Bullion

Volume 45 | Number 4 Article 1

10-2021

Digital Only Banks The Changing Face of Global Banking: challenges, opportunities and AML/CFT implications for Nigeria

David N. Odu
Central Bank of Nigeria

Digital-Only Banks
The Changing Face of Global Banking: Challenges, Opportunities, and AML/CFT Implications for Nigeria

David N. Odu, CFE, CAMS
Manager, AML/CFT Compliance, Governors Department, CBN

Abstract

The drastic digitization brought about by evolution of technology in the world has changed almost every sphere of human life with the most recent effect being a move to cashless economy. while the role of digitization in the banking sector is altering customer demand and preferences, banks are becoming more digitally oriented to meet the forces of demand and supply. This has led to the birth of digital-only banks also called challenger banks or branchless banks as they operate without a physical location, only have a location for admin purposes or hosting their servers. This growing wave of consumer-oriented banking institution focuses on serving their clients exclusively through online means, no physical locations and focusing on real time data analytics. In this paper I will discuss digital-only banks as a changing face of banking in Nigeria, challenges and opportunities, regulatory concerns by the authority, Nigeria population demographics and how the youths will benefit from digital-only banks, their merits and demerits, their impact on Nigeria's economy as a developing country, and how they will change the face of doing business amongst the youths in Nigeria.

Keywords: *Digitization, banking, digital-only-banks, digital strategy, customer demand, AML/CFT concerns, security, online, data analytics, scalability, Suspicious Transactions, PEP, Know Your Customer, Enhanced Due Diligence, Enhanced Customer Due Diligence, KYB.*

Introduction

Before the global economic crisis of 2008-2009 the financial sector and the banking industry had achieved high value for their shareholders through a massive financial gain. To that effect, current growing systems and competitive challenges had to seek alternative sources of value for the banking sector and that's when digital banking came into effect. The earliest form of digital banks has its roots in the advent of ATMs and cards launched in the early 1960s but their effect took place in the 1980s upon the introduction of the world wide web and digital networks when retailers were connected to suppliers as the need for online catalogs and inventory software system was in high demand. A digital-only bank came to provide banking facilities, exclusively via digital platforms like mobile and tablets connected to the internet offering the most basic banking services, no physical location and operates in a very simplified manner with the aid of electronic documentation, real-time data, and automated processes. In most cases requirements in opening an account with digital-only banks are the application link and few personal verification documents as the banks do not have physical address for the normal banking activity only location for admin and their servers. It's emergence to many parts of the world like Nigeria enabled a new degree of freedom to the banking new entrant's ecosystem providing a 'David vs goliath' dynamic which compelled them to iterate quickly as compared to the incumbent traditional banks. From their unique ability to access daily banking functions via mobile devices, empowering cashless transactions, it would appear digital-only-banks is not just the future of banking but a total banking evolution.

With the development of technology, banking sectors have given their customers easy access to mobile devices that have access to online and digital services. While looking at the high end banking expectations of millennials and coming generations digital-only banks emerge as the most influential choice of these potential customers.

Badmus, G. (2019) asserts that digitization has made most physical banks lose out these opportunities on their expansion due to the fast-moving technological transformation as most of their customers are willing to switch their services for this unique feature in bills payment, efficient sending of money, fast transfer speed, and access to loan products safely and conveniently without physical appearance in banks. Digital-only banks is a general term that covers a broad group of financial service providers offering banking services exclusively through digital means and with no physical locations and are chartered as financial institutions by the federal regulator, or the parent company is a chartered financial institution. Most of digital-only banks are created by brick and mortar banks or affiliated to the banks but their services are exclusively online as they don't have physical location like other banks offering digital banking services. According to Wang, Nnaji, &Jung, (2020) The financial sector is considered one of the most affected sectors by the proliferation of a new wave of technology, mostly digital and online banking as banks of all sizes and manner are choosing to operate and run their businesses under a digital platform, in the sense that this new medium is offering unique and distinct advantages to all the parties involved. Digital-only-banking is not only simple and convenient to the user but offers superior customer experience through analyzing the customer experiences by use of social and geo-related insights. Among customer benefits using digital-only banks include easy sign up process, faster bills payments, access to account through app, easy expenses management, and use of real data analytics. Nigeria has six digital-only banks which are ALAT, Kuda, Rubies, Eyowo, VFD, and sparkle. The number of digital-only banks users in the world is growing at an increasing rate while offering a competitive advantage to the public and private banking sectors. Its adoption by many users is based on a range of factors that are not limited to its reliability, a high degree of comfort, safety, user-friendly interphase, and the social impact amongst the users of these products (Wang, Nnaji, & Jung, 2020). This has made digital-only banks more of a norm rather than an exception in many developed and developing countries as it offers the banking industry a cheap way of providing services. The finance sector has virtually 100% cloud-based business that leverages the expertise of cutting-edge digital networks, rather than relying too much on stand-alone and obsolete technology. Digital-only banking systems such as Chime, N26, and Monza provide accounts checking to customers without the hassle of going to the branch Taiwo, (2018) Digital-only banking is very easy to do and it is convenient to use online services, mobile banking, ATM, and debit cards, it takes time and resources to go to the banks and set up, manage the accounts Taiwo, (2018) Banks had boards set up at their branches, defining the time required for different services. It takes time to even just cash a check. But digital banking is instant, with no time constraints. Digital-only banking has greatly lowered the operational costs of banks. This has made it possible for banks to charge lower service charges, and also to offer higher deposit interest rates. Lower operating costs mean more income for the banks. Chiemeke, and Chete, (2016) explained that the number of customers for banks would rise due to the increased convenience of anytime, anywhere banking. Human error in measurement and record-keeping will be minimized. By maintaining records of the transaction electronically, it is possible to produce reports and review data at any stage and for various purposes. This shows that banks are not relying on investing in physical locations anymore as they see potential in the growth of digital-only banks services considering its more user-friendly to their customers. The key benefits of these digital only banks are cost reduction, their agility through moving into the digital space, viability as their operations is incredibly successful, increase in revenues as they create a larger market audience for their services while attracting and retaining more customers.

Problem Statement

As the banking dynamics and environment changes so is the customer satisfaction changing bringing a challenge to banks on how well they are meeting their customer demands as well as exceeding expectations. While customer satisfaction is the most important factor in any organization the primacy of traditional banks relationship in Nigeria is under threat as influence on digital-only banks is slowly gaining momentum. When customer demands are met their utility and satisfaction will increase otherwise with less satisfaction, they will look for services elsewhere. While technology has brought a new wave of digitization in the society, consumer behavior in banking is rapidly changing as every customer expects digital and retail banking at any time, place and anywhere. This has prompted many banking institutions to focus more on customer relationship management as less satisfied customers using traditional banking models will change their banking institutions to see what other banks have to offer.

Literature Review.

Majority of scholarly articles, research papers and literature on internet and digital banking suffers from narrow focus on electronic money. most ignore digital-only banks entirely while focusing on electronic money and substitution of banking models to customer through smart cards, mobile money and virtual currency. Most of them propose that electronic and digital banking consist of stored value cards, network money and digital banks while use of digital-only banks has been completely ignored. Despite this narrow scope of research, there are none the less few studies that address importance, challenges and opportunities of digital-only banks in Nigeria. I have identified this research gap and will discuss the possibility of digital-only banks flourishing in a developing country like Nigeria , challenges, opportunities , know your customer and anti-money laundering regulations of digital-only banks by the regulating authorities in Nigeria.

Importance of digital-only banks in Nigeria

Trends for the adoption of digital-only banks are rapidly increasing after the surge of the covid-19 virus and the pattern might last well once the pandemic is over. For financial institutions and the banking sector, this has presented a good opportunity that embraces the benefits of digital-only banks while giving their customers the ability to bank, move funds and transact at their pleasure. This comes at a time when the world is faced with the advent and need of digital banking in financial services. The pandemic has increased the need for use of digital-only banks as the government has put restrictions on the number and amount of withdrawals as well as long waiting times in banking halls. Kuda bank a digital-only bank in operation since 2019 with only 500 customers says their customer base is increasing daily a trend that began during the lockdown in Nigeria's main cities like Lagos and Abuja. Another digital-only bank sparkle CEO said that "seeing the impact of COVID, and the fact that we are headed to another wave as experts tell us, we as bankers need to build resilience into our business and that means being digital.

The Banks have created a challenge to the existing retail banks in developed economies, as the pace to market and digitization of banking services draws attention because of the potential to make daily banking easily available. Salami, (2018) asserts that with the surge of the covid-19 virus, many banks around the globe temporarily closed their operation centers and branches as their regular customers kept a social distance in their homes, taking advantage of cashless payments, and digital banking was their preferred payment option. However, Digital-only banks have a greater role in Nigeria than just a contest between digital banks and retail banks alone. The banks are always open, there is no point in complaining about the 8.00-4.00 pm banking hours, the customers can gain constant access to their funds 24/7 with more spending options for their cash.

According to EY's global fintech adoption index data presented by price water house coopers in 2020, financial technology and digital-only banking services adoption has doubled in the last three years. March 2020 data indicates that 64% of digitally active consumers across 10 markets used digital banking services with 20% of the population using digital-only banks.

Digital banks adoption among internet users in selected countries, march 2020
% of respondents in each group
China 87%
India 87%
Russia 82%
South Africa 80%
Peru 74%
Nigeria 66%
Italy 41%
USA 57%
France 35%
Japan 30%
Worldwide 64%
Source. Global fintech adoption index 2020 www.insider.com

The survey indicated that global awareness of digital-only banks and financial technology products in the world stands at 90%. Although the usage of these services is still heavily skewed towards a higher demographic segment in countries like Nigeria, hurdles like security issues and privacy exists but the growth has great potential to achieve a 90-99% success rate with consumer education.

Growth of digital banking has made the world witness a somewhat weighing of the future of bank branches as north America and European banks have been forefront in accelerating branch closure both in local and international market. While responding to evolving consumer psychology and their expectations, western countries have been operating on a wash-wash market with digital-challenger banks as the likes of Ally, Monzo, and N26 have been hitting headlines with their digital–only bank products. This comes at a time when fanfare is falling more intensely on North America and European banks as the wave is creating fan in unexpected places (Nel & Boshoff 2021). This was seen by the unlikely darling of money in Asian banks on 2018 when Kakao bank established an entity of Digital-only bank and in less than 24 hours of its launch they had nearly 300,000 users registered. Within a week the digital-only bank had transacted an amount of $245 million and at the same time more than $260 million in digital loans were issued. The digital-only bank currently has brought $5.75 trillion in deposits and over 5.2 trillion in loan has been issued. This performance has been rated successful by local and international news media.

Referring to Nel & Boshoff, (2021) In a case of extend without overextending Africa has seen its fair share of local investors brining life into a digital-only bank. Zazu bank which is an intermediary of African Agri-tech start up announced its intention to establish Zambia first Digital-only bank in 2017 and within the first financial year they had registered deposits amounting to $218,000.

The striking trend seems to be international banks expanding their market share to new territories by entering new market with purely digital-only bank products. A major banking product consumers survey by Accenture released in May 2020 says that "value for the money" is the single most reason consumers consider while dealing with financial institutions while 39% of the respondents says that biggest priority in banking with a financial institution is "able to manage my account in a way that suits me". Digital-only banks despite few knowing of its existence is the most preferred banking option.
Nigeria had its home-grown disruptor with its first entry of digital-only bank in 2015 Lidya, the country first fully-fledged digital bank with its parent body (SunTrust bank of Nigeria) posted a profit after tax of naira 212.7 million ($656252) in its first 2015/2016 financial year.

Nigeria a developing country rich in mineral deposits and agriculture has a rich economy and is moving in the right direction as the government has invested heavily in ICT and technology. Internet connectivity has increased rapidly with a percentage of 3.5% in 20005 to 42% in 2020 while their GDP per capita has increased to 4500$ at the same period.

This move has revolutionized the Nigerian banking industry which started in the year 2004 with the introduction of the internet and mobile banking by the Nigerian central bank. The move from traditional to digital-only banks followed a great reformation of Nigerian banks which left only 25 banks in operation from the ones that initially existed. This was triggered by the customer's appetite for efficient services in the delivery of the existing banking services. Their convenience in Nigeria is queen as they offer the ability to access, move funds, check account balances, pay their utility and shopping bills, as well as the instant loan application. "Security is the number 1 priority in the banking sector," says Badmus, (2019) a banking expert, and his message extends to digital-only banks. With threats of insecurity existing everywhere in Nigeria due to high unemployment levels, and massive corruption digital banking makes it easy to take extra security precautions for individual cash in banks. Digital-only banks only applications allow the users to use biometric authentication in their login process with login options such as fingerprint and facial recognition.

The banks have made a digital transformation to the Nigerian economy as the digital shift allows households and individuals to gain access to their accounts, services that were in the past held by brick and mortar locations around the country. ICT departments in Nigerian banks have progressed their moves as more customers are gaining access to banking services online while trying to keep up with the adoption of the digital era.

Digital-only banks reduce costs involved in transactions as reinvestment of money into digital services helps in reducing the cost of operations for the traditional model of the banking system and the reduced cost helps in settling rent cost, upkeep of the banking facility, and reduction of physical exercise that comes along with brick and mortar. (Tarhini, Mgbemena, Trab, & Masa'Deh, 2015).

The digital-only -banks increase revenues as their accessibility creates a huger market audience for offering its services which ultimately increases the revenues for their businesses. The digital-only banks and other financial institutions will be in a position to increase their revenues as well as the establishment of a customer base that will help increase demand for their customer base.

Digital-only banks have helped businesses attract and retain more customers in their businesses as the majority of customers tend to be committed and loyal to businesses and companies that are innovative and offer better services. They also help most businesses stay ahead of time and gives a competitive advantage.

CONCEPT OF DIGITAL-ONLY-BANKS, ONLINE BANKING AND BRICK AND MORTAR

Online Banking

The worldwide web has changed the dynamics and culture of doing business in different ways. As one can maintain an entire financial portfolio through different online means that are provided for by this feature but have physical locations. This is simply a form of personal banking which can be conducted by use of the internet, but digital-only banks are more of an overarching term referring to all forms of financial technology taking place with the aid of technology. While online banking only handles essential transactions, digital-only banks goes away deeper to mandate a comprehensive re-engineering of banks internal systems as it encompasses all digital transactions. The internet-based account management service allows its different customers to check their account balances, transactions, and transfer of funds between other online users and accessing loans but have physical banks unlike digital banks where everything is done through mobile application including account opening. Referring to Cunha, (2020) this concept was developed in the late 1980s by presidential savings banks, online banking was envisioned for regular customer use by different banking institutions. The idea and concept were assimilated by other banks all over the world and currently, major banks in the world have adopted this concept The account management service allows the users to view their account balances, transfer funds, access, and initiate loans payment without necessarily having to go to the banks. Online bank accounts are capable of offering higher interest rates, particularly on savings accounts, generally lower fees, and quick access to your online accounts 24/7 is a huge benefit for some customers

Brick and Mortar

In the banking industry "brick and mortar" means that the bank has several physical locations that their customers and users of their products can visit and conduct their businesses. The term refers to the traditional brick and mortar that was used to construct branches using steel and drywalls in the most visible times. They are used by banks and credit unions in Nigeria offering all services, but online services are optional to customers unlike digital-only banks where all transactions are done online. Digital -only -banks also referred to as challenger banks or branchless banks unlike brick and mortar have no physical location for banking services, as everything is done on an online platform, they only have a location for admin purposes and hosting of their severs. Unlike digital-only- banks they have better communication models as they are considered best in terms of cash deposits, and sending money to international channels (Agu, Simon, & Onwuka, 2016) Online banks are ideally suited to those who want to optimize the return of their savings. Traditional banks typically have a wide variety of offerings to sell to their customers. The greatest downside to brick-and-mortar banks is that online banks do not necessarily deliver the same competitive monetary advantages (Salami, 2018). It lacks new features as it takes a while for some conventional banks to catch up with the technology unlike digital-only-banks where the user has ability to access daily banking functions through computers and mobile devices to cashless transactions. Some features, such as mobile check deposits, are not available at all conventional banks

Challenges Facing Digital-Only Banks.

Every industry is going to the digital platform and the banking industry is making much effort to cope with the competitive move. Despite digital-only-banks becoming a thing of the day and gaining more popularity, the industry still faces major challenges mostly in developing countries like Nigeria. These challenges are factors that are key stumbling blocks for digital-only banks from stabilizing and being accepted as a banking method for every bank account holder. They include.

1. **Security:** This is among the first factors many customers consider when shopping for a banking option as keeping money safe is always a priority for a customer or any financial body. The sad truth is that internet and computer hackers are still not taking chances when it comes to things on the internet. Having a secure bank and safety of money is a big challenge as IT departments in banks have to design the best system that cannot be broken into by any malicious mind. Digital–only-banks can be a save heaven for hackers if the banking system is compromised.

2. **Scalability:** Digital-only-banks face a huge challenge of scalability with respect to traditional banks. They are efficient but have limited offerings which might restrict customer growth and that personal, one on one and personal interactions is mostly preferred by the older or less digitally savvy generation of the population when it comes to customer service.

3. **Operations of fully digitized banks:** There is a portion of people embracing digital-only banks, although there is a notable number of customers who still have not accepted it as a banking option citing trust issues. It's also quite difficult to convince people about digital-only banks as compared to the existing brick and mortar banks and their operating model. This has made it quite hard for digital banking to achieve 100% success and be completely digitized.

4. **Evolution from ancient banking:** Many people still are not yet aware of digital-only banks as most banking systems are using the traditional COBOL programming language in Nigeria rather than the modern programming languages. This is however an outdated programming language and does not suit the applications that are required in digital banking today. To upgrade these banking systems and install suitable programs is time-consuming and needs a lot of resources for a full digital migration.

5. **The threat of non-financial institutions:** Some upcoming non-financial institutions pose a threat to digital-only banks as they tend to offer products that digital-only- banks are supposed to be offering. Facebook in other countries has made it possible for users to send money from one user to the other without involving the bank a technology that might soon be adopted by Nigeria. considering it's not restricted by any financial institution; it becomes hard for these institutions to be in competition with and cope with the stiff competition.

6. **Sustainable competitive advantage:** Among the most crucial challenge affecting digital-only banks are the workload and amount of digital banking initiatives that are increasing daily and have no huge impact on the business due to wrong guidance by the banking professionals. Tarhini, Mgbemena, Trab, & Masa'Deh, (2015). Says that Its however good to carry out a field study when initiating such a project not capitalizing on initiating the products and cost features. Poor experiments by the banks offering digital services have led to poor adoption of the digital products and eventually leading to the initiatives.

7. **Loyalty among traditional banking models:** Despite moving into a post-loyalty era some consumers of the banking products are still tied to the traditional bonds offered by brick-and-mortar products. Sanusi (2010) says that this also presents a challenge when understanding the customer context in terms of the products they prefer as some organizations are experiencing huge problems while trying to superimpose digital solutions to traditional customers who have a little understanding of the products.

8. **Automation and the future of digital-only banks:** Among the most important sociological factor that has been a big challenge in offering digital-only products are their impact and subsequent robotic process. While Nigeria has a proud legacy of large service sectors like mining, oil, and service sector, echoing the digitization of the banking sector needs care as there exist teething problems with other sectors which is an inevitable problem in business.

Opportunities.

1. Existence of disc customers. Being in a digital era it's not a big problem to explain technology even in the most remote areas of Nigeria as people have an idea of basic technology that drives our digital offerings. The DISC model describes styles of people namely dominance, influence, steadiness, and conscientiousness. Nigeria has an aggressive and technologically savvy youthful population that can easily access information to inform and educate themselves of the benefits of digital-only banks. Majority of them don not always fit on the traditional banking mold and where they choose to store their wealth.

2. More profits in output. With the use of digital-only banks, there is no more hustle and bustle while waiting for long lines in banks as the upcoming Nigerian generations are predicted to be more digitized as there is a specific time when someone wishes to withdraw money from his/her account from the bank. This will make banks offer a 27/7-hour service to the users of the products hence maximizing their profit margins. (Ojeka, & Ikpefan,2018).

3. A huge pool of customers and fastened services. For any healthy and stable economy money need to be in circulation in a business setting. This is the reason spending long hours in banking halls to transfer money and access loans serve as a disadvantage to the customer and the business itself. By use of digital-only banks, one can transact at the comfort of their homes getting the same speed and utility whether in Abuja or the farthest corner of the country like Okundi plantations in Ikom Local government area of Cross river state.

4. Digital-only banks have a better market prediction. According to Wang, Nnaji, & Jung (2020) the setup of the banks is coded with an excellent programming language that has an accurate data collection mechanism. In any institution, data is very important as it's used by the researcher in predicting the market and offering the most modern service to the customers. Digital-only banks are promising a better banking experience for both the customer and banks hence beyond a shadow of no doubt we can conclude that the future of banking is a digital bank. (Sanusi,2010.

5. Breaking down silos and other mitigating risks. Ojeka, & Ikpefan, (2018) asserts that traditionally banks have been siloed to organizations as different departments have their own organizational goals that use disparate systems. This has inevitably led to stunted growth, limits the bank's scalability while decreasing the utility of their customers as many banks in Nigeria have a reputation of giving their customers huge run around while they are applying for new services.

AML/CFT Compliance for Digital-only Banks

The central bank of Nigeria amended act of 2007 enumerates the functions and objectives of the country's AML/CFT regime, setting out policies that guide banks to conduct business under the given laws and regulations. Compliance with AML/CFT (Anti-Money Laundering / Combating Terrorist Financing) strict national and international regulations would help digital banks in protecting the platform from fines and reputational harm . Money laundering (prohibition) act of 2012 as amended, terrorism prevention act 2012, economic and financial crime commission act of 2004 gives the standard guidelines that all banks should comply with. Banks are therefore obliged to maintain the highest operating standards to ensure that their services and products are not used for malicious purposes like money laundering, terrorism financing, illicit financial flows and other financial crimes.

Nigeria is no longer on the FATF (financial action task force) list of countries having strategic AML deficiencies as in 2018 FATF welcomed Nigeria significant progress in improving its AML/CFT regulatory framework with no sanctions currently against this country. This makes it a good hub for investors wishing to establish digital-only banks.
In other developing countries like pacific Asia, digital- only banks have been issued licenses for operations upon going through a thorough evaluation process which is the lead in this new frontier of digital services. This can be achieved in Nigeria through the development and execution of an AML/CFT enforcement program and providing qualified compliance personnel with a thorough knowledge of the AML / CFT regulations and comprehension of criminals' changing approaches as per Wang, Nnaji, & Jung, (2020) guidelines.

Even with no presence of physical premises where bank tellers and managers can check their customer identities, digital-only banks are bound by the rules and regulations of digital Onboarding and document verification as presented by any new customers. They must act as per the law by reporting to the regulator any irregularity or any Suspicious transaction as part of AML/CFT compliance. Digital banking licenses are usually subsumed under an existing break and mortar licenses but for the digital-only-banks, the operating licenses is presented as digital-only having no physical location for banking activities.

Referring to (Oladejo, & Oladipupo, 2017) In designing and implementation a well-structured AML/CFT compliance program, the banks are required to have professional, competent and well qualified compliance officers who have a profound background in understanding the AML/CFT regulations and are aware of the dynamics criminals use in their ever-changing tactics. These officers design risk-based and technological approaches on gathering data, analyzing the data while screening different personalities like politically exposed persons (PEPs), business associates, monitoring Suspicious transactions, watch list screening, and clear observation on cybercrime trends.

To achieve this at 100% success Nigeria banks need to check out the existing AML/CFT controls given, and how they might improve on their operations, evaluate how many employees should be involved in the AML/CFT functions, and what are the related risk that exists in every digital bank sector. By following a non-siloed approach, the AML/CFT functions operate in silos and have their systems to manage suspicious reporting of crime and there's a more effective way to do by using AML/CFT applications with artificial intelligence and machine learning that will inspect huge data volumes for the real-time tracking and PEP screening

AMF/CFT bodies are consistently taking deep research to identify various policies and measures that need to be undertaken to proactively deal with money laundering and threats of money laundering. For our Nigerian case, the government needs to appraise different vulnerabilities and tailor their research to highlighting these weaknesses while considering global standards that are in place for money laundering.

In the (KYC) programs and processes, regulators are obliged to check and update their policy guidelines to help the banks comply with the given rules that pertain to knowing their customers. Nigeria Central Bank and security and future commissions should update their code of conduct while introducing new onboarding rules in a face-to-face manner of capturing the identity of their customers. Referring to Badmus, G. (2019) With an aggressive and robust KYC process, and excellent accuracy tools, digital-only banks are in a position to determine the nature of customer and evaluate who has a high risk of being involved in terrorist financing as well as fraud and money laundering, conduct continuous KYC customer verification with due diligence, be updated on the existing and evolving threats, as well as using analytics in facilitating accurate evaluation.
The digital-only Banks' management team need to adverse their media checks in major languages like Ibo, Hausa, Yoruba and other tribes as it enables in search of adverse media and negative news about a personality who may pose a reputational risk to the organization (Oladejo, & Oladipupo, 2017). The key objective is random check to uncover any illegal

activity or criminal who wishes to transact with the organization.

By doing this the economic and social effects of money laundering and the funding of terrorist acts, however, can be avoided and the financial institutions can guard their businesses and the customers with the right attitude and resources, without disrupting business and experiencing reputational harm.

Regulatory concerns.

The banking sector comes with serious problems that have been deeply entrenched in the core financial business model. While digital-only banks offer many benefits to consumers and bankers great risk exist calling for attention of regulators. Financial regulators around the globe have been seeking to ensure that banks and other financial institutions conduct their business in an orderly fashion and professionally to ensure that they do not facilitate illegal activities like money laundering and terrorism financing through their services. In September 2014 JP Morgan admitted that emails, phone numbers, and addresses of 83 million account holders had been accessed by hackers in the world largest security breach. Following the hacking incidence, banks and regulators had to be honest with their customers about the trade-off between convenience and security in digital banking. This move has led to governments imposing strict and more stringent rules known as know your customers (KYC) as well as rules for tax reporting. Such rules have increased the compliance burden to many banks, and asset management companies across the globe as they have to deal with these strict rules which are easy for hackers and malicious experts to bypass. Regulatory barriers and the dominance of major banks are common in other countries, that have dominated mobile finance platforms rather than Telco's, only a few Digital-only banks like Kuda, that have been granted licenses for financial services in Nigeria.

With no legal and explicit regulatory framework that regulates electronic transactions in Nigeria, under the banking and other financial institution act of 2012 the Central Bank of Nigeria is empowered to control and regulate financial transactions in the country. The Central Bank embodies various legislation and supervisory bodies which include Central Bank of Nigeria act of 2007, Nigeria deposit insurance corporation act, companies and allied matters act 2020 and the foreign exchange act. According to Yusuf, & Ekundayo, 2018) these acts gives power and authority to the Central Bank Governor, which was used in 2012 to constitute a technical committee that regulates the conduct of digital and electronic banking in Nigeria. The committee recognizes that the development of digital and online banking has not been matched with the required regulations and there is a need to address any issue related to the regulator and banking sector. The committee however has issued a document named "guidelines on electronic and digital banking in Nigeria" which has strict rules regarding technology, safety, and security standards. On digital-only banks regulation by the document, it gives clear guidelines which emphasize that networks used for transmission of money must be demonstrated and meet the standard guidelines that are specified for data security and integrity of the user. Banking regulation act requires that no entity can carry out banking operations in Nigeria without a valid banking license under banks and other financial institution act. The document also provides rules that banks will be considered liable for fraud, card skimming, and counterfeit transaction until proven to a shadow of no doubt that the merchant is negligent.

Benefits of digital-only banks to Nigerian youths.

Youth interaction with digital technology at a young age is fundamentally different from that of just the elder generation. Data by UNICEF indicates that 71% of young people in Nigeria are internet users as compared to 48% of the overall internet users in the world. Access to online information and services has become fundamentally important that some countries like Spain, Finland, and France have recognized internet access as a human right. With an ambiguous presence of technology among the youths, this has led to the coinage of the term "digital natives" a term that implies a unique ability to appropriately use digital technology for personal and business use (Badmus, 2019). Financial inclusion to the youths mostly in developing countries like Nigeria in the right context can be an enabler to contribute to their financial empowerment and increase their productivity and well-being. Research indicates that young people form their financial habits and spending patterns as early as the age of 7 years onwards. The prospect of jobs in this sector will be beneficial for the young population which makes up 60 percent of the unemployed people in Africa and young people can take advantage of the opportunities created by the digital revolution (Tarhini, Mgbemena, Trab, & Masa'Deh, 2015). Should mobile users connectivity continue to grow, the user's ability to close the educational gap on the continent will increase.

Digital banks will help a huge population of youth in business and entrepreneurship as it will conveniently and affordably connect entrepreneurs with the bank, the supplier of goods and also penetration into new markets which prefer digital payments (Yusuf, &

Ekundayo, 2018). By using such modern systems, the youths will be in a position to accelerate their business, register other online branches, as well as cost reduction due to traveling and incurring other logistical costs.

Digital-only bank services will help Nigerian youths improve on their savings models as well as access and payment of loan facilities which can be a major boost to their businesses. This is supported by fact that digital loan payment automatically provides the user of the bank with a credit history which gives them access to higher credit facilities.

Digital-only banks will give youths in marriages and entrepreneurship great control over their cash flows and incomes potentially benefitting their business and entire households especially in the micromanagement of funds for budgets and children.

Conclusion.

Regardless of its path to growth in Nigeria and other parts of the world, digital-only banks have multiple challenges and opportunities that must be addressed to cement its operations in local and international financial landscapes. Banking services and solutions have changed drastically as automation is currently the biggest focus that banks are concentrating on as technology is increasingly growing. With the convenience and economic advantage of digital-only banks, as experienced by the consumers, its market share in Nigeria is gaining traction and over time customer satisfaction will lead to better scalability. Regulators have done incredible job in making Nigeria a good business hub for investors in banking technology. Embracing digitization of banking services from a traditional model to digital-only banks, in our country Nigeria, it will create a good space for enhanced and convenient customer services, reduce human effort and error, helps save time and resources as well as building loyalty to the customers. Nigeria as a developing country and the establishment of digital-only banks will revolutionize the Nigerian market, create employment and jobs for the youth of Nigeria, decrease the unemployment rate, create space for banks expansion through reduced cost of doing business, and in the long run boost the economy of Nigeria to a developed country.

Recommendations

Nigerians are fast learners and quick to adopt technology, and such an aggressive attitude present a good investment hub for investors in digital ecosystem and value adding solutions to financial service providers. Nigeria having a stable economic fundamental, internet connectivity, good regulatory climate and easily accessible technology can propel digital-only- banks adoption as transformation is no longer an option but a must considering the fact that 80% of global banks are already implementing digital transformation programs. This comes at a time when the world financial sector is at the heart of growing wave of technological transformation and digital-only banks have a great future in the banking industry despite the challenges presented by their establishment. Better conditions for the bank can be achieved through moving from functional quantity to quality design quantity, creating seamless multichannel experiences, a well-structured end to end customer onboarding, removing internal silos, and increasing customer values with the digital-only bank services. Its however important to consider that in the digital era almost every online transaction needs KYC compliance, from banking, forex bureau to gambling operators as per the law. For successful running of digital-only- banks healthy and working atmosphere, the desired outcome is that all obliged entities entering the market accurately identify their customers with valid licenses given by regulator as digital only with no physical locations. A critical element to successful AML/CFT outcome is individual risk assessment at the organizational level and at the level of account opening. The standard procedure is the core of identification with AML compliance as well as clarification and codification in order to provide a stable working environment and for the benefit of customers and regulators. With absence of adequate and legal regulatory measures to address all associated risk and challenges of digital-only banks, it might hinder customer trust and confidence in using this digital banking products and services.

REFERENCES

Agu, B. O., Simon, N. P. N., & Onwuka, I. O. (2016). Mobile banking–adoption and challenges in Nigeria. *International Journal of Innovative Social Sciences & Humanities Research, 4*(1), 17-27.

Badmus, G. (2019). A Global Guide to a Crypto Exchange Regulatory Framework. *JL Pol'y & Globalization, 90, 9.*

Bello, D. A., & Dogarawa, K. (2005). The impact of E-banking on customer satisfaction in Nigeria. *University Library of Munich, Germany.*

Chiemeke, S. C., Evwiekpaefe, A. E., & Chete, F. O. (2016). The adoption of Internet banking in Nigeria: An empirical investigation. *Journal of Internet banking and Commerce, 11*(3), 1-10.

Oladejo, M. O., & Oladipupo, A. U. (2017). Capital regulation and the performance of the Nigerian banks: Need for review. *Journal of Emerging Trends in Economics and Management Sciences, 2*(3), 215-224.

Ojeka, S. A., & Ikpefan, O. A. (2018). Electronic commerce, automation and online banking in Nigeria: Challenges and benefits. *International Journal of Innovation in the Digital Economy (IJIDE), 3*(1), 11-26.

Nel, J., & Boshoff, C. (2021). "I just don't like digital-only banks, and you should not use them either": Traditional-bank customers' opposition to using digital-only banks. *Journal of Retailing and Consumer Services, 59,* 102368.

Tarhini, A., Mgbemena, C., Trab, M. S. A., & Masa'Deh, R. (2015). User adoption of online banking in Nigeria: A qualitative study. *Journal of Internet Banking and Commerce, 20*(3), 1-8.

Salami, I. (2018). Terrorism financing with virtual currencies: can regulatory technology solutions combat this? *Studies in Conflict & Terrorism, 41*(12), 968-989.

Sanusi, L. S. (2010). The Nigerian Banking Industry: what went wrong and the way forward. *Delivered at Annual Convocation Ceremony of Bayero University, Kano held on, 3*(1), 2010.

Taiwo, A. (2018). Digital Banking in Nigeria: Issues and Challenges. *Available at SSRN 3295514.*

Wang, V., Nnaji, H., & Jung, J. (2020). Internet banking in Nigeria: Cyber security breaches, practices and capability. *International Journal of Law, Crime and Justice, 62,* 100415.

Yusuf, I., & Ekundayo, D. (2018). Regulatory non-compliance and performance of deposit money banks in Nigeria. *Journal of Financial Regulation and Compliance.*