

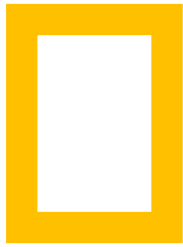


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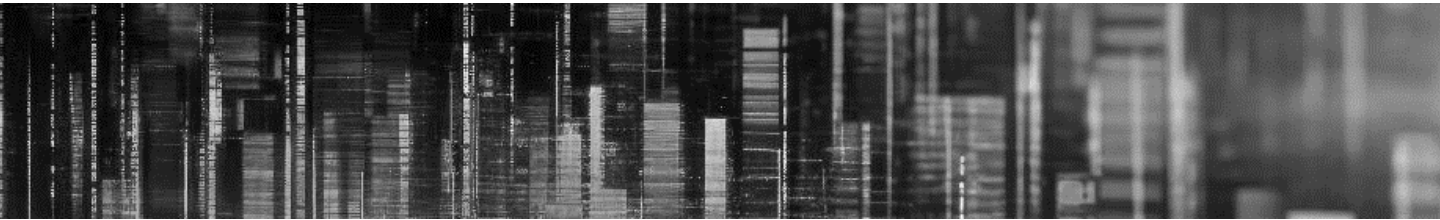


2024  
FINTECH  
FORWARD LOOK

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# FOREWORD



As is our custom each year, the Fintech Forward Look for 2024 delves deep into the pivotal events that shaped the fintech ecosystem, and broadly the tech industry, in the previous year while highlighting our predictions for 2024. The report examines the evolving legal framework, commercial practices, and investment trends that shaped the landscape in 2023, as well as those that we anticipate will shape the landscape in 2024.

As observed in 2023, the global decline in investments and funding activity continued; nonetheless, fintechs in the United States, Europe, and Asia dominated the news as they secured a significant portion of investments, particularly with the increased interest in artificial intelligence which saw AI startups in the US alone raising nearly \$50 billion in 2023. In Africa, it is reported that Kenya, Egypt, South Africa, and Nigeria collectively attracted the most investments; however, funding dropped by 39% when compared to funding raised in 2022. This, we believe, contributed to players in the ecosystem consolidating their businesses and exploring collaborative efforts through mergers and acquisitions, a topic explored in Part C of this report.

Regulatory activities played a defining role in shaping the Nigerian fintech sector in 2023. The apex financial regulators, the Central Bank of Nigeria, the Securities and Exchange Commission, and the National Insurance Commission, echoed the same sentiments throughout the year, to wit: their respective interest in balancing the benefits of technological advancements with protection of consumers and the stability of the financial system.

This was particularly brought into focus with the implementation of their respective regulatory sandbox regulations in 2023. Furthermore, the CBN brought the year 2023 to a close with a favourable review of its earlier position prohibiting financial institutions from facilitating payments for cryptocurrency exchanges. A full overview of major regulatory activity in Nigeria for the year 2023 can be found in Part B of the report.

As has become typical in recent years, Nigeria continued to experience a surge in electronic payments, advancing steadily towards its goal of a cashless society. Part A of this report presents data on the substantial increase in electronic transactions, accompanied by an analysis of the driving factors behind this surge.

We trust this compilation will be both informative and engaging. Your feedback, comments, and observations on the report are eagerly awaited. Please don't hesitate to reach out [TIF@olaniwunajayi.net](mailto:TIF@olaniwunajayi.net) with any inquiries or insights.

Thank you.



*Damilola Salawu*

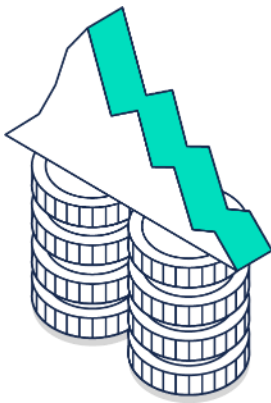
Partner, Olaniwun Ajayi LP

# PART A – FINTECH FACTS & FIGURES 2023

## VALUE AND VOLUME OF NIP TRANSACTIONS

↑ **45.5%**

NIP transactions



In January 2023, the total value of NIP transactions rose by 45.5% to **N38.77 trillion** compared to **N26.65 trillion** as of January 2022.<sup>1</sup> This trend continued all through 2023 as the value of NIP transactions in each month of 2023 continued to exceed the figures recorded in equivalent months in 2022.<sup>2</sup>

In terms of volume, the total number of NIP transactions increased from **402,491,000** in March 2022 to **1,176,435,000** in March 2023. This surge represents a 192.28% year-on-year increase in the volume of NIP transactions.

**192.28%**

year-on-year increase



<sup>1</sup> PoS Transaction Grow by 40%, e-Payment Hits N39.58tn - NIBSS (nibss-plc.com.ng))

<sup>2</sup> <https://nibss-plc.com.ng/industry-stat/?category=nip>

## VOLUME OF POS TRANSACTIONS



The value of PoS transactions rose to **N807.16 billion** at the end of January 2023, compared to **N573.72 billion** in January 2022. This growth represents a 40.69% year-on-year increase.<sup>3</sup>



By March 2023, the value of PoS transactions in Nigeria reached **N1.152 trillion**, the highest in the history of PoS transactions in Nigeria. This rise represents a significant **year-on-year growth of 62.3%** from the **N718.56 billion** recorded in March 2022.<sup>4</sup> This upward trend continued all through 2023 as the value of PoS transactions in each month of 2023 continued to exceed the figures recorded in equivalent months in 2022.



With regards to volume, the total volume of PoS transactions increased from **102,992,000** transactions in March 2022 to **177,928,000** transactions in March 2023. This growth represents a **72.76% year-on-year increase** in the volume of PoS transactions.

## FACTORS DRIVING THE INCREASE IN ELECTRONIC TRANSACTIONS



In no small part, this increase in the value and volume of electronic transactions is connected to the naira crunch occasioned by the initial implementation of the naira redesign policy of the CBN, which characterized the first quarter of 2023 and led to an increased adoption of electronic means of payment because of the scarcity of physical naira notes in the country.<sup>5</sup>



However, the downside of this surge in the adoption of electronic means of payment was that it inevitably placed an increased burden on the technical infrastructure that facilitates these transactions and consequently led to increased transaction failure, particularly in the heat of the naira scarcity in the first quarter of 2023.<sup>6</sup>

<sup>3</sup> PoS Transaction Grow by 40%, e-Payment Hits N39.58tn - NIBSS ([nibss-plc.com.ng](https://nibss-plc.com.ng))

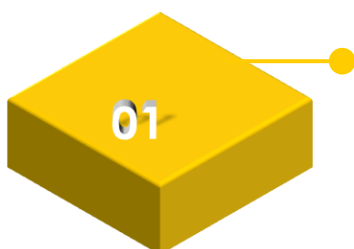
<sup>4</sup> <https://nibss-plc.com.ng/industry-stat/?category=pos>

<sup>5</sup> Business Day, Nigeria's e-payment transaction surge 55% in January 2023 <https://businessday.ng/technology/article/nigerias-e-payment-transaction-surge-55-in-january-2023/>

<sup>6</sup> TechNext, Nigerian wallets weep as unresolved failed transactions hit 40% <<https://technext24.com/2023/04/18/unresolved-failed-transactions-hit-40/>>

# INVESTMENTS

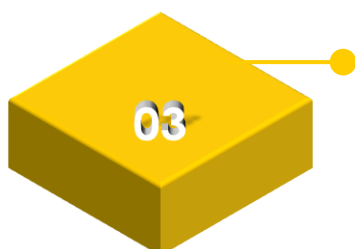
## Global Landscape



On the investment side, there was a global decline in the value and volume of fintech funding from **\$63.2 billion** across 2,885 deals recorded in H2 2022 to **\$52.4 billion** across 2,153 deals in H1 2023. This drop represents a **17.1% decrease** in funding value and a **25.37% decrease** in the number of deals.<sup>7</sup>



Of the total sum invested in H1 2023, **\$16.2 billion** was invested in payments companies, **\$4.4 billion** in cryptocurrencies and blockchain, **\$1.1 billion** in regtech, **\$4.7 billion** in insurtech, **\$0.9 billion** in cybersecurity, and **\$0.2 billion** in wealth-tech.<sup>8</sup>



In terms of venture capital (VC) financing specifically, although the fintech sector raked in substantial VC funding, the sector is reported to have dropped from first place with a total of **\$20.5 billion** as of Q2 2022<sup>9</sup> to fourth place with a total of \$7.4 billion by Q2 2023, trailing behind the health, enterprise software, and energy sectors.<sup>10</sup> This drop in VC funding represents a **64% decrease year-on-year**.

<sup>7</sup>KPMG, H1 2023 – Pulse of Fintech Latest Edition <<https://kpmg.com/xx/en/home/industries/financial-services/pulse-of-fintech.html>>

<sup>8</sup>Ibid

<sup>9</sup>The Dealroom, Fintech Q2 2022 Report <https://dealroom.co/reports/fintech-q2-2022>

<sup>10</sup>The Dealroom, The State of Global Fintech in Q2 2023 <<https://dealroom.co/blog/fintech-q2-2023-roundup>>

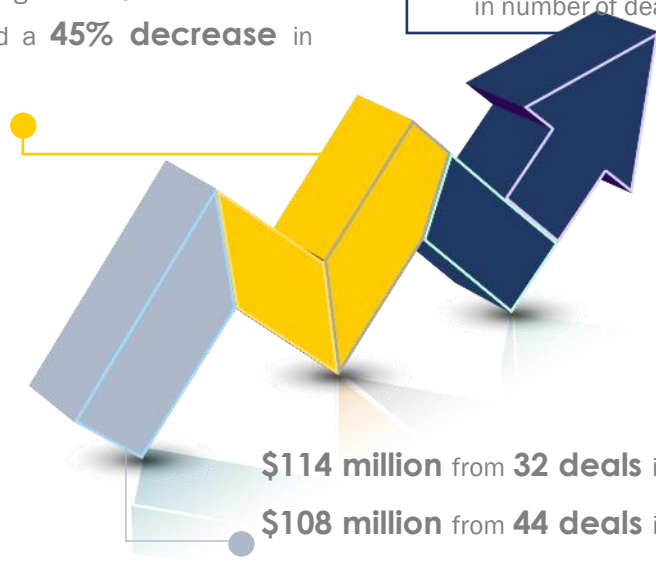
# INVESTMENTS

## Tech Companies in Africa

In Africa, it is reported<sup>11</sup> that Fintech funding totalled:

**\$181 million** from **33 deals** in Q2 2023 compared to **\$376 million** from **60 deals** in Q2 2022 representing **51.86% decrease** in funding value and a **45% decrease** in number of deals;

**\$388 million** from **47 deals** in Q1 2023 compared to **\$402 million** from **98 deals** in Q1 2022 representing **3.5% decrease** in funding value and a **52% decrease** in number of deals;



**\$114 million** from **32 deals** in Q3 2023 compared to **\$108 million** from **44 deals** in Q3 2022 representing **5.5% increase** in funding value and a **27.27% decrease** in number of deals.

It is reported that although Nigeria accounted for most deal volume among the top ten fintech deals in Africa for Q2 2023, the value of the investments in South Africa and Kenya stood at 108.8 million from its two top deals and \$55.6 million from its three top deals, respectively, compared to the \$31.4 million generated by Nigeria in its four top deals in the same quarter.<sup>10</sup>

## 2023 Mergers and Acquisitions in Africa

The African tech space witnessed at least twenty-seven (27) M&A transactions in 2023. This included fourteen (14) fintech companies and the remaining thirteen (13) transactions cutting across cloud services, mobility, talent acquisition, health tech, fashion and AI.

Out of the M&A transactions in 2023, Nigeria accounted for at least seven (7) transactions (with the primary market of the acquiree in Nigeria).

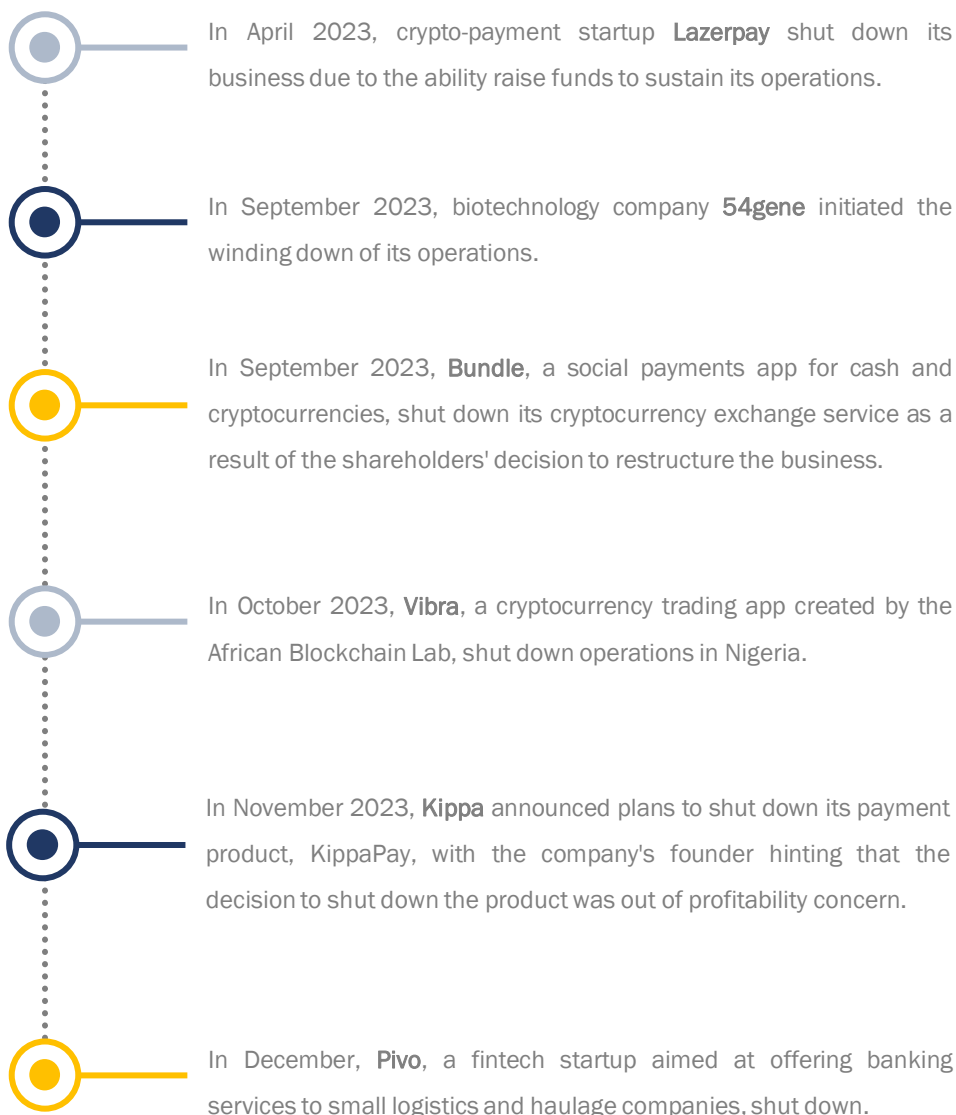
<sup>11</sup> The CB Insights, State of Fintech Global, Q3 2023.

<sup>12</sup> Ibid.

# SHUTDOWN: NIGERIAN STARTUP CLOSURE IN 2023

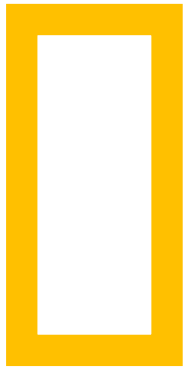
In 2023, seven (7) Nigerian startups announced the shutting down of their business operations. According to a report, the closure of these businesses will cost investors \$79.15 million in funding deals.<sup>13</sup>

## Timeline of Shutdown Announcements



It appears from publicly available information that profitability concerns, financial limits around fundraising, internal leadership tussles, and corporate restructuring plans were the fundamental reasons for the closures, even though some but not all of the companies cited specific reasons for their closures.<sup>13</sup>

<sup>13</sup> Business Day, Nigerian Startups 2023 Shutdown Cost Investors \$79m <<https://businessday.ng/technology/article/nigerian-startups-2023-shutdown-costs-investors-79m/>>



# PART B –2023 REGULATIONS AND LAW

2023 saw consistent moves on the part of regulators and the National Assembly in Nigeria. In addition to the enactment of notable legislation with far-reaching effects in the fintech ecosystem, the year was characterised by the publication of a hand full of targeted regulations and policy changes from the CBN, particularly in relation to foreign exchange, in response to the policy leanings of the newly elected government in the country. In this part of the report, we have set out a summary of some of the most relevant laws and regulations released in 2023.



FEBRUARY

## Business Facilitation Act 2023

In a bid to promote the ease of doing business and eliminate administrative bottlenecks, the BFA was enacted on 14 February 2023 to amend a number of business-related legislations, including the CAMA, NEPCA, and CEMA, among others. A key introduction by the BFA that affects the fintech sector is that MDAs are now obliged to publish a complete list of requirements to obtain licenses, products and services. Additionally, the BFA institutes a regime for default approvals where an MDA fails to communicate its approval or rejection of an application within a stipulated timeframe.

MARCH

### **CBN Operational Guidelines on Open Banking**

Following the issuance of the CBN Open Banking Framework in February 2021, the CBN, in March 2023, issued the CBN Open Banking Guidelines. While the Open Banking Framework established principles for data sharing across the banking and payments system, the Open Banking Guidelines go further to stipulate safeguards for financial system stability under an open banking regime and are expected to promote the adoption of open banking in Nigeria in a safe, secure, and customer-centric manner.

APRIL

### **NAICOM Regulatory Sandbox Guidelines**

On 28 April 2023, the NAICOM issued its Regulatory Sandbox Operational Guidelines. The Guidelines, which are to be read alongside the Insurance Act and other NAICOM regulations, provide for the establishment of a sandbox that offers insurance institutions and other entities the opportunity to test business models, products and services that will enhance efficiency in meeting insurance consumer's needs. The Guidelines stipulate the minimum eligibility requirements for entities to participate in the NAICOM regulatory sandbox, such as the requirement to be registered in Nigeria and to show the potential of the proposed insurance solution to advance inclusive insurance.

MAY

### **National Block Chain Policy**

In recognition of the potential for blockchain technology to revolutionize industries, as well as its ability to provide greater transparency, increased efficiency, and more secure transactions, the FMOCIDE introduced the National Blockchain Policy in May 2023. The key objectives of the policy include: (x) the creation of a blockchain-powered economy that supports secure transactions, data sharing, and value exchange between people, businesses, and government; (y) the promotion of innovation and economic growth through the adoption of blockchain technology; and (z) the creation of a regulatory framework that enables the safe, responsible, and optimal use of cryptocurrencies in Nigeria.



## The Finance Act, 2023

The Finance Act 2023 amends several tax legislations, including the CGT Act, the Companies Income Tax Act, the Customs and Excise Tariffs, Etc. (Consolidation) Act, and the Personal Income Tax Act, among others. A notable amendment to the CGT Act by the Finance Act 2023 is the classification of digital assets as chargeable assets subject to capital gains tax. Thus, persons and entities are now required to pay a 10% tax upon the disposal of digital assets.

The Finance Act does not include a definition for “digital assets”; thus, it may be useful to make recourse to the definition of digital assets as provided in the SEC’s 2022 Rules on the Issuance, Offering Platforms, and Custody of Digital Assets in order to determine what qualifies as digital assets and would be subject to capital gains tax.

JUNE

## The Nigeria Data Protection Act 2023

On 12 June 2023, President Bola Ahmed Tinubu signed the NDPA into law, making it the first legislation on the processing of personal data and safeguarding data privacy in Nigeria. Amongst several key introductions, the NDPA: (x) introduces “legitimate interests” of data controllers and data processors as the sixth lawful basis for the processing data in Nigeria; and (y) establishes the NDPC to replace the already-existent NDPB and oversee the implementation of the Act. The NDPA preserves all orders, regulations, licences issued by NITDA prior to the commencement of the NDPA provided that where there are any inconsistencies between the provisions of the NDPA and those of the existing orders and regulations, the provisions of the NDPA will prevail.

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## The CBN Circulars on Payouts by IMTSOs

On 15 June 2023 and 10 July 2023, respectively, the CBN issued two circulars that expanded the scope of payout options for diaspora remittances by IMTOs. The CBN directed that beneficiaries of diaspora remittances received through IMTOs may now receive payouts in US dollars or eNaira or naira. Prior to these circulars, the status quo, as directed by the CBN via a circular dated 30 November 2023, was that all beneficiaries of diaspora remittances received through IMTOs could only receive such remittances in US dollars.



### **CBN (Customer Due Diligence) Regulations 2023**

The CDD Regulations were issued by the CBN on 20 June 2023, with the intent to introduce provisions directed towards enhancing customer due diligence requirements and KYC requirements, which all financial institutions are required to observe when identifying, verifying, and onboarding new customers, including the requirement to collect the social media details of customers.

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### **CBN Guidelines on Contactless Payments in Nigeria 2023**

On 27 June 2023, the CBN released its Guidelines for Contactless Payments in Nigeria, which set out the principles, minimum security requirements, and authorisation framework for the operation of contactless payments in Nigeria. As a corollary to the Guidelines, the CBN also published a circular dated 27 June 2023, which provides the transaction limits for contactless payments at N15,000 (fifteen thousand naira) per transaction and the daily cumulative limit at N50,000 (fifty thousand naira).

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### **CBN Guidance Notes on Politically Exposed Persons 2023**

Following the release of the CBN AML/CFT/CPF Regulations 2022, the CBN issued the Guidance Notes on Politically Exposed Persons in June 2023 to establish minimum standards for financial institutions in the recognition and handling of risks related to politically exposed persons, their close associates, and family.

JULY

### **Corporate Governance Guidelines for Commercial, Merchant, Non-interest, and Payment Services Banks 2023**

The CBN issued the CCG Guidelines directing stakeholders to implement healthy board practices and corporate governance standards. The CCG Guidelines serve as supplementary guidance in addition to the Nigerian Code of Corporate Governance 2018, which applies to Commercial, Merchant, Payment Service and Non-Interest Banks in Nigeria.



DECEMBER

### **CBN Guidelines on Operation of Bank Accounts for Virtual Assets Service Providers 2023**

On 22 December 2023, the CBN released its Guidelines on Operation of Bank Accounts for Virtual Assets Service Providers (VASP Designated Account Guidelines), which: (i) reversed its earlier directive of 5 February 2021, which restricted banks and other CBN-regulated financial institutions from facilitating payments for cryptocurrency exchanges; (ii) acknowledged the SEC's Digital Asset Rules as a regulatory framework for the operation of licenced VASPs in Nigeria; and (iii) provided guidance to regulated financial institutions on the operation of bank accounts for VASPs.

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### **CBN Circular on Mandatory Use of Bank Verification Number (BVN) or National Identification Number (NIN)**

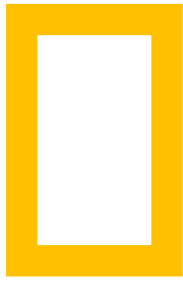
In this circular, the CBN amended Section 1.5.3 of the 2021 Regulatory Framework for Bank Verification Number (BVN) Operations and Watch-List for the Nigerian Banking Verification Number (BVN) Operations and Watch-List for the Nigeria Banking Industry, which originally required banks and OFIs to ensure all operated accounts and wallets (except Tier 1) are linked with the signatories' BVNs within 24 hours of NIBSS making BVN available.

However, the original provision has now been amended to the effect that BVNs (and/or NIN) are now mandatory even for Tier 1 accounts and wallets. Consequently, all Tier 1 accounts previously opened without a BVN or NIN are to be placed on "Post No Debit or Credit" until a BVN or NIN is linked to such accounts, and the deadline for such linkage is 31 January 2024.

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### **NIBSS Circular: Directive to Disconnect Switches, PSSPS and Super Agents from the NIBSS Instant Payment (NIP) Outwards System**

In its December 2023 circular to deposit money banks, merchant banks, switches, mobile money operators, and payment service banks, the NIBSS directed these entities to delist all non-deposit-taking financial institutions, such as switching companies, payment solution service providers, and super agents, as beneficiary institutions on their respective NIP outward electronic transfer channels, citing that the listing of such non-deposit-taking financial institutions is a contravention of the 2014 CBN Guidelines for Electronic Payment of Salaries, Pensions, Suppliers, and Taxes in Nigeria because these deposit-taking institutions are not authorized to receive inflows since their licences do not permit them to hold customer funds.



# PART C – 2023 WRAP-UP

## AML OBLIGATION VS DATA PRIVACY: THE DELICATE BALANCE BETWEEN THE PRINCIPLE OF DATA MINIMIZATION AND CONDUCT OF KYC/CDD

In June 2023, the CBN in furtherance of its powers under the Bank and Other Financial Institutions Act 2020 as the apex regulator of FIs, issued the CDD Regulations aimed at providing additional CDD measures for FIs under the regulatory purview of the CBN, and to complement the relevant provisions of the CBN Anti-Money Laundering, Combating the Financing of Terrorism, and Countering Proliferation Financing (AML/CFT/CPF) Regulations 2022 on customer due diligence.

As part of the KYC and CDD compliance procedures under the CDD Regulations, FIs are obliged to establish internal systems for conducting CDD on potential and existing customers, which includes customer identification and verification of identity.<sup>15</sup> In undertaking customer identification, FIs are required to obtain and verify specific personal information from the customers, including their social media handles.

These provisions provoked controversy for entities globally on juxtaposing the obligations of an entity to conduct CDD and the obligation on entities to only collect data directly required and relevant to accomplish the purpose for collection (principle of data minimization).<sup>16</sup>

In Nigeria, the NDPA is the principal legislation on personal data protection. It was enacted to *inter alia* safeguard and promote personal data processing practices that ensure the security of personal data and the privacy of data subjects.



<sup>15</sup> Regulation 5(2)(3) of the CDD Regulations.

<sup>16</sup> European Data Protection Supervisor, "Data Minimisation" <[https://edps.europa.eu/data-protection/data-protection/glossary/d\\_en#:~:text=Data%20minimization,necessary%20to%20fulfil%20that%20purpose](https://edps.europa.eu/data-protection/data-protection/glossary/d_en#:~:text=Data%20minimization,necessary%20to%20fulfil%20that%20purpose)>



The NDPA provides that a data controller or a data processor shall ensure that personal data collected must be adequate, **relevant, and limited to the minimum necessary** for the purposes for which the personal data was collected or further processed.<sup>17</sup> This provision encapsulates the data minimization principle.<sup>18</sup>

Understandably, the issuance of the CDD Regulations has raised concerns among stakeholders on whether the collection of social media handles of customers is directly relevant and necessary for the KYC process. This is against the backdrop that FIs are also mandated to collect other forms of personal information such as names, addresses, telephone numbers, email addresses, date and place of birth, occupation, name of employer, and BVN, amongst others.

This raises the issue of the limitations of data protection. The rights and protection granted under data protection laws (similar to the constitutional right to privacy<sup>19</sup>) are not absolute. The right to privacy, the basis for data protection,<sup>20</sup> is qualified by the Constitution to be subject to public safety, order, morality, or public health.<sup>21</sup> Based on the foregoing, the provisions of the CDD Regulations, which are in the interest of the public to prevent the commission of a crime, fall within the limitations of the NDPA.

This dilemma has been adjudicated before the Court of Justice of the European Union (CJEU) which has handed down a number of decisions in cases where the AML provisions were in conflict with the data protection law.

<sup>17</sup> Section 24(1)(c) of the NDPA.

<sup>18</sup> European Data Protection Supervisor, "Data Minimisation" <[https://edps.europa.eu/data-protection/data-protection/glossary/d\\_en#:~:text=Data%20minimization,necessary%20to%20fulfil%20that%20purpose](https://edps.europa.eu/data-protection/data-protection/glossary/d_en#:~:text=Data%20minimization,necessary%20to%20fulfil%20that%20purpose)>

<sup>19</sup> Section 37 of the Constitution.

<sup>20</sup> Section 1(1)(a) of the NDPA.

<sup>21</sup> Section 45(1) of the Constitution.



The CJEU has held that the money laundering law which permitted public access to information of beneficial owners was in contravention of the fundamental right to private life of the victims<sup>22</sup> on the basis that there is a need to balance the pursuit of the general interest which contravenes individual privacy against the fundamental right of persons.

The CJEU, in another case,<sup>23</sup> held that Part 7 of the Criminal Justice (Terrorist Offences) Act 2005 of the Republic of Ireland, which required telecommunication service providers to retain traffic and location data for a specified period to enable enforcement agencies to prevent, detect, investigate, and prosecute crimes, was invalid on the basis that there was no limit to the access of

such data and no provision stating that there must be a relationship between the data being retained and the public threat detected. Although these rulings are not binding in Nigeria, they are instructive on the balance between AML obligation and data protection requirements.

Notably, the National Commissioner of the NDPC, in a press briefing, disclosed that the NDPC was engaging the CBN with respect to the provisions of the CDD Regulations.<sup>24</sup> Though there has not been any public correspondence from either regulator on this issue, we expect that the authorities will reach a mutual understanding of successful integration of data protection rights in the AML obligations in the interest of the FI and their customers.



<sup>22</sup> The EBP case where the registered beneficial owners of two Luxembourg companies challenged the propriety of the provision of Article 30 of the 4th Anti-Money Laundering Directive (4AMLD), which permitted public access to information of beneficial owners. <<https://www.kroll.com/en/insights/publications/financial-compliance-regulation/major-decision-court-justice-european-union>>

<sup>23</sup> Digital Rights Ireland Ltd v Minister for Communications, Marine and Natural Resources C-293/12. The Court was faced with the validity of Directive 2006/24 and Part 7 of the Criminal Justice (Terrorist Offences) Act 2005 <<https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A62012CJ0293>>

<sup>24</sup> "Nigeria Data Protection Commission engages CBN on plans to obtain customers' social media handles" (30 June 2023) <<https://www.itedgenews.africa/nigeria-data-protection-commission-engages-cbn-on-plans-to-obtain-customers-social-media-handles/>>



## 2023 REGULATORY DRIVE NO LONGER BUSINESS AS USUAL



2023 was teeming with regulatory activity as the regulators of fintechs implemented dynamic positive reinforcements and disciplinary actions targeted toward promoting compliance with applicable laws and consumer protection requirements while maintaining an enabling business environment and financial ecosystem.

Regulators such as the CBN and SEC took centre stage in relation to the enforcement of relevant applicable laws. In May 2023, the CBN announced the revocation of the operating licences of 179 MfBs and 3 finance companies<sup>25</sup> for reasons ranging from failure to carry on licensed business for a continuous period of 6 months to failure to comply with licence conditions or provisions of applicable law.<sup>26</sup> On 19 July 2023, the CBN revoked the licence of 2,698 BDC operators, thereby reducing the number of BDC operators in-country from over 5,689 to 2,991.<sup>27</sup> The SEC, on the other hand, blacklisted

6 companies in April 2023<sup>28</sup> for illegal trading and operating without being registered by the SEC.<sup>29</sup>

Furthermore, on 20 July 2023, the FCCPC, driven by its commitment to foster compliance with consumer protection obligations and healthy digital lending practices, requested that Google remove 18 non-compliant digital lenders from the Google Play Store and prohibited payment gateways from providing payment processing services to the affected businesses.<sup>30</sup> This was in furtherance of the Limited Interim Regulatory/Registration Framework and Guidelines for Digital Lending 2022 (the **DL Guidelines**). Following the issuance of the DL Guidelines, the FCCPC had ordered all existing digital lenders to complete all compliance requirements by 27 March 2023 or risk removal from Google Play Store.

<sup>25</sup> In the first gazette dated 22 May, the apex bank revoked the operating licences of 47 microfinance banks. In the second gazette dated 23 May, the apex bank revoked the operating licences of 132 MfBs, and 3 finance companies.

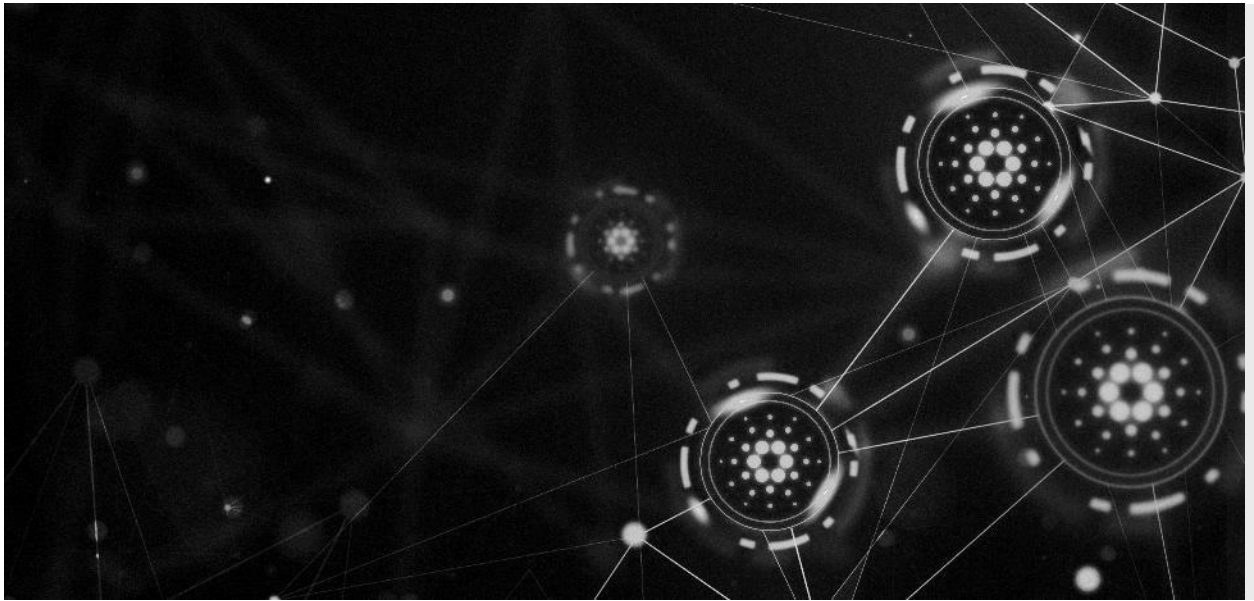
<sup>26</sup> Ehime Alex, "CBN Revokes Licence of 179 MfBs, Expert Weighs Implications" (24 May 2023) <<https://www.icimigeria.org/cbn-revokes-licence-of-179-mfbs-expert-weighs-implications/>>

<sup>27</sup> Sunday Michael Ogwu, "CBN Revokes 2,991 BDC Licences" (20 July 2023) <<https://dailytrust.com/cbn-revokes-2991-bdc-licences/>>

<sup>28</sup> SEC, "Blacklisting Of Six (6) Unregulated Online Trading Platforms" <<https://sec.gov.ng/blacklisting-of-six-6-unregulated-online-trading-platforms/>>

<sup>29</sup> Ehime Alex, "SEC Blacklists Six E-Commerce Companies Over Illegal Trading" (2 May 2023) <https://www.icirnigeria.org/sec-blacklists-six-e-commerce-companies-over-illegal-trading/>

<sup>30</sup> Oluyemi Ogunseyin, "FCCPC orders Google to Delist 18 loan apps, stops payment gateways" (3 August 2023) <<https://guardian.ng/news/fccpc-orders-google-to-delist-18-loan-apps-stop-payment-gateways/amp/>>.



In terms of positive reinforcements for the market, on 27 July 2023, the CBN lifted the PND orders placed on 440 accounts of corporates and individuals in furtherance of its 2017 and 2021 directives, which ordered banks to close accounts of persons or entities involved in cryptocurrency transactions within their systems. Further, the CBN issued the Guidelines on Operations of Bank Accounts for Virtual Assets Service Providers on 22 December 2023, which effectively overturned CBN's initial position that no bank or OFI shall facilitate payments for cryptocurrency exchanges or deal in cryptocurrencies.<sup>31</sup>

Additionally, in the telecommunications space, the NCC directed mobile network operators to commence implementation of the uniform HSC for the usage of specific services offered to telecommunication users in Nigeria. The uniform HSCs are aimed at providing customers with easy access to the services provided by network providers, as customers can now use the same numbers to access services across network providers nationwide.<sup>32</sup> While the CBN did not introduce uniform HSCs for USSD banking in 2023, it is likely that the CBN (in collaboration with NCC) will adopt a similar approach in the near future, given the benefits for consumers within the banking system.

<sup>31</sup> CBN Letter to All Deposit Money Banks, Non-Bank Financial Institutions and Other Financial Institutions dated 5 February 2021

<<https://www.cbn.gov.ng/out/2021/ccd/letter%20on%20crypto.pdf>>

<sup>32</sup> Bolawatife Ayo-Odewale, "NCC Directs All Mobile Network Providers to Complete Implementation of Harmonised Shortcodes by 17 May"

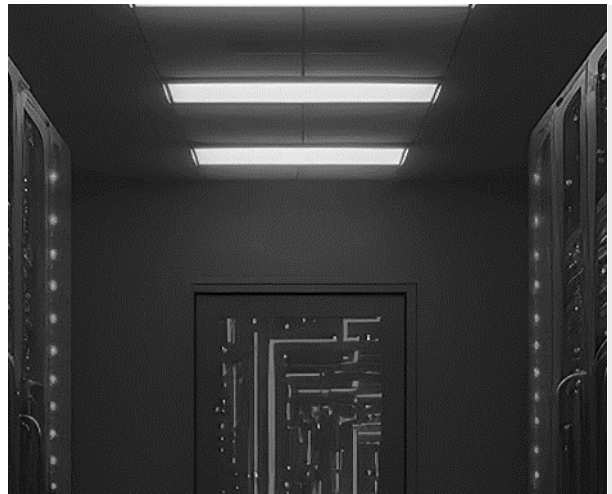
<<https://technext24.com/2023/03/14/ncc-directs-harmonised-shortcodes-may-17/>>



## M&A for the Expansion and Survival of Tech Companies

With the decline in VC investments in 2023, startups made recourse to M&A, which proved to be a resounding and reliable option for many resilient tech companies looking to ensure their continued operations despite the capital crunch. M&A emerged as a business strategy in 2023 for both expansion and survival as startups recognised the necessity for cooperation and consolidation of resources, talents, and technologies in order to effectively and successfully navigate the challenging terrain of Nigeria's fintech sector.

As at Q1 2023, there were about seven (7) M&A deals involving African startups worth over \$710 Million.<sup>33</sup> However, by the end of 2023, the total number of M&A deals in Africa stood at 26,<sup>34</sup> a decline compared to 39 executed in 2022.<sup>35</sup> In relation to the driving force for M&A in the industry, for some companies, the acquisition was instrumental in strengthening the company's competitive market position. An example is the 100% acquisition of Go!TwentySix, a provider of valet services, by DriveMe's, a Nigerian mobility technology startup, aimed at providing DriveMe's customers with access to valet services.<sup>36</sup> Similarly, Andela acquired Qualified, a technical skills assessment platform with the set targets of expanding and increasing its capability to source talents.<sup>37</sup> For others, M&A was the last resort for the survival of the target companies by leveraging on the resources, capital and goodwill of the acquiring company. For example, Blockfinex, the UAE-based crypto exchange, acquired a 100% stake in Fluidcoins, a Nigerian crypto payment gateway,



following Fluidcoins' inability to secure additional funding.

Finally, for others, M&A offered a means to satisfy essential minimum regulatory and licensing requirements for new ventures through the strategic acquisition of a company already possessing the necessary license and infrastructure. An example is Fairmoney's acquisition of Payforce, a sub-unit of Crowdforce, with a bid to broaden its service offerings to merchant payment services, serving small businesses through digital lending, services that Payforce generally offered prior to the acquisition.<sup>38</sup>

In conclusion, M&A served a vital role in ensuring the survival and growth of tech companies in Nigeria and allowed such companies to pool vital resources and share technological expertise to ensure increased and revised service offerings while facilitating resilience amidst a free financing crunch.

<sup>33</sup> Risevest acquires Chaka amid wave of Fintech Shakeups in Africa -<<https://www.technafrica.com/risevest-acquires-chaka-amid-wave-of-fintech-shakeups-in-africa/>>

<sup>34</sup> "We tracked over 26 African tech acquisitions in 2023" -<<https://www.benjamindada.com/african-tech-acquisitions-2023/>>

<sup>35</sup> "African Tech Startups Funding Report 2022 & Full Startup List" -<<https://disruptafrica.gumroad.com/l/bwabs>>

<sup>36</sup> "DriveMe acquires valet parking company, Go!TwentySix" -<<https://techcabal.com/2023/01/16/driveme-acquires-valet-parking-company-gotwenty-six/>>

<sup>37</sup> Andela acquires Qualified. -<<https://techpoint.africa/2023/03/10/techpoint-digest-536/>>

<sup>38</sup> Nigerian credit-led fintech, Fairmoney acquires PayForce in retail-merchant banking play, -<<https://techcrunch.com/2023/03/14/nigerian-credit-led-fintech-fairmoney-acquires-payforce-in-retail-merchant-banking-play/>>



## Global Venture Capital Funding Stalls



“  
...debt financing and  
venture debt deals surged  
in H1 2023, recording an  
increase of over **80%** in  
Africa compared to H1 2022

In 2023, the Nigerian and African Fintech landscape witnessed a significant drop in VC funding, posing challenges for startups and established firms alike. African startups garnered a total sum of \$ 2.1 billion within the first half of 2023, signifying a 43% drop from H1 2022.<sup>39</sup> In the third quarter of 2023, African startups raised only \$895million.<sup>40</sup> In Nigeria, funding for Nigerian fintechs plummeted by 94% in H1 2023 as Nigerian fintechs secured only \$90 Million compared to the \$175 Million secured in H1 2022.<sup>41</sup>

Various factors contributed to the continuous decline in VC funding for the African fintech

ecosystem, such as the global economic uncertainties, heightened interest rates following the Covid-19 pandemic, geopolitical unrest, and macroeconomic instability in Nigeria and other African nations. Given the global outlook and the vast majority of fintech companies operating in the ecosystem, investors were compelled to prioritise a target company's profitability, cash flows, and the possibility of a certain and early exit before making any investment. Consequently, investors adopted a cautious approach by redirecting capital to less risky assets and destinations.<sup>42</sup>

<sup>39</sup> The African Private Capital Association, "Venture Capital Activity in Africa" <[https://www.avca.africa/media/t4pfgunt/avca23-02-vc-q1-q2-2023\\_3.pdf](https://www.avca.africa/media/t4pfgunt/avca23-02-vc-q1-q2-2023_3.pdf)>

<sup>40</sup> The African Private Capital Association, "Venture Capital Activity in Africa" <[https://www.avca.africa/media/b22dhyby/avca23-11-vc-q3\\_3.pdf](https://www.avca.africa/media/b22dhyby/avca23-11-vc-q3_3.pdf)>

<sup>41</sup> Nigeria Fintech Investment in H1 2022, <<https://fintech.global/2022/08/22/nigerian-fintech-investment-in-h1-2022/>>

<sup>42</sup> Investors are unsettled as funding is drying up for Africa's startup ecosystem (31 October 2023) <<https://restofworld.org/2023/african-startups-vc-funding-decline/>>



Although VC funding and investment have been the traditional means of raising capital by fintechs, given the nuances of their operations, the decline in VC funding led African fintechs to seek alternative financing for continued business operations. For instance, accelerators such as ARM Labs and Techstars accelerator,<sup>43</sup> the Baobab Network<sup>44</sup> and Norrsken Impact Accelerator<sup>45</sup> led a significant portion of capital raises in 2023. Also, many fintechs adopted M&A as an alternative to shoring up capital, resulting in seven (7) disclosed M&A deals involving African startups in Q1 2023 worth over \$710 million. Further, debt financing and venture debt deals surged in H1 2023, recording an increase of over 80% in Africa compared to H1 2022.<sup>47</sup> Companies such as Moove raised \$400 Million through debt financing, with \$130 million in securitized bond offerings, while M-Kopa raised \$200 million in debt financing.<sup>48</sup>

While the drop in VC funding for Nigerian fintech companies in 2023 presented a challenging year, it also underscores the need for strategic innovation and differentiation within the industry. By prioritising transparency, differentiation, scalability, and strategic partnerships, Nigerian fintech companies can position themselves as attractive investment opportunities, and in doing so, they not only address the current funding shortfall but also lay the foundation for sustainable growth and long-term success in the dynamic and ever-evolving Nigerian Fintech ecosystem.

“



**...debt financing and venture debt deals surged in H1 2023, recording an increase of over 80% in Africa compared to H1 2022**

<sup>43</sup> TechBuild.Africa, Techstars, "ARMLabs announce 12 New Investments for its 2nd Cohort" <<https://techbuild.africa/techstars-arm-labs-12-new-investments-2nd-cohort/>>

<sup>44</sup> Ephraim Modise, "The Baobab Network Adds Five Africa Startups to Its Cohort" <<https://techcabal.com/2023/02/15/baobab-network-2023-cohort/>>

<sup>45</sup> Vishal Singh, "Meet the 20 Startups Participating in the 2023 Norrsken Accelerator Programme" (21 June 2023) <<https://siliconcanals.com/news/20-startups-participating-in-norrsken-accelerator-programme/>>

<sup>46</sup> Africa VC funding dips by 54% in H1 2023, as accelerators lead the way in cheque writing <<https://techcabal.com/2023/07/11/africa-vc-funding-h1/>>

<sup>47</sup> African Private Equity and Venture Capital Association, "Venture Capital Activity Report in Africa Q1 and Q2 2023" <[https://www.avca.africa/media/t4pfgunt/avca23-02-vc-q1-q2-2023\\_3.pdf](https://www.avca.africa/media/t4pfgunt/avca23-02-vc-q1-q2-2023_3.pdf)>

<sup>48</sup> M-KOPA snaps up \$250M+ debt, equity for its asset financing platform (15 May 2023) <<https://techcrunch.com/2023/05/15/m-kopa-snaps-up-250m-debt-equity-for-its-asset-financing-platform/>>



## CAPITAL GAINS TAX IMPOSED ON DIGITAL ASSETS



On 28 May 2023, the Finance Act was signed into law with the aim of aligning relevant tax laws with the macroeconomic reforms and fiscal management objectives of the Federal Government of Nigeria. The Finance Act, amongst other things, makes further amendments to the CGTA<sup>49</sup> to explicitly include “digital assets” as an asset subject to CGT.<sup>50</sup> Summarily, CGT is a tax chargeable at a flat rate of 10% (ten percent) on the profit made from the disposal of all forms of property subject to certain exemptions and the deduction of allowable expenditures.

Notably, the Finance Act does not provide a definition for the term “digital asset”. While the Digital Asset Rules define “digital asset” as a digital token that represents assets such as a debt or equity claim on the issuer, we note that this definition is restrictive as it views digital assets

within the context of investments and securities.

We note that the term “asset” is defined by the IFRS as “a present economic resource<sup>51</sup> controlled by the entity as a result of past events.”<sup>52</sup> This implies that digital assets ordinarily mean assets that exist in a digital format and can include a wide range of assets, such as cryptocurrencies, non-fungible tokens (NFTs), stablecoins, security tokens, and even digital collectibles like in-game items or virtual land.

Relatedly, it may be argued that “digital assets” were classified as chargeable assets by CGTA before the amendment by the Finance Act, given that the CGTA provides that “incorporeal property” generally qualifies as a chargeable asset. As such, the Finance Act, more or less, explicitly provides for the inclusion of “digital assets” as a chargeable asset for the avoidance of doubt.

49 Cap C1, Laws of the Federation of Nigeria (LFN), 2004 (as amended).

50 Section 2 of The Finance Act and Section 3(a) of the CGTA.

51 “Economic resource” is further defined as a right that has the potential to produce economic benefits.

52 International Financial Reporting Standards, “IFRS Conceptual Framework for Financial Reporting” (International Financial Reporting Standards, March 2018) Section 4.3, Chapter 4 <<https://www.ifrs.org/issued-standards/list-of-standards/conceptual-framework/#standard>>



Relatedly, the CBN issued the Guidelines on Operation of Bank Accounts for Virtual Assets Service Providers, 2023 (**VASP Designated Account Guidelines**), which reversed CBN's earlier directive restricting regulated financial institutions from facilitating payments for cryptocurrency exchanges<sup>53</sup> and provides guidance to regulated financial institutions on the operation of bank accounts for VASPs.

The VASP Designated Guidelines recognised the SEC's Digital Asset Rules which applies to and creates a registration regime for entities that interact with virtual assets and digital assets. It is expected that the implementation of the VASP Designated Account Guidelines will enable the SEC to enforce and implement the licencing regime for virtual assets and digital assets in Nigeria.

We note that despite the erstwhile restriction imposed by the CBN, cryptocurrency exchanges, especially international cryptocurrency exchanges, continued to provide their services to Nigerians without registration; and to avoid direct interaction with the Nigerian banking system, they adopted a peer-to-peer model wherein users on their digital

platform buy and sell cryptocurrency from each other instead of purchasing same directly from the cryptocurrency exchange. This business model makes it increasingly difficult to track and verify transactions for the disposal of assets for the purpose of enforcing tax laws because there is no central authority that can verify the purpose of settlement payments in a peer-to-peer digital asset transaction.

Accordingly, the implementation of the VASP Designated Account Guidelines and the SEC's Digital Asset Rules, lays the foundation for the effective taxation of cryptocurrency transactions. Enabling cryptocurrency companies to participate directly in the Nigerian financial system provides tax authorities with the necessary visibility and leverage to track and verify asset disposals in order to enforce tax compliance and minimise tax evasion in the cryptocurrency industry. Furthermore, improved taxation of digital assets enables the Nigerian government to capitalize on the economic potential of the digital asset industry through increased tax compliance within the cryptocurrency industry.

<sup>53</sup> CBN Letter to all Deposit Money Banks, Non-Bank Financial Institutions and Other Financial Institutions, 2021 (BSD/DIR/PUB/LAB/014/001) (CBN Letter).

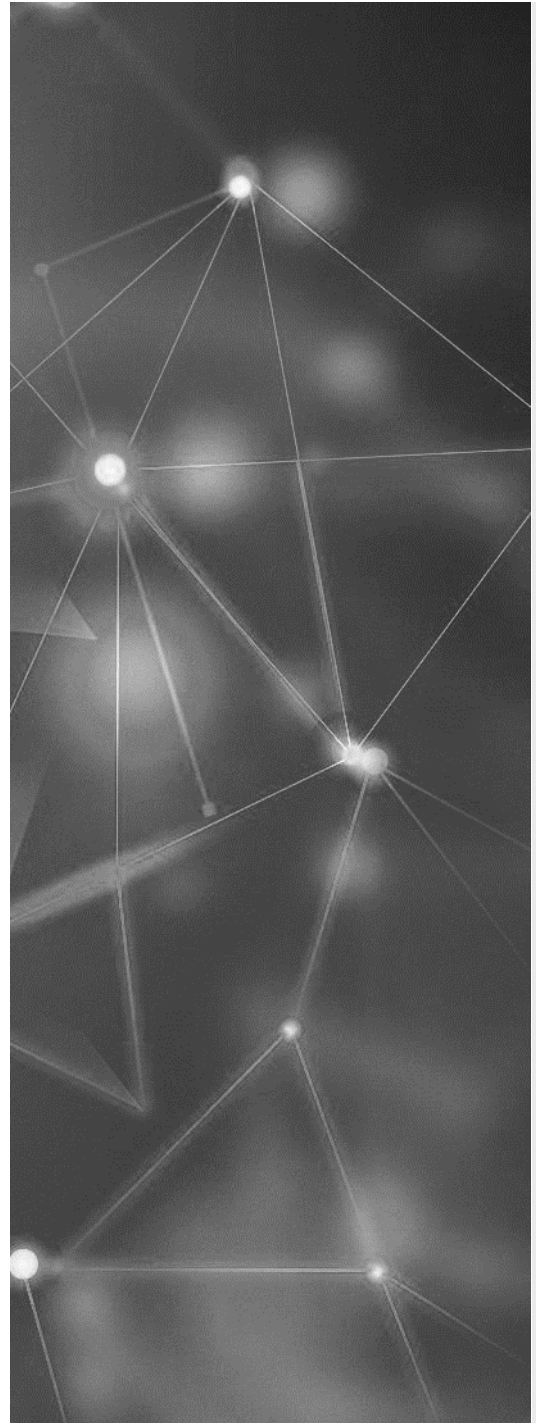


## REGULATORY SANDBOXES: THE DRIVE FOR TECHNOLOGICAL ADVANCEMENTS

The increasing use of technology in finance in recent years has added complexities and posed challenges for regulators and supervisors across the globe.<sup>54</sup> In particular, the rapid evolution of fintech outpaces existing legal framework often creating a significant regulatory oversight gap as regulatory authorities struggle to keep pace with technological advancements. This struggle between regulatory supervision and innovation has resulted in the introduction of the regulatory sandbox, which is a framework set up by a financial sector regulator to allow small-scale, live testing of innovations by private firms in a controlled environment under the regulator's supervision.<sup>55</sup>

In the fintech sector, regulatory sandboxes allow for the steady deployment of innovative technology, under the guidance and watch of regulators, without fintech entities having to comply with certain regulatory requirements, such as obtaining a licence in the testing phase. The obligation to fully comply with financial regulation only commences after the testing phase is complete, by which time the business and its product are more established and the authorities have had the opportunity to understand the product and determine whether the solution falls under the subsisting legal framework or whether new regulations have to be issued for the business model.<sup>56</sup>

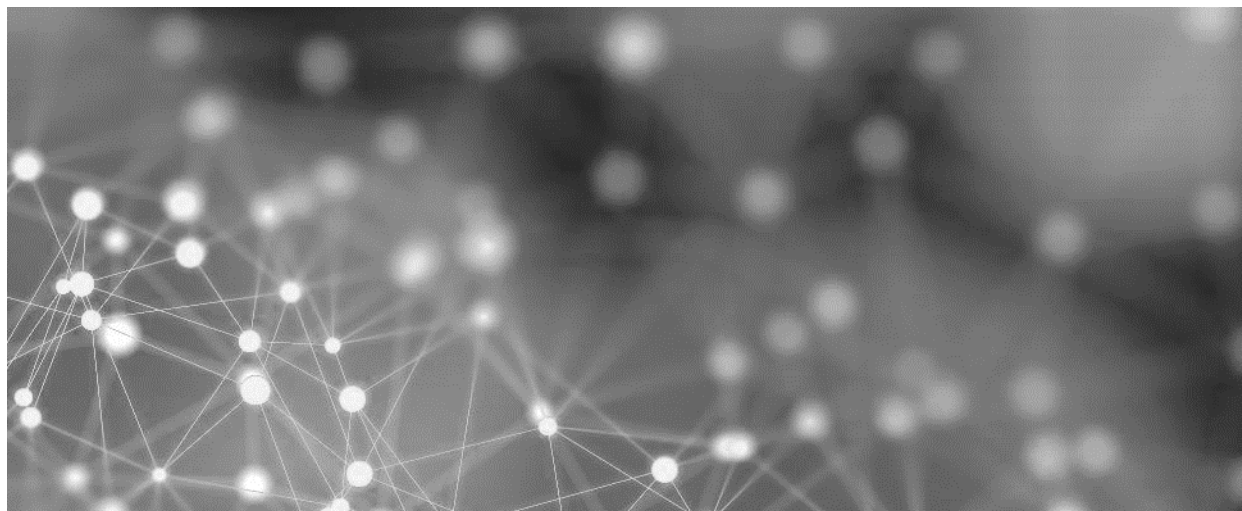
In 2023, a few Nigerian regulators launched their regulatory sandboxes. For example, the CBN launched its regulatory sandbox on 25 January 2023 further to its Framework for Regulatory Sandbox Operations issued earlier in 2021.



<sup>54</sup> Radostina PARENTI for FinTech European Parliament, Policy Department for Economic, Scientific and Quality of Life Policies, "Regulatory Sandboxes and Innovation Hubs" (2020) <[https://www.europarl.europa.eu/RegData/etudes/STUD/2020/652752/IPOL\\_STU\(2020\)652752\\_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2020/652752/IPOL_STU(2020)652752_EN.pdf)>

<sup>55</sup> Ivo Jenik and Kate Lauer, "Regulatory Sandboxes and Financial Inclusion" (CGAP, October 2017) <<https://www.cgap.org/research/publication/regulatory-sandboxes-and-financial-inclusion>>

<sup>56</sup> Digital Finance Institute and McCarthy Tétrault LLP, "Fintech in Canada – Towards Leading the Global Financial Technology Transition (British Columbia Edition)" (Report, 2016), 44 <<http://www.digitalfinanceinstitute.org/wp-content/uploads/2016/09/Fintech-Report-2016-1.pdf>>



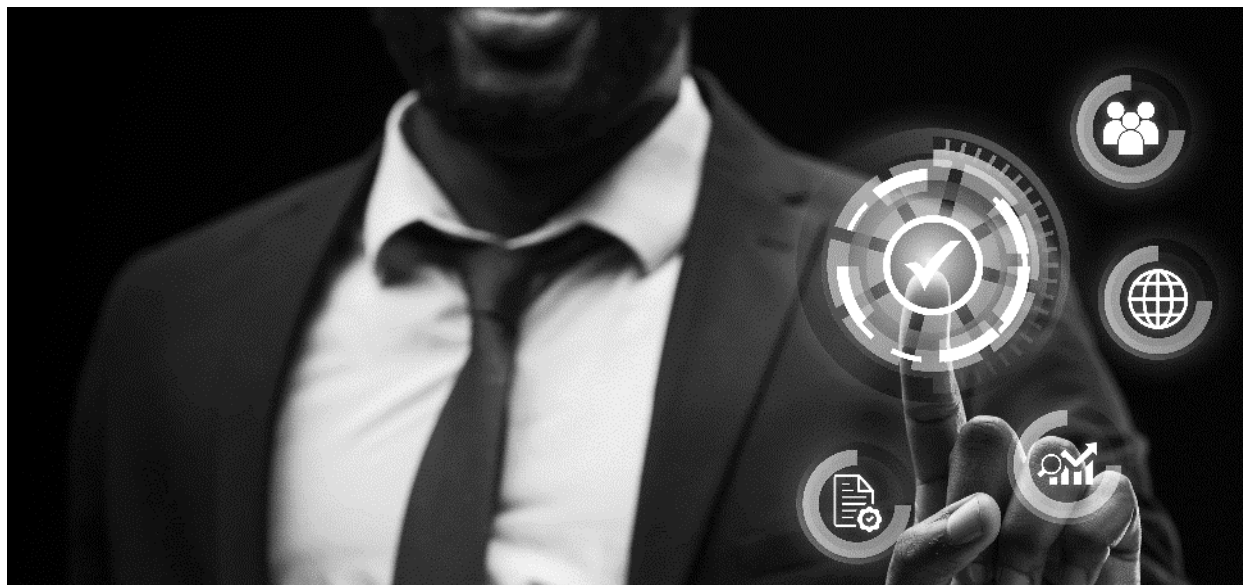
In the same manner, the SEC announced the launch of its Regulatory Incubation Program on 28 April 2023 following the release of its Regulatory Incubation Guidelines in June 2021 and invited applications from startups operating in the Nigerian capital market. Also, on 28 April 2023, the National Insurance Commission issued its Regulatory Sandbox Guidelines for the insurance industry, which became effective on 1 May 2023 and aims to establish standards for live trials and demonstrations of innovative insurance products.

As Nigeria is in the early phases of the deployment of regulatory sandboxes, the extent of the impact of

the use of regulatory sandboxes on the development of the fintech sector and its potential to stimulate positive growth and innovation is yet to be fully realised. However, with the launch of these regulatory sandboxes, Nigerian regulatory authorities joined their counterparts in other jurisdictions, including the United Kingdom, Singapore, India, and Ghana. In these countries, there appears to be a direct correlation between the use of sandboxes and an increase in the size of venture investment (total investment and average investment) for participating fintechs and an increase in innovative activity in the financial technology space.



## FINALLY, OPEN BANKING FOR NIGERIANS!



The idea of open banking has been around in Nigeria for the last three years. The CBN, between 2021 and 2022, issued the Open Banking Framework, which set out the principles for data sharing across the financial system, and the Exposure Draft of the Operational Guidelines for Open Banking, which provided an insight into the proposed guidelines, provoking thoughts among stakeholders.

The CBN finally issued the Open Banking Guidelines in March 2023, giving way to the implementation of open banking in Nigeria.<sup>57</sup> The adoption of open banking in Nigeria, according to the CBN, will foster the sharing of customer data (subject to obtaining consent) between financial institutions and third-party firms to enable the building of customer-focused products and services<sup>58</sup>.

The Open Banking Guidelines set out detailed provisions on the roles, responsibilities, and minimum requirements of participants in the open banking ecosystem. These participants are divided into API Providers (AP), who provide the data through an API; the API Consumers (AC), who access the data through the API of the APs; and the Customers, who are required to consent to the sharing of their data.<sup>59</sup> Interestingly, the Open Banking Guidelines allow financial institutions, retail companies, such as Fast-Moving Consumer Goods companies, and Payroll Service Bureaus to participate in the open banking ecosystem<sup>60</sup>. The Open Banking Guidelines also provide a framework for sharing data which incorporates customer consent at its core<sup>61</sup>. Consequently, an AP is only permitted to share the data of a consumer when the AC provides the customer consent in the required format.<sup>62</sup>

<sup>57</sup> CBN Circular on the Issuance of the Operational Guidelines for Open Banking in Nigeria on 7 March 2023.

<sup>58</sup> CBN Circular PSM/DIR/PUB/CIR/001/043, "Issuance of the Operational Guidelines for Open Banking in Nigeria" dated 7 March 2023.

<sup>59</sup> Paragraph 4.1 of the Open Banking Guidelines.

<sup>60</sup> Paragraph 4.1 (i) of the Open Banking Guidelines.

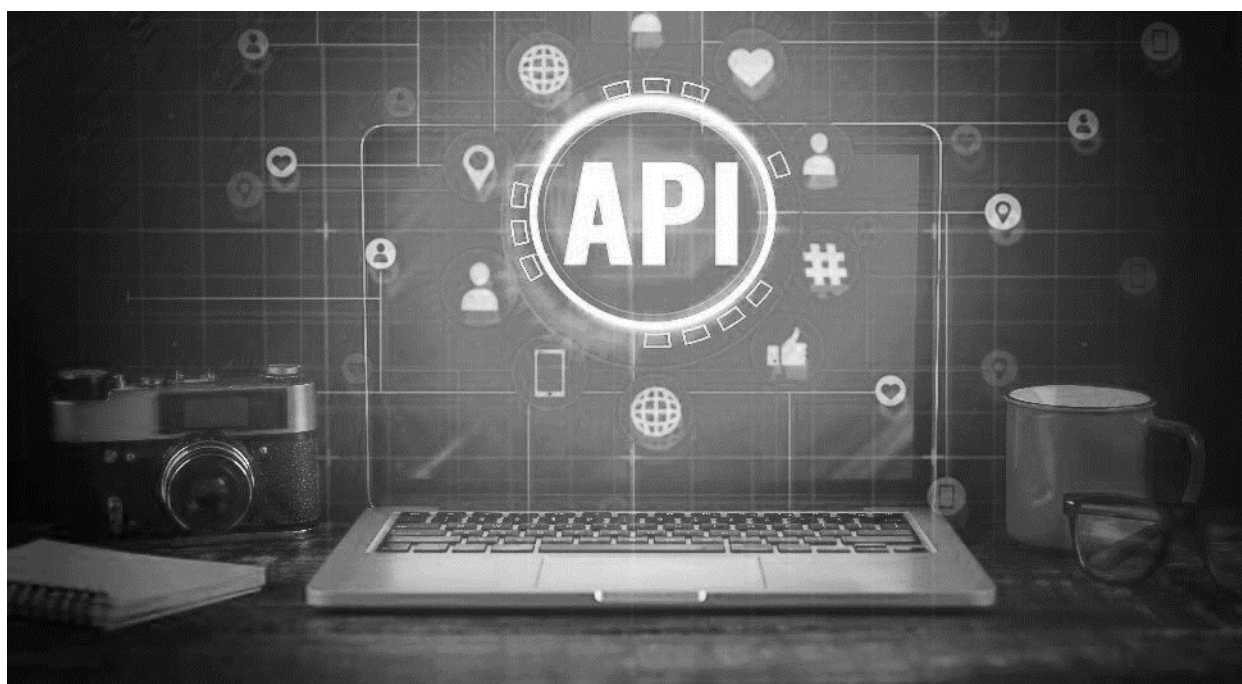
<sup>61</sup> Paragraph 11.0 of the Open Banking Guidelines.

<sup>62</sup> Paragraph 11.1 of the Open Banking Guidelines.



Most notably, the Open Banking Guidelines provide that the CBN will maintain an OBR, which will serve as a public repository for the details of registered participants and APIs through which APs can manage the registration of ACs.<sup>63</sup> This will further enable the CBN to regulate participants and ensure transparency in the operations of open banking. However, it is pertinent to state that the CBN is yet to establish the OBR, which should form the conduit for the implementation of the open banking regime.

In line with the CBN's aim to achieve 95% financial inclusion by 2024,<sup>64</sup> we expect the CBN to establish the registry within the year to fuel innovative financial services and broaden the range of financial products and services available to bank customers.<sup>65</sup>



63 Paragraph 6.0 of the Operational Guidelines.

64 CBN, "Financial Inclusion" <<https://www.cbn.gov.ng/DFD/Financialinclusion.asp>>.

65 Paragraph 3.0 of the Open Banking Guidelines.



## CONSUMER PROTECTION: LEGAL ISSUES ARISING FROM THE MARKETPLACE MODEL



**“**The ruling addresses issues related to product quality, authenticity, and timely delivery, placing a portion of the responsibility on the e-commerce platform itself.

Technology companies have harnessed the power of the e-commerce marketplace model to connect buyers and sellers seamlessly. This model involves e-commerce companies acting as intermediaries and facilitating transactions between buyers and third-party sellers. It provides consumers with a vast array of products and services, creating a dynamic and competitive online marketplace.

However, as of 2023, despite the convenience and opportunities offered by the marketplace model, regulatory bodies increasingly scrutinised its implications, particularly in terms of the balance between consumer protection and innovation. One

notable example is the COMESA Competition Commission (CCC) ruling in 2023, which, *inter alia*, found that Jumia had excluded itself from being party to the contract for sale or purchase between customers and its sellers,<sup>66</sup> effectively shielding the e-commerce company from potential liability that could arise from the transactions. On this basis, the CCC directed Jumia to implement changes in its marketplace conduct in Eastern and Southern Africa, including making amendments to its terms and conditions to reflect that Jumia is a party to the transactions and will thus be liable in case of any disputes relating to the transactions.<sup>67</sup>

66 COMESA, "Determination on Jumia Investigation" <<https://www.comesacompetition.org/wp-content/uploads/2023/02/DETERMINATION-ON-JUMIA-INVESTIGATION.pdf>>.

67 Business Daily, "Watchdog forces Jumia to be liable for defective goods" <<https://www.businessdailyafrica.com/bd/corporate/companies/watchdog-forces-jumia-to-be-liable-for-defective-goods--4138690>>.



The CCC ruling on Jumia's e-commerce platform underscores the growing concern about the accountability of third-party sellers and e-commerce platforms.<sup>69</sup> The ruling addresses issues related to product quality, authenticity, and timely delivery, placing a portion of the responsibility on the e-commerce platform itself. This has sparked debate about whether such regulations are necessary for safeguarding consumer interests or if they impede the innovative spirit of the e-commerce industry.

On one hand, regulations ensure that consumers are protected from inferior goods, fraudulent practices, and other risks associated with online shopping. They establish a framework for holding e-commerce platforms accountable for the actions of third-party sellers. On the other hand, it is arguable that excessive regulations could stifle innovation by burdening platforms with compliance costs and hinder the entry of smaller businesses into the marketplace.

Striking a balance between consumer protection and fostering innovation poses a nuanced challenge. While robust regulations are crucial for maintaining trust in the e-commerce ecosystem, it is equally important to avoid creating a complex maze that impedes the growth of businesses, as e-commerce companies need room to innovate, experiment, and adapt to the evolving needs of the market. The COMESA ruling on Jumia's platform serves as a significant case study, prompting a re-evaluation of the roles and responsibilities of participants within the digital marketplace. As the e-commerce industry continues to evolve, finding a harmonious balance between regulation and innovation is paramount to ensuring a secure and innovative environment for both businesses and consumers.

68 COMESA, "Determination on Jumia Investigation" <<https://www.comesacompetition.org/wp-content/uploads/2023/02/DETERMINATION-ON-JUMIA-INVESTIGATION.pdf>>.

69 Techcabal, "Jumia now liable for the sale of faulty products" <<https://techcabal.com/2023/03/01/jumia-now-liable-for-the-sale-of-faulty-products/>>.



## STATUS OF DRIVERS ON RIDE-HAILING PLATFORMS: EMPLOYEES OR INDEPENDENT CONTRACTORS?



The status of ride-hailing drivers remained a focal point of discussions in 2023, sparking debates on workers' rights and the gig economy model. Here, we delve into the recent developments surrounding the unionisation of Nigerian drivers on ride-hailing platforms and the responses of the two largest ride-hailing companies to the developments between the resulting union body, Amalgamated Union of App-based Transport Workers of Nigeria (**AUATWON**), Uber and Bolt.

The establishment of AUATWON represents a continued national effort to formalise the informal sector, which constitutes a majority of the global workforce.<sup>70</sup> The move toward unionisation also marks a new chapter in the quest for fair compensation, and improved working conditions for drivers who work for these digital ride-hailing platforms.

The response of Bolt and Uber to the unionisation effort is noteworthy. The ride-hailing giants petitioned the Federal Ministry of Labour and Employment to deregister AUATWON.<sup>71</sup> This move by Bolt and Uber reflects both companies' commitment to the "gig economy"<sup>72</sup> model, where drivers are classified as independent contractors rather than employees. The gig economy relies on a flexible workforce of independent contractors, allowing ride-hailing companies to maintain agility and scalability. Recognising drivers as employees could disrupt this model and have far-reaching implications for the entire industry.

70 Vanguard, "FG Registers Informal Sector Trade Union" (24 January 2023) <https://www.vanguardngr.com/2023/01/fg-registers-informal-sector-trade-union/>.

71 Punch, "Uber, Bolt drivers write NLC, NBA over Commission" <<https://punchng.com/uber-bolt-drivers-write-nlc-nba-over-commission/>>.

72 The Department for Business and Trade (DBT) defined the gig economy as involving "... the exchange of labour for money between individuals or companies via digital platforms that actively facilitate matching between providers and customers, on a short-term and payment by task basis."



Notably, in 2018, the National Industrial Court dismissed a suit for the recognition of drivers on ride-hailing platforms as employees in the case of *Oladapo Olatunji & Daniel John v Uber Technologies System Nigeria Ltd & Taxify Technology Nigeria Limited*, wherein the claimants petitioned the court to affirm that all drivers affiliated with Uber or Taxify should be recognised as employees of Uber or Taxify rather than independent contractors, thereby entitled to relevant and specific employee benefits.<sup>73</sup> Following the decision of the National Industrial Court, the claimants filed an appeal, which is yet to be determined.

In the United Kingdom, the Supreme Court ruled in the case of *Uber BV & Ors v Aslam & Ors*<sup>74</sup> that Uber drivers are employees of Uber and should be

accorded the statutory rights of an employee. In deciding other cases on this issue, it is hoped that the Nigerian National Industrial Court would follow the United Kingdom's lead.

The status of drivers on ride-hailing platforms in Nigeria remains a delicate balancing act between asserting workers' rights and maintaining the gig economy model. The developments between AUATWON and the ride-hailing companies are emblematic of the broader global conversation on the evolving nature of work in the digital age.

As the digital economy evolves, finding a middle ground that acknowledges the unique nature of gig work, while ensuring fair treatment for drivers remains a critical challenge.

<sup>73</sup> Suit No. NICN/LA/546/2017: *Oladapo Olatunji & Daniel John v Uber Technologies System Nigeria Ltd & Taxify Technology Nigeria Limited*, 4 December 2018.

<sup>74</sup> [2021] UKSC 5.

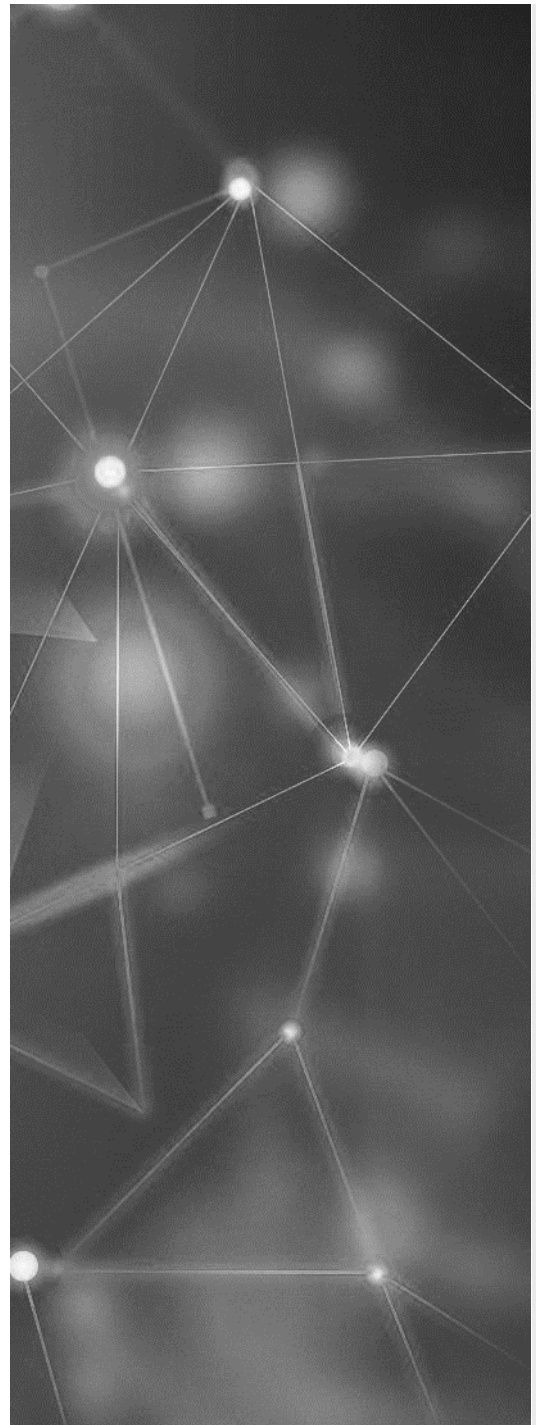


## NIGERIA HAS A DATA PROTECTION ACT

In the wake of the intensive data-driven technology advancement, the National Information Technology Development Agency (NITDA) issued the Nigerian Data Protection Regulation (NDPR) in 2019, which addressed the critical aspects of personal data use and protection within Nigeria. However, stakeholders had raised concerns about the limitation of a regulation (as against an Act of the National Assembly) and the inability of NITDA to apply concentrated attention to the enforcement of the regulation as a result of its other obligations.<sup>75</sup>

In 2023, Nigeria enacted the Nigeria Data Protection Act (NDPA) on 12 June 2023 after a number of unsuccessful bills, making it the first primary legislation governing data protection and privacy in Nigeria. The overarching objective of the NDPA is to protect the fundamental rights of data subjects<sup>76</sup> by regulating the processing of personal data and promoting practices that ensure the security and privacy of data. The Act further established the Nigeria Data Protection Commission (NDPC) to succeed the Nigeria Data Protection Bureau as the principal agency for enforcing the data protection laws in Nigeria.<sup>77</sup>

One of the landmark innovations of the NDPA is the introduction of legitimate interest as a lawful basis for processing personal data. In addition to the five lawful bases applicable under the NDPR, the NDPA allows companies to process data where it is necessary for the legitimate interests pursued by the company (as data controller),<sup>78</sup> its data processor,<sup>79</sup> or by a third party to whom the data is disclosed.<sup>80</sup>



<sup>75</sup> PwC, "The NDPR and the Data Protection Bill 2020" (PwC Insights and Publications) <https://www.pwc.com/ng/en/publications/data-protection-bill-2020.html>

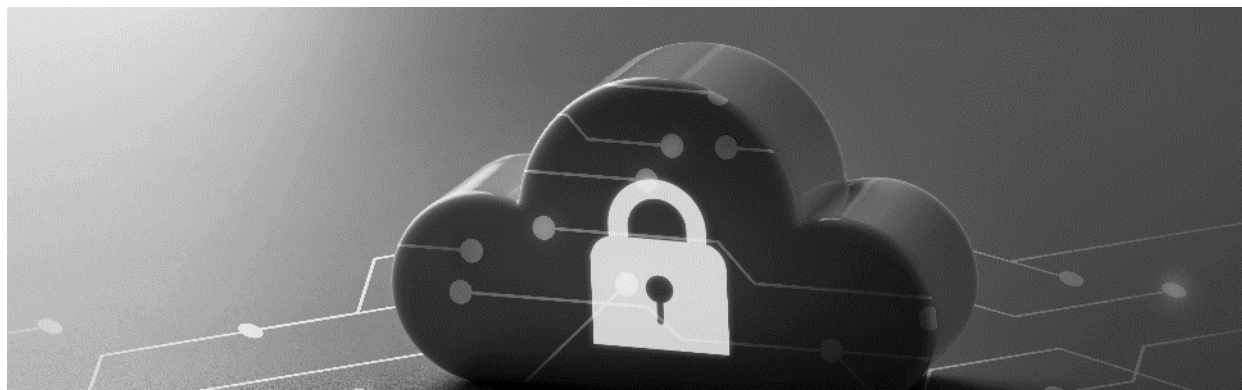
<sup>76</sup> A "data subject" is defined in section 65 of the NDPA as an individual to whom personal data relates.

<sup>77</sup> Sections 4 and 5 of the NDPA.

<sup>78</sup> A "data controller" is defined in section 65 of the NDPA as an individual, private entity, public commission, agency or any other body who alone or jointly with others, determines the purposes and means of processing of personal data.

<sup>79</sup> A "data processor" means an individual, private entity, public authority, or any other body that processes personal data on behalf of or at the direction of a data controller or another data processor. See section 65 of the NDPA.

<sup>80</sup> Section 25(1) of the NDPA.



Though the Act or the NDPC does not provide a definition for legitimate interest, the United Kingdom's Information Commissioners Office<sup>81</sup> describes it as any interest of the company, including commercial interests, individual interests or broader societal benefits.<sup>82</sup> Though this provision appears to allow for a wide range of data processing scenarios, the Act, however, imposes limitations to ensure that the rights of data subjects are upheld. An interest will not be legitimate if (x) it overrides the fundamental rights, freedoms and interests of the data subject; (y) it is incompatible with other lawful bases of processing; or (z) the data subject would not have a reasonable expectation that the personal data would be processed in the manner envisaged.<sup>83</sup> Consequently, the company will be required to pass a three-part test to (x) identify the legitimate interest; (y) show the processing is necessary to achieve the interest; and (z) show the interest does not contravene the limitations provided above.

The NDPA extends its applicability to all companies domiciled, resident or operating in Nigeria or

processing personal data of data subjects in Nigeria.<sup>84</sup> The Act further mandates companies domiciled, resident in or operating in Nigeria and processes (or intends to process) personal data of data subjects resident in Nigeria above a threshold or of a category of personal data to be determined by the NDPC, to register with the NDPC. Though the NDPC is yet to prescribe the threshold or type of personal data covered under this obligation, the National Commissioner of the NDPC, Dr Vincent Olatunji, stated during a workshop that all data controllers and data processors are required to register with the NDPC.<sup>85</sup>

The NDPA provided other modifications to the Nigerian data protection space, bringing it closer to global best practices balancing the need to preserve and protect data subjects and the typical operative and business exigencies of data companies. This year, we expect the NDPC to assume a more proactive role in enforcing the provisions of the NDPA and providing clarity to obscure areas of the Act.

81 The United Kingdom data protection authority.

82 "Legitimate Interest" <https://ico.org.uk/for-organisations/uk-gdpr-guidance-and-resources/lawful-basis-a-guide-to-lawful-basis/lawful-basis-for-processing/legitimate-interests>

83 Section 25(2) of the NDPA.

84 Section 2(2) of the NDPA.

85 "Data Protection Compliance: NDPC Gives Banks, Telcos, Others 6 Months To Register" <https://leadership.ng/data-protection-compliance-ndpc-gives-banks-telcos-others-6-months-to-register/>

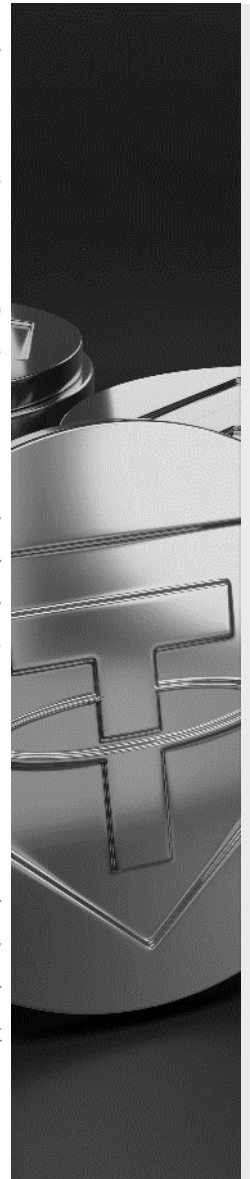


# PART D – OUTLOOK FOR 2024

## STABLECOINS: THE FUTURE OF CROSS-BORDER PAYMENTS

Stablecoins are dominating the global digital asset ecosystem, and Nigerians are actively participating in this financial technology movement. As of 8 August 2023, the global stablecoins market capitalisation<sup>86</sup> was reported as 125.4 billion USD.<sup>87</sup> Notably, stablecoins pegged to the US Dollar command a substantial 98.9% market share of the global stablecoin market.<sup>88</sup> Globally, stablecoins have gained popularity as a stable method of dealing in cryptocurrency, a method of facilitating cross-border payments, and as a means for citizens of countries that experience local currency volatility and hyperinflation to preserve the value of their funds, amongst others.<sup>89</sup> The allure of stablecoins lies in the combination of the stability of traditional assets with the benefits associated with digital assets.

In Nigeria, the widespread adoption of stablecoins, amongst other advantages, notably presents a compelling alternative to the currently arduous process of effecting cross-border payments. Nigerians are one of the most active participants in the global cryptocurrency space. The volume of crypto transactions in Nigeria between July 2022 and June 2023 saw a 9% year-on-year growth, reaching 56.7 billion USD.<sup>90</sup> It is predicted that the transaction value in the digital remittances market in Nigeria will reach 162.70 million USD in 2024.<sup>91</sup> Notably, the infrastructure for effecting cross-border payments in Nigeria suffers from lengthy settlement periods, high transaction costs, lack of transparency, and restricted accessibility. As a potential alternative, stablecoins offer the prospects of transparency and security, near-instantaneous payments, lower costs, and simplified cross-border transactions. By leveraging blockchain technology, funds can be transferred almost instantly between digital asset wallets across the world at minimal costs, as there are fewer intermediaries. Further, stablecoin transactions are recorded on a public and transparent ledger (a blockchain), ensuring security and enabling real-time tracking.<sup>92</sup>



86 The stablecoins market cap represents the total value of the coins that have been mined.

87 Jed Barker, "Stablecoin Statistics and Trends" (DataWallet, 8 August 2023) <<https://www.datawallet.com/crypto/stablecoin-statistics>>

88 Shaun Paul Lee, "Stablecoins Statistics: 2023 Report" (CoinGecko, 13 July 2023) <<https://www.coingecko.com/research/publications/stablecoins-statistics#:~:text=Ethereum%20dominates%20the%20stablecoin%20market,5.5%25%20and%205.6%25%20respectively>>

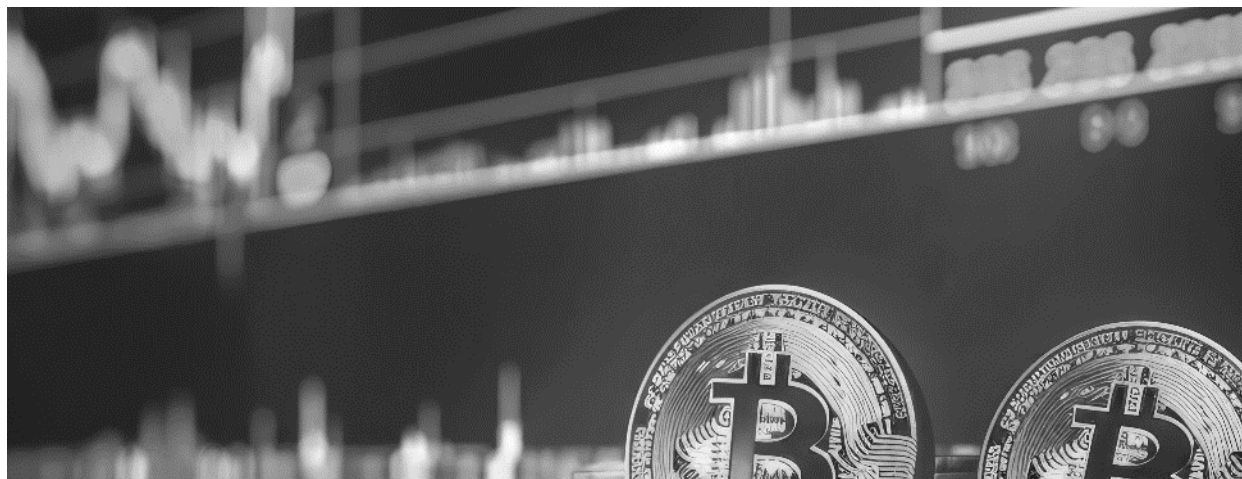
89 Finance Magnates "Revolutionising Fiat Payments: How Stablecoins Empower Africa and South America" (21 July 2023) <<https://www.financemagnates.com/cryptocurrency/coins/revolutionizing-fiat-payments-how-stablecoins-empower-africa-and-south-america/>>

90 Adekunle Agbetiwoye, "Nigeria's Crypto Transactions Hit \$56.7 Billion, Driven by Weakening Currency and Inflation" (Business Insider Africa, 20 September 2023)

<<https://africa.businessinsider.com/local/markets/nigerias-crypto-transactions-hit-dollar567-billion-driven-by-weakening-currency-and/ttsxbf3#:~:text=A%20recent%20report%20by%20blockchain%20research%20firm%20Chainalysis,use%20as%20some%20other%20markets%2C%20experienced%20impressive%20growth>>

91 Statista, "Digital Remittances – Nigeria | Statista Market Forecast" <<https://www.statista.com/outlook/dmo/fintech/digital-payments/digital-remittances/nigeria>>.

92 Brandon Zemp, "The Power of Stablecoins – Enabling Fast and Efficient Cross-Border Transactions" (Forbes, 5 April 2023) <<https://www.forbes.com/sites/forbesauthors/2023/04/05/the-power-of-stablecoins-enabling-fast-and-efficient-cross-border-transactions/?sh=34189f0947c3>>.



There is a consensus that “stablecoins are poised to become the standard for remittance, payments, and cross-border transactions” in 2023 and beyond.<sup>93</sup> However, a clear regulatory framework is crucial for the realisation of the potential of stablecoins in Nigeria. The CBN, in its publication, “the Nigeria Payments System Vision 2025,” acknowledges stablecoins as a viable payment mechanism and underscores the need for appropriate regulation. The CBN further expressed that the SEC would need to establish a regulatory framework as these digital assets present a new “asset class.”

The stablecoin market is not without challenges. The stability offered by these decentralised tokens can be compromised due to their reliance on a limited number of off-chain financial institutions, as demonstrated by the decline of USDC in March 2023.<sup>94</sup> Notwithstanding, this digital asset class holds significant potential for Nigeria’s digital asset economy, but the establishment of effective regulation is necessary to fully realise these benefits.

In 2024, stablecoins are expected to continue to play a significant role in the global digital ecosystem, with particular relevance to cross-border payment. While stablecoins pegged to the US Dollar currently dominate the market, there might be an increase in the variety of stablecoins pegged to other fiat currencies and possibly to a basket of currencies. This diversification could provide users with more options to hedge against currency volatility. Given the active participation of Nigerians in the cryptocurrency space and the challenges associated with traditional cross-border payments in the country, the adoption of stablecoins is likely to increase. The predicted rise in digital remittances in Nigeria, reaching 162.70 million USD in 2024, indicates a growing reliance on digital assets for cross-border transactions. The regulatory landscape for stablecoins in Nigeria is expected to evolve in 2024. As mentioned above, the CBN and the SEC recognise stablecoins as a viable payment mechanism but emphasize the need for appropriate regulation. It is likely that regulatory frameworks will be established to provide clarity and ensure the secure and responsible use of stablecoins.

<sup>93</sup> Ibid.

<sup>94</sup> Cristiano Ventricelli, “USDC’s Depeg Laid Bare the Risks Traditional Finance Poses to Stablecoins” (Coin Desk, 2 April 2023) <<https://www.coindesk.com/consensus-magazine/2023/04/02/usdc-depeg-laid-bare-the-risks-traditional-finance-poses-to-stablecoins/>>



## CRYPTOCURRENCY LIBERALISATION AND UNLOCKING POTENTIALS IN THE FINANCIAL AND CAPITAL MARKETS



Cryptocurrency has emerged as a disruptive force in the global financial landscape, challenging traditional notions of currency, finance and investment. In recent times, Nigeria has experienced a paradigm shift in its approach to cryptocurrency, with a notable move towards liberalisation. This shift perhaps signals a recognition of the transformative potential of digital currencies in fostering economic innovation and financial inclusion.

As Nigeria steps into 2024, there is a palpable expectation of a steady liberalisation of cryptocurrency policies. This anticipation is substantiated by recent legislative developments within the banking and finance sector. A noteworthy development is found in the Finance Act of 2023, which has amended the Capital Gains Tax (CGT) Act (CGTA) by expanding the scope of chargeable assets to encompass digital assets. This indicates that

profits arising from the sale of digital assets, including cryptocurrencies, are now explicitly subject to a 10% CGT. This legislative shift reflects a progressive stance and establishes a foundation for a more permissive approach to cryptocurrency, potentially reshaping the Nigerian financial and investment sectors.

Nigeria's journey with cryptocurrency has been one marked by both enthusiasm and caution. Various regulators, especially the CBN, have historically taken a firm stance on the matter. However, in a significant twist, the CBN concluded last year with a groundbreaking development. In December 2023, the apex bank issued the "Guidelines on Operation of Bank Accounts for Virtual Assets Service Providers (VASPs),"<sup>95</sup> effectively lifting the previous restrictions that prevented cryptocurrency service providers from operating bank accounts.

95 A VASP means any entity who conducts one or more of the following activities or operations for or on behalf of another person: i. exchange between virtual assets and fiat currencies; (ii) exchange between one or more forms of virtual assets; (iii) transfer of virtual assets; (iv) safekeeping and/or administration of virtual assets or instruments enabling control over virtual assets; and (v) participation in and provision of financial services related to an issuer's offer and/or sale of a virtual asset (See the SEC Rules on Issuance, Offering Platforms and Custody of Digital Assets).



The guidelines also provide directions to financial institutions regarding their banking relationship with VASPs, while maintaining restrictions on financial institutions trading and transacting in virtual currencies. This move has garnered positive reception from the public and various stakeholders, and it can be interpreted as a significant step towards liberalization. It provides a clearer framework for the integration of virtual assets into the Nigerian financial ecosystem. The guidelines also set the stage for the operationalisation of the “Rules on Issuance, Offering Platforms and Custody of Digital Assets” (**Digital Assets Rules**) issued by the Securities and Exchange Commission (**SEC**).

The Digital Assets Rules establish the groundwork for capital mobilisation via digital asset offerings in Nigeria<sup>96</sup>, offering a structured approach to ensure compliance and transparency. This has laid the necessary groundwork for companies leveraging digital assets to raise capital. This unorthodox fundraising technique has the potential to enhance liquidity by enabling faster transactions, consequently reducing settlement times and transaction costs.<sup>97</sup> This shift also has the potential to democratize capital markets by making financial markets more accessible, inclusive and open to a broader range of investors, thereby fostering inclusivity in Nigeria's financial sector.

As the Nigerian financial sector evolves, it is evident that to foster the growing interest in virtual assets and birth a functional system for fundraising through digital assets, the stakeholders will need to collaboratively address practical challenges to ensure a smooth adoption in Nigeria and reshape the Nigerian capital market.

Looking beyond regulatory changes, it is worth exploring the potential market implications of the projected liberalisation of cryptocurrencies. A more inclusive stance on cryptocurrency is likely to attract a broader range of investors, potentially resulting in an influx of investments from institutional players. Investors, central players in this evolving narrative, are likely to experience a change in sentiment with the expected liberalisation. As regulatory barriers lessen, opportunities for secure and transparent cryptocurrency transactions within the Nigerian fintech ecosystem are expected to also increase.

These market shifts have the potential to reshape the cryptocurrency landscape in Nigeria, presenting both opportunities and challenges. The regulatory framework must strike a delicate balance between protecting consumers and fostering innovation. Addressing cybersecurity concerns, ensuring investor protection, and developing robust monitoring mechanisms are crucial aspects of this evolving landscape.

<sup>96</sup> Paragraph 1 of the SEC Rules on Issuance, Offering Platforms and Custody of Digital Assets.

<sup>97</sup> Antier, “Understanding Digital Asset Tokenization: A Comprehensive Guide” <<https://www.antiersolutions.com/understanding-digital-asset-tokenization-a-comprehensive-guide/>>.



## UTILIZING EMBEDDED FINANCE



The financial technology sector has been on a transformative shift, and as we look forward to 2024, a key trend that stands out is the widespread adoption of embedded finance. Embedded finance involves the integration of financial services seamlessly into non-financial platforms, revolutionising the way businesses and consumers interact with money.<sup>98</sup> Embedded finance enables cross-sector convergence to provide friction-free access to financial services such as payment processing, BNPL, insurance, closed-loop wallets or cards.

In practice, it enables customers to access insurance services on goods they want to purchase on an e-commerce platform. It also enables the

purchase of digital content on a digital library via stored value digital wallets powered by virtual bank accounts.

In 2022, it was reported that the global embedded finance market reached a valuation of USD 65.46 billion, with a projected Compound Annual Growth Rate (CAGR) of 32.2% from 2023 to 2030. This expansion of embedded finance is attributable to the rising prevalence of smartphones and internet access on a global scale.<sup>99</sup> Another driving force underlying the expansion is the adoption of open banking technology. Open banking complements embedded finance as it allows financial institutions to share their customer's data with a third-party provider where consent is provided.

<sup>98</sup> Taylor Wessing, "Powering embedded finance: tech-powered transformation and the role of Big Data" <<https://www.lexology.com/library/detail.aspx?g=23a3c699-86b0-4114-b053-683d5b3ff1bd>>.

<sup>99</sup> Embedded Finance Market Size, Share & Trends Analysis Report By Type (Embedded Payment, Embedded Insurance), By Business Model (B2B, B2C), By End-use, By Region, And Segment Forecasts, 2023 – 2030 <<https://www.grandviewresearch.com/industry-analysis/embedded-finance-market-report>>



In keeping up with these developments, regulatory frameworks are also evolving. As noted previously, the CBN issued the Regulatory Framework for Open Banking in Nigeria 2021 and the Operational Guidelines for Open Banking in Nigeria 2023 to regulate and establish standards for the usage of open banking technologies.

In the coming years, both established and emerging financial institutions are anticipated to leverage the capabilities of embedded finance to redefine the customer experience and accessibility of financial services. These Open Banking Guidelines are designed to enhance transparency, security, and competition and will play a pivotal role in ensuring the responsible implementation of embedded

finance and inspiring a wave of innovation within the industry.

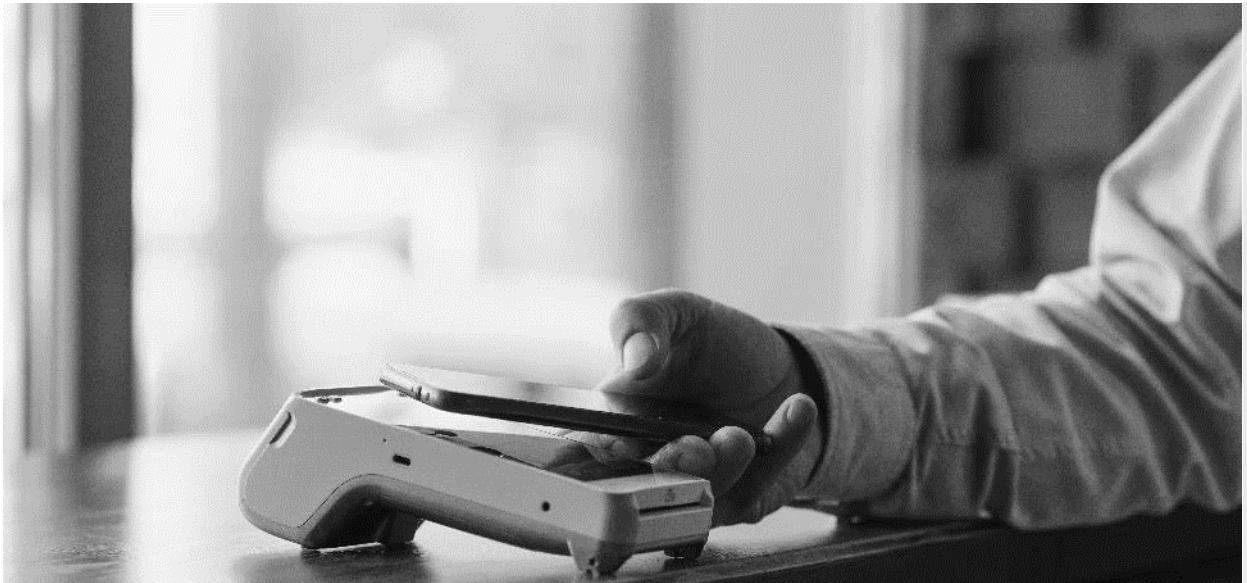
The outlook for embedded finance is one of boundless potential for increased access to customers for financial institutions, and the overall satisfaction of customer needs for third-party providers without the need to acquire the licence or infrastructure to provide financial services. It is equally important to note that strategic collaborations between financial service providers and non-financial service providers, as well as creativity and innovation to design white-label solutions or intuitive product integrations, are absolutely necessary to unlock these potentials.



**...financial institutions, both established and emerging players, are anticipated to leverage the capabilities of embedded finance to redefine the customer experience and accessibility of financial services.**



## CONTACTLESS PAYMENT: THE FUTURE OF INSTANT PAYMENTS?



Acknowledging the global technological strides in contactless payments and the ensuing advantages for Nigerian users, the CBN published the Guidelines on Contactless Payments in Nigeria on 27 June 2023.<sup>100</sup> This marks a significant milestone in the Nigerian payments' ecosystem as the widespread adoption of contactless payments will reshape the way consumers and businesses engage in transactions.

The adoption of contactless payments in Nigeria is not just a technological trend but a strategic shift towards a more accessible and efficient payment infrastructure<sup>101</sup> tailored to the distinct Nigerian dynamic. Nigerian consumers and businesses stand to gain numerous advantages from the widespread adoption of contactless payments. The convenience of a quick “tap-and-wave” transaction is particularly

impactful for consumer satisfaction in Nigeria, as contactless payments are recognized for providing a seamless and user-friendly experience.<sup>102</sup> For businesses, the deployment of contactless payments offers benefits beyond mere convenience, as the implementation of contactless payments could boost operational efficiency, reduce queues, and elevate the overall customer experience.<sup>103</sup>

While the use of contactless payments brings immense benefits, the potential proliferation of contactless payments also raises concerns about the security of financial information and the vulnerability of consumer data to unauthorised access.

<sup>100</sup> See also our Newsletter on the Overview of the CBN's Guidelines for Contactless Payments in Nigeria 2023 <https://www.olaniwunajayi.net/blog/overview-of-the-cbns-guidelines-for-contactless-payments-in-nigeria-2023/>.

<sup>101</sup> Oluwaseun Lottu, Adekunle Abdul & Ors, "Digital Transformation in Banking: A Review Of Nigeria's Journey To Economic Prosperity" p. 218 [https://www.researchgate.net/publication/374431795\\_DIGITAL\\_TRANSFORMATION\\_IN\\_BANKING\\_A\\_REVIEW\\_OF\\_NIGERIA%27S\\_JOURNEY\\_TO\\_ECONOMIC\\_PROSPERITY](https://www.researchgate.net/publication/374431795_DIGITAL_TRANSFORMATION_IN_BANKING_A_REVIEW_OF_NIGERIA%27S_JOURNEY_TO_ECONOMIC_PROSPERITY)

<sup>102</sup> Thisday, "Goott: Contactless Payments Will Enhance Financial Accessibility" <<https://www.thisdaylive.com/index.php/2023/08/31/goott-contactless-payments-will-enhance-financial-accessibility>

<sup>103</sup> BusinessDay, "Contactless technology will transform payments in Nigeria" < <https://businessday.ng/interview/article/contactless-technology-will-transform-payments-in-nigeria/>>



To address this concern, key industry players will need to ensure the adoption of enhanced security measures and encryption standards in line with paragraph 5.0 of the CBN Guidelines on Contactless Payments in Nigeria to maintain the trust of consumers in contactless payments while adhering to the highest industry standards.

We anticipate concerted efforts from stakeholders to educate the Nigerian public about the security features in place and the continuous advancements in securing contactless transactions. This proactive approach should foster trust among Nigerian consumers, paving the way for increased acceptance and utilisation of contactless payment methods in the unique Nigerian market. Further, with regard to the increased adoption of contactless payment options in 2024 by businesses, this will

depend on key considerations such as the value proposition for the businesses, the applicable transaction charges and cost of implementation in physical stores and locations.

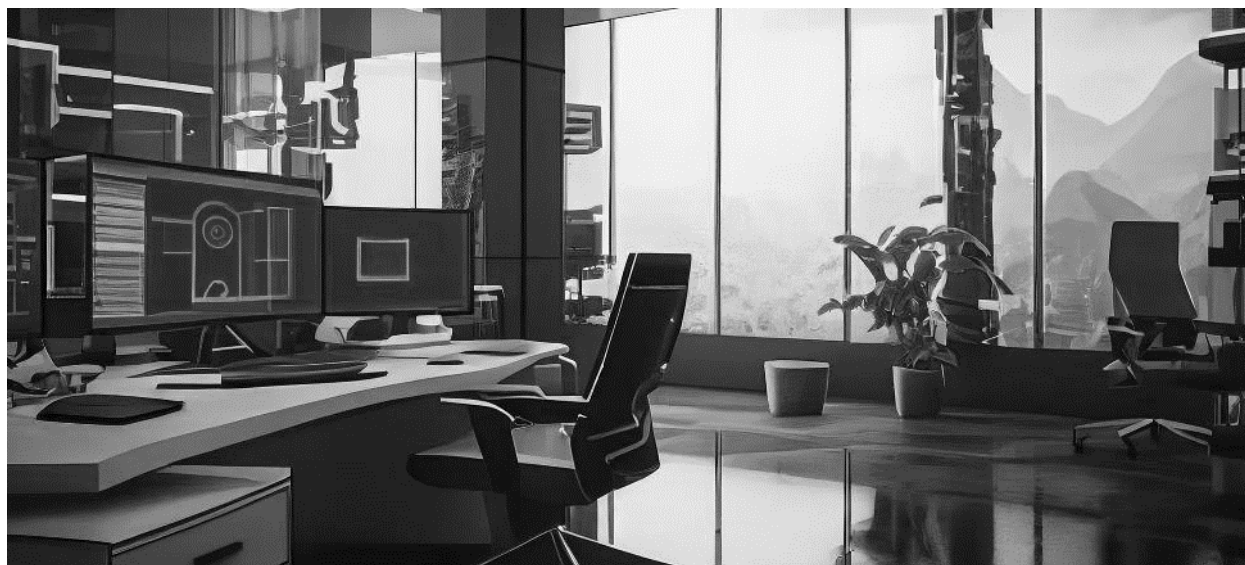
Further, as contactless payments become more ingrained in Nigeria's daily economic activities, the regulatory framework will naturally evolve to accommodate this shift. Anticipated changes may include updates to security standards, consumer protection measures and guidelines for businesses operating in Nigeria. Policymakers are likely to collaborate closely with industry stakeholders to strike a balance between innovation and safeguarding the interests of Nigerian consumers and businesses while ensuring a robust regulatory environment for the future of contactless payments in Nigeria.



**...Policymakers are likely to collaborate closely with industry stakeholders to strike a balance between innovation and safeguarding the interests of Nigerian consumers and businesses while ensuring a robust regulatory environment for the future of contactless payments in Nigeria.**



## IS REGTECH THE NEW FACE OF COMPLIANCE?



In recent years, regulatory technology (**RegTech**) companies have gained more attention as regulations gradually expand across various sectors, attempting to level up with innovation.<sup>104</sup> RegTech companies have leveraged emerging technology to create innovative solutions designed to support businesses in coping with regulatory compliance issues. RegTech, while originating in the financial sector, has expanded across industries such as healthcare, infrastructure, communications and energy, where adherence to evolving regulatory frameworks is mandatory.<sup>105</sup>

RegTech has become particularly popular considering the dynamics, complexity and technicality of the regulatory terrain. In Nigeria,

RegTech is expected to grow to 40% among the tech companies in Nigeria at the end of 2025. Factors such as the increase in collaboration between technology companies and regulatory agencies, the dynamic nature of the financial regulatory systems, the expansion of financial technology services, and the increasingly digitally connected population have formed the driving factors of the growth of RegTech in Nigeria.<sup>106</sup> RegTech solutions in Nigeria cut across cybersecurity and data protection, risk management and fraud prevention, transaction monitoring and identity management and control but have particularly gained traction in anti-money laundering, KYC and regulatory reporting processes.<sup>107</sup>

104 Regtech Africa, "The State of Fintech and Regtech Report" <<https://workdrive.zohoexternal.com/external/1f2601bee7f78db9d154f212cd2a4211ee23620185adb95b48fcfac58e7e4c80>>.

105 Rotimi Ogunyemi, "Regulation Technology: New frontier in regulatory compliance, risk management and governance" (Business Day, August 2023) <<https://businessday.ng/news/legal-business/article/regulation-technology-new-frontier-in-regulatory-compliance-risk-management-and-governance/>>

106 Regtech Africa, "The state of Fintech and Regtech Report" <https://workdrive.zohoexternal.com/external/1f2601bee7f78db9d154f212cd2a4211ee23620185adb95b48fcfac58e7e4c80>.

107 Ibid.



While RegTech aims to simplify regulations by translating complex regulations into codes, these processes rely on cutting-edge technology solutions such as big data analytics, machine learning, blockchain, the Internet of Things, and AI, which invokes challenges such as limited technical expertise or resources.<sup>108</sup>

The adoption of RegTech has transitioned conventional manual compliance systems to inclusive and user-centred design practices to enhance the supervisory capabilities of industries and facilitate more efficient implementations. As regulations continue to evolve, it is expected that Regtech solutions will increase across various sectors, positioning itself at the forefront of compliance in Nigeria.

<sup>108</sup> Ansarada, "Regtech 101"

<https://www.ansarada.com/grc/regtech#:~:text=Regulatory%20technology%2C%20or%20RegTech%2C%20is,their%20increasing%20regulatory%20compliance%20commitments->



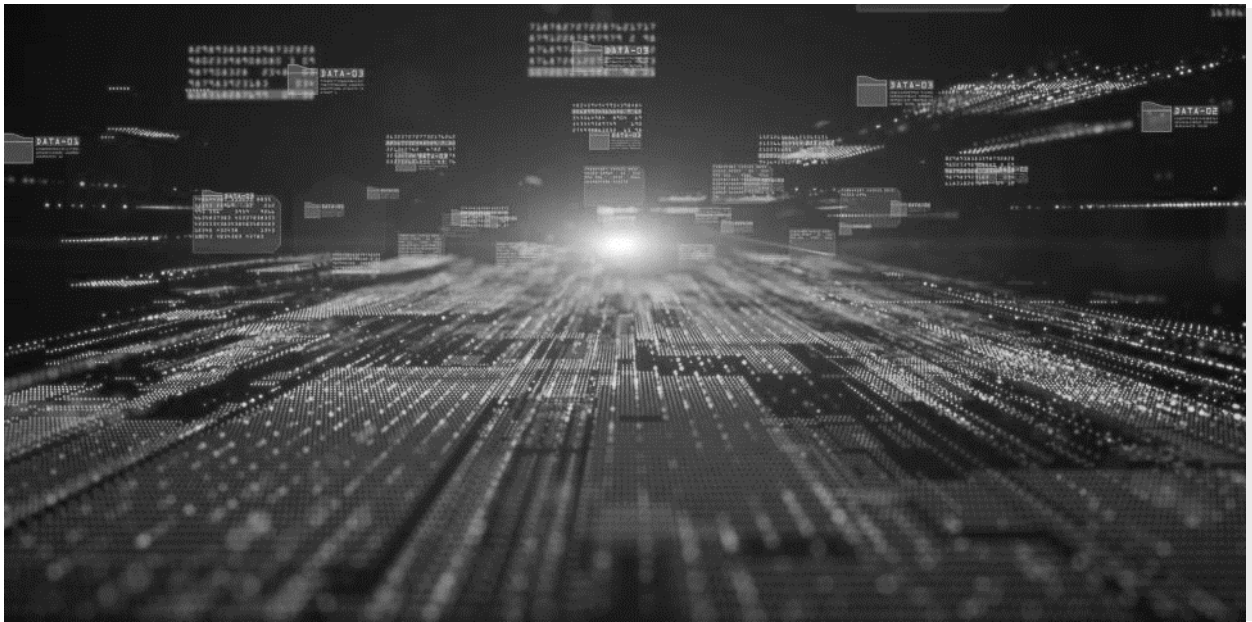
## APPLICATION OF ARTIFICIAL INTELLIGENCE AND BIG DATA IN FINANCIAL TECHNOLOGY

The use of emerging technology solutions such as Artificial Intelligence (AI) and Big Data is changing how FinTech companies run their businesses and improving the efficiency, personalization, and security of their services. Driven by the abundance of available data and innovative computing capacity and techniques, Big Data and AI technologies are being increasingly deployed by financial institutions in combating financial crimes, algorithmic trading, and credit scoring.

The rise of digital innovation in financial services has increased the risks of financial crimes thus necessitating technological interventions in the financial services sector to combat financial crimes. AI, in conjunction with Big Data technologies, plays a pivotal role in detecting and preventing financial crimes due to its capacity to efficiently process large volumes of data with heightened speed and precision. These technologies prove beneficial through the: (x) automation of the analysis and verification of identity documents and biometrics of customers, (y) automation of the analysis of customer data and categorisation of customers into various risk profiles, and (z) the identification of suspicious transaction by sifting through large volumes of transaction data to identify anomalies and patterns that deviate from normal customer behaviour.

Furthermore, the synergy between Big Data and AI has revolutionised credit scoring by introducing automated credit scoring models that analyse a vast array of data to provide a holistic report on the ability of a customer to repay a loan. This transformative technology empowers lenders to make more accurate decisions at an incredible speed.





AI's influence extends to algorithmic trading systems consisting of pre-programmed trading instructions that account for different variables. With the aid of AI technology, these trading systems can analyse, adapt, and learn from historical market data and social media activities to identify patterns and trends and make accurate predictions upon which the trading system. The speed and efficiency of these trading systems enable market participants to execute trades at high speeds and volumes with little or no human intervention.

Relatedly, big data and AI technologies raise concerns, especially with respect to data privacy, because these technologies involve the processing of a vast amount of personal data in ways that most people cannot imagine. Accordingly, the NDPA emphasizes that personal data must be processed

in a fair, lawful and transparent manner, as well as a data subject's right to information concerning automated decision-making involved in the processing of their personal data and the right to object to such processing.

Indeed, the advent of AI and Big Data technologies heralds a new era of efficiency, accuracy, and innovation in financial services. More FinTech companies are expected to embrace these technologies to gain a competitive advantage over traditional financial institutions that are slower to adopt. However, as these technologies continue to transform financial services, it is important to note that regulatory oversight and policy development will become paramount in ensuring the responsible use of AI and Big Data.

# GLOSSARY

<b>AC</b>	API Consumer
<b>AI</b>	Artificial Intelligence
<b>AML/CFT/CPF</b>	Anti-Money Laundering, Combating the Financing of Terrorism, and Countering Proliferation Financing
<b>API</b>	Application Programming Interface
<b>AP</b>	API Provider
<b>AUATWON</b>	Amalgamated Union of App-based Transport Workers of Nigeria
<b>BDC</b>	Bureau De Change
<b>BFA</b>	Business Facilitation Act 2023
<b>BVN</b>	Bank Verification Number
<b>CAGR</b>	Compound Annual Growth Rate
<b>CAMA</b>	Companies and Allied Matters Act 2020
<b>CBN</b>	Central Bank of Nigeria
<b>CBN Open Banking Framework</b>	CBN Regulatory Framework for Open Banking in Nigeria, 2023
<b>CBDC</b>	Central Bank Digital Currency
<b>CCC</b>	COMESA Competition Commission
<b>CCG</b>	Code of Corporate Governance
<b>CDD</b>	Customer Due Diligence
<b>CDD Regulations</b>	Central Bank of Nigeria's (Customer Due Diligence) Regulations
<b>CEMA</b>	Customs and Excise Management Act 2004
<b>CGT</b>	Capital Gains Tax
<b>CGTA</b>	Capital Gains Tax Act, Cap. C1 LFN 2004

# GLOSSARY

<b>CJEU</b>	Court of Justice of the European Union
<b>COMESA</b>	Common Market for Eastern and Southern Africa
<b>Digital Asset Rules</b>	SEC Rules on Issuance Offering and Custody of Digital Assets, 2022
<b>eNaira Guidelines</b>	Regulatory Guidelines on the eNaira
<b>ESG</b>	Environmental, Social and Governance
<b>FCCPC</b>	Federal Competition and Consumer Protection Commission
<b>FDI</b>	Foreign Direct Investment
<b>FI</b>	Financial Institution
<b>Finance Act</b>	Finance Act 2023
<b>FinTech</b>	Financial technology
<b>FMoCIDE</b>	Federal Ministry of Communications, Innovation and Digital Economy
<b>FRCN</b>	Financial Reporting Council of Nigeria
<b>Google</b>	Google LLC
<b>H1</b>	First half of the year (January to June)
<b>H2</b>	Second half of the year (July to December)
<b>HSC</b>	Harmonised Short Code
<b>I &amp; E</b>	Investors and Exporters
<b>ICO</b>	Initial Coin Offering
<b>IFRS</b>	International Financial Reporting Standards
<b>IMTOs</b>	International Money Transfer Operators
<b>Insurance Act</b>	Insurance Act 2004
<b>ISSB</b>	International Sustainability Standards Board
<b>KYC</b>	Know-Your-Customer
<b>M&amp;A</b>	Mergers and Acquisitions
<b>MDAs</b>	Ministries, Departments and Agencies
<b>MfB</b>	Microfinance Bank
<b>NAICOM</b>	National Insurance Commission

# GLOSSARY

<b>NCC</b>	Nigerian Communications Commission
<b>NDPA</b>	Nigeria Data Protection Act, 2023
<b>NDPB</b>	Nigeria Data Protection Bureau
<b>NDPC</b>	Nigeria Data Protection Commission
<b>NEPCA</b>	Nigerian Export Promotion Council Act
<b>NIBSS</b>	Nigeria Interbank Settlement System
<b>NIP</b>	NIBSS Instant Payment
<b>NITDA</b>	National Information Technology Development Agency
<b>OBR</b>	Open Banking Registry
<b>OFI</b>	Other Financial Institution
<b>Open Banking Framework</b>	Regulatory Framework for Open Banking in Nigeria
<b>Open Banking Guidelines</b>	Operational Guidelines for Open Banking in Nigeria
<b>PND</b>	Post-No-Debit
<b>POS</b>	Point of Sale
<b>PSSP</b>	Payment Solution Service Provider
<b>Q1</b>	First Quarter of the year (January to March)
<b>Q2</b>	Second Quarter of the year (April to June)
<b>Q3</b>	Third Quarter of the year (July to September)
<b>Q4</b>	Fourth Quarter of the year (October to December)
<b>Q-on-Q</b>	Quarter on Quarter
<b>SEC</b>	Securities and Exchange Commission
<b>USD</b>	United States Dollars
<b>USSD</b>	Unstructured Supplementary Service Data
<b>VASP</b>	Virtual Asset Service Provider
<b>VC</b>	Venture Capital



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