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RECAPITALIZATION POLICY AND PERFORMANCE OF BANKS IN NIGERIA (2006 - 2013)

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Abstract
One of the regulatory controls of Central bank of Nigeria to ensure that the banking system is efficient and operationally effective is the regulation of bank capital base through capital requirement policy. Aim of this paper is to investigate the impact of the recapitalization policy on the performance of Deposit Money banks in Nigeria. The researcher employed the use of secondary data sourced from the published financial statements of six Deposit Money banks that had experienced recapitalization reforms over eight years spanning from 2006-2013. The selected banks included First Bank of Nigeria Plc, United Bank for Africa Plc, Guaranty Trust Bank Plc, Zenith International Bank Plc, Access Bank Plc and Wema Bank Plc. Purposive sampling technique was used for selection of these banks. While the regression analysis was used to test the significant impact. Findings revealed that recapitalization policy has positively affected and significantly improved the banks' performance. Based on this finding, it was concluded that the recapitalization of the Nigerian banking industry serves as antidote to the poor performance, unprofitable operations and weak asset base of banks. The paper recommended that the CBN should use its regulatory power to increase the present minimum capital base of banks to N50 billion to stimulate greater efficiency and ensure that the banks still generate sufficient profit for their shareholders.

Keywords: Recapitalization, Capital Base, Asset Base, Deposit Money Bank, Performance, Liquidity, Profitability

INTRODUCTION

The intermediation role of banks can be said to be a catalyst for economic growth and development as investment funds are mobilized from the surplus units in the economy and made available to the deficit units. In doing this, banks provide an array of financial services to their customers. It can therefore be said that the effective and efficient performance of the banking industry is an important foundation for the financial stability of any nation. Nevertheless these pivotal roles have not been highly noticeable in Nigeria. The scenario arises as a result of poor performances of Nigerian Deposit Money banks. According to Soludo (2004), "The Nigeria banking system today is fragile and marginal. The system faces enormous challenges which if not addressed urgently, could snowball into a crisis in the near future". Soludo (2004) as cited in Bakare (2011) identified the problems of the banks, especially those seen as feeble, as persistent illiquidity, unprofitable operations and poor asset base. Also, Ikpefan (2012) opines that the evolving competition in the banking industry as a result of globalization has made it difficult for Nigerian banks to play their major role of financing economic activities arising from inadequate capital which has led to a crisis of confidence in the banks and losses suffered by banks led to bank failure especially in the areas of lending. Therefore, the soundness, safety and profitability of a bank affect the quality of its loan portfolio.

To ensure that the banking system is efficient and operationally effective, the government of every country does exert some regulatory controls. One of such control is the regulation of bank capital base through capital requirement policy. This is because, according to (Oyedokun, 2013), the solid financial base will assist the banks to withstand fluctuations in the liability portfolio and be able to absorb some unexpected losses due to asymmetric information on their customers.

The strategy often utilized to strengthen banks in Nigeria and save them from financial distress is capital regulation by the central bank of Nigeria (CBN). According to Bakare (2011) with this recent recapitalization policy, banks that cannot meet the required amount will have to merge with the bigger or stronger ones. Following the implementation of the policy, an unprecedented process of recapitalization has taken place in Nigerian banking sector shrinking the number of deposit money banks from 89 to 21 banks. No other event is more challenging as this recapitalization policy in the history of Nigeria banking

The scenario of banking in Nigeria has been characterized by low capitalization which consequently affected their financial performance. While re-capitalization of Nigerian banks may address this concern, the effect of the exercise on banks performance remains an empirical one. However, the empirical study carried out on this paper fills the gap in the existing literature especially as it relates to variables that affect bank performance. It is therefore imperative to ask

some pertinent questions: Is there any relationship between recapitalization policy and the banks' financial performance in terms of profitability in Nigeria? And does recapitalization has any significant effect on banks' size and strength, most especially after the recent banks' reform in Nigeria? Finding answers to these and other similar questions by using performance indicators such as Profit After Tax (PAT) and Total Assets (TA) to measure profitability of banks and size/strength of banks respectively will serves as the main thrust of this study.

Objectives of the study

(i) To determine the relationship between recapitalization policy and banks financial performance in terms of profitability in Nigeria and

(ii) To find out if the recapitalization has any significant effect on banks' size and strength, most especially after the recent banks' reform in Nigeria.

Research hypothesis

In order to address the objectives of this study, two null hypotheses are to be proved;

(i) There is no significant relationship between recapitalization policy and profitability of Nigerian banks and

(ii) Recapitalization has no significant effect on the size and strength of banks in Nigeria.

LITERATURE REVIEW

Recapitalization and Bank's Performance

According to Oyedokun (2013); Capital decision could be analyzed within the theoretical framework developed by Baltensperger (1973). In this framework, the individual bank is assumed to maximize its profit by choosing an optimal ratio of capital/debt within a competitive environment. Also, the aims of bank capitalization are to resolve the problem of unsound banking and to enhance efficient management in the banking system (Kanu & Isu 2013). Capitalization is an important component of reforms in the Nigerian banking industry, owing to the fact that a bank with a strong capital base has the ability to absolve losses arising from non performing liabilities. Attaining capitalization requirements may be achieved through consolidation of existing banks or raising additional funds through the capital market. According to Adegbaju and Olokoyo (2008), recapitalization entails increasing the debt stock of the company or issuing additional shares through existing shareholders or new shareholders or a combination of the two. It could even take the form of merger and acquisition or foreign direct investment. Whichever form it takes, the end result is that the long term capital stock of the organization is increased substantially to sustain the current economic trend in the global world.

Traditionally, funds or capital is mobilized through equity or debt. In the banking sector, capital could be core capital or supplementary capital but, much emphasis is on the core capital that is shareholders funds because of its stability. But in this study the concept of recapitalization refers to the move by which CBN compelled all the commercial banks operating in Nigeria to raise their capital base from N2 billion to N25 billion on or before 31st December 2005. According to Soludo (2004), the idea was to ensure a diversified, strong and reliable banking industry where there is safety of depositors' funds and re-assurance of the banks' continual play of the active intermediation role in the economy.

According to Rose (2001), a fair evaluation of any bank's performance should start by evaluating whether it has been able to achieve the objectives set by management and stockholders. Certainly, many banks have their own unique objectives. Some wish to grow faster and achieve some long-range growth objective, others seem to prefer quiet life, minimizing risk and conveying the image of a sound bank, but with modest rewards to their shareholders.

Ordinarily, stock prices and behaviour are deemed to reflect the performance of a firm. This is a market indicator and may not be reliable always. However, the size of the bank, the volume of deposit and its profitability could be deemed as more reliable performance indicators. For the purpose of this study, indicators like Profit after Tax (PAT) and Total Assets (TA) for profitability and operational efficiency were used to assess banks' performance.

Liquidity and Profitability

Pandey (2005) defines liquidity as the ability to realize value in money, the most liquid of asset. Every business firm requires capital though they differ in their degree of requirement. Hence, it can be said that capital is vital for business survival. (Oke 2006) and Gale (2010) describes it as the effective blood of any business. According to Oladejo & Oladipupo (2011) the most common ratio which indicate the extent of liquidity or lack of it are current ratio and quick asset ratio. Current ratio measures the relationship between current asset and current liabilities and is designated as current assets divided by current liabilities. While the quick asset ratio only considered the relationship between liquid assets that can be quickly converted into cash available to meet short term liabilities. Also, Oladejo & Oladipupo (2011) explained that there must be trade-off between how a firm maintains its liquidity position and its profitability position as well. They opine that to make profit, an organization is likely to be short of liquid assets. Conversely, in order to retain more liquid in the company's capital structure, the profitability objective might be impaired. Jennings (1993) explained liquidity as the case with which a firm can turn its current asset into cash.

According to Oladejo & Oladipupo (2011), bank capital has a direct relationship with profitability. As more and more money is pumped into the business, more profit will be recorded. (Banwo, 1997; Sanni, 2006) cited in Sanni & Adereti (2012) opine that profitability connotes a situation where the income generated during a given period exceeds the expenses incurred over the same length of time for the purpose of generating income. A wide range of profitability indicators have been applied in various studies ranging from simple Balance sheet, profit and loss ratios such as Return on equity (ROE), Return on assets (ROA) and Earning per share (EPS). However there are divergent views among scholars on the superiority of one indicator over the other as a good measure of profitability. Ahmed (2003) identified three indicators to be widely employed in the literature to measure profitability as: Net Interest Margin (NIM), Return on Assets(s) (R0A) and Return on Equity (ROE) and this was supported by Goudreau & Whitehead (1989) and Uchendu (1995). Profitability measures, according to Akinola (2008) and Sanni (2009) includes Profit Before Tax (PBT), Profit After Tax (PAT), ROE, Rate of Return on Capital (ROC) and Return on Assets (ROA). However, this paper used only Profit after Tax (PAT) to measure the profitability and the size and strength of banks is being measured by Total Assets (TA).

According to Omoruyi (1991), recapitalization appears to be the main driving force of bank reforms. It focuses mainly on restructuring, rebranding and refurbishing the banking system to accommodate the challenges of bank liquidation. Obviously, adequate capital base is very crucial to the success of any bank. Apart from its multiplier effect on the economy as a whole; it acts as a buffer and security for banks (Bakare 2011). As Spong (1990) put it, “commercial bank must have enough capital to provide a cushion for absorbing possible loan losses, funds for its internal needs, and expansion and added security for depositors. However, Mbizi (2012) suggested that the type of recapitalization envisaged should improve banks performance by ensuring solvency and profitability as well as enhancing financial intermediation capacity.

An Overview of Re-capitalization Trend in Nigeria

An increase in the capital base of banks in Nigeria would strengthen and not only provide better funding for banks lending activities and increase profitability but also bring sanity into banking industry. Central Bank of Nigeria from time to time introduces reforms which include requirement for increasing banks capital base to effectively regulate and supervise the industry.

Right from 1958 after the first banking ordinance in 1952, the colonial government raised the capital requirement for banks especially the foreign commercial bank from 200,000 pounds to 400,000 pounds. Also, in 1969, capitalization of banks was N1.5million for foreign banks and

N600, 000 for indigenous commercial banks. In 1979, when the merchant banks came on board the Nigeria banking scene, the capital base was N2 million Adegbaju (2007), cited in Ata (2013). Anthonia (2013) in her study also traced the history of recapitalization of banks in Nigeria and put it in tabular form. Starting from 1952 when the financial regulatory authority required all commercial banks to have mandatory minimum paid-up capital of £12500, this was increased to £300,000 in 1969 and to N600,000 in 1979. In February 1988, it was changed to N5million and then to N10million in October within the same year. Also changes from N20 million to N50 million were recorded between 1989 and 1991. However from 1997 and 2000, there was a change of N500 million to N1 billion and subsequently increased to N2 billion in 2001. Finally, the last increase was in 2005 when the required minimum capital base of commercial banks was changed to N25billion and this operates till date.

At the end of the recapitalization exercise, only 25 banks survived out of existing 89 banks before the mergers and acquisitions among the banks. Nigeria banks adopted different strategies to achieve the stipulated minimum capital base of N25billion during the banking sector consolidation of 2004 and 2005, including Mergers and Acquisitions and Internal growth. Looking at the past trends of recapitalization policies of the financial regulatory authority since 1952 to date, the present bank's competition for deposits mobilization which shore-up interest and exchange rates devaluation, one would suggest that there is need for another increase for Nigerian commercial banks capital base so as to enable them compete globally.

Effect of Recapitalization on banks' profitability and liquidity

According to Oyedokun (2013), the choice of capital requirement as instrument of regulation has been less controversial than regulation per se. Bank capital provides a buffer or cushion against unexpected losses or shocks. The higher the bank capital, the higher the capital buffer and the less the probability of insolvency. Sani and Alani (2013), suggested that the objectives of recapitalization are to enable the banks increase their market power, induce restructuring and engender the alignment and realignment of banks to ensure a good, responsive, competitive and transparent banking system suited to the demand of the Nigerian economy and the challenges of globalization. The study observes that while recapitalization raised the capital base of the banks, it is not all the time that it transforms into good financial performance.

Akhalumeh (2011) observed that previous research has extensively analyzed the roles of banks capital and identified four such roles: bank capital can reduce an excessive tendency by banks to take risks, bank capital can serve as cushion against insolvency problems; bank capital can signal the risk preferences of a bank and bank capital can act as a tool that allows a bank to offer lower rates without affecting its incentives to monitor. Also, Kennedy and Johnson

(2004) identified the benefits of economic capital as: maintaining solvency, creating accountability for risk; and the advancement of quantitative analysis.

Kanu and Isu (2013) opine that insufficient capital might cause enlightened depositors to restrain from placing their deposits in the bank; and enlightened investors may also refrain from investing in it. This has adverse effects on the bank's profitability. He also discovered that when there are increases in the capital bases of banks, profit performance also tends to increase. This means that improved profitability leads to increased capital.

Somoye (2008) opines that linear relationship subsists between liquidity and profitability of a firm in timely disbursements to the various stakeholders before they can enjoy smooth operation needed to reach the desired goals. The study on recapitalization reform and banks' performance by Oleka and Mgbodile (2014) showed that there is significant positive effect of the recapitalization reform on the liquidity positions of the bank. The finding is in line with the result of earlier studies carried out by Nwude (2005) which found that a rise in the percentage of current liabilities that goes to loans indicates that the bank is heading towards illiquidity while a decrease signals an improvement in bank's liquidity position vis-à-vis loan-to-deposit ratio. This is an indicative that there is a significant relationship between a bank's liquidity and its loan-to-deposit ratio. Also the study findings revealed that there is a significant positive relationship between the shareholders' fund and the total assets and that banks earned more income on earning assets after the recapitalization than before; the reform encouraged more yields on earnings assets.

RESEARCH METHODOLOGY

To achieve the objective of this study, the study employed secondary data sourced from the published financial statements of six (6) Deposit Money banks that had experienced recapitalization policy or reforms over eight years after recapitalization spanning from 2006-2013. The selected banks include First of Nigeria Bank Plc, United Bank for Africa Plc, Guaranty Trust Bank Plc, Zenith International Bank Plc, Access Bank Plc and Wema Bank Plc. The sampling technique used for selection of these banks is purposive while Ordinary Least Square (OLS) method with simple linear regression analysis was used to test the relationship between the recapitalization and bank performance. The reasons for adopting this method is because the paper uses secondary time series data that will require running the information therein and the estimates obtained from this method has optimal properties. Banks performance therefore is measured by Profitability through Profit after tax (PAT) and size/strength of banks through Total Assets (TA) respectively.

To express the model of simple linear regression in equation form so as to test the two null hypotheses formulated for the study viz:

Models: Y = a + bx + u …….. where Y is dependent variable (Profit after Tax (PAT), Total Asset (TA), X is independent variable (Shareholders fund (SHFs), a is intercept parameter (constant), b is coefficient of variation and u is Standard Error (S.E) term

PAT = a + bSHFs + u ……i

TA = a + bSHFs + u ……ii

The decision rule at 0.05 level of significance is that the null hypothesis is rejected if the calculated value is greater than or equal to the critical value, otherwise accepted.

ANALYSIS & FINDINGS

Table 1: Mean of SHFs, PAT and TA of six selected banks

Year (N'B)	2006 (N'B)	2007 (N'B)	2008 (N'B)	2009 (N'B)	2010 (N'B)	2011 (N'B)	2012 (N'B)	2013 (N'B)
SHFs	49.6	94.5	222.0	229.5	239.4	221.8	286.2	290.1
PAT	8.6	14.6	26.7	20.8	20.6	25.7	60.4	55.2
TA	433.3	681.6	994.4	1131.5	1249.4	1584.9	1865.5	2189.4

A more rigorous analysis through the use of simple linear regression analysis with the aids of SPSS is required to determine the relevance of the bank's recapitalization policy (increase in shareholders fund) to the improvement in the bank operational efficiency and bank capacity to generate profit.

Table 2: Predictor: Shareholders' funds (SHFs), Dependent variable: Profit after tax (PAT)

Pat(N'm)	Coef.	Std. Err.	T	P>t	[95% Conf.	Interval]
Shfs(N'm)	0.109568	0.0312436	3.51	0.007	0.038890	0.180246
_cons	9391.225	8013.547	1.17	0.271	-8736.68	27519.13

Number of obs = 11 F(1, 9) = 12.30 Prob > F = 0.0067

R-squared = 0.5774 Adj R-squared = 0.5305

Root MSE = 15392

The analysis in Table 2 above, showed a relationship of R = 0.760 between Shareholders Fund (SHFs) and Profit after Tax (PAT) of banks. It also showed that SHFs contributed to PAT by 57.74%. The R^2 further confirmed the test with F value of 12.30 which was statistically significant to the profit level attained by banks.

It was also observed that for every change in banks SHFs, PAT changes by 0.11 also there is a positive relationship between SHFs and PAT and the relationship is highly significant at 5%. This is indicated by (p=0.007) and (t=3.51).

Table 3: Predictor: Shareholders' funds (SHFs), Dependent variable: Total Assets (TA)

TA(N'm)	coef.	Std. Err.	T	P>t	[95% Conf.	
SHFs(N'm)	5.763416	1.653962	3.48	0.007	2.021894	9.504938
_cons	268893.6	424218.8	0.63	0.542	-690755.9	1228543

Number of obs = 11 F(1, 9) = 12.14 Prob > F = 0.0069

R-squared = 0.5743 Adj R-squared = 0.527 Root MSE = 8.1e+05

The analysis in Table 3 above, showed a relationship of R = 0.758 between Shareholders Fund (SHFs) and Total Assets (TA) of the selected commercial banks. The test further revealed that SHFs accounted for 57.43% variation in bank TA. In order to confirm the significance of this contribution, the analysis of variance showed F value of 12.14 at 5% level of significance. Thus, the contribution of SHFs to bank total assets was not by chance, hence the null hypothesis was rejected and the alternative upheld. Equally, the coefficient of 5.763 shows a positive relationship between the dependent variable (total asset) and the independent variable (share holders' funds). This means that for every unit increase in SHFs, Total Asset (TA) increases by about 6 times. Both the t-statistic of 3.48 and probability of 0.007 suggest significant relationship between the variables regressed, even at 1% level of significance.

DISCUSSION OF FINDINGS

Generally, the study tested the effect of recapitalization policy (increased in shareholders fund) on key variables used to measure banks performance such as: Profit after Tax (PAT) and Total Asset (TA). The result showed that there is significant relation between the shareholders fund (share capital) and these variables.

The results of the regression for the test of hypothesis 1 and 2 using the data collected for the six (6) selected banks and periods revealed that the recapitalisation of the Nigerian banking industry had impacted positively and significantly on the performance of banks. From table 3 & 4, the calculated F* is 12.14 and 12.30 which are greater than the critical F** value of 5.12 at 5% significant level. Based on the hypotheses tested, the two alternative hypotheses which states that, there is significant relationship between recapitalization policy and profitability of Nigerian banks and that Recapitalization has significant effect on the size and strength of banks in Nigeria were accepted. Therefore, bank recapitalisation policy has positively affected

and significantly improved the bank performances in terms of profitability and size of banks in Nigeria. It is also observed that the unexplained variations in the banks' performance, in the result of the test conducted may include the management ability to use the resources efficiency as well as the level of technology in the bank.

CONCLUSION AND RECOMMENDATIONS

It has been observed from some of the reviewed literatures and research findings on this study that strong capital base strengthened the ability of banks to face the challenges and shocks in the global financial market and to face the competitive banking environments. The Nigerian banks as a result of the recent recapitalization became bigger in terms of size, capability and financial might and thus are able to compete more aggressively in the global market.

Since recapitalization of banks means availability of more funds for expansion and viable investment, it is therefore recommended that, the CBN should therefore, use its regulatory power to increase the minimum capital base of banks to N50 billion in order to stimulate greater efficiency and ensure that the banks still generate sufficient profit for their shareholders. This is in line with Alao (2010), in his study who suggested only three (3) mega banks with recapitalization of N300 billion capital base with two years ultimatum for the banks to complied.

Banks' staff must be well trained to reflect a commitment to leverage new technologies for the benefit of every bank's customers whose needs are sophisticated on daily bases while available level of Information Technology apparatus should be deployed to fashion out more customer support services in order to improve customer patronage.

In addition, management of banks should intensify their efforts to adequately mobilize and allocate the financial resources in the banking industry in order to achieve the desired growth in the economy which is the outcome of any profitable venture.

It is pertinent to further research on effects of the recent capitalization of Deposit Money Bank on liquidity and risk assets of banks in Nigeria.

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