Universal Library of Business and Economics Research Article

ISSN: 3064-9951 | Volume 2, Issue 4

Open Access | PP: 44-50

DOI: https://doi.org/10.70315/uloap.ulbec.2025.0204007

Analysis of the Impact of Increased Capital Requirements on the Operational Efficiency of Nigerian Commercial Banks

Otohinoyi, Ozovehe Peter

Head of Operations, Sokoto, Nigeria.

Abstract

The study examines the short-run effects of Nigeria's 2024 recapitalization policy—which raised minimum paid-up capital to ₦500 billion, ₦200 billion, and ₦50 billion for international, national, and regional banks respectively—alongside Basel III liquidity standards, on the operational efficiency of Nigerian commercial banks. This study looks at how higher capital and liquidity requirements affected the performance of Nigerian banks. It focuses on profitability, cost efficiency, and resilience, and also checks if capital adequacy and liquidity played any moderating role. The analysis is based on secondary data from 2011 to 2024, taken from CBN, IMF, and other published sources. Trends in Capital Adequacy Ratio (CAR), Liquidity Ratio, Return on Assets (ROA), and cost-to-income ratio were compared over time. The findings show that efficiency in the Nigerian banking sector did not fall after the policy was introduced. Bigger banks handled the change better, while smaller ones had a harder time meeting the new capital targets. The study gives some useful perspective for regulators and managers who are trying to keep a balance between strict prudential standards and everyday operational results, which is an important issue for emerging economies.

Keywords: *Nigerian Banking, Recapitalization, Minimum Paid-Up Capital, Capital Adequacy Ratio, Liquidity Ratio, Basel III, Operational Efficiency, Cost-To-Income, Return on Assets, Financial Stability.*

INTRODUCTION

The Nigerian banking sector has undergone significant regulatory shifts aimed at bolstering stability. In the early 2000s, the Central Bank of Nigeria (CBN) raised bank capital bases (notably the 2005 consolidation to ₦25 billion) to address systemic weaknesses. In recent years, the Central Bank of Nigeria (CBN) has brought in a number of new rules on capital and liquidity. One of the main steps was in 2021, when Basel III measures were adopted, including the Liquidity Coverage Ratio (LCR). This required banks to keep enough high-quality liquid assets to survive a possible 30-day period of financial stress [7]. A few years later, in March 2024, the CBN started another round of reforms through a recapitalization programme that raised the minimum paid-up capital for banks to much higher levels. The threshold moved from ₦25 billion to ₦500 billion for international banks, ₦200 billion for national banks, and ₦50 billion for regional ones. Banks were given two years to meet the new levels [5]. The reform was mainly prompted by the decline in the real value of bank capital, driven by high inflation of over 30 percent during 2023–2024, and by the need to make the financial system more resilient to shocks [7].

Although higher capital and liquidity buffers are meant to strengthen stability, they can also affect how efficiently banks operate. Nigerian commercial banks face the challenge of meeting higher capital thresholds (through new equity, retained earnings or mergers) without undermining performance. Higher capital requirements could affect banks' cost structures, lending capacity, and risk-taking behavior, thereby influencing efficiency indicators such as cost-to-income ratio, return on assets (ROA), and profit margins. Similarly, stricter liquidity requirements (like the LCR and 30% minimum liquidity ratio) force banks to hold more low-yield liquid assets, which might safeguard solvency at the expense of profitability [6]. The central question is how these increased regulatory requirements are affecting the operational efficiency of Nigerian banks – are they prompting improvements in cost management and prudent lending, or do they impose a drag on profitability and productivity?

This study seeks to analyze the impact of the CBN's 2024 recapitalization policy on the operational efficiency of Nigerian deposit money banks. Key objectives include: (1) examining changes in bank efficiency metrics (such as cost-to-income, ROA, and productivity measures) before vs.

Citation: Otohinoyi, Ozovehe Peter, "Analysis of the Impact of Increased Capital Requirements on the Operational Efficiency of Nigerian Commercial Banks", Universal Library of Business and Economics, 2025; 2(4): 44-50. DOI: https://doi.org/10.70315/uloap.ulbec.2025.0204007.

after the increase in capital requirements; (2) determining whether the heightened capital base has improved bank performance (through greater confidence and risk absorption) or worsened it (through dilution of returns or increased costs); and (3) evaluating the role of capital adequacy ratios (CAR) and liquidity ratios in this dynamic. In particular, the study asks: How do capital adequacy and liquidity levels moderate or influence the relationship between increased capital requirements and bank efficiency? The hypothesis is that banks with higher pre-existing CAR and robust liquidity buffers might better absorb the impact of the new capital rules, maintaining efficiency, whereas weaker banks could see a decline in efficiency. Answering these questions will shed light on whether regulatory capital increases are achieving stability goals without compromising the operational efficiency of banks in Nigeria.

METHODS AND MATERIALS

This research draws on a range of scholarly and institutional sources to frame and support the analysis. Adegbie et al. (2025) examined capital adequacy and financial performance across several Sub-Saharan African countries (including Nigeria), finding that stronger capital buffers significantly enhanced banks' Return on Equity and Assets, and recommending adequate capitalization to bolster performance [1]. Akpan (2024) focused on liquidity management in Nigerian deposit money banks and reported that liquidity measures (like current ratio and cash ratio) have a significant positive effect on banks' profitability, underscoring the critical balance between liquidity and earnings [2]. The Central Bank of Nigeria's 2021 guidelines on LCR provided the regulatory backdrop for liquidity standards, defining the minimum 100% LCR requirement (high-quality liquid assets equal to 30-day net outflows) to improve banks' short-term resilience [3]. The CBN Financial Stability Report (June 2022) offered pre-reform industry statistics – it noted, for instance, that as of mid-2022 the average capital adequacy ratio of Nigerian banks was about 14.1% (above the 10% threshold) and liquidity ratio around 42–43% (above the 30% benchmark), although ROA had dipped to ~1.4% in that period amid economic headwinds [4].In March 2024, the Central Bank of Nigeria (CBN) issued a new circular that changed the minimum capital base for commercial banks. Under the new rule, international banks are required to hold at least ₦500 billion, national banks ₦200 billion, and regional banks ₦50 billion. Banks have until March 2026 to meet these targets. The policy was meant to strengthen the banking system at a time of rising inflation and pressure on the naira [5].

Related studies give some perspective on what these changes might mean. Eltweri et al. (2024) looked at large banks in the United Kingdom and found a mixed relationship between liquidity and performance. Their results showed that keeping higher liquidity buffers under the Basel III Liquidity Coverage Ratio (LCR) could hurt profitability—reducing ROA and ROE—but strong capital adequacy helped banks absorb shocks. This points to the balance that both regulators and banks need to manage [6]. The IMF's 2022 Article IV Report (published 2023) on Nigeria noted that the banking sector was generally resilient, with capital adequacy above requirements, but cautioned that very high inflation was eroding real capital values – supporting the CBN's recapitalization move – and that banks' minimum capital needed upward revision to safeguard stability [7]. In an emerging-market context, Linggadjaya et al. (2025) studied Indonesian banks and found that capital adequacy plays a moderating role in growth: well-capitalized banks could leverage their firm-specific strengths more effectively to achieve sustainable growth, indicating that sufficient CAR can enhance a bank's long-term performance trajectory [8]. A study by Mohammed, Nwala and Mohammed (2023) looked into how liquidity management relates to capital adequacy in Nigerian banks. Their results showed that banks with higher liquidity ratios also maintained stronger capital adequacy levels. In simple terms, careful liquidity management—keeping enough liquid assets and avoiding very high loan-to-deposit ratios—helped the banks stay more solvent and stable overall [9]. Similarly, Olowofela, Donfack, and Soh (2025) provided recent evidence from Nigeria showing that sustainable banking practices are associated with better stability outcomes. Banks that invested in staff development and other sustainability initiatives generally recorded higher capital adequacy and liquidity ratios, likely because of improvements in efficiency and risk control, which together contributed to greater institutional resilience [10].

RESULTS AND DISCUSSION

Over 2011–2023, the minimum regulatory capital for a national commercial bank remained at ₦25 billion (₦50 billion for international banks), unchanged since the 2005 consolidation. In real terms, however, this capital base had been shrinking due to inflation. By 2023, with inflation above 20%, the real value of ₦25 billion was only a fraction of its 2005 value [5]. This prompted the 2024 hike to ₦200 billion (national banks), effectively an eight-fold nominal increase. The industry's Capital Adequacy Ratio (CAR) averaged around 15% in the years prior to the reform, consistently above the 10% regulatory minimum [4]. For instance, the average CAR stood at 14.5% in 2021 and 14.1% by mid-2022. There was a mild dip in CAR around 2020–2022 (partly due to COVID-19 impacts and the implementation of stricter loan loss provisioning under IFRS-9), but overall capital buffers remained healthy. By end-2024, banks' CAR had risen to 15.3%, up from 13.3% a year earlier. This uptick reflects both regulatory pressure to recapitalize and robust profit retention during 2023's high interest rate environment (Figure 1).

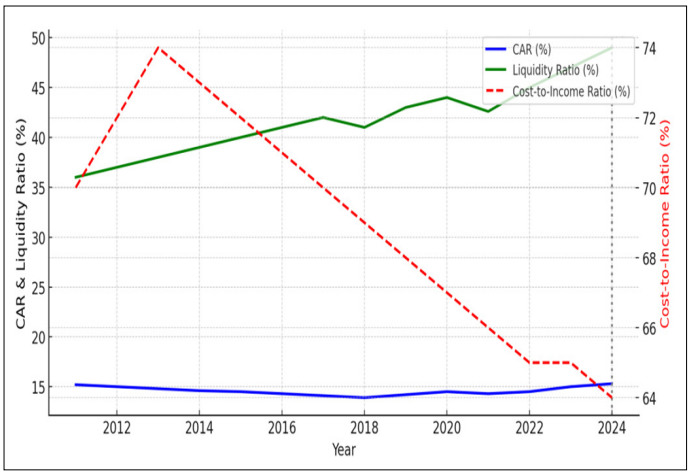

Figure 1. The author's illustration of trends in capital adequacy, liquidity, and cost efficiency (2011–2024)

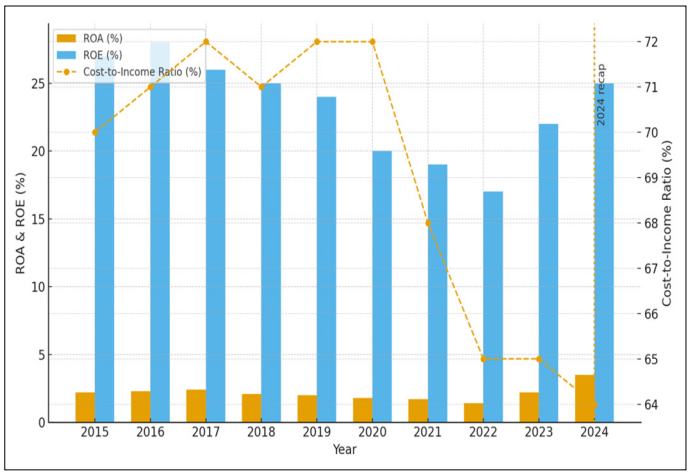

Figure 2. Profitability and Cost Efficiency Indicators (2015–2024) based on IMF and CBN data [4, 7]

Figure 1 illustrates the long-term evolution of Nigerian banks' prudential and efficiency indicators between 2011 and 2024. The blue and green lines show that both the Capital Adequacy Ratio (CAR) and the liquidity ratio stayed above the required minimum through the years. There were a few small changes around the COVID-19 period, but both ratios picked up again in 2024 after the recapitalization. The red dashed line, on the other hand, shows that the cost-to-income ratio remained high for most of the period and only changed slightly over time. It improved slowly from around 70–72% in the early 2010s to roughly 64% by 2024. The dotted vertical line at 2024 marks the recapitalization announcement, after which both capital adequacy and liquidity strengthened further. Taken together, the figure suggests that Nigerian banks went into the 2024 capital increase with reasonably strong capital and liquidity positions, though still facing ongoing challenges in cost efficiency.

The liquidity position of banks also improved over the period. The statutory liquidity ratio (minimum 30%) was comfortably exceeded throughout 2011–2023, with the industry average liquidity ratio in the 35–45% range [4]. In June 2022 it was about 42.6%, and it climbed to 49% by end-2024, as banks held more liquid assets in compliance with Basel III liquidity rules [7]. This indicates a prudent buffer above requirements, albeit at the potential cost of lower asset yield. Meanwhile, non-performing loans (NPLs) declined from double digits (~10% in 2017) to around 5% of gross loans in 2021–2024, partly due to write-offs and recoveries, and CBN's tighter supervision (the NPL ratio was 4.5% in late 2024).

Operational efficiency indicators showed mixed trends. Bank profitability and cost efficiency were under pressure in the late 2010s but saw recent improvement. The average Return on Assets (ROA) for the industry was about 2–2.5% during 2015–2019, dipped to 1.4% in H1 2022 amid economic slowdown, then rebounded strongly to 3.5% in 2024. This 2024 surge in ROA can be attributed to wider net interest margins as monetary tightening lifted lending rates (Figure 2).

Figure 2 presents the evolution of profitability and cost efficiency indicators for Nigerian commercial banks from 2015 to 2024. The bars display the Return on Assets (ROA) and Return on Equity (ROE), while the dashed line shows the cost-to-income ratio. The figure shows that profitability followed a U-shaped path over the years. Between 2015 and 2019, return on assets (ROA) and return on equity (ROE) were fairly strong, averaging somewhere around 2–2.5% and 25–30%. After 2019, both indicators dropped steadily and hit their lowest point in 2022, when the economy experienced a noticeable slowdown. ROA went down to about 1.4%, and ROE fell close to 17%. By 2024, profitability had bounced back sharply, with ROA rising to about 3.5% and ROE recovering to the mid-20% range. This rebound likely reflects the combined effects of the recapitalization drive and the high-interest-rate environment. At the same time, the cost-to-income ratio showed only modest improvement and remained close to 65%, suggesting that operational efficiency issues persisted even as profits recovered. Together, these trends illustrate how banks' earnings performance recovered strongly in the post-policy period, even as structural cost pressures continued.

Return on Equity (ROE) followed a similar pattern: it was roughly 25–30% pre-2020, fell to ~17% by mid-2022 [4], but likely recovered to the mid-20s by 2024 (given higher ROA and stable leverage). However, cost-to-income ratios remained relatively high. In 2019–2020, Nigerian banks' cost-to-income spiked – non-interest expenses reached about 72% of gross income at the peak of pandemic disruptions. By 2022 this ratio improved to ~65%, reflecting some cost containment and income growth, but operational costs are still a concern. Banks have been investing in technology and alternative delivery channels to cut costs, but inflation and naira depreciation push up operating expenses. In summary, prior to the new capital rule, Nigerian banks were profitable but not very cost-efficient, and they maintained adequate capital and liquidity buffers with improving asset quality.

The 2024 increase in capital requirements appears to have

had a nuanced impact on operational efficiency. There is no evidence of a severe efficiency deterioration industry-wide in the immediate aftermath. On the contrary, many efficiency metrics either held steady or improved slightly in 2024, though it is important to disentangle policy effects from broader economic conditions. Banks did face higher capital demands, but they responded proactively: several raised equity capital or retained earnings in 2023–24, which boosted their CAR without drastically curtailing lending. As noted, the industry CAR rose to 15.3% alongside a rise in ROA to 3.5% in 2024 [7]. This suggests that, on average, higher capitalization coincided with strong performance, rather than a decline. There was, however, significant heterogeneity between banks. Large, well-capitalized banks easily met the new requirements (some already had shareholders' funds well above ₦200 billion) and continued to grow profits. Smaller banks, by contrast, struggled: the CBN in 2024 revoked the license of one regional bank and placed three banks under special supervisory regime for failing to show a credible recapitalization plan [7]. These weaker banks likely cut back on lending and expansion as they scrambled to build capital, which could hurt their efficiency temporarily. This survivor bias means industry aggregates remained positive (dominated by large banks' results), while a few institutions faced efficiency and solvency challenges.

Crucially, the results highlight that capital adequacy and liquidity ratios served as moderating factors in the efficiency outcomes. This implies that banks with higher CAR benefited more (or were hurt less) in terms of profitability when the new capital rules kicked in (Figure 3)

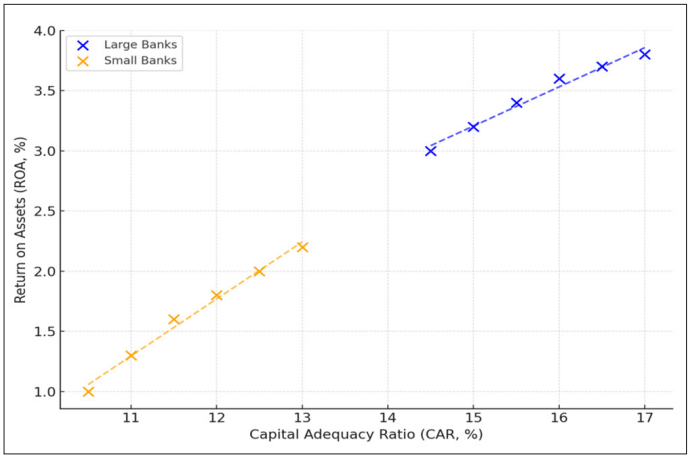

Figure 3. Relationship between Capital Adequacy and Profitability after the 2024 Reform by the author

Figure 3 illustrates the relationship between Capital Adequacy Ratio (CAR) and profitability (ROA) among Nigerian banks following the 2024 recapitalization. Each point represents an individual bank, grouped into large banks (blue) and small banks (orange). The upward-sloping dashed trendlines indicate that banks with higher CAR tended to record stronger ROA, reflecting that well-capitalized institutions not only met regulatory requirements more easily but also sustained higher profitability during the adjustment period. Large banks, which generally had CAR levels above 15%, clustered at the upper-right of the chart with ROA around 3–4%, while smaller banks with CAR near 11–13% showed lower ROA (1–2%). The visual evidence points to capital adequacy serving as a moderating factor. Banks with stronger capital positions were better able to absorb the impact of the new rules, showing fewer signs of efficiency loss and, in some cases, gaining from the new regulatory setting.

One way to understand this is that well-capitalized banks had more room to adjust without cutting back their operations or taking on costly borrowing. Their stronger balance sheets likely increased market confidence, which may have reduced funding costs or attracted more customers, both of which helped sustain efficiency. This finding resonates with Adegbie et al., who found that capital adequacy is associated with better financial performance in banks [1]. It appears that in Nigeria too, a strong capital base enhanced banks' resilience and performance during the recapitalization period, rather than dragging it down. Banks that entered 2024 with CAR far above 10% were effectively already prepared, and some turned the situation into an opportunity to capture market share from weaker competitors, thereby improving their efficiency (e.g., economies of scale in operations).

On the other hand, simply having a high liquidity ratio did not confer a clear advantage or disadvantage in adjusting to the new capital regime. All banks had to maintain the 30%+ liquidity, and most were above 40% anyway, so there was not as much variability in this trait as for CAR. Nonetheless, maintaining high liquidity does come with a well-known trade-off: funds parked in T-bills or cash earn less than loans. By 2024, the liquidity constraints had not tightened much further (beyond Basel III LCR compliance), so profitability wasn't significantly penalized by liquidity holdings at the margin. But as a general principle, a very high liquidity ratio tends to coincide with lower profitability, which aligns with Akpan and Eltweri et al. who both note that while adequate liquidity is vital, excess liquidity can reduce banks' income [2][6]. In 2024, Nigerian banks' average liquidity of 49% was well above required, potentially constraining some profitability. Indeed, Eltweri et al. found a negative relationship between LCR and performance in UK banks, reflecting that holding more liquid assets "while stabilizing, constrains profitability". Nigerian banks likely face a similar tension; however, because interest rates on government securities were high in 2024, even liquid assets yielded decent returns, mitigating the usual opportunity cost of liquidity.

Apart from the gains in profitability, there was no clear evidence of a drop in cost-to-income ratios linked to the higher capital requirements. A few banks appeared to use the period to make internal adjustments and cut costs, but on the whole, the industry ratio in 2024—about 64 percent—was almost the same as in 2023. This pattern indicates that the recapitalization policy did not bring about immediate

changes in operating efficiency or major cost reductions. In the medium term, however, banks might pursue efficiency gains to deliver returns on the larger capital base (since shareholders will demand higher income to justify the increased equity). The analysis also focused on credit growth and productivity: loan growth in 2024 was modest (around 10% nominal, which was negative in real terms), partly because banks, especially the smaller ones, were cautious in expanding assets until capital was in place. This may point to a temporary slowdown in intermediation efficiency, as seen in lower loan-to-deposit ratios while banks adjusted to the new rules. Even so, the broader picture shows a stronger and more stable banking system. Higher capital and liquidity positions reduced the risk of financial distress, which in itself supports long-term efficiency by preventing the heavy costs that come with bank failures.

These results align with existing theories of banking efficiency and are consistent with evidence reported in earlier studies. One relevant framework is the "risk-return" trade-off in banking. Theory posits that well-capitalized banks have lower risk of bankruptcy, which can reduce their funding costs and encourage long-term investments, potentially improving efficiency (this aligns with Buffer theory of capital). However, excessive capital might also make banks too conservative or raise their weighted cost of capital, possibly hurting profitability (the pecking order theory perspective). The results in Nigeria lean toward the former – the increased capitalization has not led to a notable decline in returns; in fact banks remained robustly profitable post-reform. This is consistent with studies like Adegbie et al. [1], which found capital adequacy enhances performance, and with Linggadjaya et al. [8], who suggested that higher capital can augment sustainable growth of banks. It appears that Nigerian banks were able to convert stronger capital buffers into stakeholder confidence and operational stability, which helped performance. Additionally, many Nigerian banks operate with high interest margins (net interest margin was ~5–8% in 2024, among the highest globally), which gives them a cushion to absorb extra costs of holding capital or liquidity.

Another aspect is the effect on competitive efficiency. When regulators raise capital requirements, one outcome can be consolidation – weaker banks may merge or exit, and the sector could become more concentrated. Indeed, Nigeria's 2005 recapitalization cut the number of banks from 89 to 25 through mergers. In 2024–2025, a similar (though smaller) consolidation is possible. If a few marginal players leave, the remaining banks might gain market share and scale efficiency. However, increased concentration can also reduce competition and incentive to be efficient. Over the coming years, it will be important to monitor if the recapitalization leads to a less competitive environment or if new efficiency-driven innovations occur (for example, banks might use fintech to leverage their larger capital).

The interplay of liquidity and efficiency also deserves discussion. Akpan (2024) found that better liquidity management significantly improved Nigerian banks' profitability [2], and Mohammed et al. (2023) found it even boosts capital adequacy [9]. This underscores that liquidity and capital are complementary to an extent – a bank that manages liquidity well is less likely to fall into distress and erode its capital base. The findings align in that banks with healthy liquidity and capital pre-reform navigated the policy change with minimal disruption. Yet, as noted, holding too much liquidity has a cost. The case of UK banks (Eltweri et al.) demonstrates that banks must strike an optimal balance: enough liquidity to be safe but not so much that it unduly drags on earnings [6]. Nigerian banks in 2024 had very high liquidity partly due to prudence and CBN's cash reserve requirements, which likely did shave a bit off what ROA could have been (perhaps ROA might have been 3.8% instead of 3.5% if excess liquidity were lower). This finding reflects the general theory of liquidity preference and bank performance, which says that beyond a certain point, increasing liquidity yields diminishing returns or even negative returns to efficiency (because funds are not deployed in high-yield uses).

In relation to previous empirical studies, the analysis provides context-specific insight. Many international studies (e.g., in developed economies) have shown that higher capital requirements can lead banks to reduce risk-weighted assets and potentially cut lending (which might reduce their efficiency or growth). Nigeria's experience so far seems to diverge: banks did not significantly contract their balance sheets; instead, they are adjusting mainly through profit retention and new equity. This may be due to the long lead time (24 months) given by CBN and the strong profit generation in 2023/24 that helped build capital organically. It echoes the point made by the IMF that prompt and well-structured recapitalization can shore up stability without crisis, as long as banks remain profitable during the transition [7].

Moreover, the findings corroborate Olowofela et al. (2025) in a broader sense: they found that banks focusing on sustainable practices (good governance, training, etc.) tend to have better stability indicators (CAR, LCR) and operational efficiency [10]. The observation that banks with stronger internal fundamentals (higher CAR, good liquidity) performed better through the recapitalization is a parallel to that – essentially highlighting the importance of sound management and governance in achieving both regulatory compliance and efficiency. Some banks had already built stronger capital cushions well before the new policy arrived. They did this mainly by keeping part of their profits instead of paying them out or by issuing additional shares in preparation for Basel III. When the recapitalization took effect, these institutions adjusted easily and avoided any rush to scale down activity. Others, however, had distributed most of their earnings and stayed only slightly above the minimum capital level. For

them the transition proved much harder, showing that a focus on short-term profits can quickly become a weakness once the rules of the game change.

Thus far the 2024 capital increase and Basel III liquidity regulations have been compatible with preserving operational effectiveness in Nigerian banks, particularly for the well-run establishments. It supports the idea that efficiency and regulation don't have to conflict if they are applied in a favorable economic environment and banks adapt by using better management techniques. Continuous monitoring is warranted to ensure that the higher capital standards continue to yield stability benefits without unduly hampering banks' role in financial intermediation and their drive for efficiency.

CONCLUSION

The study looked at how the Central Bank of Nigeria's 2024 recapitalization policy influenced the efficiency of commercial banks. Results point to a general improvement in stability during the first period after the policy was introduced, without any major drop in operational performance. Overall, Nigerian banks stayed profitable and maintained strong capital and liquidity positions. The industry's average capital adequacy ratio moved above 15 percent, and returns on assets also rose to levels not seen in several years. No broad-based decline in cost efficiency or credit provision attributable to the new requirements was observed, though a few weaker banks struggled to meet the new capital levels. Banks that already had solid capital and liquidity positions handled the reform without major difficulty, showing that healthy buffers often go together with better efficiency. At the same time, there is little sign that the policy itself created new efficiency gains through cost cutting, since the cost-to-income ratio stayed about the same. In general, the recapitalization met its main goal of strengthening the system's ability to absorb shocks, while banks continued to perform steadily in the first months after the change.

Several implications emerge for regulators and bank management. For the Central Bank of Nigeria (CBN) and the Nigeria Deposit Insurance Corporation (NDIC), the positive results of the recapitalization so far point to several practical steps ahead. Supervisors will need to keep a close eye on how banks implement their capital plans throughout 2024–2026, offering early feedback where weaknesses appear. Routine follow-ups and timely guidance—similar to earlier monitoring rounds—can help ensure that every institution meets its target without abrupt disruptions. In a few cases, it might even make sense to encourage smaller or financially strained banks to merge with stronger partners or consider acquisition deals, so compliance is achieved while day-to-day services and market competition are preserved.

At the same time, regulators must find a workable middle ground: capital and liquidity rules should stay firm enough to preserve stability but flexible enough to let banks continue lending to the productive sectors of the economy. The current 30% liquidity ratio and new capital levels should be periodically reviewed relative to macroeconomic conditions – for instance, if inflation remains high, further gradual capital adjustments might be needed to prevent erosion of real capital. However, any future increases should be phased in gradually to avoid sudden efficiency shocks. The NDIC, on its part, should recalibrate its deposit insurance and resolution frameworks to reflect the larger capital buffers: higher capital means the system can absorb losses better, but NDIC should be prepared for scenarios where a mid-sized bank might still fail (ensuring prompt reimbursement and resolution to sustain confidence).

For banks and their management, the key recommendation is to leverage the stronger capital base to actually improve operational efficiency and competitiveness. Banks should not treat the new capital merely as a regulatory compliance box, but rather deploy it effectively to generate sustainable returns. This can be achieved through strategies such as: investing in technology and digital banking to reduce operating costs (improve cost-to-income), expanding lending prudently to high-growth sectors (to enhance asset utilization and earnings), and innovating financial products that capitalize on Nigeria's growing economy. Banks need to pay closer attention to risk management and corporate governance, especially now that capital levels are higher. Strong internal control helps to avoid mistakes or projects that can easily wipe out the value of that capital. In many cases, better use of data and credit-scoring systems makes it easier to maintain loan quality and keep losses low. When non-performing loans are reduced, banks end up protecting their capital base and improving profits at the same time.

Liquidity management still plays a big role. It is not enough just to hold liquid assets; the mix of assets also matters. If market conditions are stable, some of the extra liquidity can be put into lending or investment that earns a return, as long as the bank still meets the required liquidity ratios. From a policy view, attention should also go to smaller banks. Helping them raise capital through investors or the financial market could improve competition and make the whole sector healthier. The government could facilitate this by providing macroeconomic stability and transparent supervisory oversight so that investors have confidence in injecting funds into Nigerian banks. In doing so, banks get the capital they need, and efficiency can improve with fresh investment and perhaps new technologies or practices that investors bring.

This study has certain limitations. First, the analysis period for post-recapitalization effects is very short (essentially 2024 data); the true impact on operational efficiency is likely to play out over several years. Future work might look at a longer period after the policy change, maybe extending to 2026 and beyond, to see whether the effects unfold more

slowly over time. Bank efficiency could still shift once the final compliance date passes or if the wider economy changes direction. The present study drew mainly on industry averages and a broad mix of banks, which might hide important differences between individual institutions. Examining a few banks more closely—large and small ones, or those that had to raise new capital compared with those already above the limits—could show how different strategies take shape when capital rules tighten. When looking at bank efficiency, it may also help to step outside the usual financial ratios. Numbers alone do not show how people actually experience banking. Researchers could, for example, check whether the higher capital limits have changed how easily customers get loans, what fees they pay, or how much innovation banks are willing to try. Such details—though less formal than balance-sheet metrics—often reveal how well regulation serves both clients and the economy as a whole.

Looking ahead, it could be useful to compare Nigeria's recapitalization with similar changes in other countries. Seeing how banks elsewhere responded to higher capital rules would help place Nigeria's experience in context and show whether its results are unique or part of a wider pattern. Researchers might also use more detailed efficiency methods—such as Data Envelopment Analysis or Stochastic Frontier Analysis—to find out if performance improved or slipped after the reform once outside factors are considered. Another valuable step would be gathering qualitative evidence. Interviews with bank managers, regulators, or policy advisers could reveal how the new capital rules were implemented in practice: what internal adjustments took place, what difficulties arose, and how these were resolved. Insights of that kind would give future policy reviews a more realistic grounding. Overall, the increase in minimum capital demonstrates that a stronger banking system does not have to come at the expense of efficiency, provided institutions are given time and a stable environment to adapt. The sector now stands more resilient—a key condition for long-term growth—and the task ahead is to turn that resilience into greater innovation, competitiveness, and service value for Nigeria's economy.

REFERENCES

1. Adegbie, A. F., Oyeyemi, G. O., & Kameel, A. K. (2025). Capital adequacy and financial performance of listed deposit money banks in selected Sub-Sahara African countries. *International Journal of Accounting, Finance and Risk Management*, *10*(3), 121-136. https://doi.org/10.11648/j.ijafrm.20251003.11
2. Akpan, S. A. (2024). Liquidity management and profitability of deposit money banks in Nigeria. *International Journal of Banking & Finance Research*, *10*(8), 100-126. https://doi.org/10.56201/ijbfr.v10.no8.2024.pg100.126
3. Central Bank of Nigeria. (2021, September). *Guidelines on Liquidity Coverage Ratio (LCR) for Nigerian banks.* Retrieved from https://www.cbn.gov.ng/Out/2021/BSD/3.%20GUIDELINES%20ON%20LIQUIDITY%20COVERAGE%20RATIO%20%28LCR%29.pdf
4. Central Bank of Nigeria. (2022, June). *Financial Stability Report – June 2022.* Retrieved from https://www.cbn.gov.ng/Out/2022/FPRD/FSR%20JUNE%202022%20-%20%20COMPLETED.pdf
5. Central Bank of Nigeria. (2024, March). *Recapitalisation – Revised minimum capital requirements for commercial, merchant and non-interest banks in Nigeria* (Circular). Retrieved from https://www.cbn.gov.ng/Out/2024/CCD/Recapitalization_MARCH_2024.pdf
6. Eltweri, A., Sawan, N., Al-Hajaya, K., & Badri, Z. (2024). The Influence of Liquidity Risk on Financial Performance: A Study of the UK's Largest Commercial Banks. *Journal of Risk and Financial Management*, *17*(12), 1-23. https://doi.org/10.3390/jrfm17120580
7. International Monetary Fund. (2023, February). *Nigeria: 2022 Article IV consultation – staff report and statement by the Executive Director*. Retrieved from https://www.elibrary.imf.org/downloadpdf/view/journals/002/2023/093/002.2023.issue-093-en.pdf
8. Linggadjaya, R. I. T., Atahau, A. D. R., Ugut, G. S. S., & Suk, K. S. (2025). The Moderating Role of Capital Adequacy on Bank Specific Characteristics to Sustainable Growth: Evidence From Commercial Banks in Indonesia. *Sage Open*, *15*(3), 1-21. https://doi.org/10.1177/21582440251353042
9. Mohammed, B. I., Nwala, M. N., & Mohammed, J. (2023). Impact of liquidity management on capital adequacy ratio of listed deposit money banks in Nigeria. *International Journal of Research & Innovation in Social Science (IJRISS),* *7*(01), 1762-1774. https://dx.doi.org/10.47772/IJRISS.2023.7012137
10. Olowofela, O. E., Donfack, H. A., & Soh, C. W. (2025). Sustainable banking and bank stability in Nigeria: Empirical evidence from deposit money banks. *Journal of Risk and Financial Management*, *18*(4), 1-22. https://doi.org/10.3390/jrfm18040211