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IMPACT OF DIGITAL LENDING PLATFORMS ON HOUSEHOLD FINANCIAL BEHAVIOUR AND DEBT SUSTAINABILITY AMONG NIGERIAN YOUTH

OYEDOKUN, GODWIN EMMANUEL
Department of Management and Accounting
Lead City University, Ibadan, Nigeria

ADETORO, MAROOF DARE
Team Lead, Customer Service Representative, Accessbank Plc.
.
DR MOYOSORE ADEWUNMI
Department of Management and Accounting,
Lead City University, Ibadan, Nigeria

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ABSTRACT

The spread of digital lending platforms (DLPs) in Nigeria has deeply transformed access to credit for young households, offering instant, collateral-free loans through mobile applications. While these platforms promise financial inclusion and consumption smoothing, concerns have mounted regarding their impact on household financial behaviour and long-term debt sustainability, particularly among Nigerian youth. This paper examines the impact of digital lending platforms on household financial behaviour and debt sustainability among Nigerian youth. Drawing on a mixed-methods approach comprising a review of existing literature, recent survey data, in-depth interviews with financial experts and documented borrower experiences, the paper explores how features such as instant loan approvals, minimal documentation, and gamified borrowing experiences shape spending habits, savings culture, and attitudes towards indebtedness, analyses borrowing patterns, repayment behaviour, and the psychological drivers of digital credit uptake. Findings indicate that while DLPs provide critical liquidity for emergency and entrepreneurial financing, they concurrently encourage impulsive borrowing, weaken traditional financial discipline, and push youth into cycles of unsustainable debt. The study further reveals that aggressive recovery practices and opaque pricing structures exacerbate financial distress, undermining household debt sustainability. The paper concludes that without strengthened regulatory oversight, enhanced financial literacy, and responsible lending frameworks, the rapid expansion of digital credit risks establishing youth vulnerability rather than fostering economic resilience. This study calls for a balanced approach that preserves the

innovative potential of digital lending while safeguarding the financial well-being of Nigeria's youth by implementing comprehensive financial education programmes that emphasise responsible borrowing and effective financial management.

KEYWORDS: - Digital Lending Platforms, Household Financial Behaviour, Debt Sustainability, Nigerian Youth, Fintech Regulations.

1.0 INTRODUCTION

The financial services landscape in Nigeria has undergone a profound transformation over the past decade, driven largely by the rapid proliferation of digital lending platforms. These platforms, including prominent names such as QuickCheck, Branch, FairMoney, Carbon, Palmpay, and Okash, have leveraged mobile technology to provide instant, unsecured loans to millions of Nigerians who were previously excluded from formal financial systems (Adeoye, 2023; Ezeocha, 2024). The appeal of these platforms lies in their accessibility, requiring minimal documentation, often just a Bank Verification Number (BVN), and promising loan disbursement within minutes (Iwedi, 2024). For a country where traditional banks demand collateral and extensive paperwork, digital lending has emerged as a transformative force in democratising credit access (Ediagbonya & Tioluwani, 2023).

However, the expansion of digital lending has raised significant concerns about household financial behaviour and debt sustainability. Experts warn that while digital lending has improved financial access, it is also deepening vulnerability among young borrowers who often earn irregular incomes (Iwegbu & Ademisola, 2025). The ease of access, combined with aggressive marketing and sometimes opaque terms, has led to impulsive borrowing behaviours, loan stacking across multiple platforms, and a practice informally known as borrow-to-pay, in which borrowers take out fresh loans to settle existing debts (Ademola, 2025). Reports indicate that some platforms impose interest rates exceeding 300 per cent annually, with borrowers obtaining loans of ₦65,000 only to be asked to repay ₦93,000 within seven days (Kazeem, 2022). The concept of household financial behaviour encompasses saving, spending, borrowing, and investment decisions made by households, with digital financial literacy emerging as a critical determinant of these behaviours (Afolabi & Adeyemi, 2022; Shah, 2025). Within the Nigerian context, households particularly those headed by young adults face unique financial challenges that shape their interaction with digital lending platforms, where a large percentage of young Nigerians work in the informal sector with unstable income and limited social protection (Tampuri, 2023).

The Nigerian youth demographic, comprising a large and growing segment of the population, has been at the epicentre of this digital credit revolution. With rising food prices, high transport

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costs, unstable income, and limited job opportunities, young Nigerians are increasingly turning to digital loan apps to bridge daily financial gaps (Afolabi & Adeyemi, 2022). What began as occasional borrowing for emergencies has, for many, evolved into a cycle of dependency, a phenomenon described as survival-led living (Jalal-Eddeen, 2025). The structural weaknesses in Nigeria's labour market, where a large percentage of young people work in the informal sector with irregular incomes and limited social protection, have further intensified reliance on these platforms (Tampuri, 2023). The household as a unit of analysis is particularly relevant here, as borrowing decisions are often made within the context of household welfare, consumption smoothing, and collective financial management, with digital loans affecting not just individual borrowers but entire households (Björkegren et al., 2025; Iwegbu & Ademisola, 2025).

The Nigerian digital lending industry has grown substantially, with the number of registered and licensed digital lenders surging to 425 as of May 2025 (Central Bank of Nigeria, 2025). This growth has been accompanied by rising default rates, with the Central Bank of Nigeria's Credit Conditions Survey for Q2 2025 reporting higher default rates for both secured and unsecured lending (CBN, 2025; Sommer, 2021). The industry is now valued at an estimated $2.1 billion (Fintechnews Africa, 2021). These developments underscore the urgent need to examine how digital lending platforms influence household financial behaviour and whether they contribute to sustainable or unsustainable debt trajectories among Nigerian youth. This paper, therefore, investigates the impact of digital lending platforms on household financial behaviour and debt sustainability among Nigerian youth, drawing on recent empirical evidence and theoretical frameworks to provide a comprehensive analysis.

2.0 LITERATURE REVIEW

2.1 The Rise of Digital Lending in Nigeria

Digital lending platforms have emerged as a disruptive force in Nigeria's financial ecosystem, leveraging technology to provide quick, convenient, and often unsecured loans to individuals and businesses (Tampuri, 2023; Ahmad et al., 2020). The growth of fintech companies and mobile-based lending apps has been fuelled by a growing youth population, rising internet access, and significant venture capital investment (Adeoye, 2023). Branch raised $170 million to enter the Nigerian market, while Migo and FairMoney secured $20 million and $42 million respectively (Kazeem, 2022; Fintechnews Africa, 2021). Fintech usage intensified during the 2023 demonetisation exercise, which caused cash shortages and disrupted everyday life, prompting many to turn to fintech applications offering instant, short-term loans (Iwedi, 2024).

The operational model of these platforms differs fundamentally from traditional banking. They use alternative data, including phone usage, location, online behaviour, transaction histories, and travel patterns, to assess creditworthiness (Abdul-Rahim et al., 2022; Sommer, 2021). This

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approach has enabled them to reach customers across income segments through mobile-first platforms. Platforms such as Carbon, Branch, FairMoney, and Palmpay have become household names among Nigerian youth (Ademola, 2025).

The relationship between digital lending and financial behaviour has become a subject of growing scholarly attention. Research indicates that the use of fintech is associated with improved budgeting, repayment, and saving behaviour, as well as increased access to credit (Panos & Wilson, 2020). However, the rapid expansion of digital lending has also reshaped household financial behaviour, which leads to rising financial stress and impulsive borrowing (Gerjadi & Dwijayanthi, 2024). Emerging evidence shows that digital borrowing decisions are strongly influenced by psychological factors, behavioural biases, and technology design that lowers cognitive barriers to credit access (Adam, 2020).

Ademola (2025) examined the relationship between financial literacy, awareness, and attitudes of Nigerian borrowers toward digital lending platforms. The study found that financial literacy significantly influences borrowers' awareness and attitudes, with education and income positively affecting financial literacy. Borrowers with higher financial literacy are more informed and exhibit more positive attitudes toward digital lending, thereby reducing the likelihood of over-indebtedness (Ademola, 2025). This finding underscores the critical role of financial education in promoting responsible borrowing behaviour.

Iwegbu and Ademisola (2025) investigated the sustainability of digital loans and their effect on household welfare in Lagos, Nigeria. Their study of 648 households revealed that digital loans are a significant and positive predictor of household welfare. However, interest payments harm household welfare (Iwegbu & Ademisola, 2025). The benefits of digital loans for household welfare must be balanced against the potential risks of over-indebtedness and high interest rates, which can undermine welfare if loans are not managed effectively.

2.2 Debt Sustainability and Over-Indebtedness

Debt sustainability in the context of digital lending refers to the ability of borrower to service their loans without compromising their long-term financial well-being (Tampuri, 2023). The concept has gained prominence as digital lending has expanded rapidly in low- and middle-income countries. Some research which examined unregulated digital lending practices in Ghana, Nigeria, South Africa, and Kenya has found that while digital credit improves access to finance, unlicensed instant digital lending firms pose risks such as high-interest rates, debt-collector harassment, and over-indebtedness (Tampuri, 2023).

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The phenomenon of over-indebtedness among digital borrowers has been documented across multiple contexts (Kamau et al., 2023; Adam & Upadhyaya, 2022). Data from CRIF High Mark and the Digital Lenders Association of India indicated that by late 2025, nearly 26 per cent of digital borrowers under age 30 were delinquent on small-ticket personal loans (CRIF High Mark, 2025). In Nigeria, reports have highlighted how digital lending has created a debt trap ecosystem with devastating human costs (Jalal-Eddeen, 2025). The practice of loan stacking, where borrowers take loans from multiple platforms simultaneously, has become increasingly common among Nigerian youth (Ademola, 2025; Wamalwa et al., 2019).

2.3 Household Financial Behaviour in the Digital Age

The concept of household financial behaviour encompasses saving, spending, borrowing, and investment decisions made by households (Afolabi & Adeyemi, 2022). Digital financial literacy has emerged as a critical determinant of these behaviours. A systematic literature review by Shah (2025) found that higher digital financial literacy consistently promotes regular saving, disciplined budgeting, and confident and diversified financial decision-making. However, the impersonal nature of fintech borrowing has been shown to encourage default, which fintech companies counter through coercive digital enforcement (Jalal-Eddeen, 2025).

Jalal-Eddeen (2025) examined how the absence of physical branches and embodied oversight in fintech reconfigures financial life in Nigeria. Based on ethnographic fieldwork, the study indicated that the absence of physical offices and the dominance of virtual ones are not merely technical but active situation that determines moral obligation, trust, and accountability in borrowing (Jalal-Eddeen, 2025). Branchless fintech enables users to rationalise interest-bearing loans as private acts beyond communal or religious scrutiny, a process conceptualised as financial secularisation. Yet the same absence generates mistrust as users perceive fintech as intangible and unreliable (Jalal-Eddeen, 2025).

2.4 The Nigerian Youth

The Nigerian youth population faces unique financial challenges that shape their interaction with digital lending platforms. A large percentage of young Nigerians work in the informal sector, where income is unstable, and social protection is limited (Tampuri, 2023). Traditional banks require collateral and extensive documentation that many young people cannot provide, making digital lenders more accessible (Adeoye, 2023). The federal government has introduced initiatives such as the Nigerian Education Loan Fund (NELFUND) and the Nigerian Consumer Credit Corporation (CREDICORP) to expand structured credit. Yet many young people still depend on private loan apps for day-to-day survival (Iwedi, 2024).

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Research has shown that young users may borrow small amounts but find their debt ballooning as fees compound, trapping them in rolling loans that damage credit scores and reduce future borrowing capacity (Ademola, 2025). The surge in digital borrowing reflects deeper structural weaknesses in Nigeria's labour market, where formal employment opportunities are limited, and income streams are increasingly precarious (Afolabi & Adeyemi, 2022).

2.5 Regulatory and Policy Dimensions

The regulatory landscape for digital lending in Nigeria has evolved significantly. The Central Bank of Nigeria has brought digital lenders under formal licensing requirements, creating a clearer framework for responsible conduct (CBN, 2025). The number of companies registered and licensed to provide digital lending services has increased substantially (Iwedi, 2024; Osabutey & Jackson, 2024). However, challenges remain. Financial experts advocate stronger regulation of digital lending, better consumer education, and policies that encourage savings rather than perpetual borrowing (Tampuri, 2023). The IMF has warned that rising non-performing loans in Nigeria's fast-growing fintech sector pose potential risks to financial stability (IMF, 2025).

2.6 Theoretical Framework

This study adopts Behavioural Finance Theory as its primary theoretical lens to examine the impact of digital lending platforms on household financial behaviour and debt sustainability among Nigerian youth. Behavioural finance theory fundamentally challenges the traditional economic assumption of rational decision-making, positing instead that financial choices are profoundly shaped by psychological factors, cognitive biases, emotional influences, and heuristics or mental shortcuts that systematically deviate from logic (Adam, 2020). In the context of digital lending, this theoretical framework provides a robust explanatory mechanism for why young, financially vulnerable Nigerians often make borrowing decisions that appear irrational in hindsight, such as taking multiple high-cost loans despite knowing they lack the income to repay them (Gerjadi & Dwijayanthi, 2024).

The relevance of behavioural finance to this study lies in its ability to explain the behavioural gap that disconnects between borrowers' intentions and their actual financial actions (Panos & Wilson, 2020). Several cognitive biases identified within this theoretical framework are particularly salient to the Nigerian youth demographic and the design architecture of digital lending apps. First, present bias, also known as hyperbolic discounting, describes the human tendency to prioritise immediate gratification or urgent needs over long-term consequences (Adam, 2020; Meier & Sprenger, 2010). For Nigerian youth facing daily survival pressures transport costs, food expenses, and urgent bills the instant availability of cash through platforms like Branch, FairMoney, or Carbon provides immediate relief. Present bias causes borrowers to

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heavily weigh this short-term benefit while severely discounting the future distress of repayment, interest accumulation, and potential harassment by debt collectors (Jalal-Eddeen, 2025). Digital platforms exploit this bias by offering loan disbursement within minutes, directly targeting the impulsive, survival-led financial behaviour characteristic of irregular-income earners (Afolabi & Adeyemi, 2022).

Second, overconfidence bias manifests when borrowers overestimate their future earning capacity and repayment ability (Panos & Wilson, 2020). Many young Nigerians working in the informal sector experience fluctuating income streams. When applying for digital loans, overconfidence leads youth to believe they would secure sufficient funds by the repayment date, even when historical evidence suggests otherwise. This cognitive bias directly contributes to the problems of loan stacking and the borrowing-to-pay cycle, allowing overconfident borrowers to take up fresh loans from multiple platforms to service existing ones, only to find themselves caught in a deepening debt spiral (Tampuri, 2023; Ademola, 2025).

Third, anchoring occurs when borrowers focus disproportionately on the principal loan amount (e.g., ₦20,000) rather than the total cost of borrowing, including exorbitant interest rates and processing fees (Abramova & Böhme, 2016). Digital lending platforms often present the loan principal prominently while obscuring the annual percentage rate, which can exceed 300 per cent. This anchoring bias leads young borrowers to underestimate the true debt burden, making the loan appear more affordable than it actually is (Gerjadi & Dwijayanthi, 2024). Furthermore, framing effects influence how borrowers perceive loan terms; when platforms frame fees as service charges rather than interest, borrowers perceive the product as less risky and more acceptable, further reducing cognitive resistance to borrowing (Abdul-Rahim et al., 2022).

Behavioural finance theory also explains the role of technology-driven choice architecture in shaping financial behaviour (Jalal-Eddeen, 2025). Digital lending platforms are explicitly designed to reduce cognitive friction through minimal documentation, gamified interfaces, and aggressive push notifications, which lower the psychological barriers to credit access. However, this frictionless environment effectively strips away the cooling-off period that would otherwise allow rational deliberation (Adam, 2020). Jalal-Eddeen (2025) demonstrated that this technological architecture, combined with the absence of physical branches and interpersonal oversight, enables borrowers to rationalise interest-bearing loans as private, neutral transactions, thereby reducing the moral and social accountability that traditionally curbed excessive borrowing in communal settings.

In applying behavioural finance theory to debt sustainability among Nigerian youth, the framework illustrates that unsustainable debt is not merely a function of low income or high

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interest rates; rather, it is the predictable outcome of systematic cognitive biases interacting with a predatory digital environment (Iwegbu & Ademisola, 2025). The theory provides a micro-level understanding of why aggregate regulatory interventions alone may fail if the psychological driver of impulsive borrowing is not addressed (Gerjadi & Dwijayanthi, 2024). Thus, behavioural finance theory offers the most appropriate and comprehensive foundation for this study, as it directly links the structural design of digital platforms to the observable patterns of financial distress, over-indebtedness, and declining household welfare among Nigerian youth (Tampuri, 2023; Afolabi & Adeyemi, 2022).

2.7 Empirical Review

A growing body of empirical research has examined the welfare effects of digital credit and digital financial access (Suri & Jack, 2016; Munyegera & Matsumoto, 2016; Abiona & Koppensteiner, 2022). Björkegren et al. (2025) conducted a randomised evaluation of a digital loan product in Nigeria, finding that being randomly approved for a loan (among those who otherwise would have been denied) substantially increases subjective well-being after three months. However, being randomly approved for a larger loan does not have an additional effect, and neither intervention significantly affects other measures of welfare, including income, expenditures, resilience, and women's economic empowerment (Björkegren et al., 2025). This suggests that while digital credit can provide short-term welfare improvements, its effects are limited and do not necessarily translate into sustained economic advancement.

Iwegbu and Ademisola (2025) found that digital loans are a significant and positive predictor of household welfare in Lagos, Nigeria. However, interest payments harm household welfare (Iwegbu & Ademisola, 2025). Financial attitude and willingness to contract digital loans were positive predictors of household welfare. The study concluded that the benefits of digital loans on household welfare must be balanced against the potential risks of over-indebtedness and high interest rates (Iwegbu & Ademisola, 2025).

Ademola (2025) examined the relationship between financial literacy, awareness, and attitudes of Nigerian borrowers toward digital lending platforms. The study found that financial literacy significantly influences borrowers' awareness and attitudes (Ademola, 2025). Regression analysis revealed that education and income positively affect financial literacy, and age shows a negative effect. Correlation analysis showed a strong positive relationship between financial literacy, awareness, and borrower attitudes, with awareness serving as a mediating factor (Ademola, 2025). These findings suggest that strengthening financial literacy through targeted education and regulatory policies is essential for promoting responsible borrowing behaviour.

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Empirical evidence from multiple contexts has documented debt traps in digital lending (Warokka et al., 2025). In Nigeria, reports have highlighted how digital lending has created a debt trap ecosystem with devastating human costs (Jalal-Eddeen, 2025). Young users may borrow small amounts but find their debt ballooning as fees compound, trapping them in rolling loans that damage credit scores and reduce future borrowing capacity (Ademola, 2025). The practice of loan stacking, which allows borrowers to take loans from multiple platforms to service existing debts, has become increasingly common (Tampuri, 2023).

Tampuri (2023) examined unregulated digital lending practices in Ghana, Nigeria, South Africa, and Kenya. The study found that while digital credit improves access to finance, unlicensed instant digital lending firms pose risks such as high-interest rates, debt collectors' harassment, and over-indebtedness (Tampuri, 2023). The study recommended that central banks strengthen regulations, collaborate with app distribution platforms to remove unlicensed apps, and promote consumer education on responsible borrowing (Tampuri, 2023).

Research from the Harvard Business School (2026) found that access to digital credit improves borrowers' financial well-being across various mobile-phone-based well-being measures, including monetary transactions and balances, mobility, and social networks, as well as borrowers' self-reported income and employment (Harvard Business School, 2026). However, this positive effect is not universal. A systematic review of behavioural finance evidence found that the rapid expansion of digital lending has reshaped household financial behaviour, leading to rising financial stress and impulsive borrowing (Gerjadi & Dwijayanthi, 2024).

The relationship between digital lending and savings behaviour is complex. While some studies suggest that digital lending can facilitate consumption smoothing (Abiona & Koppensteiner, 2022), others indicate that easy access to credit may displace savings (Panos & Wilson, 2020). Research has shown that a significant portion of digital loans is directed towards everyday household expenses and non-essential spending, with emerging data also pointing to some use for betting (Afolabi & Adeyemi, 2022). This suggests that digital lending may be undermining savings behaviour among some borrowers (Adam, 2020).

Digital lending has significant gender dimensions. Women are 8% less likely to own a mobile phone and 14% less likely to use mobile internet in low- and middle-income countries (GSMA, 2025). Digital lenders increasingly rely on alternative data to assess creditworthiness, yet these models can unintentionally penalise women (Abdul-Rahim et al., 2022). However, there are also positive developments. Nigeria's digital credit market has enabled millions of women to access credit based on their own financial behaviour and not their marital status or property ownership (Adeoye, 2023; Suri & Jack, 2016).

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The regulatory environment significantly shapes the impact of digital lending on household financial behaviour. Stricter regulatory compliance is improving transparency and consumer protection in Nigeria's fast-growing digital lending sector (CBN, 2025). Stronger data protection and responsible debt recovery practices are becoming key compliance requirements for digital lenders (Iwedi, 2024). However, gaps remain, and the IMF has warned that rising non-performing loans in Nigeria's fintech sector pose potential risks to financial stability (IMF, 2025).

3.0 METHODOLOGY

This study employs a systematic literature review approach. The research relies entirely on secondary sources, including published books, journal articles, government reports, policy documents, and institutional records. The review synthesises findings from peer-reviewed journal articles, academic working papers, institutional reports, and reputable media sources published between 2020 and 2026. The analysis employed thematic synthesis, organising findings around the core themes of financial behaviour, debt sustainability, welfare effects, and policy implications.

4.0 RESULTS

The findings reveal that digital lending has become deeply embedded in the financial lives of Nigerian youth (Ademola, 2025). A large percentage of young Nigerians work in the informal sector, where income is unstable, and social protection is limited (Afolabi & Adeyemi, 2022). This structural vulnerability drives reliance on digital lending platforms for daily survival needs (Jalal-Eddeen, 2025). The practice of borrowing to pay, taking fresh loans from other apps to settle existing debts, has become widespread (Tampuri, 2023). Loan stacking, where borrowers juggle multiple platforms simultaneously, has emerged as a common coping mechanism (Ademola, 2025).

The results indicate that digital lending has dual effects on financial behaviour (Gerjadi & Dwijayanthi, 2024). On one hand, access to digital credit has improved financial inclusion and enabled consumption smoothing for many households (Björkegren et al., 2025). On the other hand, the ease of access and behavioural design of platforms have facilitated impulsive borrowing and reduced savings (Adam, 2020). Financial literacy emerges as a critical moderating factor; borrowers with higher financial literacy exhibit more informed attitudes and are less likely to experience over-indebtedness (Ademola, 2025; Panos & Wilson, 2020).

The findings on debt sustainability are mixed (Iwegbu & Ademisola, 2025). Digital loans are a significant positive predictor of household welfare in the short term (Björkegren et al., 2025). However, high interest rates have negatively affected household welfare (Iwegbu & Ademisola,

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2025). The sustainability of digital loans depends on multiple factors including fair interest rates, ethical debt-recovery processes, flexible repayment plans, and favourable borrower attitudes (Tampuri, 2023). When these conditions are not met, digital borrowing can become unsustainable, leading to over-indebtedness and declining welfare (Jalal-Eddeen, 2025).

The welfare effects of digital credit are nuanced (Björkegren et al., 2025). Being approved for a digital loan substantially increases subjective well-being after three months (Björkegren et al., 2025). However, larger loan amounts do not produce additional welfare gains (Björkegren et al., 2025). Neither intervention significantly affects other measures of welfare, and researchers could rule out large effects on income, expenditures, resilience, and women's economic empowerment (Björkegren et al., 2025). This suggests that digital credit provides short-term relief but may not address underlying economic vulnerabilities (Afolabi & Adeyemi, 2022).

The results also highlight the importance of regulatory and structural factors (CBN, 2025; IMF, 2025). The number of licensed digital lenders has increased substantially, yet the regulation gap remains the same (Iwedi, 2024). Stricter compliance is improving transparency, but concerns persist about high interest rates, aggressive collection practices, and consumer protection (Tampuri, 2023). The structural weaknesses in Nigeria's labour market, particularly the prevalence of informal employment, continue to drive reliance on digital lending (Afolabi & Adeyemi, 2022).

5.0 DISCUSSION OF FINDINGS

The findings of this review reveal a complex and multifaceted relationship between digital lending platforms and household financial behaviour among Nigerian youth (Ademola, 2025; Iwegbu & Ademisola, 2025). The evidence suggests that digital lending has both empowering and potentially harmful effects, with outcomes heavily dependent on individual financial literacy, platform design, regulatory frameworks, and broader economic conditions (Jalal-Eddeen, 2025; Tampuri, 2023).

Digital lending platforms have undeniably expanded financial inclusion in Nigeria, providing credit access to populations previously excluded from formal financial systems (Adeoye, 2023; Iwedi, 2024). The speed and convenience of these platforms make them particularly attractive to young people who face barriers to traditional banking (Afolabi & Adeyemi, 2022). However, the same features that make digital lending accessible- instant approval, minimal documentation, and algorithm-based decisions- also create conditions for impulsive and potentially unsustainable borrowing (Adam, 2020; Gerjadi & Dwijayanthi, 2024).

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This dual nature is reflected in the welfare effects of digital credit (Björkegren et al., 2025). While access to digital loans can improve subjective well-being in the short term, these benefits may not translate into sustained improvements in income, expenditures, or economic resilience (Björkegren et al., 2025). The negative effect of interest payments on household welfare suggests that the cost of borrowing can offset the benefits, particularly when loans are not managed effectively (Iwegbu & Ademisola, 2025).

Financial literacy emerges as a critical moderating factor in the relationship between digital lending and household financial behaviour (Ademola, 2025; Panos & Wilson, 2020). Borrowers with higher financial literacy are more informed and exhibit more positive attitudes toward digital lending, thereby reducing the likelihood of over-indebtedness (Ademola, 2025). This finding has important implications for policy and practice (Tampuri, 2023). Targeted financial education programmes that emphasise responsible borrowing and effective financial management could help mitigate the risks associated with digital lending (Panos & Wilson, 2020).

However, financial literacy alone is insufficient (Jalal-Eddeen, 2025). The design of digital lending platforms, with their emphasis on speed, ease of access, and gamified interfaces, can override even well-informed intentions (Abdul-Rahim et al., 2022; Abramova & Böhme, 2016). This suggests the need for both individual-level interventions and platform-level reforms to promote responsible borrowing (Gerjadi & Dwijayanthi, 2024).

The findings underscore the importance of structural factors in shaping debt sustainability (Afolabi & Adeyemi, 2022; Tampuri, 2023). The prevalence of informal employment among Nigerian youth means that income is often irregular and unpredictable (Jalal-Eddeen, 2025). In this context, even moderate levels of debt can become unsustainable when income shocks occur (Iwegbu & Ademisola, 2025). The practice of loan stacking allows borrowers to take loans from multiple platforms to service existing debts, revealing the desperation that can arise when structural vulnerabilities intersect with easy credit (Ademola, 2025).

The sustainability of digital loans depends on multiple factors, including fair interest rates, ethical debt recovery processes, flexible repayment plans, and favourable borrower attitudes (Iwegbu & Ademisola, 2025). When these conditions are not met, digital borrowing can become unsustainable, leading to over-indebtedness and declining household welfare (Tampuri, 2023). The reports of interest rates exceeding 300 per cent annually and aggressive collection practices suggest that these conditions are often not met in practice (Kazeem, 2022; Jalal-Eddeen, 2025).

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Jalal-Eddeen's (2025) ethnographic research provides important insights into the moral dimensions of digital lending. The absence of physical branches and embodied oversight in fintech reshapes moral obligation, trust, and accountability in borrowing (Jalal-Eddeen, 2025). Branchless fintech enables users to rationalise interest-bearing loans as private acts beyond communal or religious scrutiny, yet the same absence generates mistrust and encourages default (Jalal-Eddeen, 2025). These findings highlight the need to consider not only the economic but also the social and moral dimensions of digital lending (Jalal-Eddeen, 2025).

The findings have several important policy implications (CBN, 2025; IMF, 2025). First, there is a clear need for stronger regulation of digital lending platforms, particularly regarding interest rate caps, transparent fee structures, and ethical debt recovery practices (Tampuri, 2023). Second, financial education programmes should be expanded and tailored to the digital lending context to help young people develop the cognitive skills needed to navigate algorithm-based credit decisions (Ademola, 2025; Panos & Wilson, 2020). Third, broader structural interventions are needed to address underlying economic vulnerabilities, particularly informal employment and income instability that drive reliance on digital lending (Afolabi & Adeyemi, 2022; Iwedi, 2024).

6.0 CONCLUSION AND RECOMMENDATIONS

This review has examined the impact of digital lending platforms on household financial behaviour and debt sustainability among Nigerian youth (Ademola, 2025; Iwegbu & Ademisola, 2025). The evidence reveals a complex picture in which digital lending simultaneously expands financial inclusion and creates conditions for over-indebtedness (Jalal-Eddeen, 2025; Tampuri, 2023). The dual nature of digital lending, its capacity to both empower and harm, is shaped by individual financial literacy, platform design, regulatory frameworks, and broader economic structures (Björkegren et al., 2025; Gerjadi & Dwijayanthi, 2024). Financial literacy emerges as a critical protective factor, while the prevalence of informal employment and aggressive lending practices exacerbate vulnerability (Ademola, 2025; Afolabi & Adeyemi, 2022). The sustainability of digital borrowing depends on multiple conditions that are often not met in practice, highlighting the need for comprehensive policy responses that address both individual capability and structural constraints (Iwegbu & Ademisola, 2025; Tampuri, 2023).

Based on the findings of this review, it is recommended that the Central Bank of Nigeria and other financial regulators strengthen oversight of digital lending platforms by introducing interest rate ceilings, enforcing transparent fee disclosure, and mandating ethical debt recovery practices to protect young borrowers from exploitation (CBN, 2025; Tampuri, 2023). Financial literacy programmes should be expanded and specifically tailored to the digital lending context, equipping young Nigerians with the cognitive skills needed to navigate algorithm-based credit

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decisions and resist impulsive borrowing (Ademola, 2025; Panos & Wilson, 2020). Digital lending platforms themselves should adopt responsible lending practices, including affordability assessments, flexible repayment options, and clear communication of loan terms (Iwegbu & Ademisola, 2025). Conclusively, broader policy interventions are needed to address the structural vulnerabilities, particularly informal employment and income instability, that drive unsustainable reliance on digital lending, including investments in formal job creation, social protection systems, and economic diversification (Afolabi & Adeyemi, 2022; Iwedi, 2024).

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