Legal Regime of FinTech in Nigeria[1]

FinTech is an acronym for Financial Technology. FinTech connotes the use of technology to develop innovative financial products for the purpose of simplifying financial transactions. FinTech provide services which are typically within the purview of traditional financial institutions, hence disrupting established banking systems, and transforming the financial sector. The financial products offered by FinTech include money transfer, investing, lending, crowd funding, digital currency, and peer-to-peer payments amongst others.

The emergence of FinTech as a means of conducting financial transactions has been regarded as a benefit of the modification of financial regulation after the global financial crisis. However, FinTech is being stimulated by digital infrastructure, development of smartphones, and easy access to information via the internet. FinTech thus leverage technology and has propelled people (especially millennial) with preference for online activities to adopt FinTech as an alternative to traditional financial institutions.

According to Accenture, in the first quarter of 2016, the global investment in FinTech companies was $5.3 billion while it has been estimated by PWC in that the global cumulative investment in FinTech could exceed $150billion within the next 3 to 5 years.

As FinTech spread globally, it is gradually taking root in Africa. According to Venture Capital for Africa, the total volume of digital payments carried out in Africa in 2016 was valued at $51.937 million with the expectation of an annual growth rate of 23.12% (between 2016 and 2020) which would result in the total sum of $122.308 million in 2020.

In Nigeria, the government is using an online platform to collect revenue into its treasury single account (which is collaboration between a FinTech company and traditional financial institution). In 2016, a Nigerian FinTech startup successfully secured the sum of $1.3 million seed investment from both international and home grown investors.

Nigerian banks now have internet banking and mobile payments platforms to ease business transactions while there are some FinTech companies that provide online payment services. In addition, the Central Bank of Nigeria ("**CBN**") in 2015 issued a

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regional banking licence to a commercial bank which seeks to provide mainly FinTech banking in Nigeria.[2]

FinTech Regulation

The gradual inclusion of Nigeria in the FinTech ecosystem may be linked with the introduction of the cashless policy by the CBN in 2012. The objective of the policy is to reduce the physical circulation of cash in the economy, and encourage payment (for goods, services, transfers) through electronic means. The CBN then issued Guidelines on Point Of Sale ("**PoS**") Card Acceptance Services for the purpose of provide minimum standards and requirements for the operation of PoS card acceptance service.

The CBN also issued Guideline on Mobile Money Services in Nigeria. The objective of the guideline is to ensure a structured and orderly development of mobile money services in Nigeria. The scope of the guideline cover models, agent network, business rules, roles and responsibilities of participants under the mobile money services in Nigeria. The CBN subsequently introduced the Mobile Payment Regulatory Framework which covered business rules governing the operation of mobile payment services in Nigeria, but does not apply to the use of mobile phone as an access to the internet for internet banking services. It has been reported by KPMG that since the introduction of mobile money operations in Nigeria, mobile money has grown from an average monthly transaction value of US$5 million in 2011 to US$142.8 million in 2016.

In addition to the CBN guidelines, there are 2 pertinent bills before the National Assembly capable of expanding FinTech and e-commerce in Nigeria. The bills are the Payments System Management Bill of 2009 (the "**Payments Bill**") and the Electronic Transaction Bill 2015 (the "**e-Transaction Bill**").

The purpose of the Payments Bill is to regulate payments, clearing and settlement systems in Nigeria. The Payments Bill provides for the structure and responsibilities within the payment systems in Nigeria. The Payments Bill unequivocally provides that no person shall carry out payment system in Nigeria without the authorisation of the CBN.

The e-Transaction Bill provide amongst others for the legal and regulatory framework for conducting transactions through the use of electronic or related media, and e-commerce in Nigeria. It is expected that when the e-Transaction Bill becomes an Act of the National Assembly, it would spur e-commerce and FinTech.

[2] CBN licenses SunTrust Bank Nigeria Ltd published November 24, 2015, retrieved on January 11, 2017 from http://www.vanguardngr.com/2015/11/cbn-licenses-suntrust-bank-nigeria-ltd/

Conclusion

The global banking system is evolving and FinTech is at the centre of it. A potential impact of FinTech is that traditional methods of performing financial transactions which would involve visit to the bank, filling of forms and holding physical meeting with bank officials may be eroded. Just as Goldman Sachs recently estimated that the sum of $4.7 trillion in financial services revenues is at risk of being displaced by FinTech. The transformation should not be seen as a competition between traditional financial institutions and FinTech rather, as an obligation to deliver quick and quality services to the customers.

Traditional financial institutions in an emerging market like Nigeria need to collaborate more with FinTech companies to provide optimum financial services to customers. This is because a larger percentage of Nigerians still prefer traditional financial institutions due to security of transaction and quality of service while FinTech is preferred for its speed of concluding financial transactions.

As FinTech continue to grow exponentially, it would continue to attract Venture Capitalist to Nigeria FinTech ecosystem; capture the unbanked persons; grant small scale businesses access to financing; and make it easier for customers to complete financial transactions in real-time. FinTech companies and startups must continue to provide innovative technological financial services which are capable of meeting the needs of customers, and protect their platforms from cyber-attacks.

In order to fully harness the potential of the FinTech sector in Nigeria, the pending bills (the Payments Bill and e-Transaction Bill) before the National Assembly and digital infrastructure should be highly prioritised. The government need to desist from introducing policies which may stifle internet access and consequentially, the growth of FinTech and e-commerce in the country.