FINANCIAL SECTOR RECAPITALIZATION IN NIGERIA: KEY LEGAL CONSIDERATIONS FOR SUCCESSFUL TRANSACTIONS

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Introduction

Lately, Nigeria's financial services industry has witnessed a significant wave of recapitalisation. Across the banking, insurance and broader financial services sectors, institutions are responding to heightened regulatory capital requirements, evolving prudential standards and increasing competitive pressures by strengthening their capital base and reassessing their strategic direction.

While recapitalisation is often viewed primarily as a financial exercise, its successful execution depends on far more than raising additional capital. It requires careful legal planning, robust governance structures and seamless coordination among multiple stakeholders, including regulators, investors, shareholders, lenders and employees.

Whether implemented through mergers, acquisitions, strategic investments, rights issues or internal restructuring, recapitalisation transactions entail complex legal, regulatory and commercial considerations that can significantly shape their outcome. Institutions that treat recapitalisation as a strategic business transformation rather than merely a regulatory compliance exercise are generally better placed to enhance shareholder value, improve operational efficiency and strengthen market competitiveness.

This article highlights key legal workstreams central to the successful execution of recapitalisation transactions in Nigeria's financial services industry.

Nigeria's Latest Recapitalisation Landscape

Banking Industry Recapitalisation

On March 28, 2024, the Central Bank of Nigeria ("CBN") issued a circular through its Financial Policy & Regulation Department, increasing the minimum capital requirements for all licensed commercial, merchant, and non-interest banks. The circular set a 24-month timeline from April 1, 2024, to March 31, 2026, and established new capital thresholds ranging from ₦500 billion to ₦10 billion, depending on each bank's specific class of licence authorisation and operational scope .[1]

To meet the new thresholds, banks utilised various options, including fresh equity capital, mergers and acquisitions ("M&A"), and licence upgrades or downgrades. According to an official statement by the Securities and Exchange Commission ("SEC"), the banking sector successfully raised a total of N4.65 trillion at the end of the exercise, with 33 banks officially confirming they met the regulatory threshold by the deadline .[2]

[1] Circular No: FPR/DIR/PUB/CIR/002/009; Financial Policy & Regulation Department, Central Bank of Nigeria, 28 March 2024 – a https://www.cbn.gov.ng/Out/2024/CCD/Recapitalization_MARCH_2024.pdf

[2] "Successful ₦4.65 Trillion Banking Recapitalisation: A Test of Resilient Nigerian Capital Market": Capital Market Policy Perspective April 2026, Securities and Exchange Commission – https://sec.gov.ng/documents/1458/SEC_Nigeria_Recapitalisation_Policy_Briefing.pdf

Insurance Industry Recapitalisation

In a circular issued on August 12, 2025, the National Insurance Commission ("NAICOM") introduced a new minimum capital requirement for each licensed operator in the insurance industry. The recapitalisation exercise was triggered by the provisions of the Nigerian Insurance Industry Reform Act of 2025. The new legislation prescribes minimum share capital of NGN10 billion, NGN15 billion, NGN25 billion, and NGN35 billion for life, non-life, composite, and reinsurance companies, respectively, and a shift to a Risk-Based Capital (RBC) framework for the companies. All operators were required to comply fully within a twelve-month period commencing on July 31, 2025, and ending on July 30, 2026 .[3]

As the compliance deadline of July 30, 2026, approaches, insurance and reinsurance companies are adopting diverse strategies to meet the new capital thresholds, including fresh capital injections, divestments, mergers, and strategic repositioning. While some have issued or are issuing rights issues and securing private placements to raise the required funds, others are selling parts of their real estate or equity investment portfolios to raise cash and strengthen their balance sheets. Smaller or undercapitalised firms are pursuing amalgamations to pool resources, reflecting a noticeable industry-wide consolidation effort. Others, with limited capital, are opting to relinquish their composite licences (life and non-life operations) and instead specialise in a single operational category to meet lower capital thresholds .[4]

Capital Market Recapitalisation

Similarly, on 16 January 2026, the SEC issued a circular increasing the minimum capital requirements for regulated capital market operators, including broker-dealers, issuing houses, fund managers, custodians, exchanges, and virtual asset service providers (VASPs). The circular prescribed new minimum capital requirements ranging from N10 billion to N5 million, based on the specific licence category, operational scope, and the nature of each operator – whether individual, partnership, or corporate entity. The circular set a timeline ending on 30 June 2027, within which all affected entities are required to comply with their specific new capital thresholds or face appropriate regulatory sanctions.[5]

Just like the banks and insurance companies, capital market operators have also started taking strategic approaches to meeting the prescribed minimum capital, including fresh fund injections, divestments, and mergers, while there may be others that will consider acquisition offers or license downgrade ahead of the deadline of June 30, 2027, as prescribed in a follow-up Guideline issued by the SEC on March 18, 2026 .[6]

3 "Implementation of the New Minimum Capital Requirement (MCR) prescribed by the Nigerian Insurance Industry Reform Act (NIIRA) 2025": National Insurance Commission, 12 August 2025 – https://naicom.gov.ng/wp-content/uploads/2026/05/NAICOMs-Recapitalisation-Circular-NIIRA-2025.pdf

4 "Insurers face final recapitalisation squeeze ahead of July 31 deadline", BUSINESSDAY, 14 July 2026 – https://businessday.ng/insurance/article/insurers-face-final-recapitalisation-squeeze-ahead-of-july-31-deadline/

5 Circular Number 26-1: "Revised Minimum Capital for Regulated Capital Market Entities", Securities and Exchange Commission, 16 January 2026 – https://sec.gov.ng/documents/1427/CIRCULAR_Number_26-1._Minimum_Capital_Requirements.pdf

6 "Guidelines on Revised Minimum Capital for Regulated Entities", Securities and Exchange Commission, 18 March 2026 – https://sec.gov.ng/documents/1445/Guidelines_on_New_Capital_Base_CMOS_2026.pdf

Key Transactions & Critical Legal Considerations

a) Mergers

When institutions seek to consolidate operations or meet regulatory capital requirements through integration, mergers often offer an efficient solution. Beyond combining assets and liabilities, mergers require careful legal structuring to ensure the transaction achieves its intended commercial objectives while complying with applicable legal and regulatory requirements.

A proposed merger may be achieved through asset acquisition, stock purchase, or by way of a statutory merger. Whatever the case may be, there are tax implications, liability exposure, and regulatory requirements that must be met in accordance with the provisions of the Companies and Allied Matters Act 2020 ("CAMA[7]"), Investments and Securities Act 2025 ("ISA[8]"), Nigeria Tax Act 2025 ("NTA"), Nigeria Tax Administration Act 2025 ("NTAA[9]"), Companies Regulations 2021, and other applicable legislation.

Mergers must also comply with the provisions of the Federal Competition and Consumer Protection Act 2018 ("FCCPA"), particularly those relating to restrictive agreements, abuse of a dominant position, and monopoly. All mergers must be approved by the Federal Competition and Consumer Protection Commission ("FCCPC") .[10]

Successful mergers will typically require sound legal guidance from conception to closing, to reduce execution risks and facilitate a smoother post-merger integration process. Critical areas include:

- designing the transaction structure;
- preparing merger documentation;
- conducting legal due diligence;
- advising on employee transition issues;
- coordinating regulatory approvals;
- managing shareholder approvals; and
- overseeing implementation.

b) Acquisition

Acquisitions continue to offer an attractive route for institutions seeking to expand their market presence, acquire specialised capabilities or strengthen their competitive position. Unlike mergers, acquisitions often require careful allocation of commercial risks between buyers and sellers.

As with mergers, acquisition transactions require clearance and approval from the FCCPC, as well as the SEC where the target is a public company[11]. Where the target entity is in a regulated industry, sector-specific sanctions or approvals will be required. For instance, the acquisition of an entity in the banking industry requires CBN approval. Similarly, the acquisition of an insurance or re-insurance company requires NAICOM approval, while that of a pension operator or a telecommunications company requires approval from the National Pension Commission (PenCom) or the Nigerian Communications Commission (NCC), respectively. The same applies to operators in other specialised sectors.

7 Section 849 of CAMA requires entities considering merger to have similar aims and objects and for mergers to be executed in line with the terms and conditions that may be prescribed by the Corporate Affairs Commission.

8 See section 141 of ISA: Mergers involving public companies require SEC's approval-in-principle and are governed by SEC regulations.

9 There are transactional taxes applicable to mergers in line with the NTA and NTAA.

10 See section 93 of FCCPA.

11 Section 142(1) of ISA.

There are statutory requirements that acquirers and target entities must consider. For instance, when an acquirer proposes to acquire 30% of the shares of a public company, it shall make a Mandatory Takeover Bid to the target[12]. There are also legal, tax, and financial due diligence that must be carried out to ensure successful acquisition transactions. This will expose risks relating to existing or potential litigation, employment disputes, intellectual property claims, and any other risks in a proposed acquisition. Generally, asset purchases are liable to specific taxes, including capital gains tax and stamp duties.

Effective legal advice helps ensure that investors acquire not only valuable assets but also a clear understanding of the liabilities and obligations that come with them. Key areas include:

- reviewing target companies;
- identifying legal and regulatory risks;
- negotiating acquisition agreements;
- advising on representations, warranties and indemnities;
- structuring completion arrangements; and
- facilitating post-acquisition integration.

c) Restructuring – License Upgrade/Downgrade

As stated earlier, a licence upgrade or downgrade is an allowable option for Nigerian banks, insurance companies and capital market operators to meet statutory minimum capital requirements. The entities can achieve this by requesting a licence upgrade or downgrade from their respective primary regulators. This allows them to align their minimum required capital with their financial capacity.

License upgrade or downgrade begins with the formal submission of a board-approved implementation plan, after which the sector-specific regulator will grant an Approval-in-Principle. For a bank, insurance company or capital market operator, approval from CBN, NAICOM and SEC is required, respectively. In some sectors, qualifying capital may be restricted strictly to paid-up share capital, share premium and retained earnings, while reserves are excluded.

Alterations to the Memorandum and Articles of Association (MEMARTS) or changes in share capital resulting from a licence downgrade or upgrade require notification to the Corporate Affairs Commission (CAC) by way of statutory filing. It is important to note that a downgraded bank must continue to comply with the specific Cash Reserve Ratio (CRR) threshold applicable to its new licence category in line with relevant CBN Guidelines.

For publicly listed banks, insurers or capital market operators, restructuring requires compliance with the ISA, and there should be timely shareholder communication of the change.

Sound legal guidance is necessary to achieve a successful restructuring, particularly in managing transition risks associated with the change in operational scope.

12 See section 142(4) of ISA.

Choosing the Appropriate Structure

In any case, not every recapitalisation exercise requires a merger or an outright acquisition. Depending on the parties' commercial objectives, institutions may consider alternative structures such as strategic alliances, joint ventures, holding company arrangements, asset transfers or business carve-outs.

Selecting the appropriate transaction structure requires careful consideration of regulatory requirements, tax implications, governance arrangements and operational efficiency. The legal structure adopted at the outset often determines the transaction's long-term success.

More than Securing Additional Funds

Successful recapitalisation is not simply about meeting new regulatory capital thresholds; it is about positioning financial institutions for stronger governance, sustainable growth, operational resilience and long-term competitiveness.

At the heart of every recapitalisation exercise lies the need to strengthen an entity's operational capability. Capital may be raised through various mechanisms, including:

- rights issues;
- private placements;
- public offerings;
- strategic equity investments;
- preference shares; or
- other capital instruments permitted by applicable regulations.

Legal advisers support these transactions by preparing offering documentation, advising on disclosure obligations, ensuring compliance with securities regulations, coordinating shareholder approvals and managing the transaction closing.

A carefully planned capital-raising exercise not only meets regulatory requirements but also enhances investor confidence and supports future business growth.

Due Diligence – Understanding Risks before Commitment

Comprehensive due diligence remains one of the most critical aspects of any recapitalisation transaction. Before significant investments are made or businesses are combined, investors and financial institutions must fully understand the legal, regulatory and commercial risks associated with the transaction. A robust legal due diligence exercise typically examines:

- corporate records and governance;
- regulatory compliance;
- litigation exposure;
- contractual obligations;
- employment matters;
- intellectual property;
- tax liabilities;
- data protection compliance;
- anti-money laundering controls; and
- material commercial risks.

Shareholder Arrangements – Establishing Effective Governance

Recapitalisation frequently brings in new investors, alters ownership structures and reshapes governance dynamics. Clear and comprehensive shareholder arrangements are therefore essential to maintaining stability and protecting stakeholder interests. These arrangements commonly address matters such as:

- board composition;
- voting rights;
- reserved matters;
- dividend policies;
- transfer restrictions;
- minority shareholder protections;
- exit mechanisms; and
- dispute resolution procedures.

Well-drafted shareholder agreements reduce uncertainty and establish a solid governance framework for future decision-making.

Managing Regulatory Approvals

Financial institutions operate within one of Nigeria's most heavily regulated sectors. Recapitalisation transactions frequently require approvals, notifications or no-objection letters from multiple regulators, depending on the transaction's nature and structure. Legal advisers coordinate regulatory engagement by:

- preparing applications;
- advising on statutory requirements;
- managing regulatory timelines;
- responding to regulatory queries;
- coordinating stakeholder communications; and
- ensuring compliance with conditions attached to approvals.

Early and proactive engagement with regulators often contributes significantly to successful transaction execution.

Emerging Considerations

While the legal workstreams discussed above remain fundamental, today's recapitalisation transactions are increasingly shaped by broader strategic considerations. Boards of entities in the financial sector should also evaluate:

- Corporate governance arrangements following the transaction;
- Competition law implications;
- Tax efficiency;
- Environmental, Social & Governance (ESG) commitments;
- Technology integration;
- Cybersecurity risks;
- Data protection compliance; and
- Cultural integration following business combinations.

Addressing these issues early can significantly improve post-transaction performance and reduce implementation challenges.

Looking Beyond Compliance

The current recapitalisation exercise should not be viewed solely as a response to regulatory requirements. For many institutions, it offers a unique opportunity to rethink business strategy, strengthen governance, modernise operations, attract long-term investment and reposition themselves in an increasingly competitive financial services industry.

Achieving these objectives requires more than financial engineering. It demands thoughtful legal structuring, comprehensive due diligence, effective stakeholder engagement and careful navigation of an increasingly complex regulatory environment.

Institutions that integrate legal strategy into their recapitalisation planning are generally better placed to execute transactions efficiently, manage risks effectively and maximise long-term value creation.

We Help Clients Navigate the Process

As Nigeria's financial services industry enters a new era of consolidation and growth, institutions that approach recapitalisation strategically – supported by sound legal advice, robust governance and thoughtful execution – will be best placed to seize emerging opportunities and create sustainable long-term value.

At Brooks Partners, we recognise that each recapitalisation transaction presents unique legal, commercial and regulatory challenges. Drawing on our multidisciplinary expertise across finance, tax advisory, employment matters and dispute resolution, we work closely with financial institutions, investors and boards to deliver practical, innovative and commercially focused solutions to clients at every stage of the transaction lifecycle.

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