Paradox of cash scarcity in Nigerian Banks: A review of cash supremacy conception

Dibie Ikechukwu (PhD)
School of Business and Management Technology
Department of Accountancy,
Delta State Polytechnic, Ogwashi-Uku
iykmand@yahoo.co.uk
09035073994

Chinedu-Chiejine Anthonia Nwanneka
School of Business and Management Technology
Department of Accountancy,
Delta State Polytechnic, Ogwashi-Uku
toniaonc@gmail.com
08032976765

Abstract

This study investigates the effect of cash supremacy concept on cash scarcity in Nigerian banks, this study examines the effect of cash supremacy concept on the profitability of Banks in Edo State. A descriptive survey design was adopted while one hundred and ten copies of Research questionnaire were distributed among Bankers. However, eighty seven copies of the retrieved questionnaires were found relevant to the analysis. The result indicated that cash supremacy concept had positive and statistically significant relationship and effect with profitability of Banks at 0-05 level of significance. The study recommends the need for Nigerian banks to adopt a more balanced approach to cash management strategies, to reconcile cash supremacy paradigm with the reality of cash scarcity in Nigerian Banks.

Keywords: Cash, Supremacy, Scarcity, Reconcile.

Introduction

Background to the study

In the Nigerian banking system, cash has traditionally been the dominant medium of exchange, and banks have prioritized cash handling and management to meet customer demands. The concept of cash supremacy over profits has been deeply ingrained in the industry, with banks focusing on maximizing cash reserves to maintain liquidity and meet regulatory requirements at same time. However, in recent years, the Nigerian banking system has experienced a paradoxical trend. Despite the emphasis on cash supremacy, many banks have struggled with cash scarcity, leaving customers frustrated and unable to access their deposited and related funds in Banks. This phenomenon has been attributed to various factors, including: Cash hoarding: Banks have been accused of hoarding cash to meet regulatory requirements, rather than releasing it into circulation for the account holders. Instead they prefer the Point of Sales operators Liquidity management: Banks' liquidity management strategies have been criticized for prioritizing short-term gains over long-term sustainability. Economic uncertainty: Nigeria's economic instability, including inflation and foreign exchange fluctuations, has led to a decline in consumer confidence and a surge in cash demand.

Technological advancements and the increasing adoption of digital payment channels have reduced cash usage, but also created new challenges for banks in managing cash flows. This paradox of cash scarcity in spite of cash supremacy has significant implications for the Nigerian banking system, including: Reduced customer satisfaction: Cash scarcity has led to long queues, failed transactions, delayed payments, frustrated customers and decreased banking sector performance. Cash scarcity has negatively impacted on banks' ability to lend, invest, and generate revenues, economic growth constraints. It has also limited economic activity, as individuals and businesses struggle to access funds to meet there liquidity needs. This study aims to investigate the paradox of cash scarcity in Nigerian banks despite the emphasis on cash supremacy, and explore strategies to address this challenge as a means to promote a more sustainable banking system. Nigeria's banking sector has witnessed a peculiar phenomenon in recent years - a paradox of cash scarcity amidst profits. (Ojo,2 022, p.12) Despite reporting impressive profits, many banks in Nigeria struggle to meet the cash needs of their customers.

This article delves into the underlying causes of this paradox, examining the prioritization of cash supremacy over profits and its implications for the banking industry and the economy at large.(Adeoti,2020,p.34).The cashless policy aims to reduce cash transactions, promote electronic payments, and increase financial inclusion. Nigeria's economy has witnessed significant growth in this area, but cash remains dominant in transactions. (Eze,2021,p.56)

Despite the presumed antecedent benefits associated with of cashless economy such as risks of carrying bulky cash from place to place and other related benefits, several existing literatures have noted that cash transactions in Nigeria at present still dominates electronic transaction. This is as a result of the fact that physical cash tends to be the blood -life of businesses. The widely perception could be linked to the fact that cashless policy appears to be viewed by many as untimely in Nigeria, due to some impending difficulties experienced by Nigerians in making payments and receiving online.(Ani et al, 2024 p:1; Elechi & Rufus ;Andabai &Bina,2019; p:1; 2016 p:16)

Research objective

To ascertain the effect of cash supremacy concept on profitability of Banks.

Research question

To what extent does cash supremacy concept affect profitability of Banks?

Research hypothesis

Cash supremacy concept does not affect profitability of Banks.

2.1 Literature review

2.1.1 Concepts

Concepts of cash scarcity in Nigerian banking system

Several relevant authors have given different notions of cash scarcity in the Nigerian banking industry. For instance Olagunju et al, (2016p:89) termed cash scarcity in Nigerian banks as capital inadequacies, which is capable in inducing bank crises. Another author described cash scarcity as liquidity crisis leading to a scenario in which financial institutions experience a significant shortage of liquid assets, leading to their inability to meet short-term obligations (Okojie, 2023 Dec,14).Cash scarcity in Nigerian banks refers to a situation where there are shortages of cash in circulation, making it difficult for customers and businesses to access physical cash. These scenarios have resulted to so many issues ranging from reduction of economic activity, increased reliance on alternative payment methods as well as decreased confidence in the banking system.(Muhibudeen & Haludu 2018 p.48 ; Gbawae & Tonye 2023 p162)

2.1.2 Concept of cash supremacy over profits

Cash supremacy over profits refers to the idea that having sufficient cash reserves is more important than reporting high profits, as cash is necessary for a business's daily operation and long-term survival Jolaoso, (2023 Feb, 13) noted that people have been finding it difficult to make online payments and transfers. Analysts say the infrastructure to support a digital system is not robust enough. This is because Nigeria as an economy has no sufficient technologies that support easy transformation of cashless economy at present, due to some technical issues yet to be resolve in Nigeria such as suitable payments infrastructure such as some bank applications, suitable regulatory online regulatory framework, adequate power supply, reliable network package. Berry, (2023) observed that cash and profits are different, adding that profit does not equal cash at hand. It is quite possible for an entity to report profits but go out of business. It is also possible. It is also possible for an organization to be profitable and not be able to progress and grow, secure financing or attract investors. Profits are values of earnings left after all expense has been taken care of while cash flows are indication that the net flow of cash into and out of a business. Here are some key points on cash supremacy over profits: Cash is a king, therefore entities are advice to reserve reasonable cash for the survival of their businesses, cash inflow is better when it out ways outflows, cash availability enables investment opportunities , sufficient cash on hand assists surmounts finance storms, cash supremacy guarantees sustainability, cash tends to be lifeblood of any business and adequate cash reserves brings about growth and profitable business operations above all, efficient cash management is crucial for long-term success. Jiang & Shoa ,2020 .p.178 ; Ejiobih et al, 2019 Nason &Patel,2016p.4243)

2.1.3 Concept of profits

Profits are the revenue left over after deducting the costs of goods sold, operation expenses, and taxes from the total revenue. It is a key indicator of a firm's financial performances also it is perceived as one of the most important aspect of business breakthroughs in the world of business .However, profits do not necessarily translate to cash as firms can be profitable and yet experience cash crunch (Berry,2023 Otc 29) Empirical studies have shown that macroeconomic variables such as GDP growth rate , interest rate and trade can significantly impact bank profitability .One of the basic questions that triggers in the mind of researchers and other professionals is to decode reasons why entities generate differing profits. (Arbelo et al, 2021 p: 115)Key points about profits include: Profits do not equal cash; profits can be misleading, implying that an entity can report high profits but still encounter liquidity problems.

2.1.4 Causes and consequences of cash scarcity in Nigerian banks

The current cash scarcity in the Nigerian banks began in 2023, specifically in February, 2023, when the Central Bank of Nigeria (CBN) introduced the redesigned naira notes and implemented a cash withdraw limit policy (₦500,000 and ₦3000,000) for individuals and corporate bodies respectively**.(**Punch, 2024**)** The causes of cash scarcity in Nigerian Banks include the following: Inadequate cash flow management, low liquidity to meet entities financial obligations, high demand for cash, as a result of unexpected increased cash demand, Economic downturns, decrease in credit availability from lenders , relatively high inflation rates, political instability ,bank failures, reduced employment, job losses and unemployment, supply chain disruptions, reduction in economic activities and increased risk of bankruptcy (Jiang, & Sheo, 2019 p:19; Freedman,2000 p:213, Lagos & Wright; 2005 p:464; Monye, 2024. p.1)

Consequences of cash scarcity are: Downsizing the entities business operations, delayed payments, increased debt, reduction in investments, bankruptcy. Egwuatu et al , (2023p:516) established that cashless economy does not imply that there would not be physical cash rather, it defines a system where there are very few cash transactions and greater percentage of card and data transactions. Bank usually place limit to the amount of cash to be given to a particular customers, irrespective of the amount of money the customer has with the bank. The alternative, which is the Automated Teller Machine, (ATM) has not been efficient in Nigeria since its inceptions as a result of technical and managerial challenges. Egwuatu et al ,2023, p: 516; Ejiobih et al, 2019.1299)Therefore, customers are compelled to incur extra costs on their deposited cash through POS terminal services, since they no longer access their cash as usual

2.2. Underpinning theories

There are several theories that provide insights into the paradox of cash scarcity in the face of cash supremacy conception. These theories include Inventory management theory, liquidly preference theory and Institutional theory etc. These theories highlight the complexities of cash management and the various factors influencing cash availability. However, the underpinned theory for this study is the theory of Inventory management propounded by Thomson Whitin and Scarf , in 1960.This theory of inventory management posits that Banks manage their cash holding to minimize costs and maximize benefits. In context of Nigerian banks, this theory tends to explain the paradox of cash scarcity despite the supremacy of cash concept, Nigerian banks prioritize cash management to minimize costs and maximize benefits, leading to cash scarcity. It highlights the practical considerations of cash management in the face of economic uncertainty and limited access to credit, reconciling the paradox of cash scarcity in Nigerian Banks. Reason for the choice of this theory is that it has better theoretical disposition that explains the assertion and what plays out in Nigerian banking industry at present (Baraka &Yadavalli,2022.p15; Sanyal ,2019.p.2; Sakaguchi, 2020.p.976)

Liquidity preference theory (LPT)

Liquidity preference theory states that individual and businesses tend to prefer liquid assets like cash, due to uncertainty and risk aversion. In the context of Nigerian banks, LPT explains the paradox of cash scarcity despite the supremacy of cash concept as. In defiance of the supremacy of cash concept, Nigerian banks prioritize liquidity and risk management leading to a preference for cash holding, resulting in cash scarcity. LPT highlights the importance of liquidity in uncertain environments, reconciling the paradox of cash scarcity in Nigerian banks. Baraka &Yadavalli, 2022.p.15)

Institutional theory

Institutional theory was propounded by John Mayer and Brain Rowan in 1970s. This posits that institutions such as laws, regulations and social norms, shape economic outcomes. In the context of Nigerian banks, this theory explains the paradox of cash scarcity in the face of the cash supremacy concept. In spite of the cash supremacy concept, Nigerian banks operate within an institutional framework that prioritizes cash holdings due to regulatory, legal, and social factors, resulting in scarcity. The institutional theory highlights the role of institutions in shaping economic outcomes, reconciling the paradox of cash scarcity in Nigerian banks. Sakaguchi, 2020.p.976; Eldomiaty et al ,2020.p.218)

2.3 Empirical review of cash scarcity in Nigeria banks despite cash supremacy concept

A scenario where an entity lacks adequate funds to operate successfully that should be a red flag for potential bankruptcy. However, this is a desired policy of the central bank of Nigeria to attain a cashless economy. Japhet et al ,(2024 p:31) researched on cash crunch and the Nigerian economy , it observed that data from the Central Bank of Nigeria indicated that between October 2022 and February 2023, ₦ 2.3 trillion was withdrew from circulation due to CBN efforts to implement its desired policy . This resulted to naira crisis and Nigerians were buying naira with naira at an exorbitant costs through the services of Point of Sale (POS) . The outcome was untold sufferings and hardship on the Nigerian citizens. Some of these policies have potential to address economic quagmire, but because in most cases the timing appears to be wrong, it usually ends up creating other economic issues. Therefore any economic policy that is not well targeted in terms of timing and implementation has potential to multiply the existing economic difficulties in the country. Some studies noted that Nigerian informal sector is cash-based therefore cash shortages tend to suffocate trade volumes especially in the rural areas. (Japhet et al 2024 p:31; Ani et al, 2024 p;2).

According to the World Bank collection of development indicators, the percentage of total rural population in Nigeria in 2022 is 46.48% This group of people are majorly small scale producers who would always want cash for their transactions to avert any trouble associated with electronic banking systems. Those in cities are now left with the option of patronizing the POS terminal not minding the extra costs as a result of pressures. The empirical review on the above subject indicate that there is a mismatch between CBN policy implementations and the cash supremacy conception, which this study aims to address as it affects bank customers, Nigerian banks and the economy at large.(Jiang & Sheo,2020.p177; Ajibola et al ,2020.p.2).

This study therefore hypothesized that::

H1: Cash Supremacy Concept has a significant effect on Profitability of Banks in Edo state.

Methodology

This study adopts a case study research design as it focuses only on Banks. The quantitative research method was used as data were collected using a structured questionnaire distributed to the selected Banks. As noted by Feagin, Orua, and Sjoberg (1991), Tarurhor and Osazevbaru (2019), and Tarurhor (2021), justify the use of case study, as helping researchers to have an in-depth and holistic investigation of their study. A total of one hundred and ten copies (110) of questionnaires were distributed to targeted Banks used in the study. Ninety-two copies were returned, out of which five copies have about 15 percent missing information (data) and four copies had about 6 percent missing data. In line with the studies of Hair, Black, Babin, and Anderson (2010), Tarurhor and Amahwe, 2022 and Aruoren and Tarurhor (2023), those retrieved copies of questionnaires having missing information of about 15 % were not used for this analysis as they exceed the benchmark of 10%. Thus, the study uses a total of 87 copies of the questionnaires, which comprises 83 with complete data and 4 copies having only about 6% missing data.

Model specification

The study adopts a regression model approach to ascertain the effects of cash supremacy concept on Profitability of the Banks.

$P = f(CSC)$

$P = \beta 0 + \beta 1\ CSC + €1$ ………1

Where P = Profitability; CSC = Cash supremacy concept; β0 = Constant term; β1 = Regression coefficients; €1 = Error term

Results

The mean value of cash supremacy concept as shown in Table 2 is 4.42; this implies that CSC has a high effect on Profitability of Banks in Edo state. Observations and maximum values cannot exceed the retrieved useful questionnaires and the measurement scale respectively in the results of any study. In this study, the total observation is 87, which agrees with the total useful retrieved questionnaire received from the respondent as indicated in the methods in subsection 3.0. In the same vein, the maximum value is 5, which is in agreement with the 5 point Likert scale measurement used.

Table 2

Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
P	87	3.7241	0.6099	1	5
CSC	87	4.4195	0.3745	1	5

Source: Researchers' compilation, 2025

Table 3 reports the relationship between sales and cash crunch. Results show a positive and weak relationship between both variables with r = 0.2093. Implying that cash crunch has affected Profitability of Banks in Edo state. This study supports the studies of Hafalir and Loewenstein (2009) and Rewane (2023).

Table 3

Correlation Analysis

Variables	P	C
P	1.0000	
CSC	0.2093*	1.0000

Source: Researchers' compilation, 2025

The Cronbach Alpha result reports a scale reliability coefficient of 0.7882, which confirmed that the study data will not produce a spurious result (Tavakol & Dennick, 2011).

Table 4

Regression results

Variable	CSC
Coefficient	0.3407
R-Squared	0.0438
Adj R-squared	0.0325
F-Statistics	F(1, 85) = 3.89
t-Statistics	1.97
p-Statistics	Prob > 0.0000

Source: Researchers' compilation, 2025.

The regression result in Table 4, establishes a positive and statistically significant relationship between Profit and cash supremacy concept at a 5 % level of significance. Cash supremacy concept in this study accounts for only 4 % of the variances of profitability, signifying that 96% can be explained by other variables that can affect profitability.

4.1 Discussion of findings and implications

Based on the above review of previous studies and related articles, this study found that: We found that there is a positive and significant relationship between profitability and Cash supremacy concept.

4.2 Conclusion

On the basis of the findings we conclude that there is significant and statistically positive relationship and effect between cash supremacy concept and profitability of Banks. Furthermore, the Literature reviewed also revealed that the paradox of cash scarcity in Nigerian banks in defiance of the emphasis on cash supremacy conception is an illusory dominance. While banks prioritize cash handling and management, they struggle to maintain adequate cash level, leading to cash scarcity, cash rationing and shortages. This contradiction highlights the need for a more balanced approach, embracing both cash and digital payment channels. The emphasis on cash supremacy appears to have hindered financial inclusion and digital transformation, resulting in inefficiencies and costs. Nigerian banks as a matter of urgency are encouraged to adopt a more inclusive and innovative approach, investing in digital payment infrastructure and financial education, to address the paradox and making banking services more tenacious, easy and stress free for their customers thereby circumventing practices that could result to winding up out and closure.

4.3 Recommendations

In accordant with above findings, the study recommends that**:**

1. Nigerian banking industry are encouraged to resolve the paradox of cash scarcity in the face of cash supremacy concept by investing in digital payment infrastructures to reduce reliance and dependency on cash transactions
2. Nigerian banking industry are enjoined to expand access to digital banking services for the unbanked populations
3. Banks are encouraged to implement a more efficient cash management approach to minimized cash rationing
4. Nigerian banking industry are admonished to embrace innovative technologies to have a sustainable banking system that can compete with other sophisticated banks globally

References

Adeoti, J. (2020).Cash management and banking efficiency in Nigeria. Journal of African Business, 21 (1), 34-47

Adu, C.A.(2016) Cashless policy and its effects on the Nigerian economy. European Journal of Business, Economics and Accounting 4 (2), 81-88

Ajibola, O.I, Udoette.U.S., Muhammad,A.R., & Anigwe, O.J. (2020) Currency substitution and exchange rate volatility in Nigeria: An Autoregressive distributed lag approach. CBN Journal Of Applied Statistics, 11(2), 1-28

Arbelo, A., Arbelo-Perez, M. & Perez-Gomez, B (2021) Profit efficiency as a measure of performance and frontier models . A Resource –Based Via BRO Business Research Quarterly 24 (2),114-125

Ani, J.I., Ajaiyi-Ojo & Batisai, K.(2020) Financial Scarcity, Psychological well-being and perceptions: An evolution of the Nigerian currency redesigns policy outcomes. BMC Public Health 1-3

Andabai, W.P Bina, P.A (2019) Impact of cashless policy on deposit money bank performance in Nigerian (2000-2018) Open Access Journal system 1, 2

Berry, T.(2023) The difference between cash and profits. Bplans , Oct 29th 2023. https:/www.bplans.com>cash flow

Egwuatu, K.O., Sebastian E.D. Igwe.A.A. (2023) Assessment of cashless policy implementation in Nigeria: Prospects, and challenges. International Journal of Multidisciplinary Research and Growth Evaluation 4 (3) 557-522

Ejibih,C., Oni, A.A., Ayo, K.C., Bishung.,J.,Ajibade, A., Koyejo,O., &Olushola ,A. (2019,May 6-8) Empirical review of the challenges of the cashless policy implementation in Nigeria: A cross-sectional research. Journal of Physics : Conference on Science Sustainable Development presented at 3rd International conference :1299 May ,2019. Center for Research, Innovation and Development . Covenant University, Canaan Land Ota Nigeria

Eldomiaty, T., Hammam, R., & El Bakry, R. (2020). Institutional determinants of financial inclusion: evidence from world economies. International journal development issues, 19(2) 217-228.

Elechi, C., & Rufus, A. (2016) Cashless policy in Nigeria and its socio-economic impacts. Public Policy and Administration Research 6 (10), 15-22

European Scientific Journal, June ,(2018) Cashless banking in Nigeria: Challenges, benefits and Policy implications. European Journal, June 2018 . 8, 12

Eze, C.E.(2021) .The impact of cash supremacy on banking operations in Nigeria. International Journal of Financial Studies, 9(2), 56-71.

Freedman, C. (2000) Monetary policy implementation: Past, present and future- will electronic Money lead to eventual demise of central bankrupt. International Finance Journal 3(2) ,211-277

Gbarador, M (2023) The effects of cashless policy on economic growth in Nigeria: An Autoregressive distributed Lag approach. Asian Journal of Economics, Business and Accountancy 23 (6), 22-31

Jiang, J. H., &Sheo, E (2020) The cash paradox: .Journal of Review of Economic Dynamics, 36,177-179

Jolaoso, S. (2023) Nigerians naira shortage: Anger and chaos outside banks, News Briefings BBC News, 13 February, 2023

Lagos, R.,& Wright, R. (2005) A unified framework for monetary theory and policy analysis. Journal of Political Economy 113 (3), 463-484

Muhibudeen, L. & Haludu A. (2018) The impact of cashless policy tools on money circulating outside Nigerian Banks. International Journal of Business Economics and Law 8 (3),47-52

Monye, E.,(2024). *Why Nigeria's controversial Naira redesign policy hasn't met its* Objectives CEIP: Carnegie Endowment for International Peace. United State of America, retrieved from https://policycommoms.net/artifacts/11303412/why-nigerias-controversial-naira-redesign-policy-hasn't-met-its-objectives/12188898/on22Jul2024,CID:20.500.12592/q2bvw2j.

Muotolu, C.P . & Nwadialor, E (2019) Cashless policy and financial performance of Deposit money banks in Nigeria. International Journal of Economics, Business 3 (4), 465-476

Nmorsi, J., Nkechukwu, G.C. & Asigwu, H. (2024) Cash crunch and the Nigerian economy International Journal of Management & Entrepreneurships Research 6 (1) 30-45

Ojo, J.A. (2022). The paradox of cash supremacy in Nigerian banks. Journal of Financial Studies, 27(1), 12-25.

Okojie, J. 2023, Decembers ,14) Naira scarcity frustrates Nigerians, worsens cost of living" Business Day .https://businessday.ng

Sakaguuchi, A. (2020) .On the institutional theory of money: Learning from J.R Commons, Institutional economics. Journal of Economic Issues 54 (4), 975-986

Sanyal, K.R. (2019) Liquidity preference theory of interest (Determination of O.J.M Keynes1-7 Why money Scarce again The Nigerian (Punch Newspaper, January 10th ,2024)