists for a maximum period of 10 years, while a patent grants a right of exclusivity for 20 years.

Trademarks registrations/protection: Trademarks are governed by the Trademarks Act Cap T13 LFN 2004 protects owners of registered trademarks which are the distinguishing features of fintech companies such as the logos, icons, domain names should be registered. By virtue of the BFA, the definition of 'trademark' now extends an extra layer of protection to both goods and services being offered. Nigeria practices the single class trademark system and trademark applications are filed in any of the 45 classes of goods and services. Upon registration of the trademark, Fintech companies become empowered to enforce their rights related thereto.

Copyright Protection: The Copyright Act 2022 is aimed at protecting the rights of authors and creatives by ensuring appropriate rewards and recognition for their intellectual efforts. Notably, the Act now recognises copyright in works created through digital means. As such, when a work is made available online, the copyright holder enjoys copyright protection. In the event of infringement, the Act provides for the right to notify the relevant service provider, or the Nigerian Copyright Commission (the "**Commission**") to take down or disable access to an infringing content or link being hosted on a site or network. In punitive fashion, the Act also prohibits the circumvention of technological protection measures aimed at controlling access to protected works, and entitles the aggrieved owner to reliefs such as damages, injunction and accounts for profit. The Act also grants the Commission the power to prosecute, investigate, defend and redress copyright infringement cases.

Recordals: Recordals entails the publication of any occurrence of transfer of IP ownership (whether by assignment or mergers), change of name and address of intellectual property rights.

14. How are cryptocurrencies treated under the regulatory framework in your jurisdiction?

The regulatory framework governing cryptocurrency include the various guidelines and rules of the CBN and the Securities and Exchange Commission (SEC) bordering on crypto/digital assets.

While regulators, especially the CBN, have traditionally exhibited reluctance towards embracing cryptocurrency, there has been a notable shift in their stance. Recently, on the 22nd of December 2023, the CBN issued the Guidelines on the Operations of Bank Accounts for Virtual Assets Service Providers (VASPs) (the "VASP Guidelines 2023"). In its circular FPR/DIR/PUB/CIR/002/003 dated the 22nd of December 2023, the CBN stated that this new development stems from global trends which have shown that there is a need to regulate activities of VASPs, including cryptocurrencies and other crypto assets. The VASP Guidelines 2023 allow VASPs including operators of cryptocurrency platforms, to maintain bank accounts with banks and OFIs who are now permitted to act as channels for foreign exchange flows.

Although, banks and other financial institutions are still prohibited from holding, trading, and/or transacting in virtual currencies on their account, the VASP Guidelines 2023 suggests a subtle but noteworthy change in the CBN's regulatory approach towards cryptocurrencies and digital assets generally. This is especially so, as the CBN on the 5th of February 2021, had issued a circular which restricting banks and OFIs from operating accounts for cryptocurrency service providers in view of the money laundering and terrorism financing (ML/TF) risks and vulnerabilities inherent in their operations, as well as the absence of regulations and consumer protection measures. This is further to the CBN's prior cautionary statements in January 2017 and February 2018, where it emphasized concerns about the potential misuse of digital currencies like bitcoin for terrorism financing and money laundering. The CBN highlighted the anonymity inherent in virtual transactions and reiterated its stance that individuals investing in cryptocurrencies assume inherent risks. From these precedents, the CBN had approached cryptocurrency with great caution.

The SEC has been more liberal in its approach to digital assets. In September 2020, the SEC issued a "Statement on Digital Assets and their Classification and Treatment" where it recognized crypto currency and other virtual crypto assets as securities. In its press release in February 2021, the SEC stated that for the purpose of admittance into the SEC Regulatory Incubation Framework, the assessment of all persons (and products) affected by the CBN Circular of February 2021, will be put on hold until such persons are able to operate bank accounts within the Nigerian banking system. Part D of the Digital Assets Regulations issued in May 2022 provides for the Virtual Assets Service Providers (VASPs) Rules which requires platforms and individuals whose activities falls within certain itemised criteria to register with the Commission.

In July 2023, the SEC via a press release stated that the platform by which Binance solicits the Nigerian public to trade crypto assets is neither registered nor regulated by the SEC and its operations in Nigeria are therefore illegal. It stated that any member of the investing public dealing with the entity is doing so at their own risk. The statement also admonished all platform providers making solicitations for crypto-assets to immediately stop soliciting Nigerian investors in any form whatsoever.

In addition, on 3rd May, 2023, the Federal Ministry of Communications and Digital Economy approved the Blockchain Policy. The Blockchain Policy provides that the Federal Government of Nigeria will establish a regulatory framework that enable safe, responsible and optimal use of cryptocurrency in Nigeria in a way to ensure consumer protection, market stability and financial inclusion. Based on the recommendations in the Blockchain Policy we are optimistic that a framework for the fair use of cryptocurrency will be established in the next 12-24 months.

15. How are initial coin offerings treated in your jurisdiction? Do you foresee any change in this over the next 12-24 months?

Part A of the Digital Asset Rule applies to all issuers seeking to raise capital through digital assets offering. Paragraph 2.0 of the Digital Asset Rules defines digital assets offering to include Initial Coin Offering (ICO) and other distributed assets ledger technology offers of digital assets.

The issuer of an ICO must submit a white paper to the SEC that contains all the relevant information about the

ICO project, proposed offer period, risk of investing in the tokens, target period, etc. SEC shall review the Whitepaper and other documents required to be filed with the whitepaper and determine if the digital assets constitute securities under ISA. Where the SEC determines that the digital assets are securities, the Issuer shall apply to register the digital asset with the SEC.

The maximum amount that can be invested by a retail investor in an ICO is ₦200,000 (Two Hundred Thousand Naira) and there is no limit for high-net-worth individuals and other institutional investors.

With the release of the Blockchain Policy, we foresee that there may be changes in initial coin offerings within the next 24 months.

16. Are you aware of any live blockchain projects (beyond proof of concept) in your jurisdiction and if so in what areas?

There are solutions driven by blockchain technology in Nigeria. For example, the e-Naira is based on a private hyper ledger fabric blockchain platform controlled by CBN. Other companies have found various use-cases for blockchain in their daily operation. The use-case for blockchain includes finance and payment, record-keeping, supply chain and logistics, identity and security, agriculture and food security, healthtech, real estates, art and entertainment. For example, Sendie leverages on blockchain to track shipment of products and Afex adopted a blockchain based receipt system for warehouses.

17. To what extent are you aware of artificial intelligence already being used in the financial sector in your jurisdiction, and do you think regulation will impede or encourage its further use?

The Nigerian financial services industry has been involved in the Artificial Intelligence (AI) phase of the digital marathon. Financial institutions have made efforts to include artificial intelligence in their customer service through the use of AI powered computer software and this has helped to create a seamless banking and feedback experience.

Today, there are certain forms of artificial intelligence that Fintech companies and banks have utilized to ensure efficient customer service including:

a) Anti-money laundering: AI has been employed in detecting fraudulent activities and irregular payments, in order to improve the standard processes for combating money laundering problems. This has proved to be more efficient than complete reliance on human effort. An example of such tool is Actico AML Software.

b) Customer support: There exist technology bots that assist at banking halls or through online mediums such as internet banking applications. Examples of this are AI powered chat box, such as Leo from United Bank for Africa, Ope from Cowrywise, a digital investment platform.

c) Regulatory compliance: AI has been utilised in tools that monitor and track transactions, assess data for compliance issues, identifying suspicious issues, mediates risk of financial transactions etc. An example of such compliance tool is HIPAA One, a compliance software that helps healthcare organizations ensure that they comply with the Health Insurance Portability and Accountability Act (HIPAA).

d) Predictive analytics: The advent of Machine Learning (ML) & AI has opened the door to accurate forecasting and prediction. Data Analytics and AI are being applied to revenue forecasting, stock price predictions, risk monitoring and case management. The exponential increase in the data collected has been pivotal in improving the performance of the models, resulting in a gradual decline in the level of human intervention required. An example of this is IBM’s Watson.

e) Credit risk management: As regulators continue to focus on risk management supervision, financial institutions are mandated to develop more reliable models and solutions. The use of AI in credit risk management is gaining more popularity, especially in the Fintech and digital banking market. An example of a credit risk management software is Fintrak Credit 360, the first credit risk management software in the African financial landscape.

f) Personalized financial advice: As customers continue to deposit funds and look for profitable investments, AI-powered systems can analyze customer data to offer personalized financial advice and investment recommendations based on individual financial goals and risk tolerance. An example of such is Magnifi, which provides investment plans and portfolio management

g) Automation of back-office operations: AI is utilized in reducing operational costs and improving efficiency. Automation of back-office processes is used to preserve and relay office information in areas like data entry, document processing, and compliance, thus resulting in a substantial improvement in work efficiency. An example of this is the software robots used by banks to automate high-volume jobs.

AI-tailored regulations will encourage the further use of AI if structured in a way that both protects the public (user safety) and promotes industry innovation.

18. Insurtech is generally thought to be developing but some way behind other areas of fintech such as payments. Is there much insurtech business in your jurisdiction and if so what form does it generally take?

Insurtech is one technology sector that is largely untapped in Nigeria. According to National Insurance Commission (NAICOM) the insurance penetration rate in its digital form and traditional form is .0.4per cent.[2]

Insurtech business in Nigeria can take the form of an insurance web-aggregation. Web-Aggregators operate as online platform that contains information on insurance products, insurers and enable users to select an insurance product after comparing prices and features of different policy offered by various insurers. Companies who are licensed by NAICOM to act as insurers and brokers are allowed to offer policies through digital platforms after obtaining "a Letter of No Objection" from the National Insurance Commission.

A few innovators such as MyCoverGenius, Curacel, AfriCover, PolicyWaka etc, have come up with solutions to fast track the rate of adoption of insurance in Nigeria by developing solutions and leveraging new technologies and tools like APIs, digital platforms, cloud computing and cyber security tools that have become essential in today's digital age.

With the low insurance penetration and Nigeria's large population, more Insurtech startups can leverage technology to take advantage of the gaps that currently exist in the Nigerian market.

Footnotes:

[2] Ogaga Ariemu " Insurance sector grows to 2.8tn, as firms record N729bn premiums in nine months" available at Nigeria's insurance sector grows to 2.8tn, as firms record N729bn premiums in nine months – Daily Post Nigeria accessed December 16, 2023.

19. Are there any areas of fintech that are particularly strong in your jurisdiction?

In Nigeria today, mobile payments, remittance, payment processing, mobile lending and personal finance are the most widespread types of fintech companies.

According to Fintech 250 the strong areas of fintech in Nigeria today are;

a) Payment and remittance; b) Lending and financing; c) Blockchain; d) Personal finance; e) Asset management (savings/investments); f) Insurtech; g) Business administration; and h) Securities and Identifications.

20. What is the status of collaboration vs disruption in your jurisdiction as between fintechs and incumbent financial institutions?

Fintech is disrupting financial services with unique service offerings which include fast and reliable digital payment solutions, easily accessible credit facilities, insurance products and investment opportunities. Traditional financial institutions offer digital payment however Fintech companies have differentiated themselves with top-notch and easily accessible customer services.

Traditional financial institutions, such as banks and finance companies no longer see Fintech companies as disruptors but partners and a major stake-holder in enhancing financial inclusion in Nigeria. CBN license requirements require applicants to restrict their activities to the permissible activities of the license sought to be procured from CBN. Therefore, traditional banks such as Guaranty Trust Bank (with HabariPay) and Access Bank (Hydrogen Pay) have procured fintech licenses with their subsidiary entities while others are collaborating with independent Fintech companies.

Nigerian Banks have realised that to deepen financial services in Nigeria, they are not completely capable of offering all the services of Fintech and this has led to the increase in the number of partnerships between Fintechs and incumbent financial institutions and vice versa as Fintechs specialise in different parts of the banking value chain, but not all of it. Many banks are partnering with Fintech companies to help them digitalise, enabling them to expand their services and reach more customers at the same time. In conclusion, the future of financial services is about banks and Fintech companies working together to provide value-driven, timely and efficient services to customers.

21. To what extent are the banks and other incumbent financial institutions in your

jurisdiction carrying out their own fintech development / innovation programmes?

Several banks and financial institutions in Nigeria are actively pursuing fintech development and innovation programmes, either by building their own solutions, partnering with fintech startups, or joining incubators and accelerators. For example, Africa Fintech Foundry is an Access Bank Plc initiative that aims to nurture, fund, and accelerate the growth of fintech startups in Africa through its mentorship and accelerator programmes while First Bank of Nigeria Limited hosts an annual FinTech Summit. Other examples include Squad launched by Habari Pay (GTCo), Hydrogen Pay by Access Holdings, Stanbic IBTC Financial Services by Standbic IBTC Holdings, Alternative Bank Limited by Sterling Bank Limited. Another interesting innovation by commercial banks is the use of chatbots. For instance, Zenith bank introduced its Artificial Intelligence (AI) powered Chatbot on WhatsApp named ZIVA (Zenith Intelligent Virtual Assistant), which enables customers to perform financial transactions and enjoy real-time customer service from their mobile phones.

22. Are there any strong examples of disruption through fintech in your jurisdiction?

The last decade witnessed massive adoption of internet banking with the aid Fintech as opposed to the traditional banking. This is supported by the high rate of internet penetration in Nigeria, with 159.5 million Nigerians reported to be active internet subscribers in Nigeria. Fintech companies are challenging traditional banks and shaking up how they do things by providing fast and reliable digital payment solutions, easily accessible financial products, that is, credit facilities, insurance policy and investment opportunities. The financial ecosystem is undergoing significant changes due to innovative and disruptive Fintech products.

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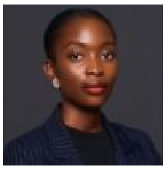

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