

# AURORA

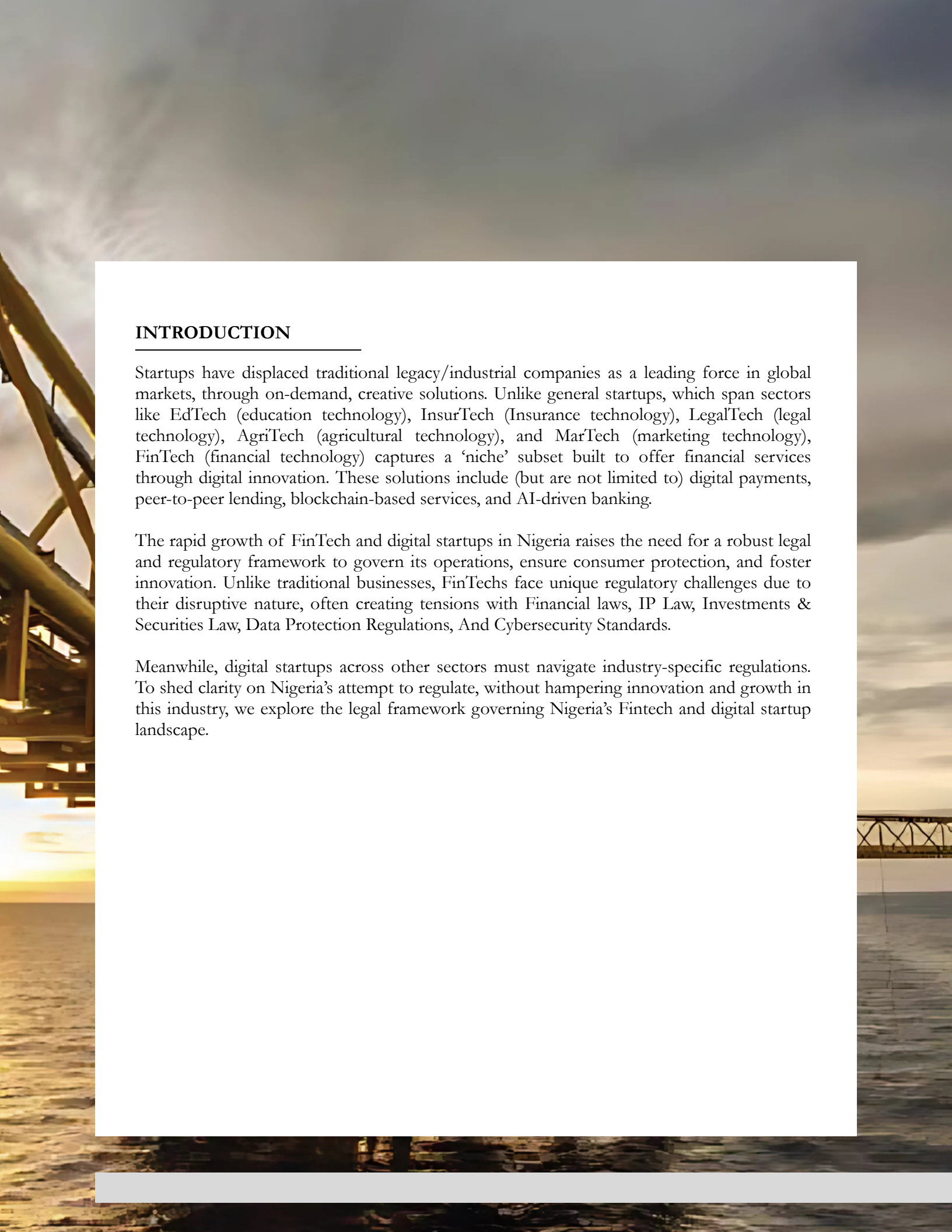
Q3 2025

FINTECH

## LEGAL FRAMEWORK IN THE FINTECH & DIGITAL STARTUP ECONOMY



INSIDE TOLG ADVISORS



## INTRODUCTION

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Startups have displaced traditional legacy/industrial companies as a leading force in global markets, through on-demand, creative solutions. Unlike general startups, which span sectors like EdTech (education technology), InsurTech (Insurance technology), LegalTech (legal technology), AgriTech (agricultural technology), and MarTech (marketing technology), FinTech (financial technology) captures a 'niche' subset built to offer financial services through digital innovation. These solutions include (but are not limited to) digital payments, peer-to-peer lending, blockchain-based services, and AI-driven banking.

The rapid growth of FinTech and digital startups in Nigeria raises the need for a robust legal and regulatory framework to govern its operations, ensure consumer protection, and foster innovation. Unlike traditional businesses, FinTechs face unique regulatory challenges due to their disruptive nature, often creating tensions with Financial laws, IP Law, Investments & Securities Law, Data Protection Regulations, And Cybersecurity Standards.

Meanwhile, digital startups across other sectors must navigate industry-specific regulations. To shed clarity on Nigeria's attempt to regulate, without hampering innovation and growth in this industry, we explore the legal framework governing Nigeria's Fintech and digital startup landscape.

## **REGULATORY FRAMEWORK**

Nigeria's regulatory system operates a decentralized model of oversight, where different government agencies oversee sector-specific areas of operations. Some of the relevant agencies include:

### **The Central Bank of Nigeria (CBN)**

As the apex financial regulator, the CBN exercises primary authority over payment systems, banking, and lending. Its regulatory instruments evolve rapidly to address technological disruptions; Innovations like The Guidelines for Licensing and Regulation of Payment Service Banks (2020) enable non-bank entities to offer restricted banking services, expanding financial inclusion in underserved regions.

Similarly, The Framework for Regulatory Sandbox Operations (2021) allows innovators to test products in a controlled environment, though its scope excludes high-risk models like decentralized finance (DeFi). The Operational Guidelines for Open Banking (2023) also standardized Application Programming Interfaces (APIs) for secure data sharing between banks and third-party providers.

### **Securities and Exchange Commission (SEC)**

The SEC regulates investment activities, crowdfunding, and digital assets, positioning itself at the forefront of financial innovation. Its Rules on Issuance, Offering, and Custody of Digital Assets (2022) legitimize blockchain-based securities, requiring digital asset exchanges to register and maintain ₦500 million in capital reserves.

Through its Crowdfunding Portal Licenses, the SEC enables platforms to raise funds for SMEs, with a cap of ₦100 million per issuer annually to protect retail investors.

In 2024, the Regulatory Incubation Programme was launched to temporarily onboard virtual asset service providers a flexible, forward-looking approach as the crypto space continues to evolve. These initiatives reflect the SEC's commitment to balancing innovation with investor protection in Nigeria's capital markets.

### **National Information Technology Development Agency (NITDA)**

NITDA drives technological innovation and data protection, extending its reach beyond FinTech to all digital startups. A key innovation of the NITDA is The National Blockchain Adoption Strategy (2023), a strategy framework that makes a case for DLT's (Distributed Ledger Technology) use in public sector (e.g., to verify academic credentials) and private sector applications. It is also tasked with administering the Nigerian Startup Act 2022, an innovation created to support tech-enabled startups in Nigeria to grow and boldly innovate.

### **Federal Competition & Consumer Protection Commission (FCCPC)**

The FCCPC addresses consumer rights abuses, particularly in digital lending through the Limited Interim Regulatory Framework for Digital Lending (2022) which bans unethical debt recovery practices and mandates registration for loan apps, delisting non-compliant platforms from app stores. The FCCPC also collaborates with state agencies to resolve conflicts of laws across jurisdictions, such as interest rate caps on digital loans.

### **Corporate Affairs Commission (CAC)**

No matter the business model, incorporation with the Corporate Affairs Commission (CAC) is mandatory for startups. Under the Companies and Allied Matters Act (CAMA) 2020, they must keep statutory records and file annual returns; non-compliance risks severe penalties up to ₦500,000 or administrative dissolution.

## **Nigerian Communications Commission (NCC)**

For fintech ventures leveraging telecommunications infrastructure such as USSD banking or IoT solutions, the Nigerian Communications Commission (NCC) assumes a crucial oversight. Operating without NCC licensing violates the NCC Act 2003, inviting service suspension or revocation.

## **National Insurance Commission (NAICOM) & Nigerian Deposit Insurance Commission (NDIC)**

Insurtech Start-ups are supervised by two major bodies. First, the National Insurance Commission (NAICOM), who licenses insurance-related activities (non-compliance may attract fines up to ₦5 million under the Insurance Act 2003). There is also the Nigerian Deposit Insurance Corporation (NDIC), which mandates deposit coverage for Fintechs handling customer funds. As a safeguard against institutional insolvency, the deposit coverage underwrites up to ₦500,000 per depositor.

## **National Office for Technology Acquisition and Promotion (NOTAP)**

If a Start-up engages foreign expertise or platforms, this may trigger obligations to be registered under the National Office for Technology Acquisition and Promotion (NOTAP). Contracts involving technology transfer must undergo NOTAP registration; non-compliance nullifies tax deductions on associated fees.

## **Federal Inland Revenue Service (FIRS)**

Tax compliance, governed by the Federal Inland Revenue Service (FIRS), demands remittance of Company Income Tax (20% of profits), Value-Added Tax (7.5% on services), and Withholding Tax (5–10% on transactions). Delayed filings incur compound penalties: 10% of owed sums plus 21% annual interest, creating cash flow vulnerabilities for early-stage enterprises.

## **Nigeria Data Protection Commission (NDPC)**

Start-ups (including FinTech) that process personal data of any kind must answer to the NDPC. The commission enforces the Nigeria Data Protection Act (NDPA) 2023. Start-ups must conduct annual Data Protection Impact Assessments, appoint Data Protection Officers, and report breaches within 72 hours. Violations risk fines of 2% of annual revenue or ₦10 million—whichever is higher.

## **The Nigerian Investment Promotion Commission (NIPC)**

The NIPC is Nigeria's primary federal agency for promoting, coordinating, and monitoring FDIs (Foreign Direct Investments) within the country. The agency facilitates tax holidays through administration of fiscal incentives like the Pioneer Status Incentives for foreign-funded innovators granting a tax holiday of up to 5 years for applicable sectors (e.g. tech, agriculture, renewable energy etc.)

## **The Nigeria Social Insurance Trust Fund (NSITF) and National Pension Commission (PenCom)**

Both of these regulatory agencies enforce mandatory employee contributions: 8% employer/8% employee for pensions, and 1% of payroll for employee compensations.

## **CHALLENGES FACING FINTECH START-UPS IN NIGERIA**

Fintech Start-Ups, notwithstanding the boom, continue to face headwinds. Chief among these issues are licensing and compliance difficulties that are a creation of regulators across sectors. Some of these include:

### **Overlapping Jurisdiction**

The fragmented regulatory landscape presents a major headache for start-ups. It is not uncommon to see multiple agencies like CBN, SEC, NITDA, and FCCPC have concurrent jurisdictions on sector-specific matters. For startups, this means navigating complex licensing requirements that may be extremely burdensome and expensive.

Contradictory mandates are another consequence of having to interface with these multiple regulators. A case-in-point happened in 2021, when the Central Bank of Nigeria's crypto ban conflicted with the Securities and Exchange Commission's willingness to license digital asset exchanges.

### **Prohibitive Cost of Licenses & Permits and Capital Requirements**

Investment-readiness requirements often present a significant operational overhead; startups allocate approximately 15% of initial capital to licensing and compliance. This also extends to capital requirements. Payment Service Providers (PSP) must hold ₦100 million; Mobile Money Operators (MMO) require ₦2 billion; and crypto exchanges need ₦500 million in capital reserves.

These exclude steep application fees (e.g., ₦10 million for IMTO licenses) These startups often have to pay these fees before they start operation, constraining limited resources and stunting growth.

### **Overregulation**

Nigerian startups have to constantly innovate to survive regulatory shifts while staying profitable. When Lagos banned motorbike hailing, Gokada pivoted from transportation to logistics and delivery.

Opay diversified into mobile money alongside its logistics services. Piggyvest, a savings platform, was forced to move its virtual accounts from Providus Bank to Wema Bank after Providus abruptly closed accounts to comply with a 2020 CBN directive ordering a shut down of bank accounts belonging to cryptocurrency operators. Innovating around restrictive regulations has become a defining challenge for tech founders in Nigeria.

### **Inadequate Legislative Integration**

While the introduction of the Nigerian Start-up Act (NSA) 2022 has done well to streamline regulatory compliance for compliance, there is more left to be desired. Notably, the NSA focuses on tech start-ups, but fails to address fintech-specific regulations.

As a result, core issues like cryptocurrency frameworks, Open Banking, or Payment Standards remain governed by outdated laws. For example, prior to the passing of the ISA 2025, which gave cryptocurrency express recognition as a virtual asset, crypto platforms still faced ambiguity under the 2020 CBN directive, despite SEC's Regulatory Incubation Programme.

Currently, the NSA relies on circulars from existing regulators (E.g., the CBN's guidelines) rather than codifying laws into statute. The volatility this perpetuates can spell a change to policy without legislative scrutiny.

## CONCLUSION

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While Nigeria's fintech sector has made remarkable strides exemplified by the rise of unicorns such as Opay, Flutterwave, and Moniepoint, significant structural and regulatory challenges remain. Chief among these is the fragmented and often ambiguous regulatory landscape, which continues to pose barriers for emerging startups and innovators. To ensure the continued growth and global competitiveness of Nigeria's fintech ecosystem, a harmonized and strategic regulatory approach is essential. A consolidated Fintech Act, risk-based tiered compliance, the establishment of a dedicated regulatory body, and enhanced legal education for founders would go a long way in streamlining operations and encouraging responsible innovation.

Furthermore, incentivizing compliance and expanding regulatory sandboxes would reduce the friction between innovation and regulation, allowing startups to develop transformative solutions with greater confidence and support. Ultimately, if government agencies and policymakers work collaboratively to implement these recommendations, the result will be a more enabling environment, one where fintechs and startups can thrive, scale sustainably, and contribute meaningfully to Nigeria's economic future.

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*This Article was written by the Litigation & Alternate Dispute Resolution, Corporate & Commercial and Advisory Teams at TOLG Advisors.*



**HARTLEYS N300,000,000 PRIVATE DEBT NOTE ISSUANCE EXERCISE**

We are pleased to announce our role as Transaction Counsel in connection with the N300,000,000 Private Debt Note Issuance Exercise.

We are proud to be one of the few law firms in Nigeria to advise on such transactions in the Nigerian Retail Sector in 2025.

Congratulations to our Banking & Finance Team.



**DLM CAPITAL GROUP N30,000,000,000 SERIES 1 PRIVATE NOTE ISSUANCE EXERCISE**

We are pleased to announce our role as Solicitors to Issue in connection with the N7,300,000,000 Tranche A 40% Hold-To-Maturity Returns per annum and N1,700,000,000 Tranche B 19.00% Plain Vanilla Returns Per Annum Series 1 FGN Bonds-Backed Composite Notes Due 2035 under the N30,000,000,000 Medium Term Notes Programme of DLM Capital Group.

The transaction is the first of its kind in Nigeria and possibly, globally and we are super proud to have acted as Solicitors to the Issue in relation thereto.

Congratulations to our Securities, Mergers & Acquisitions Team.



**RARE GEMS LIMITED N894,145,000 SERIES 1 PRIVATE NOTE ISSUANCE EXERCISE**

We are pleased to announce our role as Transaction Counsel in connection with the N894,145,000 Series 1 Private Note Issuance Exercise under the N10,000,000,000 Private Note Programme of Rare Gems Limited.

We are proud to be one of the few law firms in Nigeria to advise on such significant transactions in the Energy, Power & Natural Resources space in 2025.

Congratulations to our Energy, Power & Natural Resources Team.

## **TGIF QUARTERLY TGIF HANGOUT**

In line with the Firm's resolve to ensure a great work-life balance amongst the teams, a day at the end of the quarter was scheduled to engage in activities other than the regular work schedules to relax, chill and foster fun moments amongst the Staff. Members were able to showcase their talents and enjoy themselves amidst food and festivities.



## **TOLG KNOWLEDGE SHARING SESSION AND ASK ME SERIES WITH MO**

The Firm hosted a Knowledge Sharing Session, which had Mr. Muyiwa Femi-Pearse in a horizon-widening lecture titled "Getting your Business Investor Ready: A Practical Guide to Structuring, Positioning and Pitching for Investment". The superb lecture was followed by the "Ask Me Series" session, moderated by our Global Chairman, Mr. Michael Orimobi. Together, these intellectually-engaging series opened the minds and thoughts of staff to emerging possibilities in the areas of investment and corporate best practices.

