

ESTABLISHING A DIGITAL BANK IN NIGERIA – LEGAL REQUIREMENTS

With the growing demand for faster and more convenient financial services, there are more people looking to solve this problem by setting up a digital bank. We have had startups ask us for advice on how to set up a digital bank in Nigeria.¹ In view of this, we have set out below the steps to be taken by a startup wishing to establish a digital bank.

1. WHAT IS A DIGITAL BANK?

It is a technology-based company that provides banking and other financial services to its customers solely through digital/virtual platforms such as websites, mobile applications etc. Examples of these are Kuda, Vbank and ALAT by Wema in Nigeria; and Starling Bank in the United Kingdom. Digital Banks aim at providing faster and more convenient banking and financial services than the average traditional bank.

2. WHAT ARE THE LEGAL AND REGULATORY STEPS TO TAKE IN SETTING UP A DIGITAL BANK?

i. Licensing

Promoters seeking to establish a digital bank must first understand the regulatory landscape before proceeding to set up a company. The principal regulatory authority for all financial institutions in Nigeria is the Central Bank of Nigeria (CBN). As the CBN is yet to create a specific licensing regime for digital banks, companies intending to provide digital banking services must work with one of the available financial licenses including the following:

- **Microfinance Bank Licence:** A microfinance bank (MFB) licence is the most commonly used licence for the purpose of digital banking in Nigeria. The MFB licence enables the holder to receive deposits and grant loans to its customers. It, however, prohibits its holder from purchasing or selling foreign currency or from remitting funds internationally. Also, 80% of the loans granted by MFBs must be below 500,000 naira. The capital requirement to obtain this licence ranges between 50 million to 5 billion naira depending on the category of the licence.
- **Payment Service Banks Licence:**² A holder of a Payment Service Banks (PSBs) licence is permitted by the licence to accept deposits from its customer but cannot issue loans. The PSB licence can only be obtained by already established banking agents, licensed telecommunication companies and existing fintech companies etc. The capital requirement to obtain this licence is 5 billion naira.

- **Finance Company License:**³ A holder of a finance companies licence is permitted by the licence to provide fund management and credit facilities such as loans, asset finance, project finance, debt factoring, debt securitization and other forms of credit facilities, to individuals and companies. They are, however, not permitted to receive deposits. The capital requirement to obtain this licence is 100 million naira.

ii. Incorporation and Documentation

Upon determining the right licence, the next step will be setting up the company at the Corporate Affairs Commission (CAC). In determining the share capital requirement for the company, it is important to take into account the CBN licensing capital requirement as set out above.

In addition to incorporating the company at the CAC, promoters must ensure that they have the right contract in place to protect their business and their interest in the business such as properly negotiated terms of investment in the digital bank.

iii. Protecting the Intellectual Property

The intellectual property of the business such as the logo, software and source codes are to be properly protected at the appropriate registry such as the National Copyright Commission or the Trademarks, Patents And Designs Registry.

iv. Corporate Governance

It is important that companies set up to provide digital banking services adopt good corporate governance practice in its operations such as ensuring the board is properly constituted with at least an independent director, setting up the required board committees etc. Companies with good corporate governance are attractive to investors.

For clarity in respect of the foregoing, please send an email to info@pavestoneslegal.com

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