

## **Computer Based Loan Scheme Implementation: Challenges and Way Forward**

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### **Abstract**

**T**his study examines the implementation of computer-based loan schemes in Nigeria, focusing on the challenges and potential solutions within the post-COVID-19 financial landscape. The paper reviews the evolution of digital lending platforms, regulatory requirements, and data protection obligations, highlighting their role in expanding access to credit. Using contextual analysis of banking performance indicators from 2020 to 2024, the study finds that the adoption of advanced digital intermediation technologies has positively influenced total loan volumes and bank performance while reducing the ratio of non-performing loans. However, issues such as predatory lending practices, privacy breaches, and inadequate compliance mechanisms persist. The paper recommends further investment in secure digital infrastructure, stronger regulatory enforcement, and robust consumer protection frameworks to enhance trust, efficiency, and sustainability in Nigeria's financial ecosystem.

**Keywords:** *Computer-based lending, Digital loans, Non-performing loans, Nigeria Data Protection Act, Financial technology, COVID-19*

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### **Background to the Study**

Conventionally, there are two main functions concerning their business activities. First the acceptance of deposits and second the advancement of loans. Thus, lending is as old as banking and lending activities take a significant place among other activities and it was observed as the major means of generating income to the bank and stands as the foundation of the intermediation concept of banking system through which the general economic activities are stimulated.

Since, lending function is the one of the major service lines of commercial banks which contributes the major share of revenue to their profit, therefore significance of lending towards the economic and financial development of any nation cannot be overemphasized. Besides, it has been generally observed that one of the major problems facing the effective and utmost implementation loan within the financial sector is NPLs (Nonperforming Loans). NPLs cause decline in assets quality and profitability. The operation of this platform has come under regulatory scrutiny as a result of resort to predatory lending practices and unconventional debt recovery strategies which often times results in harassment, criminal defamation, cyberbullying, and increasingly worrisome, data privacy breaches of clientele and third parties (Anuforo, 2023).

The stress on computer-based lending became more concerning owing to the disruptive effect of Covid-19 pandemic. There became the need to leverage further on innovative technology in the Nigeria financial sector (likewise all over the global) to rapidly move from the analog-based financial services to electronics driven financial sector where services are rendered faster, easier and more accessible to the overall benefit of customers/stakeholders at their comfort zone.

The advent of Covid-19 pandemic and the subsequent lock downs during the period further exposed the vulnerability of the Nigeria financial sector as access to funding became a challenge to investors and businesses. To address this unforeseen challenge, the ingenuity to technological innovations was further deployed giving rise to digital lending services (popularly known as loan apps), which hitherto were nonexistent in Nigeria prior to the emergence of Covid-19. Digital lending entails the method of applying, processing, and granting loans with aid of digital channels where lenders place reliance on personnel data of customer accesses online or provided by such customers, to make credit decisions, for the benefit of a customer. As digital lending service is no laudable, it came with associated fresh challenges which included violation of customer's privacy rights and data protection.

The introduction of cashless policy (Nigeria Payment System) by CBN in 2005, was aimed at making the economy's payment more efficient and effective and additionally, to facilitate the use of electronic channels of payment. The introduction of the policy in Nigeria therefore brings up issues that touch on security, privacy, crime and computerization. However, implementing a sophisticated computerized lending platform requires that the banks make huge investments on ICT and other technologies that would enhance the proper implementation of the computer-based loan system. This advancement may affect the

performance and productivity of banks positively or negatively depending on the strength of the individual banks. Therefore, this study seeks to analyze the connection between some observed determinants of total loan and the involving computer-based loan magnitude. In so doing, solution to some challenges and way forward can easily be detected.

## **Review of Literature**

### **Conceptual Review**

What is Computer Based Lending? Computer Based lending refers to lending of money through digital platforms, the common digital lending platforms in Nigeria include Fairmoney, Renoney, Newcredit, PalmCredit, Carbon, WeCredit, Okash, EasiMoni and Branch. Digital lenders play significant role in the Nigerian economy by providing quick and easily and easily accessible loans.

### **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 on business in Nigeria must register the business with the Corporate Affairs Commission. Therefore, any person with the Corporate Affairs Commission prior to commencement of operation.
2. Obtain a Lending License: a person or entity that intends to engage in digital lending must obtain a lending license. The not 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 lender's license. Entities with banking licenses and finance company licenses are 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 responsible for protecting the rights of consumers. The FCCPC has the authority to investigate compliance with regulations, and impose sanctions on financial institutional or digital lenders that violate consumer rights.

On the 18<sup>th</sup> 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 requires 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 FGCCPC 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 personal data of individuals. Digital lenders process personal data their borrowers, employees, vendors and other individuals, therefore they 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 Commission and comply with other requirements of the Nigeria Data Protection Act 2023.

### Empirical Review

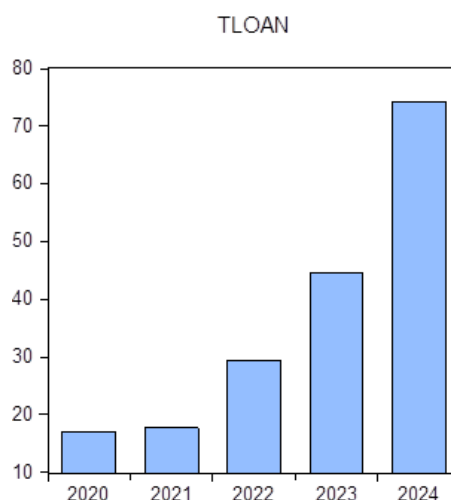
Utebor, Omidoyin and Joshua (2023) examined the concept and practice of digital in Nigeria, its legal framework and the challenges of customers data protection and privacy rights in Nigeria., adopting the doctrine legal research method where reliance was placed on primary and secondary sources, and based findings, : the emergence of digital lending in Nigeria's financial sector is a welcome development, as it further expanded Nigeria's financial sector by giving Nigerians other sources of accessing loans for immediate needs. Also, despite the challenges, accessing loans from digital lenders is quite fast and convenient, as loan decisions are made faster.

Anuforo (2023) assessed the operations of digital lending: a probe on loan APPS and data privacy breaches on customers and third parties. The operation of this platform has come under regulatory scrutiny as a result of resort to predatory lending practices and unconventional debt recovery strategies which often times results in harassment, criminal defamation, cyber bullying, and increasingly worrisome, data privacy breaches of clientele and third parties. It is against this backdrop that this work analysed the relevant regulatory frameworks and agencies adopted with a view to curtail the excesses of these digital lending platforms in order to prevent and prohibit breaches and increase data protection.

### Results and Analysis

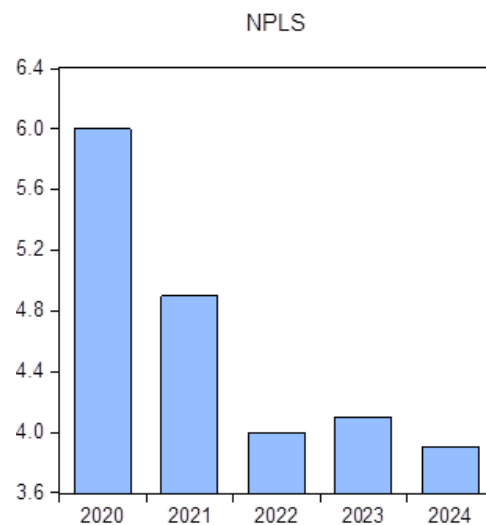
#### Contextual Review Analysis: figure 1-3

**Figure 1:** Banks Total Loans from 2020 to 2024



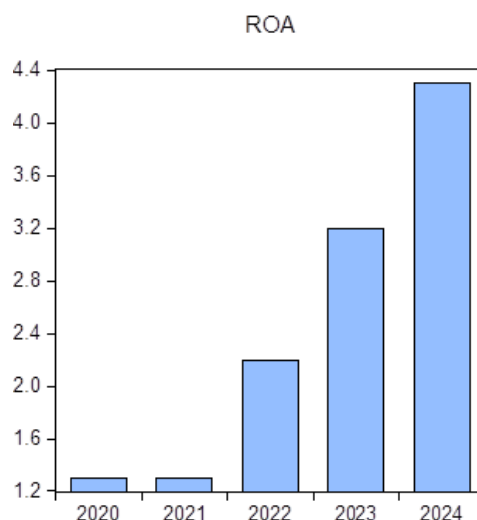
From the above figure 1, In Nigeria, after the Covid-19 pandemic, the banks through drastic lock down, additional advanced digital banking innovation that will include scrutiny development in intermediation functions of the banks. In so doing, more sophisticated means of extending credit to customer were established. The growth and changes did not fail to establish effective regulations in spite of the dynamic challenges that accompanied internet activities. Through these scrutinized financial infrastructures, the aggregate average loan extended by bank to private sectors increased significantly.

**Figure 2:** Banks Ratio of Non-performing Loans to Total Loans from 2020 to 2024



In figure 2 above, the level NPLs in 2020 to 2021, were very high probably due to adverse effect of Covid-19 lock downs on general economic activities. However, closely after the shock from Covid-19 has been fully absorbed (2020-2021) and way forward identified through implementation of the necessary approaches. The level of NPLs started to decline as using the welcomed newly banking intermediation technology in extending loans, thus the credit risk as well mitigated. Moreover, ratio of NPLs can be reduced with increase in total loans (as  $NPLs = NPL / \text{total loan}$ ). The operation of this platform has come under regulatory scrutiny as a result of resort to predatory lending practices and unconventional debt recovery strategies.

**Figure 3:** Banks Return on Assets from 2020 to 2024



As in figure 3 above, increase in total loans brought about the increase in bank intermediation functions and likewise increased in general economic activities, therefore, the overall bank performance is improved. As good assets qualities were maintained, the maximum returns from assets were obtained as well.

### Conclusion

With the appearance of the bar chart, in the figure 1 to 3, it is obvious that banks performance had strong positive/direct relationship with bank total loan. Banks total loans move in the same direction with the bank performance. While it indicated strong negative/indirect relationship with ratio of NPLs. NPLs is bad for both level of bank total loans and performances.

However, this possible because as the computer-based lending in Nigeria is growing and right structure has been put in place to guarantee security of lenders money, protect borrowers from absurd interest rates and unethical loan recovery practices; and protect the public from privacy intrusion and personnel data breach. In absence of the above organized safety guarantee structure reverse would have been the case. Banks total loan would have displayed direct strong positive/direct relationship with the ratio of NPLs. That is to say, as the level of total increases, the ratio of NPLs increases also due lack of guaranteed credit policy scrutiny.

According to Duale, Ovia and Alex-Adedibe 2024; Computer based 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 personnel data breach. Therefore, the above analyses revealed that after advent of Covid-19, which involved the alternative means of effective bank intermediation technology, a good and strong protections assurance has been in place following the innovations. The study generally revealed the relative benefit associated with the growth in the level of banks computerized based loans extension.

## Recommendations

From the findings above it is recommended that the sector should venture more in sophisticated digital/computer-based intermediation and security technologies to enhance the overall economic system.

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