PREDATORY LENDING AND UNFAIR PRICING PRACTICES: UNDERSTANDING THE LEGAL LIMITS OF DIGITAL LOAN PRICING IN NIGERIA.

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Introduction

Digital lending has emerged as one of the fastest-growing segments of Nigeria's financial services sector. Through mobile applications and digital platforms, consumers can now obtain unsecured loans within minutes, often without collateral, extensive documentation, or the lengthy credit assessment processes traditionally associated with conventional lending. While these innovations have significantly expanded access to finance and advanced financial inclusion, they have also heightened regulatory concerns regarding the pricing of digital credit and the fairness of lending practices

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The increasing cost of digital loans has attracted considerable public and regulatory attention. Concerns have been raised over high interest rates, hidden charges, excessive default fees, automatic loan rollovers, and lending terms that are often difficult for borrowers to understand. Conversely, most digital lenders maintain that their pricing models reflect the commercial realities of unsecured lending, including elevated credit risk, high default rates, and the costs of providing instant credit to previously underserved segments of the population. The challenge, therefore, is knowing where fair, risk-based pricing ends and exploitative lending begins.

Contrary to a common misconception, Nigerian law does not prescribe a statutory cap on the interest rates that digital lenders may charge. This, however, does not confer an unrestricted right to price loans without legal constraint. Instead, the extant regulatory framework is founded on broader principles of fairness, transparency, responsible lending, and consumer protection. Consequently, the legality of a digital lending product is assessed not merely by reference to the applicable interest rate, but by considering the overall characteristics of fairness of the lending arrangement, adequacy of disclosures, transparency of the total cost of borrowing, and compliance with applicable statutory and regulatory obligations.

The focus of the law is therefore not simply whether digital lenders charge high interest rates, but whether their pricing structures and lending practices are fair, transparent, and consistent with established consumer protection standards.

As regulatory oversight of the digital lending sector continues to evolve, the legal boundaries governing permissible loan pricing are becoming increasingly defined.

This article examines the legal framework governing digital loan pricing in Nigeria through the lens of predatory lending and unfair pricing practices. It considers the extent to which the existing legal and regulatory regime protects borrowers from exploitative lending practices while preserving the commercial flexibility required for digital lenders to innovate, manage credit risk, and expand access to finance.

Background

Nigeria's digital lending industry has experienced remarkable growth over the past decade, driven by increased smartphone penetration, improved digital payment infrastructure, and the rapid expansion of the fintech sector. Mobile lending applications such as Veend, FairMoney, Carbon, Renmoney, OKash and several others have transformed access to short-term consumer credit by enabling borrowers to obtain loans within minutes through entirely digital channels.

The sector has become an important source of credit for individuals and small businesses that are unable to access traditional bank lending due to limited collateral, informal employment, or insufficient credit history. According to the Federal Competition and Consumer Protection Commission (FCCPC), more than 400 digital lending applications had received regulatory approval to operate in Nigeria by 2026, underscoring both the scale of the industry and its growing importance within the country's financial services sector.

Despite these benefits, the industry has attracted increasing regulatory scrutiny. Complaints relating to excessive interest rates, undisclosed charges, misleading pricing practices, excessive default fees, aggressive debt recovery methods, and the misuse of borrowers' personal data have become increasingly common. These concerns have shifted regulatory attention beyond financial inclusion towards broader issues of consumer protection, responsible lending, transparency, and market fairness.

Recognising these challenges, the FCCPC introduced the Digital, Electronic, Online and Non-Traditional Consumer Lending Regulations 2025 (DEON Regulations). The DEON Regulations establish a comprehensive framework governing the registration, licensing, operation, and supervision of digital lenders, whilst imposing enhanced obligations relating to pricing transparency, disclosure of lending terms, consumer rights, debt recovery practices, and responsible lending.

Against this backdrop, the regulation of digital loan pricing is no longer merely a commercial issue. It has become an important legal and regulatory issue, sitting at the intersection of consumer protection, financial regulation, contract law, competition law, contract law, and fintech governance. As digital lending continues to expand, ensuring that loan pricing remains fair, transparent, and commercially sustainable will remain central to maintaining confidence in Nigeria's digital credit market.

3. Regulatory Framework Governing Digital Loan Pricing

Unlike many jurisdictions that prescribe statutory interest rate caps, Nigeria adopts a sector-based regulatory approach to digital lending. The legality of loan pricing is determined not by a single statute but by a network of laws regulating consumer protection, financial services, competition, contract formation, and digital lending practices. Consequently, the applicable regulatory framework depends largely on the nature of the lender and the services being provided.

3.1 The Federal Competition Consumer Protection Act(FCCPA) 2018:

The Federal Competition and Consumer Protection Act 2018 ("FCCPA") establishes the FCCPC as Nigeria's principal consumer protection regulator. Although the Act does not prescribe maximum interest rates for digital loans, it prohibits unfair, misleading and unconscionable business practices and empowers the Commission to protect consumers from exploitative commercial conduct.

For non-bank digital lenders, the FCCPA provides the primary legal basis upon which the FCCPC oversees pricing transparency, disclosure obligations, unfair contract terms, misleading representations, hidden charges, and abusive debt recovery practices. Sections 17, 18 and 163 of the Act further empower the Commission to issue regulations necessary to protect consumers and regulate emerging markets.

Pursuant to these powers, the FCCPC introduced the Limited Interim Regulatory/Registration Framework and Guidelines for Digital Lending (2022) and subsequently the DEON Regulations, both of which significantly strengthened regulatory oversight of digital lenders operating outside the traditional banking sector.

3.2 The Digital, Electronic, Online or Non-Traditional Consumer Lending Regulations (DEON Regulations)

The DEON Regulations represent the most comprehensive regulatory framework governing non-bank digital lending in Nigeria. They apply to digital platforms providing unsecured consumer credit, irrespective of whether the facility is advanced as cash, airtime, data, cashback, goods, services or any other item capable of monetary valuation.
The Regulations impose extensive obligations relating to licensing, pricing transparency, consumer disclosures, advertising, debt recovery, complaints management, responsible lending and data protection. Of particular relevance to loan pricing, lenders are required to disclose all applicable interest rates, fees, charges, penalties and repayment obligations in a manner that is clear, accurate and easily understood by consumers before a credit facility is accepted.

It is important to note, however, that the DEON Regulations do not apply to banks, finance companies, microfinance banks or other financial institutions licensed and supervised by the Central Bank of Nigeria ("CBN"), whose lending activities remain principally regulated under banking legislation.

3.3 The Central Bank of Nigeria Act (CBN Act)

Digital lending undertaken by banks, microfinance banks, finance companies and other CBN-licensed institutions falls within the supervisory jurisdiction of the CBN pursuant to the Central Bank of Nigeria Act and the Banks and Other Financial Institutions Act 2020. Rather than prescribing interest rate ceilings, the CBN regulates lending through prudential standards, consumer protection requirements, disclosure obligations, risk management frameworks and market conduct rules. Licensed financial institutions are expected to ensure that credit products are transparent, fairly administered and consistent with applicable consumer protection principles.

The CBN has also collaborated with the FCCPC and the Nigeria Data Protection Commission in promoting responsible digital lending practices, particularly in relation to customer identification, ethical lending standards, data governance, and the protection of consumer rights.

3.4 The Money Lenders Act, 1958 and State Money Lending Laws

Before the emergence of digital lending, private money lending activities in Nigeria were principally regulated by the Money Lenders Act 1958 and equivalent State legislation, including the Lagos State Money Lenders Law, Rivers State Money Lenders Law, 2013 and similar laws in other States.

These laws continue to regulate private money lenders operating within their respective jurisdictions by prescribing licensing requirements, registration procedures and certain operational standards. While they were not drafted with digital lending in contemplation, they remain relevant in determining whether a person or business carrying on money lending activities requires a money lender's licence under applicable State law.

However, with the introduction of the FCCPC's digital lending framework, much of the regulatory focus for online consumer lending has shifted towards federal consumer protection regulation, particularly for technology-driven lending platforms operating across multiple States.

Collectively, these statutes and regulations demonstrate that Nigeria's legal framework does not directly regulate the quantum of interest chargeable by digital lenders. Instead, it regulates the manner in which loan pricing is determined, disclosed, marketed and enforced. The emphasis is therefore on transparency, fairness, responsible lending and consumer protection, rather than statutory interest rate controls. This distinction forms the foundation for understanding the legal limits of digital loan pricing in Nigeria.

4. THE CONCEPT OF PREDATORY PRICING AND PREDATORY LENDING

4.1 Conceptual Framework

Predatory pricing is a well-established concept in competition law. It refers to the practice of selling goods or services at low rates to push rivals out of the market, discourage new entry and ultimately monopolize the market.

The concern is not low pricing in itself, but the use of below cost pricing (under-cutting) as an anti-competitive strategy.

Under the FCCPA, predatory pricing constitutes a form of abuse of dominance. Section 72 (2d) (iv) prohibits a dominant undertaking from selling goods or services below their marginal or average cost. Accordingly, predatory pricing is concerned primarily with protecting competition in the market rather than regulating the prices charged to consumers.

The issues arising within the digital lending sector are fundamentally different. Digital lenders are rarely accused of charging prices that are too low. Rather, regulatory concerns focus on predatory lending and unfair pricing practices, namely lending arrangements that exploit borrowers through excessive charges, misleading pricing structures, inadequate disclosures, or unfair contractual terms. The objective of regulation is therefore not to preserve competition between lenders but to protect consumers from exploitative lending practices.

4.2 Predatory Lending and Unfair Pricing in Digital Lending

Predatory lending refers to lending practices that unfairly exploit borrowers, particularly those who are financially vulnerable or possess limited bargaining power. Unlike predatory pricing in competition law, the issue is not whether a lender prices below cost, but whether the overall lending arrangement is unfair, misleading, or oppressive.

Within the digital lending ecosystem, predatory lending may arise where lenders impose excessive interest rates or default charges, conceal the true cost of borrowing through hidden fees, repeatedly refinance loans in a manner that traps borrowers in cycles of indebtedness, or present loan products in a way that obscures the borrower's actual repayment obligations. Similarly, pricing practices may be regarded as unfair where key contractual terms are ambiguous, material charges are not adequately disclosed, or consumers are induced to accept loan agreements without being provided with sufficient information to make an informed financial decision.

The use of digital platforms and automated lending processes heightens these concerns. Loan agreements are frequently concluded through standard-form click-wrap contracts, often within minutes, leaving borrowers with little opportunity to negotiate terms or fully appreciate the financial consequences of the transaction. Consequently, regulators have increasingly shifted their focus from merely expanding access to credit towards ensuring that digital lending is conducted fairly, transparently, and responsibly.

4.3 Legal Interest Cap in Nigeria

Unlike many jurisdictions that prescribe statutory interest rate caps for consumer credit, Nigeria does not currently impose a general legal ceiling on the interest rates that digital lenders may charge. Subject to applicable laws and regulatory requirements, parties remain free to negotiate the commercial terms of a lending arrangement.

This contractual freedom, however, is not without limits. Although neither the FCCPA nor the applicable digital lending regulations prescribe a maximum interest rate, they require lending practices to comply with principles of fairness, transparency, and responsible conduct. The legality of a digital lending product is therefore assessed not solely by reference to the numerical interest rate charged, but by considering the overall pricing structure and the manner in which the loan is marketed and administered.

In particular, the FCCPA prohibits unfair, unreasonable, and unconscionable commercial practices and protects consumers against misleading representations and exploitative contractual terms. Similarly, the(DEON Regulations require digital lenders to disclose clearly all material terms of a loan, including applicable interest rates, repayment obligations, default charges, and any other fees associated with the credit facility.

Accordingly, the absence of a statutory interest rate cap does not confer unrestricted pricing discretion on digital lenders. A loan may still give rise to regulatory scrutiny where the overall cost of borrowing is concealed, material charges are inadequately disclosed, contractual terms are misleading or oppressive, or the pricing structure is otherwise inconsistent with the principles of fairness and transparency embodied in Nigeria's consumer protection framework. A lender cannot rely solely on a borrower's click-through acceptance to legitimise contractual terms that are deceptive, unfair, or insufficiently disclosed.

5. RECOMMENDATION

Nigeria's digital lending industry has expanded rapidly over the last decade, significantly improving access to consumer credit. However, the regulatory framework governing loan pricing continues to evolve. Whilst the absence of a statutory interest rate cap affords lenders commercial flexibility, it also creates uncertainty as to the legal limits of pricing and the threshold at which lending practices become unfair or exploitative.

Rather than relying exclusively on contractual freedom, the regulatory framework should continue to strengthen safeguards that promote transparency, responsible lending, and consumer protection. In particular, consideration should be given to the following measures:

• **Clearer regulatory guidance on unfair pricing:** The Federal Competition and Consumer Protection Commission (FCCPC), the Federal Ministry of Industry, Trade and Investment, and other relevant regulators should issue guidance identifying the factors that may constitute unfair, excessive, or exploitative pricing within the digital lending sector. Such guidance would improve regulatory certainty for lenders whilst enhancing consumer protection.

• **Responsible lending obligations:** Digital lenders should be required to undertake reasonable affordability assessments before extending credit, particularly for high-cost or short-term loans. Lending practices that encourage persistent refinancing or over-indebtedness should be discouraged.

• **Enhanced pricing transparency:** Regulators should continue to require digital lenders to disclose, in clear and simple language, the total cost of borrowing, including interest rates, default charges, processing fees, rollover costs, and any other ancillary charges, before a borrower accepts a loan.

• **Review of interest rate regulation:** Policymakers may consider whether certain categories of high-cost consumer lending should be subject to statutory or regulatory pricing limits. Any such intervention should be evidence-based and carefully calibrated to protect consumers without unduly restricting access to legitimate credit or discouraging innovation within the digital lending market.

• **Consumer education:** Public awareness initiatives should encourage consumers to verify that digital lenders are properly registered or licensed and to report unfair lending practices to the appropriate regulatory authorities. Improved financial literacy will enable borrowers to make better-informed borrowing decisions.

Collectively, these measures would promote greater regulatory certainty, strengthen consumer confidence, and encourage responsible innovation within Nigeria's rapidly evolving digital lending ecosystem.

6. CONCLUSION

Digital lending has transformed access to consumer credit in Nigeria and continues to play an important role in promoting financial inclusion and supporting the country's digital economy. Its growth has, however, been accompanied by increasing concerns regarding predatory lending, unfair pricing practices, and the protection of financially vulnerable consumers.

Although Nigerian law does not presently prescribe a general statutory cap on digital loan interest rates, this does not imply that lenders enjoy unrestricted pricing discretion. The existing legal framework, comprising the Federal Competition and Consumer Protection Act 2018, the applicable digital lending regulations, and broader consumer protection principles, requires lending practices to be transparent, fair, and responsible. Consequently, the legality of a digital lending product depends not merely on the interest rate charged, but on the overall fairness of the lending arrangement, the adequacy of disclosures, and compliance with applicable statutory and regulatory obligations.

As Nigeria's digital lending market continues to mature, the regulatory focus is likely to shift beyond licensing and registration towards broader questions of responsible lending, pricing transparency, affordability, and consumer welfare. Whether through enhanced regulatory guidance, strengthened disclosure obligations, or targeted pricing interventions where appropriate, the overarching objective should remain the same: fostering a digital lending ecosystem that encourages innovation whilst ensuring that borrowers are treated fairly and protected from exploitative lending practices. Achieving this balance will be critical to sustaining public confidence in digital financial services and supporting the long-term development of Nigeria's digital economy.

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