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# Key Fintech Trends from 2022 and the Outlook for 2023

In Nigeria, the year 2022 was an interesting year for regulators and Fintechs alike. The Fintech space in Nigeria experienced some regulatory changes in position that we believe will have significant impact on the ecosystem over the course of 2023 and beyond. We have highlighted in this update some of these regulatory changes in various sub-sectors of the Fintech ecosystem and what we believed would be the impact of those regulations.

## 1. Introduction of a Domestic Card Scheme

In October 2022, the Central Bank of Nigeria ("CBN") announced the launch of a national domestic card scheme ("Card Scheme") which was launched and also became effective on 26th January, 2023. According to the CBN, the move to create the Card Scheme is in line with one of its mandate to promote stability, inclusion, and growth in the financial and payment system. The Card Scheme will be delivered through the Nigeria Inter-bank Settlement System Plc ("NIBSS") in conjunction with the Bankers Committee of deposit money banks in Nigeria and other stakeholders in the financial ecosystem. Banks and other financial institutions are permitted, through the Card Scheme, to offer a variety of card solutions including debit, credit, virtual, loyalty and tokenised cards.

The Card Scheme is still nascent. Notwithstanding that, some of the potential impacts of the Card Scheme include:

(a) fostering innovation in the Nigerian market;

(b) aiding the seamless dissemination of government-to-person payments;

(c) reduction of demand for foreign exchange for settlement of payments on foreign cards issued in conjunction with foreign card schemes;

(d) reduction of the cost of payment for goods and services; and

(e) enhancing data sovereignty.

## 2. CBN Anti-Money Laundering Licensing

The CBN, in November 2022, released the Anti-Money Laundering, Combating the Financing of Terrorism and Countering Proliferation Financing of Weapons of Mass Destruction (AML/CFT/CPF) Guidelines for Licensing of Banks and Other Financial Institutions (the "Guidelines") aimed at guiding promoters of financial institutions on AML/CFT/CPF requirements while applying for licences. The objectives of the Guidelines include to:

(a) ensure that the proceeds of crime are not used to establish financial institutions in Nigeria;

(b) ensure that criminals do not own or control financial institutions in Nigeria;

(c) identify and verify the beneficial owners of financial institutions;

(d) ensure that promoters of financial institutions put in place appropriate and effective measures to mitigate money laundering, terrorism financing and proliferation of weapons risk; and

(e) guide promoters of financial institutions in complying with AML/CFT/CPF requirements in licence applications for the relevant licence.

The Guidelines requires promoters of financial institutions to, in addition to complying with other licensing requirements specified for the relevant institution, submit the following documents for an approval-in-principle under the Guidelines:

a) completed and personally signed Beneficial Owners Declaration Form;

b) notarised statement of net worth for all Beneficial Owners;

c) where applicable, completed and personally signed Politically Exposed Persons (PEP) Declaration Form; and

d) AML/CFT/CPF Compliance policy which shall cover, among other things: compliance structure, customer due diligence and suspicious transaction monitoring and reporting.

The Guidelines also list certain conditions in which a licence application, or parties to the application for a licence, may be rejected. These include: (a) failure to demonstrate understanding of the ML/TF/PF risks inherent in the business; (b) inability to address the AML/CFT/CPF licensing requirements satisfactorily, especially during capital verification exercise; (c) opaque ownership structure; and (d) criminal record of a party to the application indicate conviction for any offence that constitutes a financial crime.

## 3. Cryptocurrencies and eNaira

As part of its efforts to regulate dealings in cryptocurrencies in Nigeria, the Securities and Exchange Commission ("SEC") issued the Rules on Issuance, Offering Platforms and Custody of Digital Assets (the "Rules") in May 2022. The SEC provides that the Rules are to, among other things, regulate issuance and transfer in an exchange of digital and virtual assets. The Rules are divided into five parts to address: (a) the issuance of digital assets as securities; (b) the registration requirements for Digital Assets Offering Platforms; (c) the registration requirements for Digital Assets Custodians; (d) the regulation of Virtual Asset Providers; and (e) the regulation of Digital Asset Exchanges. Digital Assets are defined in the Rules as "a digital token that represents assets such as debt or equity claim on the issuer" and Virtual Assets as "a digital representation of value that can be transferred, digitally traded and can be used for payment or investment purposes excluding digital representations of fiat currencies, securities and other digital assets".

As at the time of issuing this update, the SEC has not commenced the implementation of the Rules. This is partly due to the prohibition which CBN placed on banks and other financial institutions under its regulatory purview from dealing, or facilitating the payment for transactions, in crypto assets. The CBN further instructed these regulated institutions to close accounts of persons dealing in crypto assets. The implication of this, is that the SEC will only be able to commence implementation of the Rules when the current restrictions imposed by the CBN are lifted. In terms of the impact, the Rules are a welcome development as they provide a framework for the entities that provide digital assets and/or virtual asset related services. The instruction by the CBN has, however, slowed down the growth in this sector as some of the stakeholders are waiting to see if the CBN Circular will be relaxed to allow the seamless implementation of the SEC Rules.

The Federal Government of Nigeria ("FGN") is also seeking to impose capital gains tax on the gains realised from the disposal of crypto assets. This is by virtue of the Finance Bill 2022 ("Bill") which, among other things, provides that the gains on the disposal of digital assets (including cryptocurrencies) will be chargeable to capital gains tax at the rate of 10%. The provisions of this Bill represent FGN's potential change in policy direction from the position of the CBN on cryptocurrencies. The Bill is yet to become a law as at the date of publishing this update. Notwithstanding the proposal by the FGN, the CBN is, however, yet to release any regulation indicating a change in its position. It is likely that, if the Bill is passed into law and the section that provides for the charge of capital gains tax on digital assets remains in the law, the CBN could change its position on crypto assets and allow banks and other financial institutions to facilitate payments for transactions for, and do business, with customers who deal in crypto assets. This will bode well for the cryptocurrency space and will in turn, do away with any presumptions that dealing in cryptocurrency is prohibited.

The eNaira, which is the CBN digital currency was launched in 2021, marked its first anniversary in October 2022. Based on the information provided by the CBN, the eNaira recorded a total transaction value of about NGN8 billion by October 2022. This falls short of the initial expectations of the CBN and one of the reasons for this is that the adoption rate of the eNaira is very low. According to a Bloomberg report, less than 0.5% of Nigerians use the eNaira. This shows that majority of the country is heavily reliant on fiat and that more policies might be put in place by the CBN to drive the adoption of the eNaira.

## 4. Artificial Intelligence

AI-enabled solutions are fast becoming popular among Nigerians, especially with AI solutions like ChatGPT going mainstream in 2022. The Fintech space will not be left out as the adoption of AI-enabled solutions will improve the Fintech space in a number of ways which include: (a) fraud identification through improved security; (b) better credit rating solutions to aid digital lenders in determining who can receive loans; (c) improved customer services; and (d) aid provision of personalised banking services. In 2023 we are likely to see a number of Fintech integrate these AI-enabled solutions into their products and services. This could be followed closely by regulations to guide the use of such AI-enabled solutions by regulated institutions. This is because there are currently no laws or regulations which deal with the adoption and use of AI-enabled solutions in Nigeria.

## 5. Contactless Payments

The CBN has introduced contactless payments into the Nigeria payment system. This is a payment process that involves a wireless financial transaction in which a customer authorises monetary compensation for a purchase by moving a security token close to the vendor's point of sale reader. This has resulted in contactless payment fast becoming a trend in Nigeria.

The CBN issued the Framework for Quick Response (QR) Code Payments in Nigeria in 2021 to provide regulatory guidance for the operation of QR Code payment services in Nigeria. The use of QR Code is one of the contactless payment methods. This framework provides a background to the regulation of contactless payments in Nigeria. Further to this, on 17th October, 2022 the CBN released a document titled “Exposure Draft Guidelines for Contactless Payments in Nigeria” (the “Draft Guidelines”) to standardise operations in the payments system and sustain financial system stability. The Draft Guidelines are to ensure that participants in contactless payments implement appropriate risk management measures and processes while keeping to international best standards.

The Draft Guidelines provide minimum standards and requirements for the operation of contactless payments in Nigeria and specify the roles of each stakeholder involved in the process of contactless payments in Nigeria. This means that all fintech entities looking to roll out contactless payment would be required to comply with the minimum standards prescribed by CBN.

## 6. Enactment of a Startup Act

Conversation around the enactment of a law that caters exclusively to the operations of startups has been one of the trendy conversations in the Fintech space for quite some time. It was, therefore, no surprise that in October 2022 the Startup Act 2022 was finally enacted. The Act creates a regulatory framework for startup Fintechs in Nigeria and create an enabling environment to support their development and growth. The Act could, if efficiently implemented by the FGN, drive the growth of Fintechs as it provides various incentives, credit facilities, and tax reliefs for eligible Fintechs and investors some of which include:

(a) **Startup investment seed fund**: The fund is required to be used for the funding of the operations of early-stage eligible startups;

(b) **Startup Support and Engagement Portal:** This is created by the Act to fast track the registration process for startups and to facilitate engagements with relevant regulators and stakeholders and the issuance of permits and licences to startups;

(c) **Accelerator and Incubator Programmes**: This is aimed at driving participation in the ecosystem by eligible startups; and

(d) **Startup innovation clusters, hubs, physical and virtual innovation Parks:** These are created by the Act to provide assistance to Fintechs to understand relevant regulatory framework and its applicability to their operations and to prepare them for expansion locally and into foreign markets.

## 7. Payments Service Banks Ecosystem

In August 2020, the CBN issued the guidelines for the licensing of Payment Service Banks ("PSBs") in Nigeria and commenced the issuance of licences to PSBs in 2021. PSBs are key drivers of growth in the payments space to reach the unbanked and financially excluded in Nigeria. The CBN has so far issued PSB licences to Hope PSB Limited, Moneymaster PSB Limited and 9 PSB Limited, MoMo Payment Service Bank Limited, and SmartCash Payment Service Bank Limited, etc. PSBs are expected to catalyse financial inclusion and the development of the payments system through a secured innovation-driven environment. With the licensing of related parties to the key players in the telecommunications sector – with already existing infrastructure and customer base, 2022 witnessed increased competition among telecommunication companies' backed PSBs and other payments Fintechs. We expect to see more innovative products and services and competition in that space in 2023.

## 8. Payments Open Banking

One of the key features of a strong financial system is the existence of a transparent and connected flow/sharing of information between players in the financial system. That is a feature which is currently lacking in the Nigerian financial system. In recognition of its role in promoting the stability of the Nigerian financial system and to enhance transparency and the sharing of information, the CBN issued the Regulatory Framework for Open Banking in Nigeria 2021 (the "Open Banking Regulations") to regulate, among other things, open banking activities and the operations of financial institutions in Nigeria. The Open Banking Regulations applies specifically to financial services such as payments and remittance services, collection and disbursement services, deposit-taking, credit, personal finance advisory and management, treasury management, credit ratings/scoring, mortgage, leasing/hire purchase etc. With the release of the draft regulations, the CBN hopes to be able to foster the sharing and leveraging of customer-permissioned data by banks and other financial institutions with third-parties. This would be with the aim of such third parties building solutions and services that would provide efficiency, greater financial transparency and options for account holders and enhance access to financial services in Nigeria. The Open Banking Regulations envisage that any organisation having the data of customers (which may be exchanged with other entities to provide innovative financial services within Nigeria) can be an eligible participant in the open banking ecosystem in Nigeria. Participants in the open banking ecosystem include the API Provider, API Consumer and the customer.

To further strengthen the objectives of the Open Banking Regulations, the CBN recently issued the Operational Guidelines for Open Banking in Nigeria 2023 (the "Guidelines"). The Guidelines are meant to establish the principles for sharing data across the banking and payments system with the aim of promoting innovations and broadening the range of financial products and services available to customers. The Guidelines would apply to all banking and financial-related services as categorised by the CBN. The regulations are expected to drive competition and improve accessibility to banking and payments services and allow various participants to be eligible to participate.

## 9. Regulatory Sandbox

As part of its efforts to encourage innovation in the financial sector, the CBN in 2022 invited various entities (including digital lenders, application developers, start-ups, and financial technology providers with innovative financial solutions and CBN-licensed institutions) to submit expressions of interest to participate in the CBN's Regulatory Sandbox Operations. To provide clarity on the operations of the regulatory sandbox, the CBN issued the Framework for Regulatory Sandbox Operations 2021 (the "Framework"). Under the Framework, applicants are required to apply by completing a form via https://sandbox.cbn.gov.ng/. Successful applications will receive a letter of approval from the CBN, and applications were to be submitted on or before 1st February 2023. The regulatory sandbox involves a four-stage process. Applicants are required to submit an application which will be reviewed and evaluated by the CBN based on the criteria set by the CBN for determining whether or not a product is fit for the regulatory sandbox. Where the product meets the CBN's criteria, the CBN will communicate its approval to the applicant and then commence its preliminary engagements with the applicant regarding the product.

The Framework sets out the requirements for qualification and application to participate in the CBN sandbox programme. The sandbox programme aims to encourage innovation in the Fintech sector and promote financial inclusion in Nigeria. Applicants are required to, among other things, identify risks to financial institutions and financial consumers that may arise from the testing of their product, service or solution in the sandbox and propose appropriate safeguards to address the identified risks. In addition, the Framework set out consumer safeguards to be implemented by participants to mitigate the risk to consumers who may participate in the exercise. The effect of the Framework is that players within the Fintech ecosystem are expected to take advantage of the CBN's Regulatory Sandbox to test some of their innovative products ahead of launching them to the public. This is particularly relevant in light of the ever-changing fintech landscape which, in recent times, have introduced products which the current regulatory landscape may not provide for e.g., Artificial Intelligence.

## 10. Digital Lending

2022 witnessed some changes in the digital lending space in the area of regulatory cooperation among digital lenders. This was largely due to the increasing trend in the digital lending space where lenders employ aggressive debt recovery practices. To combat these practices and protect the interest of consumers, the Federal Competition and Consumer Protection Commission ("FCCPC") indicated its intention to regulate digital lending. The FCCPC had earlier in 2021 announced the setting up of a Joint Regulatory and Enforcement Task Force ("Task Force") to deal with issues relating to the violation of consumer rights and unfair practices in the lending industry. The Task Force is made up of representatives from the FCCPC, the CBN, the Economic and Financial Crimes Commission, the Independent Corrupt Practices Commission and other governmental institutions.

In addition, the FCCPC published the Limited Interim Regulatory/Registration Framework and Guidelines for Digital Lending in August 2022 to regulate the operations of digital lenders in Nigeria. These guidelines have been issued as a prelude to the establishment of a clear regulatory framework for digital lending. The guidelines make it compulsory for different service providers such as banks, access/download platforms or stores, technology providers and payment systems, to obtain the FCCPC's approval before providing lending services in Nigeria. There was controversy as to the applicability of these guidelines to digital lenders that are regulated by the CBN. This was because the Nigerian Banking Act provides that the provisions of the FCCPC's enabling statute do not apply to CBN regulated institutions. This is yet to be resolved. It is hoped that some clarity will be provided on this in the course of 2023.

## Other Developments and Outlook for 2023

This is a transition year for Nigeria as there is going to a change in government at the federal level and in 28 states across Nigeria. The coming into power of new players could have a significant impact on economic activities in general and the Fintech industry in particular. With the tech industry forming a key part of the manifesto of the major aspirants for the office of the President of Nigeria, there is a recognition by the key players of its importance to the economic growth and development of Nigeria.
We also anticipate the passing into law of the Finance Bill which will, among other things, provide for the taxation of gains realised from a disposal of digital assets. By implication, and in other to align with the FGN's objectives, it is hoped that the CBN will lift its ban restricting financial institutions from facilitating cryptocurrency related transactions. If done, that could open the digital assets space for investments in Nigeria.

With the advent (and increasing use) of AI like Chat-GPT, we expect to see a few AI-focused Nigerian startups come to the fore. In addition, it is hoped that the recently issued Listing Rules for Technology Boards would help Fintechs raise their much needed capital with relative ease.

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