



An Overview of the Regulatory Framework of FinTech in Nigeria

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The International Money
Transfers & Cross-Border
Payments Conferences

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Is the Nigerian FinTech Industry an uncharted territory?

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The absence of a direct and unified regulation on FinTech in Nigeria has engendered the erroneous notion that the Nigerian FinTech industry is uncharted territory.

Central Bank of Nigeria's (CBN) Guidelines

- 1.Guidelines on Mobile Money Services in Nigeria
- 2.Guidelines on International Money Transfer Services in Nigeria
- 3.Guidelines on International Mobile Money Remittance Services in Nigeria
- 4.Regulatory Framework for the Use of Unstructured Supplementary Service Data (USSD) for Financial Services in Nigeria.
- 5.Guidelines on Operations of Electronic Payment Channels in Nigeria
- 6.Guidelines for Licensing and Regulation of Payment Service Banks
- 7.Exposure Draft of New CBN Licensing Regime for Payment Service Providers

Indirect Regulations

- The Nigerian Data Protection Regulation
- CBN Consumer Protection Framework for Banks and other Financial Institutions
- Nigerian Communications Commission (NCC) Consumer Code of Practice Regulations
- Cybercrime (Prohibition, Prevention, Etc.) Act
- The Risk-Based Cyber-Security Framework and Guidelines for Deposit Money Banks and Payment Service Providers

Guidelines on Mobile Money Services in Nigeria

A. Models

- Bank-Led
- Non-Bank Led

B. Licensing Requirements

- Licensed by the CBN
- Issued a unique scheme code by the NIBSS for inter-operability
- Issued unique short codes by the NCC

41.6% of Nigerian adults are financially excluded. Yet, Nigeria has a mobile penetration rate of ~87%

Participants

- Banks
- Licensed Corporate Organisations
- Infrastructure Providers – Switching, Settlement and Processing Facilities
- Mobile Network Operators (MNOs)
- Consumers

- **Statutory Returns**

At the end of every month and not later than the 14th of the next month

- Nature, value and volume of transactions
- Incidents of fraud
- Nature and number of customer complaints and remedial measures taken.

Guidelines on Int'l Money Transfer Service in Nigeria

A. Licensing Requirements for Foreign MTSOs.

- Application fee of N500, 000
- Evidence of being licensed in their home country
- Minimum share capital of US\$1.0 million
- Name of licensed agents (authorized forex dealers to serve as local agents)

B. Licensing Requirements for Indigenous MTSOs.

- Incorporation documents
- Ownership, governance and management structure
- Confidential data policy
- Third party connection policy
- Minimum share capital of N2bn (US\$5.0 million)

C. Prohibition of Persons/Institutions

- Deposit money banks are prohibited from operating as MTSOs except with the express approval of the CBN.

D. Permissible Activities

- Allowable inbound and outbound international money transfer transactions. The transactions shall be limited to the following:
 - Acceptance of monies for the purpose of transmitting them to persons resident in Nigeria or another country
 - Cross-border personal money transfer services
 - The money transfer services shall target individual customers mainly and the transactions shall be “person to person transfer” (retail customer) basis only.

E. Non-permissible Activities

- Maintain current accounts on behalf of customers
- Engage in institutional or corporate transfers
- Accept deposits

F. Mode of Disbursement for in-bound transfers

- Bank accounts, mobile money wallet, ATM, in cash upon the provision of acceptable means of identification.

G. Outbound Transfer Limit

- US\$ 1,000

Guidelines on Int'l Mobile Money Remittance Service in Nigeria.

A. Licensing Requirements

- Be a registered entity, licensed in its home country to carry on money transfer activities
- Have a net worth of US\$1 billion
- Have a valid mobile money operator license
- Be well established
- Partnership with an authorised dealer bank licensed in Nigeria

B. Participants

- Banks
- Infrastructure Providers
- Mobile Network Operators
- Consumers

C. Nominee/Settlement Account

- Open a settlement account on behalf of their customers with Deposit Money Banks
- Not to be used as a collateral for negotiation of loans by the bank.

D. Risk Management

- The IMMRS shall ensure that risk management policies are in place to minimize operational, liquidity, settlement, fraud, financial and money laundering risks.
- The mobile payments system shall not be susceptible to sustained operational failures as a result of system outages
- A risk management officer shall be assigned by the IMMRS, who is to provide internal risk management oversight
- CBN will review the risk management policies from time to time

Guidelines for Licensing and Regulation of Payment Service Banks

- **Key Objective:** *“...to enhance financial inclusion in rural areas by increasing access to deposit products and payment/remittances services to small businesses, low-income households and other entities through high-volume low-value transactions in a secured technology-driven environment.”*

A. Permissible Activities

- Maintain savings accounts and accept deposits from individuals and small businesses
- Carry out payment and remittance (including inbound cross-border personal remittances) services through various channels within Nigeria
- Issue debit and pre-paid cards
- Operate electronic purse
- Invest in FGN and CBN securities
- Carry out such other activities as may be prescribed by the CBN from time to time

B. Non-permissible Activities

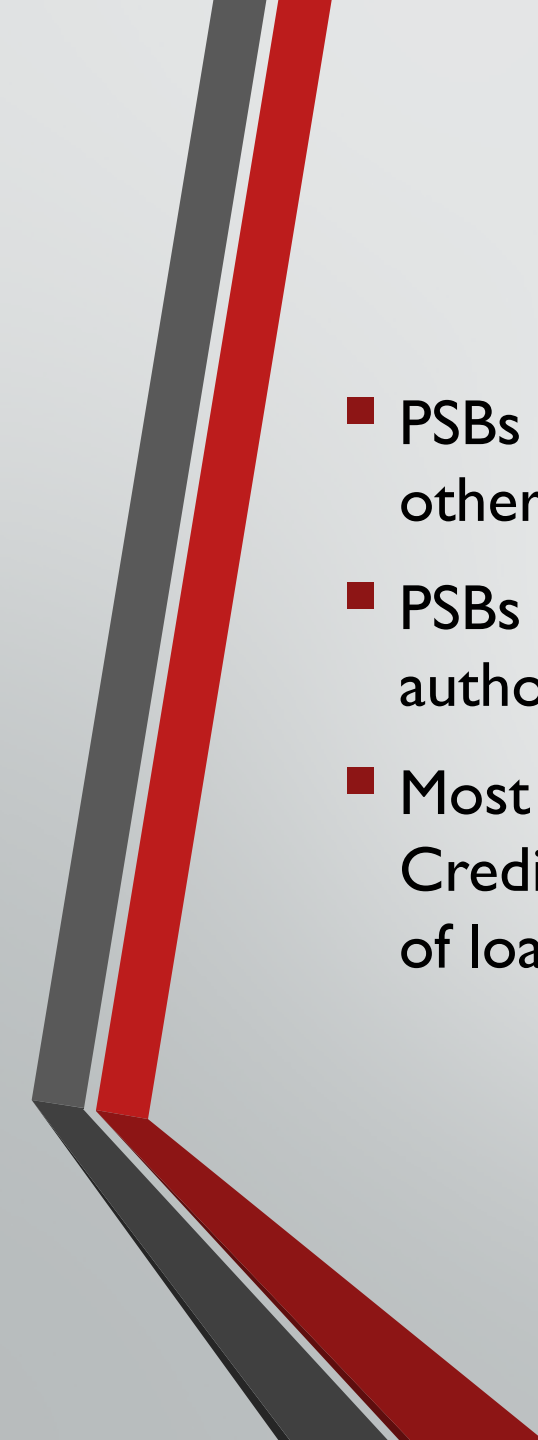
- Grant any form of loans, advances and guarantees
- Trade in the foreign exchange market
- Insurance underwriting
- Undertake any other transaction which is not prescribed by the Payment Service Bank Guidelines
- Establish any subsidiary except as prescribed in the CBN Regulation on the scope of Banking and Ancillary Matters.

C. Eligible Promoters

- Banking Agents
- Telecommunications companies through subsidiaries
- Retail Chains
- Mobile Money Operators

D. Licensing Requirements

- Formal application for the grant of a Payment Service Bank Licence
- Grant of approval-in-principle
- Within six months after obtaining the approval-in-principle, apply for grant of a final licence to the CBN

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- PSBs shall comply with all guidelines and regulations issued by the CBN and other sector regulations
 - PSBs shall always comply with the requirements incidental to the authorization to perform banking operations as stipulated by the CBN
 - Most laws that apply to Deposit Money Banks also apply to PSBs, except the Credit Risk Management, because PSBs are not permitted to grant any form of loan.

Nigeria Data Protection Regulation

What amounts to Lawful Processing?

- The data subject has given consent to the processing of his or her personal data for one or more specific purposes
- Processing is necessary for the performance of a contract to which the Data Subject is a party or in order to take steps at the request of the Data Subject prior to entering into a contract
- Processing is necessary for compliance with a legal obligation to which the Controller is subject
- Processing is necessary in order to protect the vital interests of the data subject or of another natural person
- Processing is necessary for the performance of a task carried out in the public interest or in the exercise of official public mandate vested in the controller.

Procuring Consent

- No data shall be obtained except the specific purpose of collection is made known to the Data Subject
- Data Controller is under obligation to ensure that consent of a Data Subject has been obtained without fraud, coercion or undue influence.

Data Security

- Anyone involved in data processing or the control of data shall develop security measures to protect data; such measure include but not limited to protecting systems from hackers, setting up firewalls, storing data securely with access to specific authorized individuals, employing data encryption technologies, developing organizational policy for handling personal data (and other sensitive or confidential data), protection of emailing systems and continuous capacity building for staff.

Penalty for Default

- In the case of a Data Controller dealing with more than 10,000 Data Subjects, payment of the fine of 2% of Annual Gross Revenue of the preceding year or payment of the sum of 10 million naira whichever is greater;
- In the case of a Data Controller dealing with less than 10,000 Data Subjects, payment of the fine of 1% of the Annual Gross Revenue of the preceding year or payment of the sum of 2 million naira whichever is greater.

CBN Consumer Protection Framework for Banks and Other Financial Institutions

- This also regulates the protection of consumer assets and privacy. It provides that consumers' financial and personal information shall be securely stored at all times and shall not be released to a third party without the written consent of the consumer. A third party here includes a subsidiary or an associated company.

Nigerian Communications Commission (NCC) Consumer Code of Practice Regulations

- This requires licensees to adopt and implement a Protection of Consumer Information Policy, which shall provide for the proper collection, use and protection of information and be made available to its consumers in a readily accessible form and easy to read manner.

Cybercrime (Prohibition, Prevention, Etc.) Act

- The general law on Cybersecurity in Nigeria is the Cybercrime (Prohibition, Prevention, Etc.) Act which prescribes punishment for actions such as phishing, hacking, electronic theft, cyberstalking, cybersquatting, and cyber terrorism. The Act, however, is silent on mechanisms institutions need to put in place to strengthen their cyber defenses.

The Risk-Based Cyber-Security Framework and Guidelines for Deposit Money Banks and Payment Service Providers

- In response to this, the CBN recently issued the Risk-Based Cyber-Security Framework and Guidelines for Deposit Money Banks and Payment Service Providers, which took effect on 1 January 2019, to outline the minimum cybersecurity baseline to be put in place by Deposit Money Banks (DMBs) and Payment Service Providers (PSPs) in order to enhance their cybersecurity resilience.
- The guidelines make provision on Cybersecurity Governance and Oversight, Cybersecurity Risk Management System, Cyber Resilience Assessment, Cybersecurity Operational Resilience, Cyber-Threat Intelligence and Metrics, Monitoring and Reporting.

Recommendations

- Collaboration among regulators to create an harmonized regulatory agenda. The regulatory agencies should create clear and specific licensing regimes for different FinTech businesses in Nigeria.
- Regulatory sandbox
- Incentives should be provided by government agencies to startups (e.g. tax holiday).