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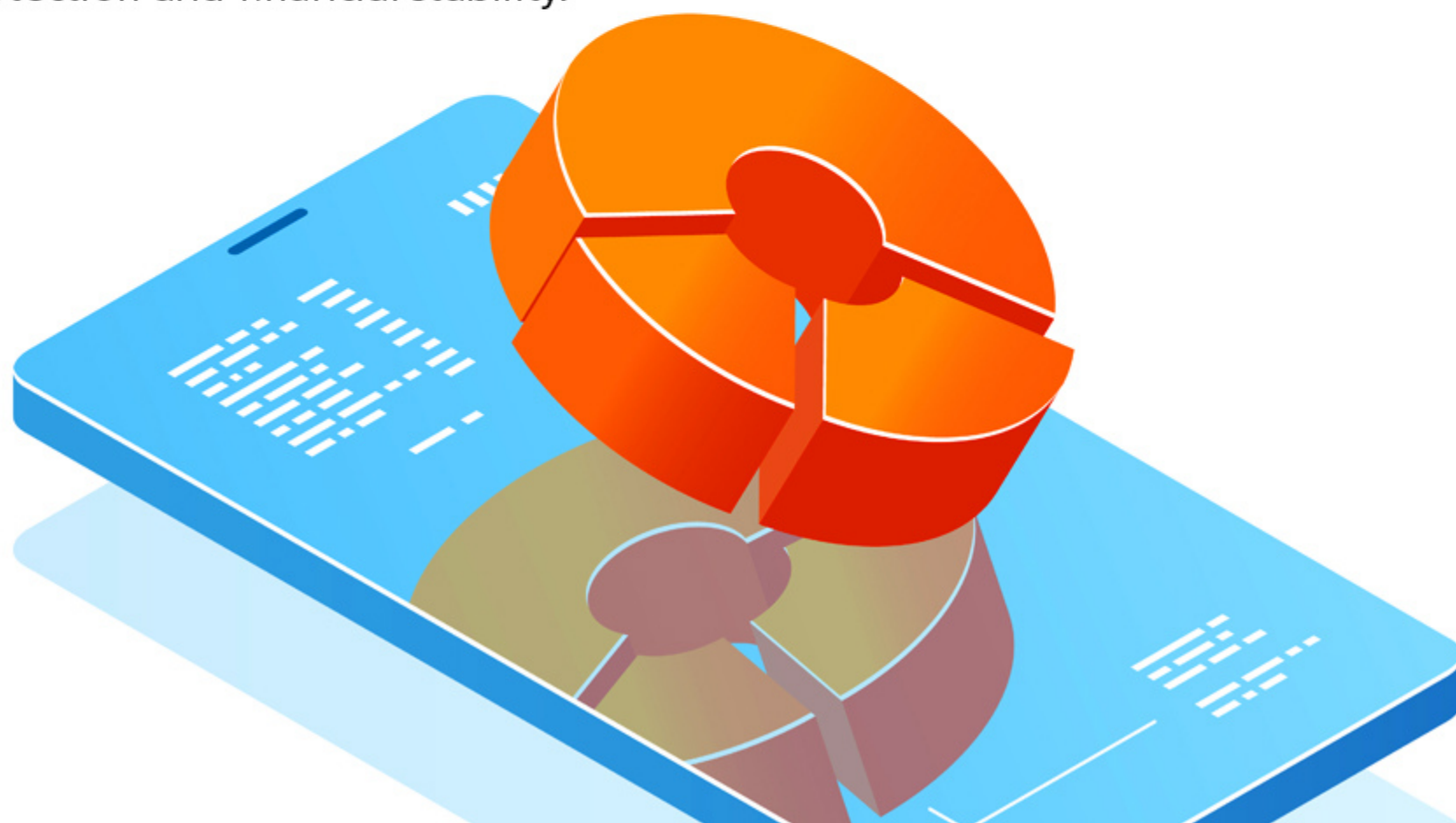
# Technology Companies and Regulatory Sandboxes in Nigeria



The technology space is constantly evolving, driven by companies developing innovative solutions that disrupt traditional service delivery. In particular financial technology companies offering financial solutions ("**FinTech companies**") often outpace existing regulatory framework. The fast pace of technology driven services pose challenges for both regulators and industry players, especially in heavily regulated sectors.

The financial sector is very regulated both by the Central Bank of Nigeria (CBN) and the Securities and Exchange Commission (SEC). These regulators are usually on the lookout to bringing emerging technologies within their regulatory ambit and FinTech companies are usually challenged with navigating the complex regulatory environment.

In view of the regulatory bottlenecks, the concept of Regulatory Sandboxes emerged as mechanisms for fostering innovation while ensuring consumer protection and financial stability.





## What is a Regulatory Sandbox?

A Regulatory Sandbox program is a formal process for firms, companies, and startups to conduct live tests of new innovative products, services, or business models in a controlled environment with regulatory oversight, but without the requirement to obtain a license prior to testing innovative products.

Regulatory Sandbox allows FinTech innovators to test their ideas in a real-world setting, under the watchful eye of regulatory authorities. FinTech companies can take advantage of Regulatory Sandboxes to experiment with innovative products while ensuring consumer protection.

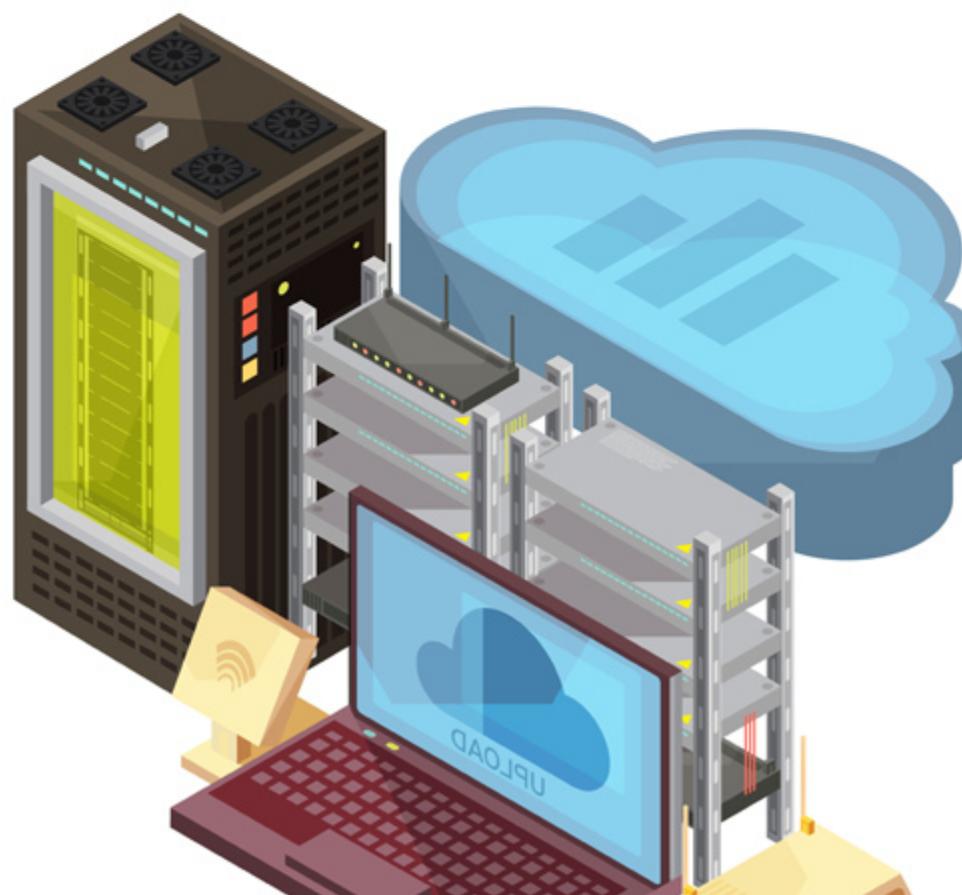


## Regulatory Sandboxes in Nigeria

The SEC Regulatory Incubation Guideline (the “**Guideline**”) provides a framework that allows FinTech companies (whose activities may or may not be subject to existing regulations) to carry out capital market activities for a limited period of time without prior registration with SEC. Similarly, the CBN’s Regulatory Framework for Sandbox Operations (the “**Framework**”), provides for the operation of a sandbox dedicated to the Nigerian payment services system and is focused on promoting innovation in the design and delivery of products, services, or solutions that are either not contemplated under the extant laws and regulations or do not precisely align with the extant laws and regulations.

## Benefits of Regulatory Sandboxes

1. **Reduced Time-to-Market for Innovative Products:** Regulatory Sandboxes help technology companies with innovative products launch their products faster and help them get market feedback without the hassle of first obtaining a license.





3. **Competitive Advantage:** Early access to the market and regulatory insights can give technology companies a valuable edge over competitors.
4. **Protecting Consumers:** While promoting innovation, Regulatory Sandboxes aim to safeguard the interests of consumers. Regulators closely monitor Sandbox activities to ensure that new financial products and services meet essential consumer protection standards. This approach enables the identification and mitigation of potential risks before widespread adoption.
5. **Informed Regulatory Decisions:** Sandboxes provide real-world data on the impact of new technologies, allowing regulators to develop effective regulations.
6. **Enhanced Financial Inclusion:** Innovative solutions tested in Sandboxes can promote financial inclusion by reaching underserved populations.
7. **Improved Consumer Protection:** Regulatory oversight within the Sandbox ensures consumer protection and mitigates potential risks associated with new technologies.





## Challenges and Concerns of Regulatory Sandboxes

1. **Data Privacy and Security:** There is a need to put in place appropriate data protection mechanisms to safeguard the personal information of the participants in the Sandbox program.
2. **Equal Opportunity:** Sandbox programs usually accommodate a sizeable number of FinTech Companies. Hence, the Regulator must put in place measures to ensure that all eligible participants have access to the opportunity.
3. **Balancing Innovation and Risk:** Striking the right balance between fostering innovation and mitigating risks is a delicate task. Regulators must ensure that the potential impact of new technologies on financial stability, security and consumer protection.

## Conclusion

Regulatory Sandboxes offers a valuable platform for technology companies in heavily regulated sectors to test and refine their ideas in a controlled environment, while regulators gain valuable insights to make informed decisions. Regulatory Sandbox encourages development in technology space, and ensures that innovation thrives in the while protecting consumers.

