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ABSTRACT

This study sought to explore the effect of interest rate regulation on the growth of mobile lending companies in Nairobi County, Kenya. The study was guided by Financial Intermediation theory. *The study employed a descriptive research design, targeting at least 240 credit officers across the mobile lending companies in Nairobi County, Kenya. A sample size of 150 was used. This sample size was obtained by using Yamane's formula. Data was collected through Google form questionnaires; both descriptive and inferential analysis, correlation analysis and regression analysis were conducted using Microsoft Excel software. Results from the overall study were used to assess the growth of mobile lending companies in Nairobi County, Kenya. The research underscores the significant impact of interest rate regulation on the growth of mobile lending. Interest rates encouraged responsible lending practices and enhance borrower confidence in mobile platforms. The study concluded that effective regulatory policies are essential for the long-term sustainability of the mobile lending sector. Strengthening enforcement of interest rate regulations from the Central Bank of Kenya was recommended to optimize regulatory efficiencies.*

Key Words: *Central Bank Regulatory Policies, Interest Rate, Deposit Interest Rate, Lending Interest Rate, Interest on Default Rate, Nairobi County, Kenya*

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INTRODUCTION

Mobile lending represents a significant innovation in finance, transforming how individuals and small businesses access capital via mobile devices. This trend has witnessed rapid expansion in Nairobi County and globally, largely due to the swift process of acquiring small loans through mobile applications. Contributing to this growth is the regulatory framework established by the Central Bank of Kenya (CBK), which introduced the Digital Credit Providers Regulations on March 18, 2022 (Central Bank of Kenya, 2022). These regulations aim to protect consumers from predatory lending by licensing and overseeing previously unregulated digital credit providers. Furthermore, amendments to the CBK Act have broadened the central bank's supervisory reach to encompass a greater variety of non-deposit-taking credit businesses (Muriithi, 2024). This ensures that all entities in the lending space adhere to proper supervisory practices and are subject to specific controls and oversight into their products, regardless of the lending channel utilized.

In Sub-Saharan Africa, countries have different experiences with central bank and regulators' policies for mobile lending at a regional level. In South Africa, The National Credit Act which went into full force in 2007, provides the framework that has mainly shaped the regulatory environment for fintech companies. Under the supervision of the National Credit Regulator (NCR),the act offers a structured legal basis for credit provision, including digital and mobile lending platforms,. The regulatory structure has limited the swift growth of unregulated and predatory lenders by enforcing license prerequisites, affordability evaluations, disclosure requirements, and consumer protection duties. Simultaneously, it has promoted increased accountability, transparency, and ethical lending standards in the fintech industry. The fintech ecosystem in South Africa has grown more sustainably and with greater customer trust because to this balanced regulatory strategy (Takundwa, 2022).

Growth trajectories of Mobile Lending Companies in Kenya are increasingly influenced by the Central Bank's regulatory framework rather than solely by consumer demand. Following regulatory changes post-2021, the Central Bank has established an environment conducive to sustainable growth through licensing, which enhances credibility and investor confidence. Key regulatory measures include mandatory Credit Checks and Interest Rate Transparency, which have reduced defaults and stimulated market expansion. However, not all companies qualify for licenses, creating disadvantages for many smaller players and resulting in ongoing market consolidation. Additionally, policies from the Central Bank have facilitated increased access to financial services and contributed positively to economic growth and gross domestic product by broadening credit access. Overall, balanced regulations aim to prevent over-indebtedness and ensure long-term viability for Mobile Lending Companies in Nairobi County.

Using modern technologies to make investments in order to strengthen the revenue system and increase its efficacy and efficiency is known as mobile lending. In order to enhance and streamline lending, mobile lending entails automating critical systems and frameworks (Lee L. , 2024). As a contemporary system in banks, mobile lending allows for the mobilization of income production, which in turn can grow the revenue base and facilitate financial transactions for goods and services. Mobile lending refers to the new technologies that allow financial transactions and money transfer facilities that are governed by financial regulations and carried out by financial institutions over mobile devices rather than the more conventional over-the-counter method.

In the global banking sector, financial innovations, for example mobile lending are developing at a rapid pace. Clients can nowadays use their mobile phones to do transactions at commercial banks rather than over the counter (Ijeoma, 2020). With mobile lending, those without bank accounts or without access to financial institutions can conduct

financial transactions as fast by simply as sending a text message. According to studies conducted in Kenya, mobile lending has increased commercial banks' revenue through transaction fees and interest income in addition to the number of people signing up for banking services.

Offering rapid, short-term loans is a major advantage of mobile lending since it gives borrowers access to money for pressing needs like business capital, medical bills, and school tuition. (Robinson, 2022). Mobile lending eliminates the need for human processing and physical infrastructure, it helps lenders cut some of their operating expenses. Mobile lending's explosive rise has drawn regulatory attention to concerns about responsible lending, data privacy, and consumer protection. The goal of Kenya's mobile lending legislation is to strike a compromise between the need for financial innovation and safeguarding borrowers against predatory lending practices, exorbitant interest rates, and invasions of privacy. In this Study, we will find out the effect of Central bank of Kenya regulatory policies on the growth of mobile lending in Nairobi, Kenya.

Statement of the Problem

Mobile lending has introduced a revolutionary financial service in Kenya, especially in Nairobi, by providing quick and affordable credit access to consumers and small businesses (Kiplagat, 2023). Mobile lending platforms in Nairobi have escalated due to regulatory policies that were imposed to respond to concerns related to high-interest rates, consumer protection, data protection and financial stability. Central Bank of Kenya led by fin access survey household reports have shown that more than 80% of Kenya's adult population is using mobile money services, while over 90% of all short-term loans issued in Kenya are digital credit products (Koomson, 2023). In fact, Digital Loan Data show that approximately 90–94% of all mobile loan volumes issued within the country are being issued in Nairobi County, due in large part to the geographic concentration of Kenya's population and the proliferation of smartphones in this area (Masakha, 2021). The rapid expansion of mobile lending has enabled micro-entrepreneurs and retail consumers to access fast, low-cost credit to support their consumer needs and micro-business operations. However, Regulators have sought to establish safeguards to protect consumers and not sterilize the financial ecosystem, but there may be policies that ultimately curtail the ability of mobile lenders to operate efficiently, scale and innovate (Christopher, 2025).

There have been mobile lending successes and challenges in Nairobi, for instance, there has been over-indebtedness of borrowers, predatory lending, and problems around lack of transparency on loan terms (Karungu, 2020). The introduction of regulations, such as interest caps on loans, licensing for mobile lenders, and data protection laws, were to respond to these challenges. There is still not enough empirical evidence about the effect of these policies on the growth of mobile lending specifically in terms of volumes of loan disbursement, levels of market penetration and inclusion of underserved populations.

Current literature offers minimal perspectives on the relationship between regulatory policies and growth of mobile lending in Nairobi County, in specific. Mwanzia (2021) reviewed the effect of mobile lending on non-performing loans in Kenyan commercial banks focusing on using interest rates as well as bank-specific variables. However, the author does not provide insights into mobile lending platforms. Ndwiga (2021) evaluated weaknesses in Kenya's fintech consumer protection laws and asserted that with ongoing growth, regulatory frameworks have not yet kept up with overall mobile lending advancements; yet this study does not have an emphasis on growth measurements such as market penetration. Nderitu (2023) studied the sharing of credit information and evaluated mobile based lending methods used in commercial banks, but it does not evaluate mobile lending platforms specifically nor an informal context in Nairobi County. Their studies have focused on financial inclusion and general fintech

development. Research done by most researchers like Nderitu, have laid their focus on banking as a whole rather than mobile lending and trends have focused on National level putting less concentration of Regional level. The gaps in their literature create room for additional research on how Central bank regulations affect mobile lending growth in Nairobi County.

Research Objectives

The purpose of the study was to determine the effect of Central Bank regulatory policies on the growth of mobile lending in Nairobi, Kenya. The main goal of the study was to assess the effect of Central Bank regulatory policies on the growth of mobile lending in Nairobi, Kenya. The specific objectives were;

- To assess the effect of licensing regulation on the growth of mobile lending in Nairobi, Kenya.
- To determine the effect of interest rate capping regulations on the growth of mobile lending in Nairobi Kenya.
- To ascertain the effect of consumer protection regulations on the growth of mobile lending in Nairobi Kenya.
- To evaluate the effect credit information sharing regulations on the growth of mobile lending in, Nairobi Kenya.

LITERATURE REVIEW

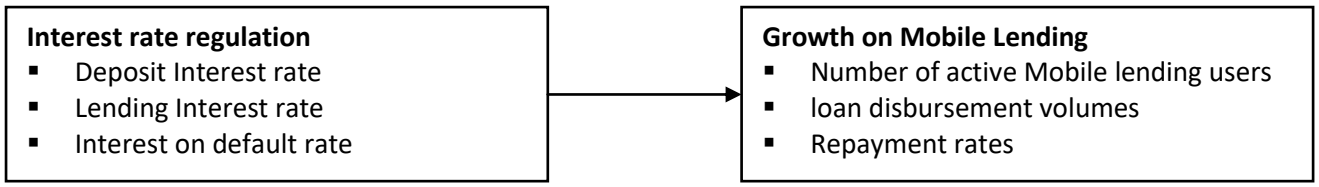
Financial Intermediation Theory

The Theory began with the groundbreaking work of Gurley and Shaw (1956) and progressed with economists such as Diamond (1989). Financial Intermediations theory addresses market defects, including risk, transaction costs, and information asymmetry. The main function of financial intermediaries, such as banks, microfinance organizations, and mobile money lending platforms, is to facilitate the movement of money between savers and borrowers within an economy. They make lending more efficient than bilateral commerce between individuals by distributing risk, pooling funds, monitoring and filtering borrowers using knowledge, and providing liquidity through maturity transformation. These days, technology reinforces these perspectives on digital platforms, especially in developing countries. (Diamond, 1984) advocates intermediation in terms of how intermediaries reduce transaction costs and facilitate solutions to asymmetric information problems. Diamond's approach to delegated monitoring and Leland & Pyle (1977) approach emphasized signaling to reduce adverse selection. Allen (1997) advocates intermediation and build on these usual ideas in The Theory of Financial Intermediation and also introduce risk trading and participation costs as reasons for persistent intermediation even in light of declining transaction costs.

Scholtens (2000) assert that classical views are right when they address risk management but fail to do so by addressing interest rate risk, and participation costs. They think the theory can do much better in explaining the daily functioning of financial institutions and suggest that some critiques of the existing literature are too extensive or not far enough.

Financial intermediation theory affects interest rates and the expansion of mobile lending by determining interest rates for their loans and deposits and exposing them to interest rate volatility. They are changing interest rate structure when they offer a fixed rate loan with a variable rate deposit (Cowling, 2024). They also use interest rate risk mitigation strategies, such as diversification and derivatives.

Conceptual Framework



Independent Variable **Independent Variable**

Figure 1: Conceptual Framework

Interest rate regulation in Kenya was evaluated using three indicators: deposit interest, lending interest rates and interest on default. The deposit interest rate limits the annual percentage rate mobile-lending providers can charge, while lending interest rate measures how interest-rate ceilings affect borrowers' access to loans. The interest on default measures how caps affect lenders' pricing decisions.

Empirical Literature

Interest rate regulation plays a vital role in central bank policies in Kenya, especially with the rise of mobile lenders, raising concerns over high rates and borrower over-indebtedness. Research shows varied findings on how such regulation affects lending growth, indicating potential negative impacts on lending supply, while others believe it can enhance market discipline and aid smaller businesses. Despite differing views, there is a consensus on the necessity for further research into the implications of interest rate regulation on loan dynamics and business growth.

Ngaruiya Obi and Mathuva (2025) have analyzed the role of interest rate regulations in modelling bank lending behavior in Kenya, using a national scope and covering licensed commercial banks in Kenya with their aim to provide insights on the impact of interest rate caps on banks' decision-making processes regarding how they allocate their lending; to do this, they have assembled a database with bank level panel data covering 2004 to 2021 and utilized both fixed-effects and dynamic Generalized Method of Moments analyses in their model; to date, the results of the analysis support the idea that interest rate regulations restrict bank credit growth.

Ndirangu (2021) investigated the impact of mobile loan pricing on business expansion for traders in Wakulima Markets, Nairobi County, using a case-study design. The researcher collected and analyzed survey data from these traders through descriptive and inferential statistics. Findings revealed that high interest rates from mobile loan providers hindered business growth, reduced profits, and led to fewer loans taken by small-scale traders. While the study emphasizes the adverse effects of elevated interest rates on borrowers, it leaves unaddressed the influence of interest rate regulations established by the Central Bank of Kenya (CBK) on the growth of mobile loan companies. Consequently, this research is pivotal as it redirects focus from borrower outcomes to the implications for loan-providing companies.

Alumasa and Muathe (2021) analyzed the effects of mobile credit on the operational performance of micro and small enterprises (MFEs) in Kenya, focusing on how characteristics such as interest rates influence performance. Through descriptive research methodology and multiple-regression statistical analysis of survey data, they concluded that while mobile credit provides financial access to MFEs, high interest rates negatively impact net performance. Their study highlights borrower perspectives on mobile credit but lacks consideration of regulatory policy effects on mobile lenders or overall economic growth. In contrast, my research aims to investigate the implications of centralized interest rate regulation by Central Banks on the performance of mobile lending companies

and borrowers, thus addressing the intersection of regulatory influences and firm-level outcomes in mobile lending.

Atellu (2021) examined the relationship between inclusive finance, financial regulation, concentration, and stability in Kenya. Using macroeconomic and bank-level panel data, the study found that while regulations can enhance financial stability, stringent regulations may hinder credit growth and inclusive financing. Atellu's focus primarily on traditional banks leaves a gap regarding mobile lending companies. This study aims to address that gap by analyzing the impact of CBK Regulations on the growth of mobile lending companies, specifically in Nairobi County, the region with the highest mobile lending activity.

The studies assert that interest rate regulation and pricing significantly shape lending behaviours and borrower outcomes. However, they predominantly focus on traditional banks or borrower performance, creating a gap in empirical research regarding Central Bank interest rate regulations' impact on mobile lending company growth, particularly in Nairobi County. This study aims to address that gap by analyzing mobile lenders' growth indicators in light of CBK regulatory policies, thereby contributing vital information for digital credit regulation and policy development in Kenya.

Growth Mobile Lending Companies

Empirical studies on the growth of mobile lending indicate that increasing money lending services through mobile lending sites is gaining traction to increase the financial inclusion of consumers. Studies (Alumasa, 2021) have shown that mobile lending helps micro and small enterprises to access credit that is affordable and easier to apply for which improves financial resilience and the prospects for the business in a developing economy. A study by Mutegi in (2022) of the M-shwari users in Meru County also provides examples of how the increase in uptake of credit via mobile lending is affected by product design that caters for consumer financial needs, notably around flexible repayment periods and improved credit limits. Wamahiu (2024) in her study of mobile lending firms also noted the important ways that regulatory clarity combined with Fintech innovations should be key considerations when looking at the success of lending firms. Wamahiu argued that mobile lending growth is driven by more than just uptake by demand also that companies have few regulatory and institutional barriers to entry to deliver digital financial services.

Other studies have been conducted about the operational processes connect mobile lending to growth. Murunga (2018) revealed that poor assessment and documentation processes via mobile lending have led to increasing non-performing loans on mobile platforms which have influenced sustainable growth in the sector. This connects to the studies undertaken Ndagijimana (2017) and Njeru (2018) that connected the utilization of mobile lending to better performance (profitability) and quality loan portfolios for commercial banks. Budgeted credit services through digitization are viable when there is an enabler with adequate technology support and risk appropriate institutions. The empirical evidence taken together indicates that, while mobile lending has access to growth opportunities from technology adoption and persistent unmet demand for credit, the continued scope for growth is dependent on sound credit appraisal processes, consumer trust, and regulation to lessen the credit risk to lenders and encourage responsible lending practices.

METHODOLOGY

This study employed descriptive research design to investigate how regulatory policies affect the growth of mobile lending in Nairobi County, Kenya. Descriptive research design was recommended to organize and describe current conditions of variables and their relationships without manipulation. The study focused on how Central Bank interest rate regulatory policies affect mobile lending companies in Nairobi County. The target population of this study were the credit officers in the 120 licensed Mobile Lending companies in Nairobi as listed by the Central Bank of Kenya

(Digital credit providers, 2025). According to Director of Digital Credit Providers, each organization had at least two approved credit officers and this makes a total target population of 240 credit officers. From the total target population of 240 credit officers the study used a sample of 150 credit officers. The sample size was obtained using Yamane's sample size formula. The sample size of 150 respondents was randomly selected by assigning number to all the credit officers. Then, the researcher randomly select the respondents to ensure there is no bias which could affect the validity of findings.

The current study used both primary and secondary data. Questionnaires were used to collect primary data for this study since they were an efficient and economical way to collect data from a wide population (Taherdoost, 2021). Secondary data was collected from books, journals, reports compiled from the CBK as well as other forms of regulatory publication as well as reliable sources on the Internet provided the basis for the Literature Review and contextual analysis of the study. Quantitative data from closed ended question was coded and analyzed through Microsoft Excel. Respondent demographics and answers were presented as descriptive statistics. Pearson's correlation analysis was conducted to measure both the strength and directionality of relationships between central bank regulatory policies and growth of mobile lending companies. Multiple linear regression analysis was conducted to assess the effect of each central bank regulatory policy on mobile lending growth.

$$\gamma = \beta 0 + \beta 1X1 + \beta 2X2 + \beta 3X1 + \beta 4X4 + \epsilon$$

- Y – Growth of mobile lending
- X1 - licensing regulation
- X2 - interest rates
- X3 - consumer protection
- X4 - credit information sharing
- $\beta 0$ – Intercept
- $\beta 1, \beta 2, \beta 3, \beta 4$ – Coefficients of the independent variables
- ϵ- Error Term

The data was analyzed using Microsoft Excel for accurate calculations and treatment of results. Results from the data analyzed were shown using tables, pie charts, and other forms of charts for better understanding and clarity of the results. Tables were employed in showing results that involve numerical values such as descriptive statistical results, correlation coefficients results, and regression analysis results in a clear and organized manner for better understanding. Pie charts were employed in showing demographic details of the respondents, while other forms of charts like bar charts or line charts will be employed for showing comparisons.

FINDINGS

Response rate

135 completed and returned questionnaires were received from the original sample of 150 distributed questionnaires, which yields a response rate of 90% that meets the criteria for valid statistical analysis. A response rate above 50% is typically considered acceptable in research, and above 70% is classified as excellent Livingston, E. H., & Wislar (2012). Therefore, since the response rate from this study is above the threshold typically used for determining the reliability of reaching valid conclusions regarding the influence of Central Bank regulatory policies on the rate of growth in mobile lending, the response rate from this study was more than adequate to support valid conclusions regarding the influence of Central Bank regulatory policies on the rate of growth in mobile lending.

Descriptive Findings

Descriptive Analysis for Interest Rate Regulation

This sub-section examines the descriptive outcomes associated with regulation of interest rates and its effect on the growth of mobile lending in Nairobi County. Interest rate regulations are important because they affect how much it costs to borrow money and how affordable a loan from a mobile lending firm is for the potential borrower

Table 1: Descriptive Analysis for Interest Rate Regulation

Statement	1	2	3	4	5	Mean	SD
Deposit interest rates are regulated to ensure fair returns.	21	13	15	53	33	3.47	1.37
Lending interest rates are capped to protect borrowers.	21	19	51	11	33	3.12	1.34
Regulations on interest charged on loan defaults are clearly enforced.	40	28	24	21	22	2.68	1.45
Regulations governing interest rates encourage mobile lenders to lend responsibly.	29	16	23	40	27	3.15	1.43
Regulations governing interest rates have increased consumer trust in mobile lending businesses.	16	33	41	21	24	3.03	1.26
Severe interest rates regulations serve in diminishing borrower's high levels of debt.	25	22	39	15	34	3.08	1.42

Source: Research Questionnaires

According to the data in Table 1, the responses indicate a moderate view of the impact of interest rate regulations on mobile lending expansion, with a mean score of 3.47 highlighting the importance of regulating deposit interest rates for fair returns. This suggests a significant belief in the necessity of regulation to foster "fairness and predictability" in lending practices. Respondents showed moderate agreement on several issues, such as the promotion of responsible lending through regulations (mean = 3.15) and the perception that regulating lending rates can protect borrowers (mean = 3.12). This indicates a general belief that interest rate regulations have a role in encouraging responsible lending practices among lenders. However, the lowest mean score observed pertained to the enforcement of regulations concerning interest on loan defaults (mean = 2.68). This low figure suggests uncertainty among respondents regarding the efficacy of such enforcement, with many unsure if these regulations are applied consistently. The overall average mean for the section stands at about 3.09, reflecting a moderate consensus. The findings reveal that while interest rate regulation is considered an essential policy element for mobile lending, respondents do not fully endorse its effectiveness across all dimensions. Consequently, the study suggests that enhanced enforcement and clearer implementation of interest rate regulations could bolster borrower confidence, thereby promoting more stable growth within the mobile lending sector.

Descriptive Analysis for Growth on Mobile Lending

This section evaluated the perceptions of the respondents concerning the recorded business performance of the mobile lending companies since they have begun operations.

Table 2: Descriptive Analysis for Growth on Mobile Lending

Statement	1	2	3	4	5	Mean	SD
The number of active mobile lending users has increased over the past year.	38	21	10	23	43	3.09	1.65
There has been a consistent increase in loan disbursement volumes.	21	24	9	28	53	3.50	1.52
Repayment rates have improved over time.	54	12	31	15	23	2.56	1.51
The company's customer base has expanded due to regulatory compliance.	16	44	25	20	30	3.03	1.36
Regulatory stability has supported long-term growth of mobile lending services.	47	20	27	8	33	2.70	1.58
Overall profitability of mobile lending operations has improved.	23	16	23	19	54	3.48	1.52

Source: Research Questionnaires

According to the data presented, respondents rated the growth of mobile lending as moderate. The highest mean score was for loan disbursement volumes, indicating a perceived steady increase (M = 3.50, SD = 1.52), closely followed by a rise in overall profitability (M = 3.48, SD = 1.52). These results reflect a favorable view of the mobile lending industry's business performance, particularly regarding lending activities and profitability.

Active users of mobile lending reported a positive mean score (M = 3.09, SD = 1.65), and there was some growth in the customer base due to regulatory compliance (mean of 3.03, SD = 1.36), suggesting improvements in market reach, albeit not strongly perceived.

Conversely, respondents indicated less confidence in repayment rates, with a low mean score (M = 2.56, SD = 1.51), and minimal agreement on the role of regulatory stability in supporting long-term sector growth (M = 2.70, SD = 1.58). The overall mean for this section approximates 3.06, confirming that the growth in mobile lending volumes is moderate.

In conclusion, while experiences suggest growth in disbursement and profitability for the mobile lending sector, challenges related to repayment rates and regulatory certainty persist. Significant improvements in regulation and risk management will be essential for establishing a sustainable business model in the future.

Correlation Analysis Findings

The following section discusses the correlation analysis performed within this research that resulted in establishing the relationship between Central Bank Interest Rates regulations and the growth of mobile lending companies. The correlation analysis provides an evaluation of the degree to which two (or more) variables are related. The correlation coefficient (r) can range from -1 to +1 where (+) positive values represent a direct relationship, and (-) negative values represent an inverse relationship and values which are close to 0 demonstrate very little or no relationship (Dufera, 2023).

The study looked at the relationships between the independent variable of interest rate regulation against the dependent variable of the growth of mobile lending.

Table 3: Correlation Statistics

	Interest rates	*Growth of Mobile Lending*
Interest rates	1.0000	
Growth of Mobile Lending	0.5610	1.000

Authour (2026)

The analysis revealed a moderate relationship between interest rate regulation and the growth of mobile lending, indicated by a correlation coefficient of r = 0.5610. Improved regulations create a favorable environment for both borrowers and lenders, leading to more loans disbursed and overall growth in the sector. Overall, the analysis reveals that interest rates is positively correlated with mobile lending growth, though with varying strengths.

Regression Findings on Interest Rate Regulation

This objective was achieved by carrying out a simple regression analysis between interest rate and the growth of mobile lending companies in Kenya. The study findings indicated their positive association between interest rate regulations and growth in mobile lending, based on a correlation of 0.5610 as shown in Table 4 below.

Table 4: Interest rate Model Summary

Model	R	R Square	Adjusted R Square	Standard Error
1	0.561	0.3147	0.3095	1.1042

Author (2026)

The findings revealed a positive association exists between interest rate legislation and growth in mobile lending, based on a correlation of 0.5610. This indicated an intermediate degree of relationship between these variables. In addition, the coefficient of determination suggests that interest rate laws explaining 31.47% of the variation in the growth of mobile lending (R2 = 0.3147); hence it was concluded as one of the major factors influencing growth in this sector.

To test the overall significance of the model, a linear regression model was used to assess whether the interest rate can predict growth of mobile lending.

The F-test results reveal that the model was significant (F (1, 134) = 61.0746, P< 0.0000) at 5% level of significance as illustrated on table below.

Table 5: Interest rate ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	1.0000	74.4689	74.4689	61.0746	0.0000
Residual	133.0000	162.1682	1.2193		
Total	134.0000	236.6370			

Author (2026)

A statistical test, known as the F-test, was performed to determine whether the model was statistically significant. Based on the results, it was determined that the model is statistically significant (F = 61.0746, p = 0.0000) and has been determined to be an acceptable fit to predict the growth of mobile lending based on a p-value of less than 0.05.

The analysis indicates that interest rate regulation affects mobile lending growth. Effective regulation fosters a balanced lending environment, enhancing affordability for borrowers while ensuring profitability for lenders. Consequently, this leads to increased lending to individuals and better loan performance due to lower default rates.

Discussion of Study Findings

Interest Rates Regulations

This section examined how interest rate regulations affect the expansion of mobile-loan issuing corporations located in Nairobi County. Additionally, it discusses descriptive analysis, correlation findings and regression results.

Overall, respondents expressed moderate agreement with the following statements; interest rate regulation fosters responsible lending practices, protects borrowers, creates greater consumer confidence, and addresses some concerns related to the enforcement of default interest charges. Furthermore, regression analysis demonstrated a statistically significant impact of interest rate regulations on mobile lending firm growth ($\beta = 0.3104$ and $p < 0.05$), and correlation analysis identified a moderately positive association ($r = 0.5610$) between interest rates and mobile lending firm growth.

These results suggest that interest rate regulations serve as one mechanism of public policy aimed at ensuring mobile lenders will achieve sustainable growth. The researcher's point-of-view is that suitable regulations can provide an even playing field by offering sufficient protection to borrowers while allowing the lenders sufficient opportunity to achieve profitable business operations.

Nonetheless, the relatively low ratings received by interest rate enforcement suggest that prevailing regulatory efficacy is likely contingent upon two things: establishing a policy framework to enforce an established regulatory structure and ensuring consistent enforcement by the regulators involved.

The results of this research study are consistent with the results of (Kim, 2022), who found that interest rate regulation increased the affordability of digital credit and led to greater levels of financial

inclusion in Kenya. Karem (2024) found that sound regulation of financial institutions promotes development of the financial services industry through improvements in lending efficiency and the establishment of increased confidence in the marketplace. Mugo (2023) found that regulated lending environments encourage lenders to responsibly lend to borrowers and to not engage in predatory lending practices.

Conversely, the findings from this research study differ from those by Brighi (2025), who reported that strict controls on interest rates would reduce potential net returns for lenders and lead to greater numbers of borrowers being subjected to credit rationing than would have occurred without such interest rate controls. Kumari (2024) studied lending to borrowers primarily from the traditional banking sector, the current research study is focused on the mobile lending companies operating within the Central Bank of Kenya regulatory framework where the objective of regulation is to balance consumer protection with the need to develop a competitive market.

In conclusion, the results of this research support the contention that interest rate regulation has a positive impact on the growth of mobile lending if the enforcement mechanisms employed to enforce the regulations are effective and the regulations provide for a reasonable balance between protecting consumers and ensuring the ability of lenders to remain profitable.

Growth of Mobile Lending

This section of the document reports the findings regarding the growth of mobile money lending companies in Nairobi County. The discussion on the growth of mobile money lending is based on the descriptive data which looked at responses from the survey regarding areas like the total of active users, volume of loans lent, repayment rates, expansion of customer base, stability of regulation of the sector and profitability of mobile lending companies.

The descriptive statistic results support the conclusion that the growth of mobile money lending is viewed as non-existent by respondents as the overall average rate from the survey resulted in a mean score of approximately 3.06. The highest mean score resulted from the responses to the question; in the past year the amount of loans lent has increased (M =3.50, SD = 1.52), followed closely by the amount of profits earned by mobile money lenders (M = 3.48, SD = 1.52). Respondents were also moderately positive that the number of active users of mobile money loans has increased (M = 3.09) and that the regulatory environment has allowed for a greater number of mobile money lending customers (M = 3.03) but possibly a lower level than had been anticipated. There is a fair level of concern regarding the repayment rate (M = 2.56) and the stability of the regulatory environment to support long-term growth (M = 2.70) of the mobile money lending sector, meaning the mobile money lending industry will continue to see incremental growth but continue to face obstacles with lending.

The empirical evidence from multiple regression analysis also confirms that 54.10% of the variability of mobile lending growth is explained by the four regulatory policies imposed by the central bank (R^2 = 0.5410). The regression model is well supported statistically (F = 38.3092, p = 0.0000), and it provides evidence to demonstrate that each of the selected regulatory variables has a joint effect on mobile lending company growth. Among the four regulatory dimensions examined, credit data sharing (β = 0.4372, p = 0.0000) had the most significant impact on mobile lending growth, followed closely by consumer protection (β = 0.4256, p = 0.0000) and interest rates (β = 0.3104, p = 0.0003) regulations. In contrast, licensing regulation did not appear to significantly impact mobile lending growth (β = 0.0441, p = 0.5521).

These results suggest that growth of mobile lending within Nairobi County is primarily driven by regulatory policies that improve market efficiency; increase consumer confidence, and allow lenders to more accurately assess the risk of borrowers. The

researcher believes that sustainable development of mobile lending requires more than just adding to the number of loans disbursed or generating higher profits. In addition, a proper regulatory environment must exist that promotes innovation, protects consumers, encourages responsible lending, and enables prudent credit risk management in order for mobile lending to continue to grow. The relatively low ratings for repayment rates and regulatory stability suggest that while the mobile lending sector has experienced tremendous growth; reduction of credit risks and consistent implementation of regulations are both essential.

The digital loan industry has seen a boom in Kenya due to improvements in regulations, people have begun using digital loans more frequently, and the technological advancements that have occurred (Central Bank of Kenya, 2022). Misati (2024) found that digital financial services have significantly improved access to credit, increased financial inclusion and helped financial service providers perform better as a result of digital service expansions in Kenya. This research shows that supportive financial regulations create an environment for innovation and sustainable growth of digital financial services.

Ochen (2023) found that the regulation of Kenya's financial sector has improved overall financial stability and the growth of digital financial services by reducing the lack of information available to consumers, increasing consumer confidence and improving responsible lending practices in Kenya. Balaskas (2024) also found that effective regulations regarding digital financial services can increase the level of trust customers have in these services and create more consumer acceptance of them and a larger market for digital financial services.

On the contrary, Olawale (2024) concluded that regulatory requirements would restrict innovation through higher compliance costs for financial institutions. Their research also suggested that stricter regulations may slow down the growth of the sector; however, this study illustrated that the majority of regulatory policies contribute positively to the growth of mobile lending. The differences in regulatory impact may, in part, be due to differences in the institutional and market environments. The rapid growth in the volume of digital credit offered through digital platforms has brought about a concern by regulators regarding the potential for consumer exploitation, over-indebtedness and information asymmetries between the consumer and the financial institution. As a result, regulatory measures taken by the Central Bank of Kenya have enhanced market confidence and promoted sustainable growth in the sector; thus, the regulatory environment does not undermine innovation.

The findings clearly demonstrate that the development of mobile lending in Nairobi County is considerably impacted by the Central Bank's supervision. Effective regulations increase borrower confidence, improve lending decisions, and promote responsible lending actions, which lead to sustainable growth within the sector. Continued efforts are needed to strengthen credit risk management, to improve repayment performance and to ensure regulatory consistency in order to assist with the long-term growth of mobile lending.

CONCLUSION AND RECOMMENDATIONS

This study was designed to identify the impact of interest rate regulations on mobile lending firm's growth in Nairobi County. The results from the descriptive analysis showed that the respondents agreed moderately with the variables' influence on mobile lenders. The overall mean score is evidence of moderate agreement between the respondents and the effect of mobile lenders towards their growth. The respondents agreed that regulating deposit lending provides an element of fairness to the mortgage loan; and also agreed that interest rate regulations allow mobile lenders to be more responsible lenders creating protections against excessive debt for the borrowed capital. However, when the study looked at the respondents' level of agreement regarding the enforcement of

regulations relating to interest charged on loan defaults, the level of agreement was relatively low indicating that the respondents felt that current regulatory enforcement is weak.

Secondly, the analysis of the relationship between interest rate regulations and the growth of mobile lenders shows a moderate positive correlation which implies that increase in the quality of interest rates relate positively to the increase in the growth of mobile lending company's revenues or assets. The regression analysis results show that the relationship between interest rate regulations and the growth of mobile lending companies is statistically significant and positive. The coefficient of determination suggests regulations promote responsible lending and increase affordability of credit, borrower confidence, and sustainable growth in the mobile lending industry. While the benefits will be maximized, it will require more compliance enforcement of regulations which govern how lenders charge interest on defaults.

The research shows that mobile lending within Nairobi County has the potential for moderate growth due to increasing loan disbursement volumes, profitability gains, active and new customers. Nevertheless, there are some significant barriers to mobile lending, such as low repayment rates, and uncertainty about future regulations. The ability of mobile lending growth to be determined by its associated regulatory frameworks has considerable implications of total variation of mobile lending growth which is attributable to the various regulations associated with interest rates, consumer protections, credit sharing information and licensing. In terms of drivers of growth in mobile lending, the greatest influences were related to credit sharing, consumer protection and interest rate regulation, while licensing has had a considerably less impactful on overall growth of mobile lending within Nairobi. Consequently, mobile lending's ability to grow within Nairobi is predicated upon the establishment of trust and the reduction or transfer of risk through regulations, at least part of which is attributable to credit information systems will play a critical role for the future success and performance of the mobile lending industry.

This study has found that interest rate regulations are a significant contributor to the development of mobile-lending companies as they provide a stable lending environment and promote the interests of borrowers and lenders. By providing a fair and transparent process for establishing interest rates, mobile lenders can provide consumers access to affordable credit and promote responsible lending by allowing borrowers to have confidence that lenders will operate in compliance with reasonable pricing standards, which will encourage borrowers to utilize digital credit services as a means to grow the mobile-lending sector.

The study further found that interest rate regulations can also play an important part in providing market stability by deterring predatory lenders and establishing fair pricing practices among lenders for their lending products. A well-designed regulatory framework allows lenders to operate their businesses sustainably, while providing protections to borrowers against excessive loan costs that may lead to default; therefore, interest rate regulation helps provide for sustainable growth through responsible credit growth and fosters a trustworthy image for mobile lending companies.

However, this study also identified the extent to which interest rate regulations achieve their goals may be very dependent on the consistent application of and adherence to the regulations. For instance, a lack of enforcement with respect to regulations governing default charges and other practices by lenders may decrease the trust level of borrowers and decrease the positive impact envisaged from the regulation of interest rates.

The study showed the growth of mobile loans is based on the strength of the regulatory framework that oversees the industry, which in turn shows the positive effects interest rate regulations have on improving borrower confidence; the

encouragement of responsible lending; and better management of credit risk. The study shows there are numerous barriers that exist to the growth of mobile loans, such as weak regulatory enforcement; a lack of consumer awareness; inefficient credit systems; and delays in the regulatory process.

Based on this, the Central Bank of Kenya should implement a holistic regulatory solution that combines the effective regulation of interest rates; development of strong consumer protection policies; establishment of operationally viable credit information sharing systems; and streamlining the licensing process. Additionally, mobile lenders should focus on using technology to innovate; improve risk management; enhance customer service; and promote financial literacy to help build customer confidence, improve loan repayment performance, encourage responsible borrowing, and promote sound regulation that will be the basis for sustainable growth and development of the mobile lending industry in Nairobi County and Kenya by extension.

The study found that regulatory oversight of interest rates plays a sizeable role in facilitating the growth of mobile lending by providing the incentive to lend responsibly, creating borrower confidence in borrowing, and making credit more affordable for borrowers. In addition, we found that the enforcement mechanism for regulations around fees for defaulting on loans and other interest rate-associated items is insufficient. Hence, recommendations were made to the Central Bank of Kenya to enhance the enforcement and monitoring of the regulations on interest rates to ensure compliance by mobile lenders. Additionally, there should be ongoing regulatory reviews to ensure that the interest rate regulations are continuously adjusted to changing market environments, to protect borrowers from being charged excessive amounts for borrowing, and to facilitate the long-term growth of the mobile lending industry.

Suggestions for Further Research

This study looked at how Central Bank policies affect mobile lending companies in Nairobi County, Kenya. Future study should replicate in other counties across Kenya with the same focus to see if similar results are found urban, rural, rich or poor. If found, research can be done on how other counties differ from one another to create new knowledge about the effects Central Banks have on the growth of mobile lending companies.

The current study compared mobile lending companies based on the four dimensions of Central Bank regulatory policies that impact their growth; these four dimensions include interest rates, consumer protection, credit information sharing and licensing regulations. Future researchers should also investigate other opportunities that may impact the growth of mobile lending companies, such as technological advancements and innovation, digital literacy to use these technologies, security concerns in using technology, customer satisfaction with how they received their loan, and competition amongst loaning agencies. These further studies would improve our understanding of factors that drive the growth of mobile lending companies.

The research used a cross-sectional research design; data collection occurred only once. Future research should use longitudinal research designs to explore how changing regulations affect the development and maintenance of mobile lending companies over time. Longitudinal research designs will provide more complete information about the long-term impact of changes in regulations and market conditions on mobile lending company performance.

Lastly, this research relied on quantitative data collected primarily from structured questionnaires. Future researchers are encouraged to use mixed-methods or qualitative research designs through interviews and focus groups with regulators, managers of mobile lending companies, and borrowers. Such methods will provide richer contextual data and also give researchers more in-

depth knowledge of the experiences of different stakeholders and practical knowledge of the issues and opportunities associated with implementing regulatory policies in mobile lending.

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