

NIGERIA: PENSION FUNDS, INSURANCE COMPANIES AND THE CHANGED EQUITY MARKETS

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Outline



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- ❑ Nigerian Public Insurance Companies
- ❑ Nigeria Pension Fund Companies
- ❑ Nigeria Government Policies Affecting the local Financial Markets
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Introduction

- ❑ Insurance companies and Pension Fund Administrators (PFA) are custodians of long term assets;
- ❑ However the young PF industry in Nigeria has seen significant growth in 5 years while insurance asset expansion remains tepid in comparison;
- ❑ PFs and Insurance companies continue to have similar profile and focus: mobilizing/allocating resources to high yield long-term investment instruments in order to honor their short-term cash obligations;
- ❑ Common requirements: market stability, reduced risk, liquidity and regular income streams;
- ❑ Convergence – tapping into the PF opportunity and navigating the new investment terrain (electronic markets).

Nigeria Public Insurance Companies

Capitalization comparison (Billions)			
	F CFA	Nairas	US \$
Insurance companies (30)	447	140	1
Banks (21)	9 789	3 063	20
Total Market Capitalization	27 341	8 554	57

Key Public Insurance Companies



- GTA Assur (Affiliated with GT Bank)
- Custodian and Allied
- Continental Reinsurance
- African Alliance Insurance
- Unity Kapital Insurance
- Cornerstone Insurance (51% owned by [ACA])

Nigeria Pension Fund Administrators

Pension Funds Industry (Billions)			
	F CFA	Nairas	US \$
PFAs (25)	6	1 900	13

Pension Funds Industry	
PFA Assets as % of Market Capitalization	22%
PFA Assets as % of Bank Capitalization	62%
PFA Assets as % of Insurance Capitalization	1357%

- ❖ Launched in 2006;
- ❖ 5 millions of pensioners today.

Key Pension Fund Administrators



- Stanbic IBTC Pensions
- Legacy Pensions
- Leadway Pensions (Affiliated with Leadway Assurance)
- First Guarantee Pensions
- ARM Pensions

Govt Policies Affecting the Financial Sector

- ❑ Banks required to divest of non banking properties – insurance, brokerage, investment banking, etc;
- ❑ Passing of the Pension Act in 2006. Recently Pension Fund investment guidelines were modified to allow limited exposure to broader range of instruments;
- ❑ Companies bidding for government contracts required to be registered with a PFA and showing evidence of compliance with act;
- ❑ Establishing the AMCON;
- ❑ Introduction of Margin Guidelines – limiting bank exposure to 10% of portfolio and introduction of a margin list.

The Nigeria Equity Markets in Recent Years

DATE	No of Deals	Total Volume	Trading Value (US \$)	Market Capitalization(US \$)
TOTAL 2005	1,027,999	26,889,116,883	1,719,651,881	16,418,303,920
TOTAL 2006	1,365,520	36,668,162,449	3,102,183,878	27,502,499,634
TOTAL 2007	2,544,364	135,610,795,996	13,447,985,397	66,234,827,484
TOTAL 2008	3,472,207	186,804,323,565	15,154,721,108	45,266,450,885
TOTAL 2009	1,725,340	101,288,321,161	4,616,003,730	32,461,842,209
TOTAL 2010 1/	1,919,294	93,488,044,182	5,239,449,382	51,488,303,348

The Nigeria Equity Markets in Recent Years

Comparative Trading Profile of the Nigeria Equity Markets

	2011	2010	2000	
	5 weeks			
Traded Volume (M)	12,300	93,488	4,718	
No of Investor Accounts	4.6	4.6	<.6	m
Average Daily Transactions	0.17	1.919	0.26	m

The Nigeria Equity Markets in Recent Years



Market Situation

- ❑ Market peaked in 2008 at N 12.640 trillion. Subsequently collapsed to the current N8.612 trillion (cushioned by DCE[N2.0t]);
- ❑ 2010 was the first positive change in the ASI at +18.9% since then;
- ❑ **Market collapse partially caused by excessive/unregulated use of margin loans;**
- ❑ AMCON recently disclosed that margin loans represent 40% of bank NPLs amounting to as much as N414 (USD2.7) billion in its first phase of asset repair;
- ❑ Became clear that systems and understanding of the margin activity was inadequate from an operator, financier and regulator perspective;
- ❑ SEC/CBN introduced Margin Guidelines in 2010 to address this. The guidelines are a set of 27 rules to address various aspects of margin transactions;
- ❑ Rules 22A/B introduce a margin list which is meant to be at the heart of margin activity. The rule also mandates SEC to produce the list.

What is the Margin List?

- ❑ A set of listed companies that meet the criteria in rule 22 of the guidelines;
- ❑ These companies would be used to determine “margin credit”;
- ❑ Determination of “margin credit” being different from “trading on margin”;
- ❑ Based on principle that only the most liquid companies should be allowed to be used to determine margin credit provided the company is not on the exclusion list;
- ❑ Prior to the issuance of Margin Guidelines all securities irrespective of liquidity/trading history were allowed to be used in determining margin credit;
- ❑ Margin list to be provided by SEC and published jointly by SEC/CBN.

Data Requirements

Required Data, Sources and Associated Criteria		
Data	Source	Affected Criteria
Daily Volumes	Official List (Nigeria Stock Exchange)	3 month and 10 day average trading volume
Shares outstanding	Annual reports (Registrars, brokers, Companies, etc)	Market Capitalization
Market Price	Official List (Nigeria Stock Exchange)	Daily Market Price Market Capitalization
Trading History	Official List (Nigeria Stock Exchange)	Evidence trading more than 12 months
Sector	1. Official List (Nigeria Stock Exchange) 2. Annual reports (Registrars, brokers, Companies, etc)	Exclusion of Banks

Importance of the List



- ❑ First use of capital markets data/meta-data to identify and track the profile and scale of companies;
- ❑ Could be a platform for developing stock indexes (NSE-30 created in late 2008);
- ❑ PFAs and Insurance companies investing in public companies will benefit;
- ❑ An index focused strategy more likely drawing from companies on the list;
- ❑ Market stability will improve while reducing the risk from margin activity.

Broadstreetlagos.com

The screenshot shows the BroadStreetLagos.com website in a Windows Internet Explorer browser window. The browser's address bar shows the URL <http://www.broadstreetlagos.com/index.php>. The website's header includes the logo and navigation menu. The main content area is divided into three columns: Market Summary, Top Stories, and Top Volume Stocks.

Market Summary

Nigeria Africa US Europe Asia

NSE-ASI 26,763.84 Feb 04 -131.51(-0.49%)↓

Total Volume for Day 347,347,442

Average Trailing Price to Earnings 45.74

Average Trailing Price to Book Value 4.66

Average Trailing Dividend Yield 5.23%

Top Stories

Zimbabwe: Tobacco Output to Reach 150 Million Kilogrammes - TSL

ZIMBABWE'S tobacco output is expected to surge further during the 2011 season after notching significant gains in the last season, a listed tobacco concern has revealed. [Read Full Story](#)

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Uganda: Investors Need Incentives to Join Stock Market [Read More](#)

Zimbabwe: Tractive Power Poised for U.S.\$43 Million Turnover [Read More](#)

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Top Volume Stocks

Symbol	Name	Last Trade	Volume
PHB	Bank PHB PLC	2.22 Feb 04	67,258,851
FIN	First Inland Bank PL	1.17 Feb 04	47,197,224
ZEN	Zenith Bank PLC	15.70 Feb 04	33,874,647
UHS	Union Homes Savings	0.90 Feb 04	16,572,284
FBN	First Bank of Nigeri	15.20 Feb 04	16,232,444
OCB	Oceanic Bank PLC	3.55 Feb 04	15,476,926
ICB	Intercontinental Ban	2.84 Feb 04	14,033,669
GTB	Guaranty Trust Bank	19.58 Feb 04	12,411,383
ABL	Access Bank PLC	10.70 Feb 04	11,884,206
JAP	Japaul Oil and Marit	1.75 Feb 04	9,537,550

[View All Volume](#)

Top 10 Losers

Broadstreetlagos.Com: Sector Profile

The screenshot displays the website 'Broad Street Lagos' in a Windows Internet Explorer browser. The address bar shows the URL 'http://www.broadstreetlagos.com/sector.php'. The page layout includes a search bar, a 'List of Sectors' menu, and an advertisement for ASSUR Asset Management Limited. The 'List of Sectors' menu is expanded to show various industry categories.

Find Companies by Name
Search

Equity Tools
▶ Sectors
▶ Registrar Offices
▶ Equity Screener

ASSUR
FIXED INCOME | EQUITIES | PROPERTY
Assur Asset Management Limited
A subsidiary of Guaranty Trust Investments plc
www.assuram.com

List of Sectors

- ▶ Agriculture/Agro Allied
- ▶ Airline Services
- ▶ Automobile and Tyre
- ▶ Aviation
- ▶ Banking
- ▶ Breweries
- ▶ Building Materials
- ▶ Chemical and Paints
- ▶ Commercial Services
- ▶ Computer and Office Equipment
- ▶ Conglomerates
- ▶ Construction
- ▶ Engineering Technology
- ▶ Food Beverages and Tobacco
- ▶ Fisheries
- ▶ Hotels and Tourism
- ▶ Industrial Domestic Products
- ▶ Insurance
- ▶ Leasing
- ▶ Machinery (Marketing)
- ▶ Maritime
- ▶ Media
- ▶ Mortgage Companies
- ▶ Other Financial Institutions
- ▶ Packaging
- ▶ Petroleum (Marketing)
- ▶ Printing and Publishing
- ▶ Real Estate
- ▶ Real Estate Investment Trust
- ▶ Road Transportation
- ▶ Textiles

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Done | Internet | Protected Mode: On | 100% | Yahoo! Messenger | Google Groups - Wi... | Welcome to Broad... | Margin Guidelines | Mobilink Lite | Microsoft PowerPoi... | EN | 18:06

Broadstreetlagos.Com: Key Statistics

Nigerian Breweries PLC (NBL)

Key Statistics

Valuation Measures

Market Cap	495,755M
Trailing PE	19
Trailing Price to Sales	3.41
Trailing Price to Book Value	13.14

Financial Year

Fiscal Year Ends	31-Dec
Most Recent Quarter	31-Mar-2010

Profitability

Profit Margin	18.00%
Gross Margin	49.00%

Management Effectiveness

Return on Assets	26.00%
Return on Equity	68.00%

Share Statistics

Average Volume (3 months)	2,962,370.00
Average Volume (10 days)	4,223,290.00
Shares Outstanding (M)	7,563M
Float (M)	3,469M
% Held by Insiders	54%

Cash and Share Dividends

Trailing Cash Dividend per share	4.85
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Stock Price History

52 Week Change	33.67%
ASI 52 Week Change	-13.89%
Change for the year	23.68%
ASI Change for the year	22.72%
52 week High	73.00
52 week low	45.75
50 Day moving average	70.29
200 day moving average	60.07

Space for Banner Ad

Broadstreetlagos.Com: Screening Function

The screenshot displays the BroadStreetLagos.com Equity Screener interface within a Windows Internet Explorer browser window. The browser's address bar shows the URL <http://www.broadstreetlagos.com/equity-screener.php>. The website header includes the logo for BroadStreetLagos.com, an "Enter Symbol" search box with a "Get Quotes" button, and a navigation menu with links for Home, About Us, Investing, My Portfolios, NGN Exchange Rates, Contact Us, Advertisers, and SMS Quotes. A user login area shows "Welcome Merrill Lynch" with "View & Edit Profile" and "Sign out" options. The main content area is titled "Equity Screener" and features a "List of Query Options" section with an "Industry" dropdown menu currently set to "Any". Below this is a "Valuation Measures" section with four rows of filters, each with a "Min" and "Max" dropdown menu, all currently set to "Any". A sidebar on the left contains a "Find Companies by Name" search box and a list of "Equity Tools" including Sectors, Registrar Offices, and Equity Screener. The website's logo, a stylized green "B" with "bgl" below it, is visible on the right side of the page. The Windows taskbar at the bottom shows the system tray with the time 13:07 and various application icons.

Summary



- ❑ The investment landscape moved beyond its supporting guidelines, capacities and systems;
- ❑ There may be opportunity in the Pension Fund Management Business for forward looking insurance companies;
- ❑ Divesting from non banking assets by Nigerian banks may present opportunity for entry and further consolidation;
- ❑ There is a space open for professional management of long term assets (active or passive);
- ❑ The use, understanding and interpretation of market data is essential to develop proper investment strategies;
- ❑ Investing in or regulating markets in an electronic age without data or analytics can no longer be effective.



Questions