

## Regulatory and Legal Implications of Consumer Credit in a Cashless Financial System in Nigeria

Eunice Awaji Kolo<sup>1</sup>, Godswill Owoche Antai<sup>2</sup>, Adeyeye Joel<sup>3</sup>, Foloke Moronkeji<sup>4</sup>

<sup>1</sup> Faculty of Law, Adeleke University, Ede, Osun State, Nigeria. E-mail: [eunicekolo01@gmail.com](mailto:eunicekolo01@gmail.com)

<sup>2</sup> School of Law, Kampala International University, Kampala, Uganda. E-mail: [godswill.antai@kiu.ac.ug](mailto:godswill.antai@kiu.ac.ug)

<sup>3</sup> Faculty of Law, Adeleke University, Ede, Osun State, Nigeria, E-mail: [joeladeadeyeye@gmail.com](mailto:joeladeadeyeye@gmail.com)

<sup>4</sup> Faculty of Law, Adeleke University, Ede, Osun State, Nigeria. E-mail: [moronkeji.foluke@adelekeuniversity.edu.ng](mailto:moronkeji.foluke@adelekeuniversity.edu.ng)

\*Author Correspondence email: [godswill.antai@kiu.ac.ug](mailto:godswill.antai@kiu.ac.ug)

### Abstract

This study examines consumer credits in a cashless economy, addressing issues arising, their impact, and the prospects for the future, with specific regard to Nigeria. The paper is borne out by the desire to unearth the availability of consumer credits in a cashless economy, their inhibitions, and prospects for the future. The research method is doctrinal, and the analytical process of findings is descriptive. The work found that financial entities offer loans to individuals and businesses through digital channels such as mobile apps. However, the development of consumer credit in a cashless economy is inhibited by factors such as a high level of illiteracy among individuals, especially in rural areas, non-familiarity and lack of required technological skills to operate technological devices, and the failure to exercise self-control by consumers when purchasing items increases their debt profile. Regulatory frameworks have been designed to protect and safeguard credit consumers from potential exploitation by digital financial entities. These frameworks also guide the operations of digital lending platforms, aiming to ensure transparency in their practices. In light of these circumstances, it is recommended that emphasis be placed on fostering financial self-awareness among consumers seeking credit. Consumers are advised to exercise prudence in utilising credit for essential purchases of goods and services. It was proposed that banks consider waiving transaction fees to promote the adoption of cashless transactions among unbanked consumers. Additionally, prioritizing consumer awareness is essential to ensure that individuals are well-informed about the pertinent details of the credit facilities they intend to purchase.

**Keywords:** Legal, Consumer Credit, Cashless, Financial System

## 1. Introduction

Consumer credit is a financial facility used to purchase commodities or services for personal use, or to refinance debts incurred for such purposes on a short- and intermediate-term basis. Creditors can provide the loan as cash loans or sales credits to the sellers<sup>1</sup>. Consumer credit in industrialised countries has increased as the introduction of a cashless policy program is being adopted by the government<sup>2</sup>. These policies regulate the financial sector and create a fair, equitable environment for the players in the sector, which is the financial services industry, and the consumers of financial services.

As the name implies, a cashless policy means an act of carrying out financial transactions without banknotes. The cashless policy or economy introduced debit cards for electronic transfers for financial transactions<sup>3</sup>. A cashless economy aims to diminish the volume of physical currency in circulation, as a result promoting electronic-based transactions. The use of card payments is growing quickly, largely encouraged by developed and developing countries, which are now abandoning paper-based payment instruments in favor of electronic ones<sup>4</sup>. Some aspects of the functioning of the cashless economy are enhanced by e-finance, e-money, e-brokering, and e-exchanges. These all refer to lawful transactions and payments effected in a cashless economy<sup>5</sup>. The Central Bank of Nigeria (CBN) introduced a cash-based transaction policy that limits daily withdrawal transactions that exceed N500,000 for individuals and N3,000,000 for corporate bodies to reduce the amount of physical cash in circulation.<sup>6</sup> This policy came into force in January 2023. Before then, the CBN reduced Automated Teller Machine Withdrawal Limits in 2021 to N20,000 and N100,000.

In the primitive era, the exchange of goods relied on barter, a system fraught with delays and limitations. As a result, a more efficient and acceptable medium of exchange emerged: money. Money is anything that serves as a medium of exchange<sup>7</sup> in most countries. Before the advent of the cashless economy, cash in the form of notes and coins (pennies) was the major medium of exchange. Naira notes and coins are used in Nigeria, which is why Nigeria is seen as cash-based<sup>8</sup>. In Nigeria, the circulation of coins has been discontinued for a prolonged period. Ajayi and Ojo<sup>9</sup> reiterated that cash is the main mode of payment, and a large percentage of the

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<sup>1</sup>AV Tarasenko, M Penteleichuk and L Kolotylo, 'Theoretical Aspects of Treatment of the Essence of Consumer Creditation' (2025) *Problems and Prospects of Economics and Management*.

<sup>2</sup>NAN Ibrahim, DT Nipo and RM Kamal, 'Society's Growing Preference for Cashless Transactions Over Cash' (2024) 14(9) *International Journal of Academic Research in Business and Social Sciences* 2355.

<sup>3</sup> Nigerian Finder, 'Cashless Policy in Nigeria: Meaning & Benefit' <https://nigerianfinder.com> accessed 24 March 2019.

<sup>4</sup> DB Humphrey, 'Replacement of Cash by Cards in US Consumer Payments' (2004) 56 *Journal of Economics and Business* 211.

<sup>5</sup> W Akram, 'Challenges and Opportunities Experienced in Moving from Cash to Cashless Economy' (2017) 7(8) *International Journal of Current Trends in Science and Technology* 20239.

<sup>7</sup> AA Achg, 'International Journal of Development and Management Review' (2008) 3(1) *Int J Dev Manag Rev* 88.

<sup>8</sup> R Anthony, O Elechi and AO Chizoba, 'Cashless Policy in Nigeria and Its Socio-Economic Impacts' (2016) 2 *International Journal of Humanities and Social Science Research* 35.

<sup>9</sup> SI Ajayi and OO Ojo, *Money and Banking: Analysis and Policy in the Nigerian Context* (2nd edn, Daily Graphics Nigeria Ltd 2006)..

population are unbanked. This paper will focus on the dynamics of consumer credit within the context of Nigeria's evolving cashless economy. It will examine the intricacies of consumer credit, the challenges it faces, and its profound impact on consumers in the Nigerian market.

## 2. Method

This research uses a doctrine-based method to analyze critically, the regulatory and legal implications of consumer credit in a cashless financial system. The research will use primary legal sources, including constitutional provisions, laws, policy directives issued by regulators or authorities overseeing the financial system, judicial determinations, and current policy documents that govern digital financial services and consumer protection. The research will also analyse academic articles, textbooks, documents published by financial regulators, academic commentaries, and other reputable online publications to provide interpretative analysis and identify areas of current debate. Through a specific analysis of legal norms, regulatory frameworks, and judicial reasoning, the research will examine any formulated legal regulatory gap or ambiguity and determine the challenge of regulation and regulation enforcement in consumer credit in a cashless financial system. Where appropriate, it may also use comparative jurisdictions that have a more developed cashless system. This research using a doctrine-based approach, will assist in any consideration of reforms and identification of best practices in a cashless financial system. Ultimately, this approach provides a consistent opportunity to clarify the law as it exists and draw conclusions to assess any possible changes to strengthen protections for consumers and by extension, the regulatory framework.

## 3. Analysis or Discussion

### 3.1. Conceptual Clarification Consumer Credit in a Cashless Financial System in Nigeria

Consumer credit is a debt that a person incurs when purchasing a good or service. Consumer credit includes purchases obtained with credit cards, lines of credit, and loans.<sup>10</sup> It is a loan or a financial facility that consumers use for personal, family, or household purchases, or to cover personal expenses, which is repaid over time. Consumer credit comprises short-term loans extended to individuals to acquire consumer goods and services for personal or household use. This category of credit pertains to short-term and medium-term borrowings for purchasing goods or services for personal use or for the consolidation of borrowings for such purchases. Such a loan may be provided by loan originators as a cash loan or by sellers as sales credit.<sup>11</sup>

Instalment credit is a loan that is paid back with a fixed number of periodic, equal-sized payments. We use this type of funding often for all sorts of pursuits such as car

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<sup>10</sup> Hélène Saiag, *Consumer Credit and Debt* (Oxford Research Encyclopedia of Anthropology, 2020) <https://oxfordre.com/anthropology> accessed. accessed 12 March 2019.

<sup>11</sup> Ibid

loans, personal loans and home loans. Consumer goods such as cars, home repairs, and modernisation projects. Loans can cover instalments. With the organisation described, borrowers can obtain goods from manufacturers, proprietors, jobbers or retailers on an instalment payment basis, or can defer payment. In contrast, revolving credit provides consumers with a line of credit, enabling them to borrow funds up to a predetermined limit. What makes revolving credit special is that it is available for use again once a borrower pays a portion of what was borrowed. Interest is charged solely on the amount borrowed, hence more flexible for consumers.

Non-instalment credit, on the other hand, is primarily intended for small purchases and is usually expected to be repaid in full within a short timeframe. Unlike instalment loans, non-instalment credit does not require structured payments; instead, lenders expect a lump sum payment from the borrower when it's due. This straightforward approach makes it a convenient option for quick, smaller financial needs. The supply-demand relationship for consumer goods was affected by the industrial revolution of the 19th century in Europe and North America. Thus, it happened that dealers took goods to the consumer for utilisation, while paying in instalments.<sup>12</sup> The above practice has remained up to the present, and it is governed by consumer credit laws relating to credit sales to consumers. This legislation includes the Hire Purchase Act 1965, Pawn Brokers Act 1872-1990 and the Money Lenders Law of the states of Nigeria, respectively.

Credit is defined under the English Consumer Credit Act 2006 as the granting of a loan as part of the debt. This also includes an instalment sale arrangement known as hire purchase. Credit can also be a form of financial assistance in which one party gives the other party access to resources that the receiving party does not currently have in exchange for an agreement to pay or return those resources later<sup>13</sup>. The resources provided can be in the form of financial assistance or goods or services. Credit can be categorized into two forms: loan credit and supply/sale credit. Loan credit occurs when money is provided to the debtor or a third party at the debtor's request, agreeing that the debtor will repay the amount. On the other hand, supply credit involves postponing the debtor's obligation to pay for the goods or services received. In the case of loan credit, the debtor repays an advance, while supply credit allows the deferment of payment. Credit can be defined as the privilege extended by a creditor to a debtor, allowing the debtor to defer payment or to incur debt and defer its payment. Credit is one of the cornerstones of modern capitalism that

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<sup>12</sup> Farns Wortt, 'A Modern Instalment Sales Law: A Comparative Survey' in A L Diamond (ed), *Instalment Credit* (Stevens & Sons 1970) 25.

<sup>13</sup> M Ekpo, E Aloba and J Enyia, 'Impediments to the Development of a Strong Consumer Credit System in Nigeria' (2008) *World Journal of Social Science* <https://www.wjss.sciedupress.com> accessed 25 April 2019

lubricates the economy and promotes commercial activity.<sup>14</sup> Credit availability allows individuals to expend funds beyond their current means, leading to a reliance on credit for basic purchases. Interestingly, individuals often choose to use credit even when they have sufficient cash to cover the expense, and they may also resort to incurring new debt to settle existing debts. Credit is the extension of money from the lender to the borrower. In the words of Spencer, “credit implies a promise by one party to pay another for money borrowed or goods and services received.” Credit, on the other hand, might be regarded as a case in which the one party advances the other some resources, but those resources are not repayable at once in the same form, but at an agreed date or are returned today.

A cashless economy is a mechanism where transactions are done through digital form instead of cash for the exchange of goods and services<sup>15</sup>. Wood Ford is of the view that a cashless society does not imply a lack of physical cash. But an electronic transfer of funds for goods and services. Financial transactions are increasingly conducted electronically, replacing traditional paper currency. Many Countries have been steadily progressing toward a fully cashless society. Sweden stands at the forefront of this movement, with over 98 per cent of consumer transactions being carried out via noncash methods, including credit, debit, and mobile banking solutions.<sup>16</sup> In Africa, Kenya is the trailblazer in going cashless, with 94% of transactions made using alternative methods. In 2016<sup>17</sup> 8<sup>th</sup> November, to be precise, the government of India implemented a huge change in their economy by eliminating the highest value of its denomination. This pushed India towards a cashless future because 90 per cent<sup>18</sup> of paper money was removed from circulation.

In Beijing, cash payment is becoming obsolete. They use WEchat mobile on their phone to make payments. WeChat Pay is an integrated payment feature within the application, enabling users to swiftly and securely perform transactions on their mobile devices. And the cutting-edge payment system is spreading so quickly in Beijing and other major cities that experts say China is on the path to becoming a society that essentially runs on mobile payments, making bills and coins practically obsolete. The country recorded \$15 trillion (paywall) of mobile payments in 2017, the Wall Street Journal reports, far surpassing the United States of America. Cash is

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<sup>14</sup> E Essien, *Law of Credit Security* (Todlaw Publishments Ltd 2012) 4.

<sup>15</sup> SA Akpanke, GO Antai, L Iheanacho and PB Aboh, ‘Credit, Securities and Consumer Credit in Nigeria: Impacts, Challenges and Prospects’ (2022) 18(1) *The Calabar Law Journal* 1

<sup>16</sup> T Dalebrant and S Wood, *The Monetary Policy Effects of Sweden’s Transition Towards a Cashless Society: An Econometric Analysis* (2016)

<sup>17</sup> PG Garg, *Study on Introduction of Cashless Economy in India 2016: Benefits and Challenges* (2016) <https://www.researchgate.net/publication/326607192> accessed 26 March 2019.

<sup>18</sup> K Mulin, ‘China’s Cashless Economy Threatens to Leave Its Elderly—and Their Money—Behind’ (2018) <https://qz.com/14353202> accessed 26 March 2019

dying out quickly in China. The number of people paying by phone has surged so fast it's taking over from cash.<sup>19</sup>

### **3.2. Features of Consumer Credit in a Cashless Economy**

In the cashless economy, the characteristics of consumer credit are fluid and distinctive, with a major impact on how individuals and businesses access and use credit. The characteristics are based on digital platforms, financial technologies (Fintech), and electronic payment systems. In today's cashless society, real-time credit issuance has transformed the landscape of how consumer gets credit. Consumers get credit minutes or even hours later, through web channels such as online banking and through their handsets, with quick-track, easy submissions. Accessibility helps the maximum number of people falling in the underbanked category, as the new credit scoring systems employ alternate data points, such as the fact that the consumer uses a cell phone and uses social media to provide creditworthiness. Compared to the usual lending, which sometimes requires real collateral, online lending platforms employ advanced algorithms and consumer information to make their lending decisions through informed analysis. This strategy has caused flexibility in credit products. Short-term loans, which are designed for particular needs like unforeseen bills or small purchases, are becoming more accessible via mobile money platforms and fintech startups.

There has been a development in credit scoring techniques that go past the conventional methods to incorporate non-traditional data. This has allowed for a more holistic consideration of a person's credit history, encompassing aspects such as utility bills and online buying behaviors, and enhancing financial inclusion for the numerous people who had been locked out<sup>20</sup>. Additionally, lenders already have personalized credit products through data analytics, as well as through machine learning. By monitoring credit profiles, as well as individual debtors' spending behavior, lenders already possess the ability to predict accurate credit lines, interest rates, as well as payment terms for individual debtors. Monitoring in real time eases the consumer's task, as he/she may know their payment deadlines, credit balance, and payment dates. Promotional rewards, e.g., cash back through credit providers, encourage use of the cards through rewarding points or financial rewards while buying. However, it's a requirement that the consumer gets information about minimum payment use through the credit cards. Though the minimum payment relieves temporarily, it frequently reflects long debt tenors, as well as excessive interest charges are possible in the long run. Compromise, through the excessive

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<sup>19</sup> OG Izevbuwa, PA Aidonojie, AI Imiefoh, E Obieshi and GO Antai, 'Concept of Automated Income Tax in Edo State Nigeria: Learning from the American System' (2004) 10(2) NIU Journal of Legal Studies 19–36.

<sup>20</sup> S Gupta, *Advanced Credit Scoring Models Using Dremio and Google Cloud ML: Developing Machine Learning Algorithms That Incorporate Alternative Data Sources to Enhance Credit Scoring Accuracy* (2022) *International Journal for Multidisciplinary Research*.

interest charge, may have heavy financial consequences, particularly when the card gets a higher interest charge. Additionally, provision of convenient credit facilities helps people as well as business organizations to venture into capital projects, fund stores, as well as individual acquisitions with capability as well as confidence<sup>21</sup>.

### 3.3. Prospects for Consumer Credits in a Cashless Economy

As the world moves further towards becoming a cashless society, the initial trepidation and anxiety yield to rising acceptance of what is inevitable. As stated previously, we have discussed a couple of disadvantages/issues that result from such a course. Adoption of a cashless society spells several appealing prospects for expansion, the bulk of which are in technological transactions and consumer credit. Perhaps the largest advantage here is the advantage of convenience and the easier availability of credit. Consumers need not anymore carry clumps of money and queue all the way to the dispenser for the withdrawal of money. With the prevalence of point-of-sale systems and the use of payment systems through mobile, transactions are convenient and swift, allowing people to do business anywhere and everywhere they desire. Credit approvals are facilitated, and the tedium of papers and a trip to the lending institution is circumvented<sup>22</sup>.

Another significant advantage of the system is easy monitoring of the records of expenses. As all the records are stored online, the consumer gets easier access to their expense. It becomes easier to apply for credit through the virtual space, such that now the individuals are allowed to apply for loan credit via their own cell phones, while sitting at their residences. Safety increases considerably as well. In the highly unlikely event that a consumer's debit card becomes stolen or lost, they are able to suspend use of their accounts instantly to guarantee that fraudulent use does not begin. Something which becomes impossible when money becomes stolen as recovering the money becomes a highly arduous process. Future refinements could even include biometric forms of identification, such as eye or fingerprint scanning, increasing protection against fraud another level. Additionally, ever-growing numbers of corporations reward cashless payment, such as the provision of reduced prices, reward points, and loyalty rewards pertaining to credit and card stores, making use of these payment media yet all the better. Distribution of physical money declines, a situation which serves to discourage inflation, consequently increasing the purchasing power of consumers as well as general economic health<sup>23</sup>.

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<sup>21</sup> SJ Brown, C Veld and YV Veld-Merkoulova, 'Credit Cards: Transactional Convenience or Debt-Trap?' (2018) *International Review of Finance*.

<sup>22</sup> R Abdul-Rahim, SA Bohari, A Aman and Z Awang, 'Benefit-Risk Perceptions of FinTech Adoption for Sustainability from Bank Consumers' Perspective: The Moderating Role of Fear of COVID-19' (2022) 14(14) *Sustainability* 8357 <https://doi.org/10.3390/su14148357>.

<sup>23</sup> Marie P Mezoh, 'Exploring the Advantages of Cashless Payment Systems: A Comprehensive Review' (2024) *International Journal of Research and Innovation in Social Science*.

It helps reduce the problems of money laundering and risk involved in crimes performed with physical currency to a greater extent. Facilitating the enabling of the innovativeness pertaining to the financial technology, information security, e-commerce, and online customer services segments, the transformation opens new work opportunities. Moreover, credit becomes directly accessible through short-term credit, facilitating individual requirements as well as business endeavors, representing the diversified advantage pertaining to accepting a cashless future. It has the advantage of reducing the consumers' time as they do not have to enter the credit card number or the bank accounts repeatedly while conducting a transaction. Here, the information's security as well as privacy are preserved, as the E-wallet can be accessed by the user through their allotted My Account access and password. Usage of consumer credit through a cashless economy, therefore, helps boost consumer expenditures. Thereafter, the higher expenditure thus indicates a general rise in the economic income size, propelling the Gross Domestic Product (GDP) and ushering in the quick-scaled increments in the speed of production. Consumers are advised to scrutinise the terms and conditions of the credit givers, e.g., the rates, charges, and banking charges for transactions, and others. In such a case, the measure shall prompt the credit providers to compete and employ the best credit terms to the credit users<sup>24</sup>.

#### **3.4. Digital Lending Platform**

They are online financial institutions which offer credit to individuals and businesses online through the use of online platforms such as websites, online platforms, or a mobile app. They are fast, easy, and convenient compared to the use of the banking system. They employ the use of artificial intelligence, machine learning, as well as alternative data, to conclude the creditworthiness of potential debtors and make the process of loan approval quick. They have emerged extremely rapidly in Nigeria, lending credit to the banked as well as the unbanked population which may lack a credit history or a relationship with the formal credit platforms. We have their short loan facilities of short durations with predetermined dates of repayment. Some of the loans have informal as well as formal characteristics and may require documents such as a valid ID and a statement from the bank<sup>25</sup>.

#### **3.5. The Role of Credit Bureaus in Nigeria**

The credit bureaus are privately owned for-profit businesses. They receive data from numerous financial organizations, such as microfinance companies and credit card companies, and offer a more detailed consumer credit report, along with value-

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<sup>24</sup> W Akram, 'Challenges and Opportunities Experienced in Moving from Cash to Cashless Economy' (2018) 7(8) *International Journal of Current Trends in Science and Technology* 20239.

<sup>25</sup> O Thompson, F Bode-Alakija and PD Awange, "'If You All Don't Save Me, I Will End My Life": An Assessment of (Il)legal Online Digital Lenders (Loan Sharks) in Nigeria' (2024) 37(1) *Afrika Focus* 94 <https://doi.org/10.1163/2031356x-20240106>

added services such as credit scores to credit lenders.<sup>26</sup> Credit bureau operations are regulated by the Central Bank of Nigeria. Also, the Credit Reporting Act 2017 is the Law on which credit Bureaus operate in Nigeria. The primary function of credit bureaus is to procure information on potential borrowers by gathering their data from various sources such as businesses, lenders, utility companies, and telecommunication companies. This data encompasses personal information, loan repayment history, outstanding debts, payment defaults, and credit utilization. Subsequently, credit bureaus furnish this information to financial institutions, aiding them in assessing borrowers and handling associated credit risks. Transparent credit information is a prerequisite for sound risk management and financial stability. Information sharing can promote a responsible credit culture by discouraging excessive debt and rewarding responsible borrowing and repayment.<sup>27</sup>

### **3.6. Impact of Consumer Credit in a Cashless Economy**

The impact of consumer credit in a cashless economy is significant and complex, impacting consumers, businesses, and the financial ecosystem. Throughout history, the law has aimed to safeguard borrowers, recognizing their vulnerability to potential exploitation by lenders. This protection is crucial as lenders often possess greater bargaining power than borrowers, leaving the latter disadvantaged. Thus, accessing credit in a modern cashless economy presents challenges, with legal protections varying across countries. While some nations offer extensive safeguards, others provide minimal protection for borrowers. The importance of credit in economic development has been acknowledged as credit facilities are availed by different economic units to cover operating costs. For example, business firms get credit to purchase machines, equipment, seeds and fertilisers to store in various farm structures. Government organisations frequently acquire credits to finance various types of recurring and capital expenditures. Credit is also being utilised by people and families who are also lending to purchase goods and services needed.<sup>28</sup> Consumer credits are mostly for consumables. The Federal Government rolled out Consumer credit in Nigeria, through the Nigerian Consumer Credit Corporation (CREDICORP). This was announced by the Managing Director and Chief Executive Officer, Engr Uzoma Nwagba. Five financial institutions were selected to advance loans to Nigerians to assist them in handling daily financial pressure from

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<sup>26</sup> GO Antai, L Iheanacho, L Ogu, A Beinomugisha and DE Okpong, 'Voyage to Taxing Religious Organizations in Nigeria and Blocking Leakages in the Nigerian Economy: Legal Framework and Matters Arising' (2024) 5(2) KIU Interdisciplinary Journal of Humanities and Social Sciences 17–28.

<sup>27</sup> Ibid

<sup>28</sup> OM Adeniyi, 'Bank and Economic Development in Nigeria: A Case Study of Deposit Money Banks' (2006) JJE <https://scholarexpress.net/view> accessed 14 October 2024.

the rising cost of petrol and energy. Through this Pilot program, Nigerians can access cheaper credit to meet urgent household expenses.<sup>29</sup>

The cashless society does not equate to cash being abolished completely, as money will still be the means of trading goods and services, as far as one can imagine. It's a financial ecosystem that reduces reliance on hard cash using other payment routes.<sup>30</sup> Users can affect payments through the Internet, automatic unmanned vending machines, point of sale with mobile-phone devices, personal digital assistants (PDA), or other electronic commerce payment systems such as credit and debit cards. To promote and encourage cashless transactions, Nigeria made available diverse methods of cashless transactions. Such as Banking cards like credit, debit, and prepaid cards. They offer consumers security, convenience, and contractual operations (way of payment methods) visa, Visa and Mastercard are examples of card payment systems. To safeguard payments or withdrawals, consumers use secured PINs and OTP. USSD, known as supplementary service data another channel for payment that allows mobile banking transactions using a mobile phone. The advantage of this method is that internet data is not required; the consumer can access balance inquiries, mini statements, and interbank fund transfers. Additionally, a mobile wallet is a way to carry cash in digital format. You can link your credit card or debit card information in your mobile device to a mobile wallet application or transfer money online to a mobile wallet instead of using a physical card to make purchases.<sup>31</sup> Payments are usually made with a smartphone, tablet, or smartwatch. Mobile wallets available in Nigeria encompass Digital Services Limited, PalmPay Limited, First Monie Wallet, and eNaira, among others.

Another method of cashless payment is through a prepaid card. A prepaid card is not necessarily linked to an existing account like a debit card. Instead, one is spending money loaded onto the card in advance. In this case, one can't spend more than what has already been loaded on the prepaid card. There is also the Point of Sale (POS), which is a machine where sales are made. It can be a market or a mall, a consumer completes a transaction at the checkout counter, and finally, Mobile banking. Financial transactions are conducted via a mobile device with a downloaded app of any bank a consumer desires to use. As earlier stated, greater access to credit makes it easier for business enterprises to start capital projects, and increase stock levels and personal expenditure. Different people, organisations, and

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<sup>29</sup> J Agada, 'Consumer Credit: Opportunity to Tackle Pressure as CREDICORP Takes off' *Businessday* (Nigeria, 23 September 2024) <https://businessday.ng> accessed 12 October 2024.

<sup>30</sup> Alionu, cited in Aslam Hasan, Mohd Atiff Amaan and Mohd Ashraf Aki, 'Challenges Perceived by Consumers in Cashless Transaction' <https://www.researchgate.net/publication/319349476> accessed 16 May 2019

<sup>31</sup> Ibid.

other economic agents require finance for different purposes.<sup>32</sup> The availability of finances improves the quality and standard of life of the consumer.

### 3.7. Regulatory Framework for Consumer Credit in Nigeria

The consumer credit regulatory sector in Nigeria is a constantly changing legal framework that was developed to improve access to credit, protect the rights of consumers, maintain financial stability and foster economic value in a cashless economy. Consumer credit is the extension of loans to individuals for personal, family, or household use, rather than for business or commercial purposes, with repayment delayed over a certain period of time and typically accompanied by interest<sup>33</sup>. The consumer credit market in Nigeria is also being driven by a flourish of digital financial services, fintech applications, and the cashless economy policy by the government. In turn, a constellation of laws, regulations and institutions has developed to regulate this industry and, by doing so, promote fairness, transparency and accountability in credit dealings. The Nigerian consumer credit regulation is complex and challenging to understand, as it involves a mix of statutory provisions, regulations, institutional supervision, and policy walk-overs, which, in their totality, provide for a form of regulation of credit transactions<sup>34</sup>.

The Central Bank of Nigeria (CBN), at the heart of Nigeria's consumer credit regulation, is responsible for the supervision and regulation of the banking and financial services industry under the Central Bank of Nigeria Act, 2007, and the Banks and Other Financial Institutions Act (BOFIA), 2020. Credit extension, risk management, interest rate disclosures and consumer protection are all governed by CBN guidelines and circulars<sup>35</sup>. Nigerian financial institutions are required by the CBN Consumer Protection Framework (2016) to adopt principles of fair treatment, disclosure and redress mechanisms to whom they provide services in terms of clarity on credit terms, charges and penalties<sup>36</sup>. This is in line with the Consumer Credit Policy Framework issued in 2023, which is geared towards promoting an enabling environment for consumer lending through the strengthening of the credit environment via the development of the credit infrastructure, standardization of credit products, and improvement of borrower education. In addition, the Credit Risk Management System (CRMS) of CBN requires all the banks and financial

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<sup>32</sup> Ibid.

<sup>33</sup> C Emenogha, 'Rules Guiding the Regulation of Consumer Credit Granting and Recovery Practices in Nigeria: Are there Remedies for Breach?' (2022) *Nigeria Business Law Journal*.

<sup>34</sup> Ibid

<sup>35</sup> I Alley, 'BOFIA 2020 and Financial System Stability in Nigeria: Implications for Stakeholders in the African Largest Economy' (2023) 24 *Journal of Banking Regulation* 184 <https://doi.org/10.1057/s41261-022-00192-6>.

<sup>36</sup> L Ogu, J O Enyia and G O Antai, 'Rights and Challenges Impacting the Protective Framework for Financial Technology Consumers in Nigeria' (2024) *International Journal of Economics and Business Management*

institutions to report their credit facilities above a specified limit to ensure transparency and minimise systemic credit risk. In this way, banks can evaluate the creditworthiness of borrowers, neutralise the risk of default and, ultimately, the system benefits from a stronger pool of consumer credit markets<sup>37</sup>.

The CBN's role is complemented by the Credit Reporting Act 2017, which sets the legal framework for credit bureaus' operations in Nigeria. The Act requires the credit bureaus to gather, process, and disseminate credit information of individuals and corporate bodies to the licensed financial institutions. By enabling the formation of credit histories, the legislation improves lenders' risk assessment capabilities and encourages responsible borrowing. It also gives consumers the ability to dispute and correct erroneous information on their credit report, further promoting fairness and responsibility. The creation of licensed credit bureaus such as CRC Credit Bureau, Credit Registry and First Central has enabled a greater degree of information symmetry in the Nigerian credit market. The provisions of the Credit Reporting Act align with those of the CBN's Credit Bureau Regulations 2018, which prescribe requirements essential to sharing data, how confidentiality should be handled and how consumer consent should be obtained, ensuring that data-driven lending adheres to both ethical and legal standards<sup>38</sup>.

Furthermore, the National Credit Guarantee Scheme (NCGS) and the National Collateral Registry (NCR), which are operated within the consumer credit in Nigeria, have been set up to promote credit availability, especially to individuals and small businesses. Established under the Secured Transactions in Movable Assets Act (STMAA) 2017, the NCR allows for movable assets like vehicles, equipment, and receivables to be used as collateral against credit. This legislative breakthrough opens up the well-known security gap where the availability of collateral has constrained consumers' access to credit. By creating the NCR to facilitate the registration and public search of security interests in movable property, the law advances the goal of transparency in lending, reduces the risk in lending, and increases financial inclusion. Hence, the STMAA 2017 is a giant stride towards an effective and efficient secured transactions system in line with globally accepted standards, especially the UNCITRAL Model Law on Secured Transactions<sup>39</sup>.

Consumer protection in relation to credit transactions is also strengthened by the 2018 Federal Competition and Consumer Protection Act (FCCPA), which designated the Federal Competition and Consumer Protection Commission (FCCPC) as the lead agency for consumer welfare. The commission has a mandate to cover the whole economy including its extension to financial services and to work with the CBN to

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<sup>37</sup> Ibid

<sup>38</sup> F Monye, NA Nwafor and BO Mukoro, 'Appraisal of the Nigerian Credit Reporting Act 2017' (2020) 64 *Journal of African Law* 229.

<sup>39</sup> B Igbinosun, 'Security Interests in Personal Property and the Nigerian Secured Transactions in Movable Assets Act 2017: An Appraisal' (2020) 64 *Journal of African Law* 357

ensure that the lending institutions meet the standards put in place to protect the consumer. The collaboration is evident in the FCCPCs enforcement of the Limited Interim Regulatory/Registration Framework for Digital Lending (2022), which is aimed at addressing the issue of predatory lending and data privacy breach by digital lenders. Digital money lenders are required to register with the FCCPC and comply with the principles of fair disclosure, interest rate limits, data protection standards and acceptable debt recovery practices pursuant to this framework. Such a regulatory measure was warranted as unlicensed online lending companies were proliferating, preying on consumers with excessively high interest rates, aggressive debt collection methods and leaks of confidentiality<sup>40</sup>.

In addition, the Data Protection Act 2023 (previously under the Nigeria Data Protection Regulation, NDPR, 2019) is significant to consumer credit regulation. As credit dealings involve the use of personal and financial information which a consumer would feel is sensitive, this law protects the privacy of consumers by requiring credit providers to obtain informed consent, maintain data accuracy, and prevent unauthorized disclosures. Under the Act, the NDPC is established to work in tandem with the CBN and FCCPC to monitor and regulate financial service providers within the sector, including banks, fintechs and credit bureaus, among others, to ensure they remain compliant. It is said that this data governance regime builds consumer trust and encourages personal information stewardship in digital lending<sup>41</sup>. Nigeria's consumer credit regulation is also underpinned by policy instruments that seek to advance credit inclusion in a cashless society, over and above the said statutory and institutional arrangements. The NFIS, originally issued in 2012 and reviewed in 2018, recognises consumer credit as a means of driving economic empowerment and expanding access to affordable credit via digital financial services. Strongly aligning with these efforts is the CBN's Cashless Policy, which was launched in 2012 and implemented in phases nationwide, aimed at minimising reliance on cash, encouraging usage of electronic payment channels, and establishing electronic footprints, which could be instrumental to credit scoring. It is based on this digital trail that financial institutions and fintech platforms can tap into non-traditional data sources – including mobile phone usage, utility bills, social media activity, among others to determine individuals' creditworthiness and provide them with access to credit, even in the absence of formal banking histories<sup>42</sup>.

Regulating the industry's burgeoning consumer credit business is also a key facet of fintech regulation. CBN's Licensing Framework for Payment Service Banks

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<sup>40</sup> D O Adetoro, 'Highlights of Nigeria's Federal Competition and Consumer Protection Act 2018: An Overview' (2021) *Business Law Review*

<sup>41</sup> E Adeoti, 'A New Era of Data Protection and Privacy: Unveiling Innovations and Identifying Gaps in the Nigeria Data Protection Act of 2023' (2023) *SSRN Electronic Journal*.

<sup>42</sup> O Monye, 'Cashless Policy Initiative in Nigeria: Outline of Crucial Socio-Economic and Regulatory Considerations' (2023) *Journal of Money Laundering Control*.

(PSBs), the Regulatory Sandbox Framework (2021) and Guidelines for Open Banking (2023) have ushered round good tidings with regards to enhancing credit innovations while maintaining regulatory compliance. These frameworks facilitate the growth of technology-driven credit products within well-defined boundaries of compliance, ensuring that innovation doesn't come at the expense of consumer protection. The Securities and Exchange Commission (SEC) has a role too, particularly because members engage in peer-to-peer lending and the growing segment of crowdfunding, which touches on consumer credit<sup>43</sup>. Overall, the regulation of consumer credit in Nigeria is a form of harmonization of laws and regulations at the level of statute law, institutional mechanisms and policy measures that encourage responsible borrowing and lending and expand access to the consumer credit market while protecting consumers and supporting a move towards a digital, cashless economy. Yet there are implementation and other challenges that could be seen as compromises to its strength, such as weak enforcement, low consumer awareness, disjointed approaches to digital literacy, and the rise of alternative lending channels. The existing framework, however, presents a strong platform for building a sustainable and inclusive consumer credit regime that would enable Nigeria to keep pace with world trends, particularly in digital financial and economic inclusion.

### **3.8. Issues and Risks Associated with Consumer Credit in a Cashless Economy**

As important as access to credit is, it is accompanied by some challenges, especially in a cashless economy, where the stakes are higher. In Nigeria, some of these issues include the fact that a larger part of the population is outside the scope of Internet or mobile banking; for instance, the use of credit or debit cards for transactions, therefore, they will rather choose not to opt for credit facilities, especially when it is cashless. They are excluded from the financial system, limiting their ability to obtain credit<sup>44</sup>. The incidence of illiteracy is notably high, particularly in rural areas, while financial illiteracy is widespread in urban areas. This poses significant challenges for individuals in accessing credit and conducting wireless transfers, and the transition away from physical cash may further compound their scepticism towards these processes. This widens the inequality economically for them. The country's advancement in technology, though slow, but improving and presents challenges for consumers seeking access to cashless credits, which may be discouraging. Non-familiarity and lack of required technological skills to operate technologically advanced devices are inhibitions. Consequently, Consumers who are not

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<sup>43</sup> D P Chaturvedi and P S Sinha, 'Regulation of Fintech Innovations through Policy Frameworks: Ensuring Consumer Protection Whilst Promoting Innovation' (2024) BSSS Journal of Management.

<sup>44</sup> L Ogu, JO Enyia and GO Antai, 'Rights and Challenges Impacting the Protective Framework for Financial Technology Consumers in Nigeria' (2024) 1 International Journal of Economics and Business Management IJEBM-KIU 323

knowledgeable about browsing the internet cannot benefit from accessing consumer credit in a cashless economy. Low-income earners may not easily afford a mobile device or computer to perform electronic transactions due to the high cost of acquiring these devices<sup>45</sup>.

So many applications have been developed to help consumers visualize and organise their spending and credit status, but Nigeria is yet to arrive at this level of technology. Some banks have developed quick loans on their mobile app, which equally allows users to visualise their current loans and loan history; however, accessing these features can sometimes be a nightmare. Money dashboard enables users to visualise their online accounts in one place, enabling consumers to set up budgeting goals, and its functioning app is not part of our system. The money dashboard lets you view all of your accounts in one place. This includes current accounts, savings accounts, and credit cards. It allows you to analyze your income and outgoings to see where your money is being spent and understand how much progress you've made toward your goal<sup>46</sup>. Consumer credit in a cashless society makes it difficult for some consumers to exercise self-control. Consumers purchase things impulsively, and they acquire what they may not even need, thereby increasing their debt profile. Additionally, Consumers are sceptical about sharing their financial data online due to the significant security risks associated with it. With the increasing use of credit in cashless transactions, the potential for fraud, identity theft, and data breaches also rises. Consumers may be victims of predatory lending practices, particularly from non-traditional credit providers. And online activity can be used against you by hackers, as the fear of cybercrime and credit fraud is high<sup>47</sup>.

Connectivity challenges can be a huge roadblock for customers, even when they do have a computer or mobile phone available. Typically, those are isolated and do not have the necessary telecommunications access and links to be able to conduct transactions. Not only does this create a lack of understanding and confidence among consumers concerning consumer credit. Adding insult to injury, transactions can take a long time to get reversed, often days, further eroding consumer confidence in the banking system. In the present, increasing cashless economy, people are often afraid to attempt a digital payment solution as banks charge an extra fee for every transaction. This fear of engaging in an activity and in turn having to pay a visitation of costs can also make people shy away from adopting a total cashless approach to transacting. Further, the drive to make digital payments

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<sup>45</sup> L Ogu, IO George, GO Antai, I Hassan and C Ekpenisi, 'Comparative Analysis of the Legal and Policy Framework for Financial Technology in Nigeria and Selected Jurisdictions' (2025) 11(1) *NIU Journal of Legal Studies* 115.

<sup>46</sup> AS Ohiani, 'Technology Innovation in the Nigerian Banking System: Prospects and Challenges' (2020) *Rajagiri Management Journal*.

<sup>47</sup> *Ibid*

compulsory is a monumental consumer issue. Many are forced to use these methods despite a preference for the old forms of cash. This transfer hinders their capability to control their own funds. And when you are unable to repay that amount per month, things become serious, since the interest grows with the months. There are various demographics which have their own set of challenges accessing consumer credit in the cashless environment. For low-earners and rural people, the biggest challenge may be accessing credit, while first-time adults are struggling with overspending and the dangers of mounting debt. For the elderly, their greatest risk remains falling prey to technology scams, which are yet another set of challenges. Though these are different among the various demographics, these are what make life complex when accessing a cashless society.

#### 4. Conclusion

Consumer credit plays a crucial and inevitable role in the modern world. Throughout history, credit has been a catalyst for economic growth and has facilitated commercial activities. The global trend towards a cashless society, observed in both developed and developing economies, underscores the strategic development of technological infrastructure to ensure seamless and efficient utilization of cashless transactions. A cashless economy signifies reduced reliance on physical cash, with a future vision of eliminating cash from transactions, including purchases, sales, and payments for goods and services. However, in a cashless economy, challenges such as illiteracy hindering access to mobile phones or computers for conducting transactions or obtaining loans in developing countries, and over-indebtedness resulting from access to credit for unnecessary purchases, must be addressed. While consumer credit and cashless payment are convenient, the payment systems online tend to malfunction, the consequences of which are serious. For example, lack of connection or lack of electricity may alienate the consumer. Additionally, a cashless society may alienate the segment of the population that lacks credit facilities or online facilities for banks<sup>48</sup>.

Further, consumer credit as a facility when the country gets to become a cashless country does have the benefit of enabling the use of funds to procure necessary goods/services through payment by subsequent dates, thus possibly alleviating poverty and enabling the provision of employments. Access to cashless loan could possibly alleviate money-related crimes, money laundering, and promote transparency in the economy. Protection of the consumer must ensure that people are provided with all the information they possess about the credit facility that they are about to use and are adequately advised about the risk as well as the benefit encountered. They deserve to know what they are buying.

It is imperative to prioritize financial self-awareness in consumer credit practices. Consumer awareness is crucial to ensure that individuals have all the information about the credit facility they intend to take and are adequately guided on the risks

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<sup>48</sup> P Kushwaha, 'Sustainable Finance through Cashless Transactions: Opportunities and Challenges in the Global Economy' (2025) *International Journal for Research in Applied Science and Engineering Technology*.

and benefits involved. They should have the right to understand what they are getting into. Encouragement of financial institutions in Nigeria to offer both overdraft and credit cards, thus allowing consumers to select the option with the most favourable interest rates. The consolidation of the Hire Purchase Act 1965, the Nigerian Pawnbrokers Act, and the Money Lenders Law into a unified Consumer Credit Act is recommended. This would involve expanding the scope of Hire Purchase agreements and credit sales agreements, as outlined in provision S. 1 (a), to accurately reflect the extent of consumer borrowing and debt, similar to the United Kingdom Consumer Credit Act. Emphasizing consumer awareness is crucial to ensure that individuals are equipped with comprehensive information regarding their intended credit facility and are appropriately guided on associated risks and advantages. It is advisable to review provisions related to fines and address the power imbalance between consumers and credit providers. Encouraging consumers to exercise discretion in using credit for purchases is essential to mitigate the risk of over-indebtedness. Additionally, consideration of waiving transaction fees by banks to incentivize unbanked consumers to transition to cashless transactions, as well as the contemplation of implementing a zero-balance scheme by banks, should be taken into account.