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# NOMAD MONEY: AN ANALYSIS OF CONFLICT BETWEEN REGULATION AND IDEATION IN THE NIGERIAN FINTECH ECOSYSTEM

**Featured case study and regulatory analysis**

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Prepared in collaboration with



# FIRSTLY

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# ABOUT

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## THE SANDBOX SERIES

Over the last ten years, the worlds of fintech innovation and traditional banking have endured an uneasy coexistence. Some skeptics assumed that fintech was a niche fad, while others placed their bets on banks going the way of the dinosaur as the world watched the digital revolution play out on mobile phones.

On the African continent, this stand-off accelerated to the point where regulators could no longer ignore the impact of fintech innovation. Customers demand innovations to support their financial and business ambitions. Banks, on the other hand, have grudgingly acknowledged the role of digital innovation and are looking for ways to bring solutions in-house. Great change is underway, but without controls in place to manage this change, how can we ensure that the parties will play well together? And what about the customers?

Enter the Sandbox Series, a collaborative virtual event designed to illuminate the challenges that startups experience against a backdrop that features all stakeholders within a burgeoning ecosystem – together, in one place, in the real world.

It is ironic that an in-person real time conversation can help to resolve a digital innovation challenge. July 16th, the date of our first Sandbox event, proved that this series is a powerful tool that educates early-stage entrepreneurs, investors, bankers, and policymakers on the journey faced by fintech startups. It allows stakeholders an opportunity to find their place in this innovation journey. It helps clarify the rules of play for a collaborative, customer-centric market.

Nomad Money was the first startup to present their challenges in this series. Dedalus Global and Ovamba solutions plan to take the Sandbox Series on a virtual tour around Africa to bring together all players in a scenario-driven environment. This is the democracy of digital engagement and opportunity that we have all hoped for.

**Viola Llewellyn**

Co-Founder & President, Ovamba Solutions  
Chairwoman, Advisory Board of Africa Fintech Summit



## IDEATION & LAUNCH

Founded in 2018, Nomad Money is a fintech startup operating in Nigeria and the United Kingdom. George Obed, Co-founder and CEO, conceived Nomad Money from his personal experiences traveling abroad and his need to reconnect with his motherland. As he expanded his scope of economic activity, he realized centralized solutions for managing the diversity of his financial accounts did not exist despite their importance to a more integrated and global economy.

With nearly two million Nigerians in diaspora (“NID”) and over USD \$23b of financial inflows in 2018 alone (6.1% of GDP), Nomad Money exists today to support the financial management needs of Nigerians (like George) with a digital banking app that enables visibility, portability, and accessibility to multi-currency funds.

George’s product strategy initially required that he onboard at least one bank that would provide card issuance and deposit holding services to NIDs. Identifying a partnering bank was long-winded and problematic, resulting in George having to launch Nomad as a digital banking application that provided aggregated views of customer accounts and account management services with limited transaction capabilities.

After almost eight months failing to launch the complete Nomad Money proposition in Nigeria, George pivoted Nomad into a money management platform with an app to monitor funds in bank accounts. The Nomad App manages customer interactions with financial services providers, assists in customer onboarding, while also providing service and support to users. Users of Nomad receive a Nomad Card, a debit card for merchant and online transactions to their accounts linked to the Nomad App.

By design, Nomad is a two-sided market connecting banks with NID’s where the company earns revenues from processing transactions.

"I travelled for work extensively but quickly realized that my financial records were scattered all over the place. But it was particularly difficult for establishing a meaningful relationship with the banks in Nigeria. We came up with a borderless digital banking solution that will allow you to open your accounts all over the world."

**George Obed**

Co-Founder and CEO, Nomad Money



## **PAIN POINTS**

# IDEA VS. REALITY

## **CBN GUIDELINES & LICENSING**

George's proposition for Nomad Money required operating across multiple regulatory licenses, which led to significant roadblocks. Operation of a payment card scheme requires a license from the Central Bank of Nigeria ('CBN') and adherence to the Guidelines for Card Issuance and Usage. Additionally, to have the capacity to transfer funds between Nomad Money-managed accounts requires the company to adhere to the CBN's Guidelines on International Money Transfer Services. Nomad's original strategy relied on working with strategic bank partners that would provide Nomad with access to their core banking applications (CBA) and issue the Nomad Card; however, the banks George approached were reluctant to commit, frequently citing that Nomad needed to be licensed by CBN.

## **ACCESSING EXPERTISE**

Like many startup founders, George was navigating a new environment in search of experienced professional experts and advisors who understood the nuances of the problem he was aiming to solve.

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George relies heavily upon his legal counsel who is well versed in company establishment but finding startup-friendly advisors with a specialization in fintech ecosystems has made things tough. The design and content veracity of CBN websites, mixed advice from legal experts, and his failed attempts to reach CBN personnel made it challenging for George to access the needed regulatory expertise. This was particularly more difficult for George who did not have the pre-existing networks or resources it would require to build them from scratch.

## INVESTOR FINANCING

George was in discussions with prospective investors, but to access the investment capital, investors demanded assurances that the CBN would grant Nomad an operating license. This roadblock is not uncommon to Nigerian fintech entrepreneurs (some have been able to work around this with special agreements with their investors and obtaining smaller microfinance licenses).

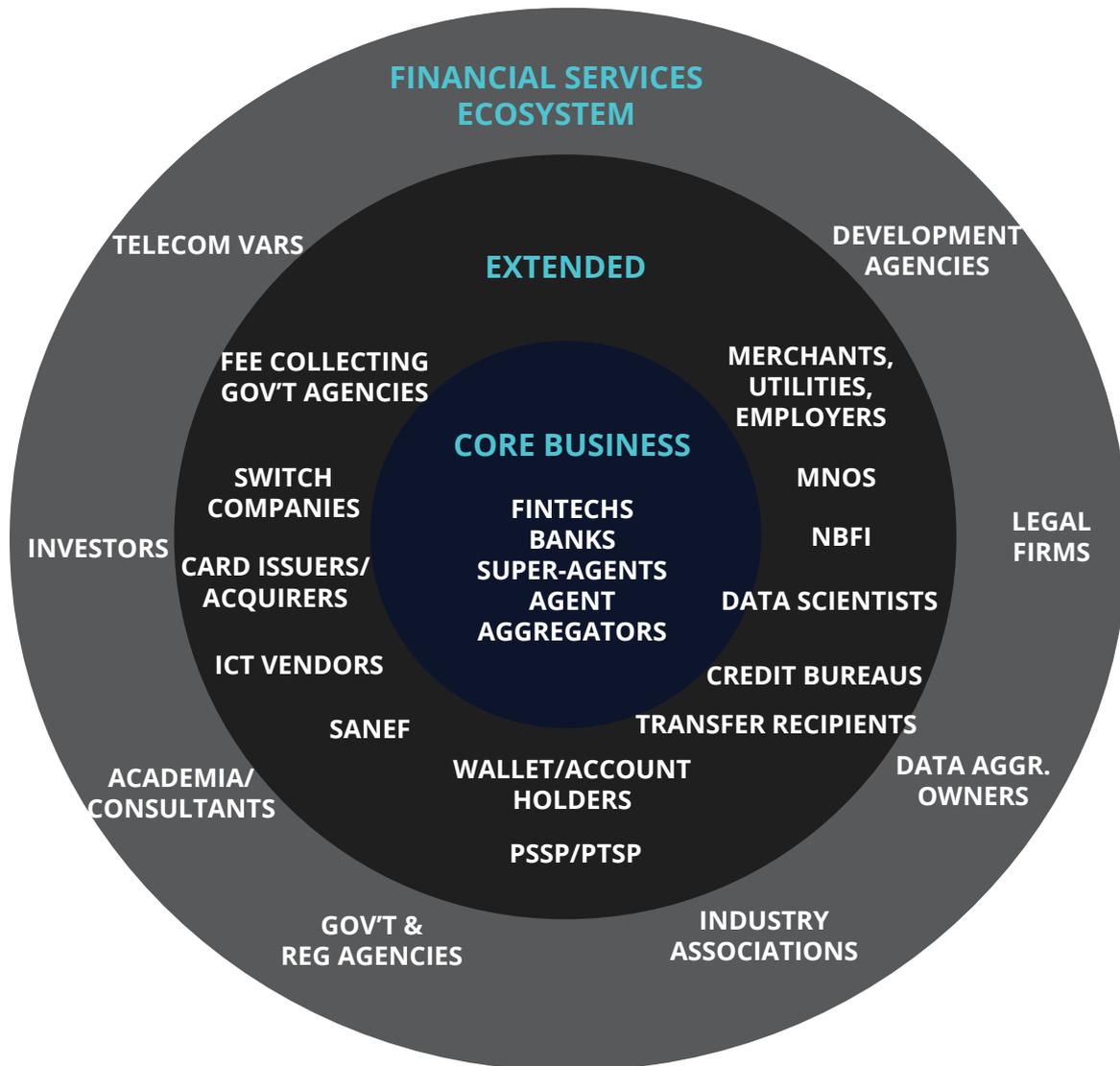


# NIGERIA'S FINANCIAL SERVICES ECOSYSTEM

The Nigerian digital financial services (DFS) ecosystem illustrated in **Figure 1** comprises of the key service providers at the core and other significant actors in the extended enterprise. Different government agencies regulate the financial services industry based on the mandates in the establishing legislature. At the heart of financial systems oversight are the mandates of financial inclusion, stability, integrity, and protection ('FI-SIP').

CBN and the Nigeria Deposit Insurance Commission (NDIC) regulate the banking industry as prescribed in the Banking and Other Financial Institutions Act (BOFIA) as amended. **Figure 2** highlights the licensing attributes for the various deposit-taking institutions.

FIGURE 1 - NIGERIA'S FINANCIAL SERVICES ECOSYSTEM (SOURCE: AUTHOR'S ILLUSTRATION)



Even though digital financial services have been in use since the 1990s and non-bank actors have been active in the financial services ecosystem for over a decade (made possible through licensing of mobile money operators (MMO) in 2009) the term fintech did not develop until mid-2015/2016.

**Figure 3** summarizes key enablers and inhibitors within the Nigerian fintech ecosystem.

While dominated by payments and remittances, the emergent fintech sector spans the financial services spectrum, including digital lending, digital banking, wealth management, and insurtech. This is clear from the foreign investment levels, with Nigerian fintechs’ raising about US\$ 679 million in 2019.

**FIGURE 2 – CBN BANKING LICENSE STRUCTURE (SOURCE: AUTHOR'S ILLUSTRATION)**

FINANCIAL SERVICE PROVIDER	DEPOSIT MONEY BANK	MICROFINANCE BANK	PAYMENT SERVICE BANK	MOBILE MONEY OPERATOR
CAPITAL REQUIREMENT	₦ 25bn	Unit: ₦ 20mn State: ₦ 100mn National: ₦ 2bn	₦ 5bn	₦ 2bn
LICENSE FEE	₦ 5mn	Unit: ₦ 100,000 State: ₦ 250,000 National: ₦ 1mn	₦ 2mn	
APPLICATION FEE	₦ 500,000	Unit: ₦ 50,000 State: ₦ 100,000 National: ₦ 300,000	₦ 500,000	₦ 100,000
SERVICE DISTRIBUTION	N/A	License dependent	25% rural locations (min)	N/A
AGENCY BANKING PROVISIONS	✓	✓	✓	✓
CREDIT PROVISION	✓	✓		
CARD ISSUANCE - CREDIT	✓	✓		
CREDIT ISSUANCE - DEBIT	✓	✓	✓	✓
CREDIT ISSUANCE - PREPAID	✓	✓	✓	
ATM DEPLOYMENT	✓	✓	✓	
POS DEPLOYMENT	✓	✓	✓	
INBOUND FOREIGN REMITTANCES	✓		✓	✓
OUTBOUND FOREIGN REMIT (P2P)	✓			✓
OUTBOUND FOREIGN REMIT (OTHER)	✓			
STORE OF VALUE - BANK ACCOUNT	✓	✓	✓	
STORE OF VALUE - WALLET	✓	✓	✓	✓
FINANCIAL ADVISORY SERVICES	✓	✓	✓	
CHEQUE CLEANING ACTIVITIES	✓			
DEPOSIT INSURANCE COVERAGE	✓	✓	✓	✓

**FIGURE 3 – FACTORS ENABLING & INHIBITING FINTECHS (SOURCE: AUTHOR’S ILLUSTRATION)**

<b>ENABLERS</b>	<b>INHIBITORS</b>
Growing population & markets (more digital natives, youth)	Policy uncertainty
Mobile penetration (Tele-density > 100%)	Talent - Skills Gaps (upper & Mid Mgmt), “Brain Drain”
Increased internet connectivity	“Adversary” Mindset in Incumbent Banking
Financial exclusion (>50% Of adult population)	Fragmented financial infrastructure
Rising GDP	Identity poverty - Only 40mn non-unique subscribers with Nat’l ID or Bank Verification Number
Increase in foreign venture capital and private equity	Broadband penetration
Regulatory reforms (structures, sandboxes, etc.)	Financial & digital illiteracy



Despite Georges’ Nigerian roots, his limited access to diverse and well-connected advisors short circuited his options and decisions. Chika Ugwuze, Acting Head of Payments System Initiatives at CBN, validated the importance of these networks during the sandbox event and stated,

As you register your venture, be aware that no one person has all the answers as to the regulations (yes, even the regulators themselves!). Build a board of advisors, experts, and consultants, experienced fintech entrepreneurs, legal counsel, and other experts who you can go to for advice and have a powerful network of relevant contacts.

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The lead times associated with developing partnership arrangements can be onerous in Nigeria and dependent on factors like networks, interest levels of partners, commercial negotiations, and risk appetite. Thus, the likelihood of startups conducting independent pilot tests, without partners, is high.

Digital savings platform Bankly, for example, temporarily extended capital to increase the size of each client's personal piggybank so that individuals would have more "runway" at their disposal. Within a year, the startup was in a position to demonstrate growth and success at various stages of its rollout, which then supported the company in securing the necessary financial sector partnerships.

Strategic partnerships have the opportunity to expedite a new entrant's time to market. And while a partnership may help a startup overcome the initial regulatory hurdles, fintechs should be aware that any non-bank entity providing payment solutions/services are beholden to some form of licensing and supervision by CBN. Such governance ensures adequate safeguards for consumers and the public payments system infrastructure, including Nigeria's Central Switch.

Amidst these constraints, innovators have the option to either deliver solutions ahead of regulation or 'stake the puck' with solutions that fit within existing regulatory guidelines. As Franklin Amoo, Managing Partner of Baylis Emerging Markets, states,

A thorough and exhaustive study of the current regulatory landscape (including the general political mood from which regulations are emerging) is critical to the former, so that innovations devised by the startup are in a space not anticipated by the rules or the mood. If your product is compelling enough and offers enough market value it is likely regulations will be developed around your company's wake and any negative effects should be manageable (think social media companies and privacy rules). For the latter, skating to the puck is typically best achieved by engaging regulators and understanding market failures and inconveniences created by regulation that both regulators and the marketplace would like to see ameliorated.

## SECRETS OF THE TRADE: HOW COMPANIES ADDRESS REGULATORY HURDLES

### Challenge One: Lack of Regulatory Guidance

The financial services industry is one of the most tightly regulated worldwide. Yet technology today is advancing so rapidly that regulation is unable to keep up with the flux of innovations hitting the market. Regulators, for example, are still grappling with how big tech (e.g. Alphabet, Apple, Amazon, Facebook, etc.) should be regulated despite some of them being on the market for more than three decades. Forward-thinking innovations often come to market because the concepts are so novel that they are unable to be captured by existing rules; and the companies releasing them know that it could take decades for regulation to catch up. Other startups with less novel innovations release products in anticipation of regulatory hurdles and create solutions responding to them. Dr. Anino Emuwa, Founder and Managing Director of Avandis Consulting, recommends the pivot approach, “when an entrepreneur works in a space where a regulatory vacuum is present...

[Sometimes it is easier] to forget the word ‘bank’ from your business model and to pivot around those regulations than to enter such a highly regulated space.”

### Challenge Two: Inability to Meet Regulatory Requirements

In many instances startups may find themselves without the resources to meet regulatory requirements, such as the capital needed to obtain licenses. In these scenarios, it is not uncommon for startups to partner with more established players. If a technology or product offering is sufficiently compelling, large and entrenched companies will view a strategic partnership as an inexpensive approach to offer new, more innovative services to their existing customer base. This also offers startups an alternative to lengthy and costly customer acquisition and marketing. Similarly, once interests are aligned, the established partner can serve as a strong ally when engaging with regulatory stakeholders – no where is this more true than in Nigeria considering the power of banks in local regulatory environments.



## NOMAD MONEY TODAY

Following George’s participation in the Sandbox Series event back in July, much has changed for Nomad Money. Frank Atat, Division Head of eBusiness at ProvidusBank and one of the participating stakeholders from the event, brokered a partnership with Nomad to serve as its issuing bank. George and his team are currently hard at work building an minimal viable product and connecting with Providus’ APIs via a Nigerian-based third party’s infrastructure.

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The partnership with Providus has also facilitated Nomad's collaboration with an e-wallet provider operating in the Providus ecosystem.

In January 2021, Nomad plans to release the MVP and invite testers to use the platform. This will be followed up with a series of business model validation exercises and product roadmap changes, if needed. George has had several discussions with prospective investors and his team will be seeking to raise a seed round to complete V1 of the product. As of December 2020, Nomad is looking to hire a Chief Marketing Officer and a Compliance Head.



## CONCLUSION

George's experience represents common challenges fintech entrepreneurs encounter in markets where regulatory guidelines trail technological innovations. Navigating opaque regulatory environments becomes integral in a fintech's ability to launch in such markets. For everything a startup may lack, a winning innovation requires that entrepreneurs be unconventionally resourceful in how they think about and leverage the tools and opportunities that are available to them – George's participation in the virtual sandbox event is one such example.

Successful entrepreneurs understand that success is a juggling act with every lever that is pulled presenting its own set of advantages and disadvantages. Operating in an uncertain regulatory environment, or in an ecosystem that is difficult to penetrate, is no different; in Nomad's case, George's options were to not launch, launch a "downplayed" version of the envisioned product, or partner.

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## About Africa Fintech Summit

Founded by Dedalus Global, Africa Fintech Summit (AFTS) is a global ecosystem-building initiative dedicated to fintech on the African continent. AFTS hosts annual fintech summits in Africa and the USA, regulatory roundtables, bootcamps, and virtual events. Through these efforts, AFTS boasts the largest and most active community dedicated to fintech on the continent.

## About Ovamba Solutions, Inc.

Ovamba Solutions, Inc., is an award winning 'tradetech' innovator that supports financial institutions who want to serve growing businesses in emerging and frontier markets. Ovamba's flagship product BankPartner™ was created for banks. This turnkey solution is a combination of trade finance and customer management tools that allows banks to generate Non-interest based fee revenue from small and medium businesses, especially those in the trade sector. Ovamba's solutions also reduce the impact of Non-Performing Loans (NPLs) on bank balance sheets. Ovamba's commitment to ecosystem development and business growth is timely in light of Africa's current digital journey.

**Stay tuned for the next virtual Sandbox Series event coming up in January 2021!**

**Interested in presenting a case?  
Contact us at [info@africafintechsummit.com](mailto:info@africafintechsummit.com)**