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A Glance on Digital Lending in Nigeria

Financial Technology (FinTech) companies have made it easy and convenient to access loans and other financial services. The prevalence of digital lending and the unethical practices of digital lenders have necessitated the need to regulate digital lending in Nigeria. The unregulated nature of digital lending led to unethical and predatory lending practices, such as inflated fees, data breaches, unethical debt recovery practices, etc.

Introduction

Financial Technology (FinTech) companies have made it easy and convenient to access loans and other financial services. The prevalence of digital lending and the unethical practices of digital lenders have necessitated the need to regulate digital lending in Nigeria.¹ The unregulated nature of digital lending led to unethical and predatory lending practices, such as inflated fees, data breaches, unethical debt recovery practices, etc. In view of this, the Federal Competition and Consumer Protection Commission (FCCPC), in 2022, enacted the Limited Interim Regulatory/Registration Framework and Guidelines for Digital Lending (the "Guidelines") which requires all digital lenders to obtain the approval of FCCPC before engaging in lending business.

In today's edition of TMT Thursday, we have discussed the requirement for operating a digital lending business in Nigeria.

¹ Aderonke Alex-Adedipe and Nuratulahi Yishawu, "Regulation of Digital Money Lenders and Protection of Privacy Rights in Nigeria" available at <https://pavestoneslegal.com/regulation-of-digital-money-lenders-and-protection-of-privacy-rights-in-nigeria/> accessed April 15, 2024.



What is Digital Lending?

Digital lending refers to lending of money through digital platforms. The common digital lending platforms in Nigeria include Fairmoney, Renmoney, Newcredit, PalmCredit, Carbon, WeCredit, Okash, EasiMoni and Branch. Digital lenders play significant role in the Nigerian economy by providing quick and easily accessible loans.²

Requirements for Digital Lending in Nigeria

To operate a digital lending business in Nigeria, such person or entity must comply with the following requirements:

1. **Register the Business with the Corporate Affairs Commission:** anyone seeking to carry or carrying on business in Nigeria must register the business with the Corporate Affairs Commission. Therefore, any person proposing to operate a digital lending business must register with the business with the Corporate Affairs Commission prior to commencement of operation.

²Samson Akintaro "Top 10 loan apps in Nigeria by user ratings as of January 2024"



- 2. Obtain a Lending License:** a person or entity that intends to engage in digital lending must obtain a lending license. The most common license among digital lenders is the money lenders license. The Money Lenders Law of various States require every individual or entity that lends money with interest or lends a sum of cash in consideration of a bigger sum to obtain a money lender's license. Entities with banking licenses and finance company licenses are also permitted to engage in digital lending. An entity or person that is desirous of engaging in digital lending without any of the license highlighted above may partner with an entity or individual that has obtained any of the licenses subject to applicable laws.
- 3. Registration with the Federal Competition and Consumer Protection Commission:** The FCCPC is responsible for protecting the rights of consumers. The FCCPC has the authority to investigate complaints, enforce compliance with regulations, and impose sanctions on financial institutions or digital lenders that violate consumer rights.

On the 18th of August 2022, the FCCPC released the Guidelines as an attempt to regulate the digital lending and to make provisions for the registration of digital lenders in Nigeria. The Guideline require all digital lenders to obtain the prior approval of the FCCPC before engaging in the business of lending. Failure to obtain the approval of FCCPC may lead to delisting of the mobile application on mobile application stores. FCCPC has also directed that all telecommunication companies and banks providing services or other key services to digital lenders that have not obtained the approval of the FCCPC to cease the provision of such services.



4. **Compliance with the Nigeria Data Protection Act 2023:** The Nigeria Data Protection Act 2023 provides for the protection of the personal data of individuals. Digital lenders process personal data their borrowers, employees, vendors and other individuals, therefore they are required to put in place appropriate technical and organizational mechanisms for the protection of personal data, audit their data processing activities annually, register with the Nigeria Data Protection Commission and comply with other requirements of the Nigeria Data Protection Act 2023.

Other Policy Considerations for Digital Lenders

1. **The Use of Global Standing Instruction:** A Global Standing Instruction (GSI) allows a creditor to directly set off its customers debt against the deposit or investment held by the debtor in a participating financial institution. A GSI mandate must be included in the loan agreement and explained to the borrower prior to sign off.
2. **Profiling and Automated Decision Making:** Digital lenders rely on profiling and online financial information to make fast credit assessment and make lending decision. This may lead to discrimination. When making decision based on profiling or automation, digital lenders are required to implement suitable measures to safeguard customers fundamental right, such as, the right to request for human intervention in the credit assessment, the right to contest the credit assessment and express his/her point of view on the credit assessment.



Conclusion

Digital lending in Nigeria is growing and proper framework has been put in place to ensure security of lenders money, protect borrowers from absurd interest rates and unethical loan recovery practices; and protect the public from privacy intrusion and personal data breach.

