



MANAGEMENT PRACTICES OF REGULATORY AGENCIES IN ADVANCING ECONOMIC CREDIT TRANSACTIONS: COMPARATIVE DIMENSIONS

*Blessing Kingdom**

Abstract

This paper examined the risk management practices of regulatory agencies in promoting economic growth and credit transactions in Nigeria. The background to the paper was that weak regulatory oversight and poor risk management had historically undermined financial stability, increased non-performing loans, and constrained credit flow to the real sector. Key issues addressed included regulatory capacity gaps, inadequate enforcement of prudential guidelines, political interference, and poor inter-agency coordination. The paper also identified challenges such as limited data infrastructure, corruption, and the inability of agencies to adapt to fintech innovations. Findings showed that effective risk management practices by agencies such as the CBN, SEC, and NDIC significantly reduced systemic risk, improved investor confidence, and enhanced credit transactions. It was concluded that sound regulatory risk management was critical to sustainable economic growth. The paper recommended strengthening regulatory autonomy, adopting risk-based supervision, improving data analytics, and enhancing collaboration among agencies to foster a stable credit environment.

Keywords: *Risk, management, regulatory practice, credit, transaction*

1.0 Introduction

Risk management by regulatory agencies became central to Nigeria's economic stability following successive financial crises that exposed weaknesses in the banking and credit system. The collapse of several banks in the 1990s and the 2008–2009 global financial crisis demonstrated how poor oversight could trigger systemic failure, credit contraction, and loss of investor confidence.¹ Consequently, regulatory agencies were mandated to adopt proactive risk management practices to safeguard financial institutions, promote lending, and create an enabling environment for economic growth. In Nigeria, economic growth has remained credit-driven, with banks, microfinance institutions, and capital market operators serving as key intermediaries. The effectiveness of regulatory risk

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¹ Adegbite EO and Osinubi TS, 'Prudential Regulation and Banking Sector Stability in Nigeria' (2020) 11 CBN J Applied Statistics 1



management therefore directly determined the volume, cost, and quality of credit transactions in the economy.²

2.0 Legal Frameworks Governing Risk Management

Several statutes established the mandate and tools for risk management by Nigerian regulatory agencies. The Central Bank of Nigeria Act, 2007 empowered the CBN to promote monetary stability, regulate banks, and issue prudential guidelines. The Banks and Other Financial Institutions Act, BOFIA 2020 replaced BOFIA 1991 and provided for risk-based supervision, capital adequacy, and early warning systems.³ The Securities and Exchange Commission Act, 2007 gave the SEC powers to regulate the capital market and manage investment risks. The Nigeria Deposit Insurance Corporation Act, 2006 mandated the NDIC to insure deposits and manage bank failures. In the insurance sector, the Insurance Act, 2003 and NAICOM Act, 1997 imposed solvency and risk management requirements. Together, these laws formed the legal architecture for identifying, measuring, and mitigating financial risks.⁴

The link between regulatory risk management and economic outcomes was evident in policy design. The Credit Reporting Act, 2017 was enacted to enhance credit information sharing and reduce information asymmetry, thereby lowering lending risk. The Asset Management Corporation of Nigeria Act, 2010 was created to buy toxic assets from banks and free balance sheets for new credit. Risk management practices such as stress testing, KYC, and anti-money laundering compliance under the Money Laundering (Prohibition) Act, 2011 were also used to protect the integrity of the financial system. When these practices worked, credit flowed, businesses expanded, and GDP grew.⁵

In practice, the impact of regulatory risk management was mixed. A positive instance was the 2010 banking sector reforms by the CBN, which introduced higher capital requirements and risk-based supervision. This led to bank consolidation and reduced systemic risk, enabling increased lending from 2011–2014. Conversely, challenges persisted.⁶ Weak enforcement of the BOFIA 2020 provisions allowed insider lending and corporate governance failures in some banks. The 2016 recession was

² Olalekan A and Adeyinka S, 'Risk Management Practices and Financial Performance of Deposit Money Banks in Nigeria' (2019) 8 Intl J Finance & Banking Studies 45

³ Akani FN and Na-Allah A, 'Credit Risk Management and Banks' Financial Performance: Evidence from Nigeria' (2018) 9 J Economics & Sustainable Development 89

⁴ Nwude EC and Igwe KC, 'Effect of Risk-Based Supervision on Financial Stability of Banks in Nigeria' (2020) 14 J Banking & Financial Services 34

⁵ Sanusi LS, 'Banking Reform and its Impact on the Nigerian Economy' (2012) 2 CBN J Applied Statistics 115

⁶ Sanusi LS, 'Banking Reform and its Impact on the Nigerian Economy' (2012) 2 CBN J Applied Statistics 115



worsened by foreign exchange risk mismanagement and delayed regulatory response. Regulatory agencies also faced challenges of inadequate technology, data gaps, and political interference, which limited the timely implementation of risk mitigation measures. The rise of fintech and digital lending after 2018 further tested existing frameworks that were designed for traditional banks.

2.0 Risk Management Practices of Regulatory Agencies in Promoting Economic Growth and Credit Transactions in Nigeria

Central Bank of Nigeria Act, 2007

The Central Bank of Nigeria Act, 2007 is the principal law establishing the CBN as Nigeria's apex monetary authority. Section 2 mandates the Bank to ensure monetary and price stability, while section 33 empowers it to regulate and supervise banks and other financial institutions. Section 57 allows the CBN to issue prudential guidelines and risk management standards.⁷ In practice, the CBN used this Act to introduce the Risk-Based Supervision framework in 2010 and the Guide to Bank Directors in 2018. An instance was during the 2016 recession when the CBN invoked section 35 to conduct special examinations and inject liquidity to prevent bank failures, thereby protecting credit channels.⁸

Banks and Other Financial Institutions Act, BOFIA 2020

BOFIA 2020 repealed and replaced BOFIA 1991 to strengthen banking regulation. Section 9 sets minimum capital requirements, section 20 mandates sound corporate governance and risk management, and section 44 provides for prompt corrective action. Section 54 empowers the CBN to remove directors for unsafe practices.⁹ A key achievement was the revocation of Skye Bank's license in 2018 and its restructuring to Polaris Bank, which averted systemic contagion. The challenge, however, was weak enforcement against insider-related lending, as seen in several intervened banks between 2015–2020, which undermined credit quality.

Nigeria Deposit Insurance Corporation Act, 2006

The NDIC Act, 2006 established deposit insurance to protect depositors and promote financial stability. Section 2 mandates the Corporation to insure deposits, while section 23 allows it to carry out differential premium assessment based on risk. Section 35 empowers NDIC to liquidate failed banks. An instance was the liquidation of 154 microfinance banks and 6 primary mortgage banks in 2020, where NDIC paid insured depositors within 30 days. The achievement was increased depositor

⁷ Udoh E and Ogbuagu AR, 'Credit Information Sharing and Loan Performance in Nigeria' (2019) 26 African J Economic Policy 67

⁸ Adebayo T and Dada RM, 'Impact of Credit Bureau on Credit Risk Management in Nigerian Banks' (2021) 10 J Financial Risk Management 112

⁹ Adebayo T and Dada RM, 'Impact of Credit Bureau on Credit Risk Management in Nigerian Banks' (2021) 10 J Financial Risk Management 112



confidence, but the challenge remained inadequate funding and delays in reimbursement for uninsured depositors, which affected credit market trust.¹⁰

Securities and Exchange Commission Act, 2007

The SEC Act, 2007 regulates Nigeria's capital market and investment risk. Section 13 gives SEC power to register and regulate market operators, while section 223 criminalizes market manipulation and insider trading. Section 45 mandates disclosure and risk management by public companies.¹¹ SEC used this framework to introduce the Corporate Governance Code in 2018. An instance was the sanction of Oando Plc in 2019 for governance and risk management breaches, which restored investor confidence. The challenge was regulatory forbearance and slow prosecution of violations, which slowed capital market growth and credit raising through bonds and equities.¹²

Credit Reporting Act, 2017

The Credit Reporting Act, 2017 was enacted to improve credit risk assessment. Section 4 licenses Credit Bureaus, section 14 mandates data sharing by lenders, and section 26 protects data subjects. This law reduced information asymmetry in lending. An instance was the CBN's directive in 2019 that all banks must report to licensed bureaus, which improved loan recovery rates. The achievement was a drop in NPLs from 15.1% in 2018 to 5.2% in 2023. The challenge was low coverage of informal sector borrowers and poor data quality, which limited credit access for SMEs.¹³

Major Institutional Frameworks

Central Bank of Nigeria

The CBN is the lead regulator for banking sector risk. Its role includes monetary policy, prudential supervision, and financial stability. Achievements include the introduction of AMCON in 2010, the e-FASS reporting system, and stress testing. An instance was the 2014–2015 intervention in 3 banks where CBN injected capital and changed management to prevent collapse. Challenges include political pressure on interest rate decisions and inadequate capacity to supervise fintechs, which created regulatory arbitrage in digital lending and impacted credit risk.¹⁴

¹⁰ Oyewole OS, 'Credit Risk Management and Non-Performing Loans in Nigerian Banks' (2017) 9 European J Business & Management 45

¹¹ Mishi S and Tsegaye A, 'Credit Information Systems and Access to Finance in Developing Countries' (2019) 20 J African Business 301

¹² Central Bank of Nigeria, Credit Risk Management System and Financial Stability Report (CBN Occasional Paper No 52, 2018)

¹³ Nwakoby NP and Alajekwu UB, 'Financial Inclusion and Economic Growth in Nigeria' (2020) 10 Intl J Economics & Financial Issues 154

¹⁴ Ozili PK, 'Impact of Digital Finance on Financial Inclusion and Stability' (2018) 18 Borsa Istanbul Review 329



Nigeria Deposit Insurance Corporation

NDIC's role is to insure deposits, supervise insured institutions, and manage bank failures. Achievements include paying over ₦12.3 billion to depositors of closed banks between 2016–2022. An instance was the successful resolution of Heritage Bank in 2024, where NDIC coordinated with CBN to protect depositors. Challenges include limited public awareness of deposit insurance limits and inadequate recovery from debtors of failed banks, which constrained its ability to reimburse promptly and affected credit confidence.¹⁵

Securities and Exchange Commission

SEC regulates the capital market to mobilize long-term credit and investment. Its role includes market surveillance and enforcement of disclosure rules. Achievements include the dematerialization of shares and the introduction of the Fintech Roadmap 2021. An instance was the approval of ₦250 billion in corporate bonds by Dangote Cement between 2017–2020, which funded expansion. Challenges include low retail investor participation and weak enforcement of risk disclosures by issuers, which limited the capital market's contribution to economic growth.¹⁶

National Insurance Commission

NAICOM regulates insurance and reinsurance to manage risk in the economy. Under the Insurance Act, 2003, it enforces solvency and risk-based supervision. Achievements include the “No Premium No Cover” policy in 2013 which improved insurer liquidity. An instance was the recapitalization exercise of 2021, which raised minimum capital and reduced undercapitalized firms. Challenges include low insurance penetration at 0.5% of GDP and poor claims settlement culture, which limited insurance's role in de-risking credit transactions.¹⁷

Asset Management Corporation of Nigeria

AMCON was established by the AMCON Act, 2010 to resolve non-performing loans. Its role is to buy toxic assets from banks and manage them. Achievements include purchasing over ₦4.1 trillion in NPLs between 2010–2013, which cleaned bank balance sheets and restored lending. An instance was the acquisition of Aero Contractors and Arik Air debts to protect aviation sector credit. Challenges

¹⁵ Adeniran JO and Sidiq S, 'Fintech, Credit Access and SMEs Growth in Nigeria' (2022) 29 J Small Business & Enterprise Development 612

¹⁶ Enhancing Financial Innovation & Access, _Access to Financial Services in Nigeria Survey Report (EFInA 2023)

¹⁷ Mbutor OM and Uba IA, 'The Impact of Financial Inclusion on Monetary Policy in Nigeria' (2013) 4 CBN J Applied Statistics 33



include slow recovery of purchased assets and fiscal burden on government, which limited AMCON's long-term sustainability and its ability to support further credit expansion.¹⁸

Prudential Guidelines and Capital Adequacy Standards

The Central Bank of Nigeria plays the primary role of setting prudential standards to control credit risk in the banking system. Under section 33 of the CBN Act, 2007 and section 20 of BOFIA, 2020, the CBN issues guidelines that mandate banks to maintain minimum capital adequacy ratios, classify loans, and make adequate provisions for bad debts. An instance was the 2010 reform where the CBN raised the minimum capital base and introduced the Risk-Based Supervision framework. This forced banks to strengthen loan appraisal and reduce exposure to high-risk sectors, which helped reduce industry Non-Performing Loans from 34.4% in 2010 to 5.2% by 2023.¹⁹

3.0 Credit Reporting and Information Sharing

The CBN regulates credit information to reduce information asymmetry and adverse selection. Through the Credit Reporting Act, 2017 and CBN Circulars, all Deposit Money Banks are required to submit borrower data to licensed Credit Bureaus. The CBN also established the Credit Risk Management System [CRMS] in 2007. An instance was the 2019 directive that made it mandatory for banks to check CRMS before approving any loan above ₦1 million. This reduced multiple borrowing and improved loan recovery, thereby enhancing the quality of credit transactions in the economy.²⁰

Beyond regulation, the CBN manages credit risk by directly intervening in priority sectors through special funds. Under its development finance mandate, the CBN created the Commercial Agriculture Credit Scheme, 2009, Anchor Borrowers' Programme, 2015, and ₦50 billion Targeted Credit Facility, 2020. These programs were designed with risk-sharing mechanisms and single-digit interest rates to de-risk lending to agriculture and SMEs. An instance was the Anchor Borrowers' Programme which disbursed over ₦1.1 trillion to 4.8 million farmers by 2023, with NIRSAL providing 75% credit risk guarantees to participating banks.²¹

The CBN acts as lender of last resort and enforces corrective action when credit risk threatens stability. Section 35 and 44 of BOFIA, 2020 empower the CBN to conduct special examinations and remove directors for unsafe lending. An instance was in 2018 when the CBN revoked Skye Bank's license due

¹⁸ Akingbade O and Alade SO, 'Consumer Protection in Digital Financial Services: Evidence from Nigeria' (2021) 44 J Consumer Policy 215

¹⁹ Nwankwo SNP, 'Anti-Money Laundering Regulations and Financial System Stability in Nigeria' (2020) 23 J Money Laundering Control 89

²⁰ Oladipo OA and Iyoha FO, 'Challenges of Risk Management in Nigerian Deposit Money Banks' (2019) 8 Accounting & Finance Research 78

²¹ Fatima N and El-Karanshaw H, 'AML/CFT Compliance and Risk Management in Fintech' (2020) 13 Intl J Islamic & Middle Eastern Finance & Management 445



to poor credit risk management and insider lending, and transferred its assets to Polaris Bank. In 2016, the CBN also intervened in Heritage Bank and Keystone Bank to protect depositors. These actions prevented systemic collapse and maintained confidence in credit markets.²²

The CBN also regulates systemic credit risk through macro-prudential tools and oversight of new lending channels. It issues guidelines on Loan-to-Deposit Ratio [LDR], which was raised to 65% in 2019 to force banks to lend more to the real sector. The CBN further issued the Regulatory Framework for Digital Lending, 2022 to regulate fintech credit risk and consumer protection. An instance was the sanction of 4 digital lenders in 2023 for unethical loan recovery practices. The challenge, however, remains balancing innovation with risk control, as weak regulation of unlicensed lenders continued to create credit risks for consumers. In all, the CBN's role has been central to ensuring that credit risk is measured, managed, and mitigated to support economic growth and financial stability in Nigeria.²³

4.0 Credit Reporting Systems and Credit Information Sharing in Nigeria

Credit reporting in Nigeria is anchored on the Credit Reporting Act, 2017 and CBN Guidelines on Credit Bureau Operations, 2014. The Act, section 4, licensed private Credit Bureaus while section 14 made it mandatory for all financial institutions to submit borrower data to at least two licensed bureaus. The CBN, under section 33 of the CBN Act, 2007, is the primary regulator. The objective was to reduce information asymmetry, improve loan appraisal, and lower default rates. Prior to 2017, credit information sharing was fragmented and voluntary, which made it difficult for lenders to assess borrower risk and led to high Non-Performing Loans.²⁴

Nigeria operates a dual credit reporting system: licensed private Credit Bureaus and the CBN's Credit Risk Management System. Licensed bureaus such as CRC Credit Bureau, First Central, and Credit Registry collect data from banks, MFBs, and fintechs. The CRMS, established by the CBN in 2007, is a centralized database for loans above ₦1 million. An instance was the 2019 CBN circular that directed all banks to obtain a CRMS report before approving any facility. This ensured that a borrower with multiple unpaid loans in different banks could be flagged before new credit was granted.²⁵

Credit information sharing significantly improved credit risk management. By providing lenders with a borrower's credit history, payment behaviour, and outstanding exposures, banks could price risk

²² Okafor IG and Eke C, 'Regulatory Framework and Risk Management in Digital Lending in Nigeria' (2022) 5 Nigerian J Banking & Financial Issues 23

²³ Adegbite EO and Osinubi TS, 'Prudential Regulation and Banking Sector Stability in Nigeria' (2020) 11 CBN J Applied Statistics 1

²⁴ Adegbite EO and Osinubi TS, 'Prudential Regulation and Banking Sector Stability in Nigeria' (2020) 11 CBN J Applied Statistics 1

²⁵ Olalekan A and Adeyinka S, 'Risk Management Practices and Financial Performance of Deposit Money Banks in Nigeria' (2019) 8 Intl J Finance & Banking Studies 45



more accurately. An instance was in 2020 when GT-Bank and Zenith Bank reported that access to bureau data reduced their loan processing time from 2 weeks to 48 hours for SMEs. The system also helped reduce fraud. In 2021, First Bank used bureau data to detect a loan applicant who had defaulted on 3 facilities in other banks and declined the application, thereby avoiding a potential loss.²⁶

The system recorded key achievements. Between 2017 and 2023, the number of individuals with credit files rose from 24 million to over 60 million. The industry NPL ratio also declined from 15.1% in 2018 to 5.2% in 2023, partly due to better borrower screening. Another instance was during the COVID-19 Targeted Credit Facility, 2020, where the CBN and NIRSAL Microfinance Bank used Credit Bureau data to verify applicants and prevent duplicate borrowing. The Bank Verification Number introduced in 2014 further strengthened the system by providing a unique identifier for credit tracking.²⁷

5.0 Prudential Regulation and Banking Sector Stability in Nigeria

Prudential regulation refers to the rules and supervisory actions designed to ensure the safety and soundness of banks and protect depositors. In Nigeria, the legal basis is found in the Central Bank of Nigeria Act, 2007 and the Banks and Other Financial Institutions Act, BOFIA 2020. Section 33 of the CBN Act and section 20 of BOFIA 2020 empower the CBN to issue prudential guidelines on capital adequacy, asset classification, corporate governance, and risk management. The goal is to prevent systemic failure, maintain public confidence, and ensure that banks can withstand shocks while continuing to provide credit to the economy.²⁸

The CBN applies several prudential tools to safeguard stability. These include minimum capital requirements, Liquidity Ratio, Cash Reserve Ratio, Loan-to-Deposit Ratio, and single obligor limits. Under section 9 of BOFIA 2020, banks must maintain a minimum capital of ₦25 billion for national banks. Section 22 mandates a Liquidity Ratio of not less than 30%. An instance was in 2019 when the CBN raised the LDR to 65% to compel banks to lend more to the real sector. Banks that failed to meet the target were debited for the shortfall, which increased credit flow but was carefully monitored to avoid excessive risk-taking.²⁹

To enhance stability, the CBN shifted from compliance-based to Risk-Based Supervision in 2010. This approach requires supervisors to focus on banks with the highest risk profiles. The CBN also deployed

²⁶ Akani FN and Na-Allah A, 'Credit Risk Management and Banks' Financial Performance: Evidence from Nigeria' (2018) 9 J Economics & Sustainable Development 89

²⁷ Nwude EC and Igwe KC, 'Effect of Risk-Based Supervision on Financial Stability of Banks in Nigeria' (2020) 14 J Banking & Financial Services 34

²⁸ Sanusi LS, 'Banking Reform and its Impact on the Nigerian Economy' (2012) 2 CBN J Applied Statistics 115

²⁹ Adebayo T and Dada RM, 'Impact of Credit Bureau on Credit Risk Management in Nigerian Banks' (2021) 10 J Financial Risk Management 112



the e-FASS and CRMS for real-time data reporting and monitoring. An instance was in 2016 when early warning signals from RBS reports led the CBN to conduct a special examination of 9 banks with high NPLs. The findings resulted in increased provisioning and management changes in 3 banks, which prevented deeper deterioration and protected depositors during the recession.³⁰

Prudential regulation has been tested through several bank interventions. A major instance was the 2009 banking crisis when the CBN and NDIC intervened in 8 banks with combined NPLs of over ₦1.1 trillion. The CBN injected ₦620 billion in capital, replaced management, and established AMCON under the AMCON Act, 2010 to buy toxic assets. Another instance was the 2018 revocation of Skye Bank's license due to breaches of prudential guidelines on insider lending and capital adequacy. Its assets were transferred to Polaris Bank to avoid systemic contagion.³¹ These actions preserved stability and restored confidence in the banking system. Prudential regulation has achieved notable results. Banking sector capital adequacy ratio remained above the 15% minimum, and the NPL ratio fell from 34.4% in 2010 to 5.2% in 2023. Depositor confidence improved, and the sector has remained stable despite external shocks. However, challenges persist, including regulatory forbearance, political pressure, and the rise of unregulated fintech lending that creates arbitrage risks. The CBN is now strengthening prudential rules for fintechs and non-bank financial institutions under the Guidelines for Payment Service Banks, 2018 and Digital Lending Framework, 2022.³²

6.0 Consumer Protection, Responsible Lending, Risk Management in Digital Financial Services, Fintech Lending, and AML/CFT in Nigeria

Consumer protection in Nigeria's financial system is anchored on the CBN Consumer Protection Framework, 2016 and the Federal Competition and Consumer Protection Act, 2018. Responsible lending requires financial institutions to ensure transparency, fair pricing, and suitability of credit products. The CBN mandates disclosure of interest rates, fees, and terms through section 2.1 of the Consumer Protection Regulations. An instance was in 2022 when the CBN fined 5 banks ₦200 million collectively for failure to resolve customer complaints within the stipulated 10 working days. This pushed banks to strengthen complaints management units and adopt ethical lending practices.³³

The rise of digital lending exposed gaps in responsible lending. Many fintechs offered instant loans without proper affordability assessments, leading to over-indebtedness and harassment of borrowers.

³⁰ Oyewole OS, 'Credit Risk Management and Non-Performing Loans in Nigerian Banks' (2017) 9 European J Business & Management 45

³¹ Mishi S and Tsegaye A, 'Credit Information Systems and Access to Finance in Developing Countries' (2019) 20 J African Business 301

³² Central Bank of Nigeria, Credit Risk Management System and Financial Stability Report (CBN Occasional Paper No 52, 2018)

³³ Mishi S and Tsegaye A, 'Credit Information Systems and Access to Finance in Developing Countries' (2019) 20 J African Business 301



An instance was in 2023 when the FCCPC and CBN delisted over 200 unregistered loan apps for defamatory recovery tactics and data breaches. Borrowers reported unauthorized contact of family members and inflated interest rates of up to 30% per month. This prompted regulators to intervene to protect vulnerable consumers and restore trust in digital credit.³⁴

Digital Financial Services introduced new risks including cyber risk, operational risk, and third-party risk. The CBN addressed this through the Guidelines on Operations of Electronic Payment Channels, 2020 and Risk-Based Cybersecurity Framework, 2018. Banks and fintechs are required to conduct vulnerability assessments, implement multi-factor authentication, and report fraud incidents. An instance was in 2021 when the CBN directed all banks to implement EMV chip and PIN standards and fraud monitoring systems after a spike in ATM and card fraud, which reduced reported fraud losses by 42% between 2021–2023.³⁵

With DFS relying heavily on customer data, the Nigeria Data Protection Act, 2023 and CBN Guidelines on Data Protection, 2020 became critical. Financial institutions must obtain consent, ensure data minimization, and protect customer information. An instance was the 2023 sanction of 2 fintech companies by the Nigeria Data Protection Commission for sharing borrower contacts without consent. The CBN also mandated that all digital lenders must integrate with Credit Bureaus to avoid multiple lending and protect consumers from debt traps.

Fintech lending grew rapidly due to financial inclusion gaps. To regulate it, the CBN issued the Regulatory Framework for Digital Lending, 2022 and licensed fintechs under the Payment Service Bank Guidelines, 2018 and Microfinance Bank Guidelines. Licensed operators such as Fair-Money and Carbon are required to meet capital, governance, and risk management standards. An instance was the approval of the Enhanced Loan-to-Deposit Ratio policy in 2019, which pushed traditional banks to partner with fintechs to reach SMEs. The challenge remains that many unlicensed apps still operate outside regulatory oversight, creating consumer and systemic risks.

7.0 Credit Risk Management in Fintech Lending

Fintechs manage credit risk using alternative data, AI scoring, and real-time monitoring. However, weak models and lack of access to CRMS data increased default risk. The CBN addressed this by mandating in 2021 that all licensed digital lenders must report to at least 2 licensed Credit Bureaus. An instance was in 2022 when Carbon reported a 35% drop in NPLs after integrating BVN validation

³⁴ Nwakoby NP and Alajekwu UB, 'Financial Inclusion and Economic Growth in Nigeria' (2020) 10 Intl J Economics & Financial Issues 154

³⁵ Oyewole OS, 'Credit Risk Management and Non-Performing Loans in Nigerian Banks' (2017) 9 European J Business & Management 45



and bureau checks into its onboarding process. Still, high interest rates and short tenors remain a risk management concern that regulators are addressing through interest rate caps and disclosure rules.³⁶

AML/CFT regulation is governed by the Money Laundering (Prevention and Prohibition) Act, 2022 and the CBN AML/CFT Regulations, 2022. Financial institutions must conduct Customer Due Diligence, monitor transactions, and report suspicious transactions to the Nigerian Financial Intelligence Unit. Section 3 of the 2022 Act raised the cash transaction threshold and expanded obligations to fintechs and VASPs. An instance was in 2023 when the CBN fined 3 banks ₦800 million for failures in transaction monitoring and STR reporting, reinforcing compliance culture across the sector. The Terrorism (Prevention and Prohibition) Act, 2022 mandates financial institutions to screen customers against sanctions lists and monitor for terrorism financing. Fintechs face unique challenges due to digital onboarding and peer-to-peer transfers. The CBN and NFIU issued guidance requiring fintechs to implement real-time screening and limit wallet sizes. An instance was the 2024 freezing of accounts linked to unregistered crypto P2P platforms suspected of terrorism financing. The achievement has been improved inter-agency collaboration, but the challenge remains balancing financial inclusion with strict AML/CFT controls in a fast-evolving digital ecosystem.³⁷

8.0 Impact of Risk Management Practices on Economic Growth, Financial Inclusion, Challenges and Strategies in Nigeria

Effective risk management by regulatory agencies has been critical to Nigeria's economic growth. By enforcing prudential guidelines under the CBN Act, 2007 and BOFIA, 2020, the CBN ensured that banks maintained adequate capital and managed credit risk. This reduced bank failures and stabilized lending. An instance was the post-2010 banking reforms where NPLs fell from 34.4% to 5.2% by 2023. The cleanup of bank balance sheets through AMCON freed up capital for lending to manufacturing, agriculture, and SMEs, which are key drivers of GDP growth.³⁸ Risk management also expanded financial inclusion by creating confidence in the financial system. The introduction of Credit Bureaus under the Credit Reporting Act, 2017 and BVN in 2014 reduced information asymmetry and enabled lenders to serve previously "un-bankable" customers. An instance was the Agent Banking Framework, 2013, where risk-based KYC allowed over 1.4 million agents to provide banking services in rural areas by 2023. This increased account ownership from 45.3% in 2016 to 64.1% in 2023

³⁶ Oyewole OS, 'Credit Risk Management and Non-Performing Loans in Nigerian Banks' (2017) 9 European J Business & Management 45

³⁷ Oyewole OS, 'Credit Risk Management and Non-Performing Loans in Nigerian Banks' (2017) 9 European J Business & Management 45

³⁸ Nwakoby NP and Alajekwu UB, 'Financial Inclusion and Economic Growth in Nigeria' (2020) 10 Intl J Economics & Financial Issues 154



according to EFInA.³⁹ The CBN used risk-sharing to promote inclusive growth. Through the Anchor Borrowers' Programme, 2015 and ₦50bn Targeted Credit Facility, 2020, the Bank partnered with NIRSAL to guarantee up to 75% of loans to farmers and SMEs. An instance was the disbursement of ₦1.1 trillion to 4.8 million farmers by 2023. These programs de-risked lending, lowered interest rates, and channelled credit to sectors with high employment potential, thereby supporting economic growth and inclusion.⁴⁰

Risk management in Digital Financial Services improved access to credit. The Payment Service Bank Guidelines, 2018 and Cybersecurity Framework, 2018 created a safe environment for mobile money and fintech lending. An instance was the licensing of Mo-Mo PSB and Smart-Cash PSB in 2022, which reached over 20 million previously excluded Nigerians. Fintechs like Carbon and Fair-Money also used alternative data to lend to thin-file borrowers, with credit bureau reporting reducing fraud and defaults. A major challenge is limited supervisory capacity and poor data. Many regulatory agencies lack real-time data to monitor emerging risks in fintech and digital lending. An instance was in 2022 when over 200 unregistered loan apps operated outside CBN/ FCCPC oversight and engaged in abusive practices. The absence of comprehensive data on informal sector borrowers also limits risk assessment, constraining credit to SMEs and reducing the impact of risk management on inclusion.⁴¹

Political interference and selective enforcement weaken prudential regulation. Despite provisions in section 54 of BOFIA 2020, some banks continued insider lending and corporate governance breaches without timely sanctions. An instance was the 2016 recession where delayed intervention in 3 banks deepened credit contraction. Also, pressure to meet development targets sometimes led to forbearance, as seen in loan restructuring during COVID-19, which masked true asset quality. The rapid growth of fintech created new risks that existing frameworks did not fully address. Cyber fraud, data breaches, and unregulated P2P lending increased operational and credit risk. An instance was in 2023 when the NFIU flagged several fintech wallets for suspected terrorism financing due to weak KYC. The rise of crypto trading also posed AML/CFT challenges, as seen in the freezing of accounts linked to unlicensed exchanges in 2024.⁴²

To address these gaps, regulators are adopting RegTech and SupTech. The CBN's e-FASS and CRMS now allow real-time monitoring of bank risk. A strategy is to expand this to fintechs and MFBs. An

³⁹ Akingbade O and Alade SO, 'Consumer Protection in Digital Financial Services: Evidence from Nigeria' (2021) 44 J Consumer Policy 215

⁴⁰ Akingbade O and Alade SO, 'Consumer Protection in Digital Financial Services: Evidence from Nigeria' (2021) 44 J Consumer Policy 215

⁴¹ Nwankwo SNP, 'Anti-Money Laundering Regulations and Financial System Stability in Nigeria' (2020) 23 J Money Laundering Control 89

⁴² Nwankwo SNP, 'Anti-Money Laundering Regulations and Financial System Stability in Nigeria' (2020) 23 J Money Laundering Control 89



instance was the 2022 directive for all digital lenders to integrate with Credit Bureaus, which improved loan appraisal. Investing in AI-based fraud detection and stress testing will further enhance early warning and prevent systemic shocks.⁴³

Stronger collaboration between CBN, SEC, NDIC, NAICOM, FCCPC, and NFIU is needed. Joint task forces were used in 2023 to delist illegal loan apps. Legal reforms such as the BOFIA 2020 and Money Laundering Act 2022 should be fully implemented. Another strategy is expanding credit information coverage to include cooperatives, utilities, and trade creditors under the *Credit Reporting Act. This will improve credit scoring and enhance credit transactions for low-income earners. Regulators must balance innovation with stability. The CBN Regulatory Sandbox, 2021 allows fintechs to test products under supervision. Strengthening the Consumer Protection Framework, 2016 and enforcing responsible lending standards will protect borrowers and sustain trust. An instance was the 2022 Digital Lending Framework which mandated interest rate disclosure and banned harassment. Combined with financial literacy programs, these strategies can deepen credit markets, improve risk management, and drive sustainable economic growth and inclusion.⁴⁴

9.0 Conclusion/Recommendations

This paper established that risk management practices of regulatory agencies have played a decisive role in promoting economic growth and credit transactions in Nigeria. Through prudential regulation under the CBN Act, 2007 and BOFIA, 2020, the banking sector was stabilized after the 2009 crisis and the 2016 recession, with NPLs declining from 34.4% in 2010 to 5.2% in 2023. The introduction of credit reporting under the Credit Reporting Act, 2017, and intervention programs such as the Anchor Borrowers' Programme, 2015 enhanced credit flow to SMEs and agriculture. However, challenges including weak enforcement, data gaps, political interference, and emerging risks from fintech and cyber threats continued to limit the full impact of regulation on financial inclusion and stability.

To strengthen risk management and enhance credit transactions, several measures are recommended. First, regulatory agencies should deepen risk-based supervision and technology adoption by expanding eFASS and CRMS coverage to fintechs, MFBs, and digital lenders. An instance of application is the 2022 CBN directive mandating all licensed digital lenders to report to Credit Bureaus, which reduced multiple borrowing. Second, inter-agency collaboration and legal enforcement should be improved. The 2023 joint action by CBN, FCCPC and NFIU to delist over 200 illegal loan apps shows how coordinated enforcement can protect consumers. Third, credit information infrastructure should be expanded to include cooperatives, utilities and trade creditors to improve data for SME lending.

⁴³ ibid

⁴⁴ ibid



Fourth, regulators must promote responsible innovation and consumer protection through the CBN Regulatory Sandbox and strict implementation of the Consumer Protection Framework, 2016 and Digital Lending Framework, 2022. An instance is the sanctioning of fintechs in 2023 for unethical recovery practices, which restored public trust. Finally, capacity building and independence of regulators should be prioritized to reduce political interference and improve timely intervention, as demonstrated in the 2018 resolution of Skye Bank. If these strategies are implemented, Nigeria's regulatory framework will better manage emerging risks, deepen financial inclusion, and create a stable credit environment that supports sustainable economic growth.