INVESTING IN NIGERIAN FINTECHS: THE LANDSCAPE AND REGULATORY APPROVALS THAT DETERMINE DEAL CERTAINTY, CHANGE OF CONTROL RISK AND EXIT OPTIONALITY

Jackson Etti & Edu | Cecilia Otse | Adekunle Soyibo

INTRODUCTION

Financial technology or fintech typically relates to the use of innovative digital technologies to deliver financial solutions. It encompasses a broad range of market segments, from digital payments and remittances to lending platforms, crowdfunding, insurance technology (InsurTech), investment and wealth management technology (WealthTech) and regulatory technology (RegTech).[1] The Nigerian fintech ecosystem is one of Africa's largest and most dynamic, attracting significant foreign and local capital which has been utilised to build some of the most innovative financial solutions on the continent. Today, Africa is home to about ten (10) unicorns, of which four (4) are Nigerian fintechs. Importantly, the ecosystem has been a major driver of financial inclusion in Nigeria and has played a critical role in improving financial inclusion indices from 33% inclusion in 2012 to 74% in 2023.[2] Although the financial inclusion gap persists, it represents a remarkable opportunity for follow-on investments in fintech.

Data indicates that the fintech ecosystem has sufficient capacity to attract and absorb capital. Tech startups in Nigeria attracted US$903 million and US$976 million in 2021 and 2022, respectively.[3] In spite of the recent adverse economic landscape, the Nigerian fintech ecosystem has continued to be resilient. In 2024, Nigerian tech startups raised US$520 million in 2024 out of a continental total of US$2.2 billion.[4] The impact of the investment in fintech is evident in the considerable growth in the adoption of digital platforms by Nigerians for financial solutions and the corresponding increase in the volume and value of digital payments. Electronic transactions in Nigeria processed via real-time payment channels and through the NIBSS NIP platform increased from 5 billion transactions in 2022 to 11.2 billion in 2024, valued at over ₦1.07 quadrillion.

The Nigerian fintech ecosystem remains resilient and attractive for investment. It is therefore important to continually create an environment with regulators that supports innovation, growth and investment.

The Nigerian Fintech Ecosystem

Innovation is at the centre of the fintech ecosystem. Fintechs have adopted creative innovation to disrupt the conventional banking model by using technology to provide financial solutions to individuals and businesses in an easier, faster and more efficient manner. Solutions provided by fintechs have also been leveraged by regulators to achieve industry goals and objectives such as increasing the financial inclusion indices and adopting a cashless economy. Products and solutions cover a wide range of services in Nigeria, which include, amongst others, the following: -

1. Electronic Payment and Wallet Solutions

Electronic payment and wallet solutions involve the processing of payments for individuals and businesses using secure platforms, debit cards, credit cards and mobile wallets. It includes integration with switching and processing agents and payment terminal service aggregators to process the payments and ensure seamless transactions with customers.

2. Digital Lending and Credit

Digital lending and credit platforms process, evaluate and approve loans to customers without the need for physical or in-person interaction. Typically, the platform will include technologies for biometrics, e-signatures and KYC to verify the identity of the borrower and reduce fraud.

3. Digital Insurance

Digital insurance platforms make insurance products more accessible by providing insurance comparison and policy purchasing. Digital insurance platforms will also utilise data analytics to personalise insurance products for customers.

4. Digital Investment and Assets Solutions

Digital investment platforms utilise algorithms to create and manage personalised investment portfolios based on individual risk appetite and financial goals. Solutions provided by digital investment platforms are usually affordable compared to traditional investment firms.

5. Digital Compliance

Digital compliance platforms offer technology solutions which support Fintechs to comply with regulations related to anti-money laundering and KYC procedures.

The Nigerian Fintech Regulatory Landscape

Given that fintech solutions cut across a range of sectors, Nigerian fintechs have been caught in the web of multiple and overlapping regulations. This challenge is further amplified by the rapid rate at which innovation outpaces regulation and the overarching responsibility of regulators to ensure the safety and integrity of the financial system. As is often the case, fintech solutions gain customer traction well before any formal regulatory framework is introduced. Therefore, regulators subsequently invest time to understand the product before developing a corresponding regulatory framework, which is typically shaped by the imperative to protect financial system integrity. The challenge usually is that regulation provides additional hurdles or constraints on fintech operations. This underscores the dilemma of finding the right balance between the need to regulate and the imperative not to stifle innovation.

For instance, a fintech business providing Electronic Payment and Wallet Solutions or Digital Lending and Credit may require the following licences and registrations in order to be able to deliver its services efficiently. The licences include: -

1. Payment Solution Service (PSS) Licence: Payment solution services provide bridging infrastructure, end-to-end electronic payment solutions, systems and services to stakeholders within the financial services space. It encompasses the Payment Terminal Service Provider (PTSP) Licence and the Payment Solution Service Provider (PSSP) Licence.

2. Mobile Money Operator Licence (MMO): Mobile money is an electronic wallet service. This licence will provide an opportunity for the fintech customers to receive, store and expend money using a mobile phone or wallet.

3. Money Lenders Licence: Where the fintech business involves digital lending or credit, a money lenders licence might be required to conduct digital lending. However, the licence is restricted to the relevant State where the licence is issued, although in many cases, due to the digital platform fintech provides, a person's residence outside the relevant state might be able to take advantage of the digital lending services.

4. Microfinance Bank Licence: The microfinance bank licence from a regulatory perspective provides a wider range of options to fintechs in the provision of financial solutions, including taking deposits, lending to customers from the deposits received and reducing reliance on transaction fees.

5. Value-Added Service Licence: Where the solutions provided by fintechs will involve the use of text messages, USSD shortcodes or telecom networks, the value-added services licence will be required from the National Communication Commission (NCC) to provide financial services leveraging telecommunication networks and infrastructure.

6. Registration with the NFIU: Fintech companies are required to register with the Nigerian Financial Intelligence Unit (NFIU). The Money Laundering (Prevention and Prohibition) Act 2022 and the Anti-Money Laundering, Combating the Financing of Terrorism and Countering the Proliferation of Weapons of Mass Destruction in Financial Institutions (AML/CFT/CPF) Regulations require fintechs to file suspicious transaction reports, perform KYC and customer due diligence, submit currency transaction reports and returns on large cash transactions.

7. Registration with the FCCPC: The Federal Competition and Consumer Protection Commission (FCCPC) Guidelines on registration of digital lending platforms require all digital lenders to be registered with the Commission.

8. Data Protection: Fintech businesses are also required to register with the Nigeria Data Protection Commission and put in place appropriate technical and organisational measures for the protection of personal data, including an audit of their data processing activities annually.

The above-mentioned licences and registrations indicate that a fintech business providing financial solutions in Electronic Payment and Wallet operations or Digital Lending and Credit operations may require multiple licences with the Central Bank of Nigeria with varied compliance requirements for operations. The business may also require a VAS licence with the NCC, resulting in multiple and overlapping regulations. Fintechs whose operations border on insurance and investment management may also have regulatory overlap with additional regulators such as the National Insurance Commission (NAICOM) and the Securities and Exchange Commission (SEC). Multiple and overlapping regulations provide considerable constraints on the operation of fintech.

The minimum capital requirements for maintaining the different licences, particularly the licences issued by the CBN, increase with the number of licences. This affects the capital-raising efforts of sponsors and investors, implying that they may also have to raise additional capital for each new service they deploy.

Compliance with the statutory and return obligations to respective regulators also creates additional costs for the operations of the business. Where not properly managed, compliance could distract from the core business. Streamlining the licence requirements and capital requirements, including co-operation amongst regulators, would be necessary to support the continued growth of the fintech ecosystem.

Regulatory Approvals that Determine Deal Certainty, Change of Control Risk and Exit Optionality

Investments and exits in fintech businesses are also impacted by multiple and overlapping regulations. This implies that investment or divestment in the fintech businesses may be subject to multiple regulatory and competition approvals. For instance, acquisition or divestment of 5% (five per cent) and above equity holding in fintechs with CBN licence will trigger regulatory approval. In view of Section 65 of the Banks and Other Financial Institutions Act 2020 (BOFIA)[5], it will imply that fintechs with CBN licences are exempt from the provisions of Sections 92 (1) – (3), 94 and 98 of the Federal Competition and Consumer Protection Act requiring the prior approval of the Federal Competition and Consumer Protection Commission (FCCPC). However, fintechs without a CBN licence but which are under the regulatory supervision of other regulators like NAICOM and NCC will require both approval of their primary regulator and that of FCCPC. It also raises the question whether, in relation to a fintech with a CBN licence and other licences, Section 65 of BOFIA will absolve the fintech from the provisions of Sections 92 (1) – (3), 94 and 98 of the FCCPA in view of the fact that some parts of its business are regulated by legislation which do not exempt it from the provisions of the FCCPA. Regulatory approvals in investments and acquisitions which cut across national borders get more complex as the acquisition might also require multiple regulatory approvals in the respective jurisdictions where the fintech operates.

Multiple regulations create risks in investment and exit situations; therefore, identifying the relevant approvals and planning the approval process becomes critical. It is also important to undertake regulatory engagements with a view to streamlining approvals, regulations, and compliance for fintechs, as it is important to sustain and expand the significant growth in the fintech ecosystem.

[1] Central Bank of Nigeria, Shaping the Future of Fintech in Nigeria: Innovation, Inclusion and Integrity (CBN Fintech Report, Policy Insight Series, 2025) 7 available at: https://bitcoinke.io/wp-content/uploads/2026/02/Shaping-the-Future-of-Fintech-in-Nigeria-Central-Bank-of-Nigeria-2025-Fintech-Report-BitKE.pdf
[2] Enhancing Financial Innovation & Access (EFInA), Nigeria Closer to 2024 Financial Inclusion Target but Gaps Persist (21 March 2024) https://a2f.ng/nigeria-closer-to-2024-financial-inclusion-target-but-gaps-persist/
[3] Disrupt Africa, The African Tech Startups Funding Report 2022 (2023) https://disruptafrica.com/funding-report/
[4] Ibid at 1.
[5] Paragraph 20.2 (b) of the Corporate Governance Guidelines for Commercial, Merchant, Non-Interest and Payment Service Banks in Nigeria

AUTHOR: JACKSON ETTI & EDU

Cecilia Otse

Adekunle Soyibo