FINTECH AND ANTI-MONEY LAUNDERING REGULATION IN NIGERIA

"Fintech" is currently the new buzzword in many countries across the world and Nigeria is not exempt from the euphoria caused by the amalgamation of finance and technology; a complete turn-around from the traditional system of conducting business and financial transactions. This amalgamation gave rise to what is now popularly known as the fintech industry, with financial solution providers emerging on a daily basis, developing technology as a means towards the consummation of financial deals. These fintech companies have been christened "market disruptors" due to the fact that their operations deviate from the traditional system of commercial trade and banking.

Traditional banks are themselves, not isolated from the fintech industry as it generally supports less human intervention; payment for goods and services and cross-border transactions with the use of electronic payment platforms, internet and mobile applications - therefore, minimising cash withdrawals, deposits and ultimately, costs of manpower. Finance analysts have predicted that in 2017, the growth of the industry will continue to increase steadily. The resulting effect has been predicted to mean that physical and human interactions in the industry will gradually and eventually become extinct. In Nigeria, for example, many financial institutions, telecoms and tech firms continue to invent and deploy mobile apps, e-payment platforms and POS terminals which consumers can use to effect money transfers and to pay for goods and services in the comfort of their homes and even on-the-go across borders. Using these apps generally eases doing business and promotes cost efficiency.

Whilst the innovation of fintech is largely beneficial and appreciated, it is not without risks. Some of such associated risks have been identified as susceptibility to cyber-attack, fraud, money laundering, terrorism financing

and other financial crimes. This is partly because conducting regular due diligence and KYC checks without human interaction may pose some difficulty especially with verification of identities.

By regulation, Nigeria's principal money laundering law[1] applies to banks and other financial institutions and certain "designated non-financial institutions." At the time of promulgating the law, whilst regulators may not have anticipated the future of finance and the potential application of the law to technology, the Central Bank of Nigeria has in realisation of this need, continuously issued and circulated guidelines and regulation to meet up-to-date requirements of the industry.

Majority of fintechs are usually small start-up businesses seeking to provide flexible and more dynamic financial solutions to consumers, without necessarily recognising the need to physically meet with consumers. What this means is that application of some of these somewhat standard compliance regulations may be too burdensome for many of these companies as they will likely not possess the infrastructure to enable them comply.

In Nigeria for instance, the principal money

laundering law, administered by the Economic and Financial Crimes Commission ("EFCC"), and Central Bank of Nigeria ("CBN") requires financial institutions to;

(a) prior to establishing any business relationship with a customer and during the course of its relationship with a customer, verify the customer's identity and from time to time, scrutinize transactions undertaken by the customer;

(b) put in place adequate risk management systems prior to establishing business relationships with customers;

(c) develop anti-money laundering programmes and designating officials to be responsible for such tasks and developing regular training programmes for employees;

(d) report single financial transactions of funds exceeding $10,000.

Since the development of fintech in Nigeria, regulators have recognised the need to promulgate tailor-made regulations for fintech businesses, giving special considerations to certain categories of fintech companies. For example, there is a framework of regulations specifically designed by the CBN for mobile money operators. Majority of these regulations are however similar in nature, sometimes overlap, more appropriate for traditional financial institutions and less practical and

[1] The Money Laundering Prohibition Act (2012)

effective. The fact that regulators are not in the business of developing technology may be responsible for this gap. Therefore, developing regulation without active consultation with the relevant stakeholders such as tech companies may not be realistic. In the same vein, fintechs are not in the business of developing due diligence/compliance programmes.

These two sectors must therefore recognise the need to work together to develop technological advanced processes to meet anti-money laundering regulations to prevent financial crimes and terrorist activities in a more efficient fashion. This will alleviate the burden of having to imbibe traditional systems, which are too unwieldy and will help the regulatory agencies meet current day realities.

Ultimately, tailor-made regulations for the industry will create confidence in consumers who have remained doubtful about the use of fintech, due to its vulnerability to financial crimes.

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