



# Prospects for Pension Assets in the Nigerian Non-Interest Capital Market Ecosystem

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## 27<sup>th</sup> October 2021

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# Industry Snapshot

9.3m



Industry Registration  
April 2021

¥12.4t



Industry AuM  
April 2021

7.9%



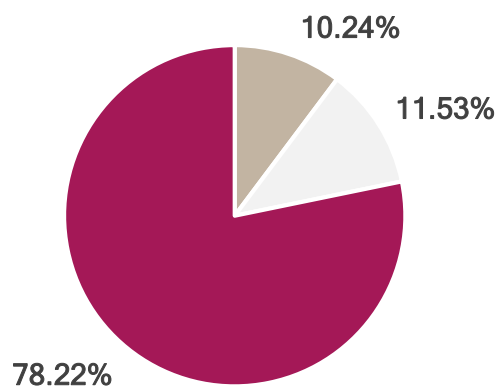
Pension assets % of  
GDP  
March 2021

62%



RSA Funding Ratio  
Dec. 2020

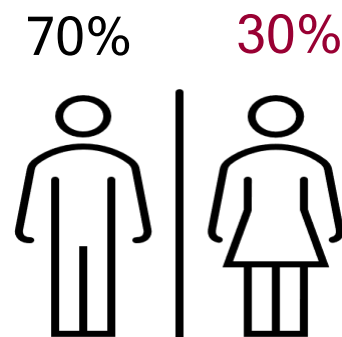
Industry AuM Breakdown



Existing Schemes CPFAs RSA Funds

Gender Distribution

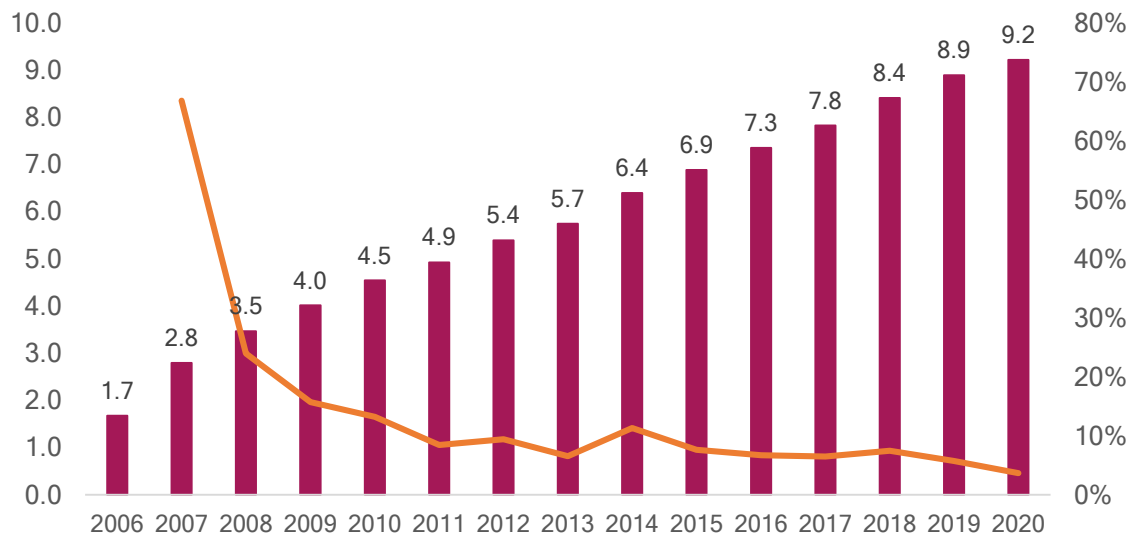
March 2021





# Industry Trends

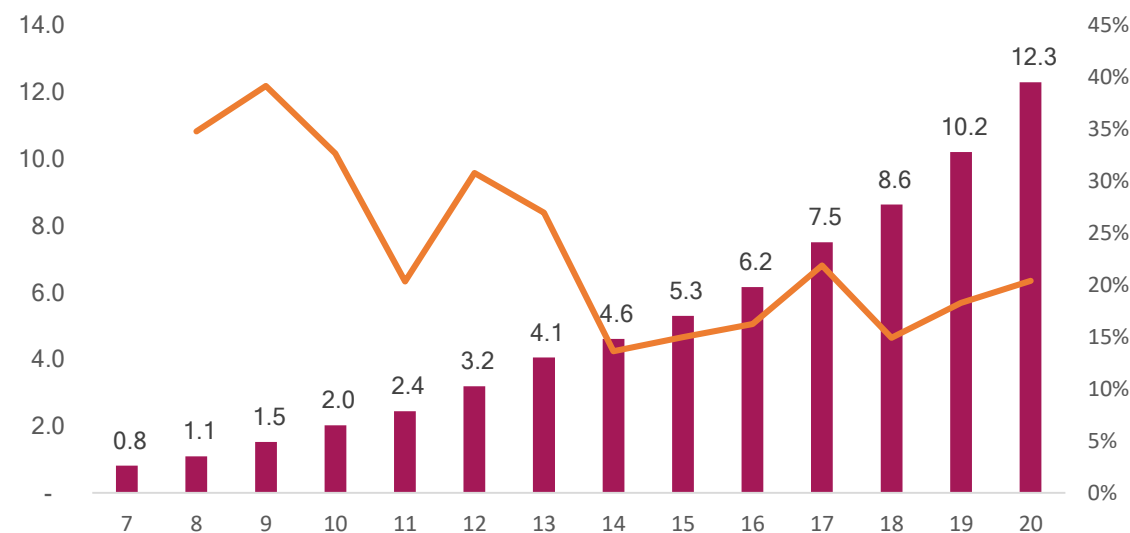
*RSA Registration Trend(m)*



Source: PenCom Data

■ RSA (Million)    — YoY growth

*Pension Assets Trend (NGNtn)*



■ Pension Assets    — Annual Growth

- Pension assets have continued to experience consistent growth in nominal terms
- Industry assets under management have grown at a CAGR of 23% (2007-2020) to N12.3 trillion as at December 2020
- Growth in the number of contributors to the CPS in Nigeria has reduced to an average 5.8% over the past five years compared to an average of 8.7% (2011-2015) and 28.3% (2007-2010) due to slower growth in the labor force in recent years



# Major Industry Developments



## MICRO PENSION SCHEME

Micro Pensions scheme was introduced to extend the pensions scheme to the informal sector.



## MULTIFUND STRUCTURE

The introduction of the multifund structure to cater for contributors' different risk profile and age



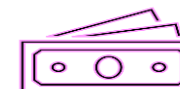
## NON-INTEREST FUND

The introduction of non-interest fund to cater for RSA Holders who desire their savings to be invested in non-interest instruments



## OPENING OF THE TRANSFER WINDOW

The opening of the Transfer Window is driving improvement in service delivery in the industry as operators are striving to improve clients' satisfaction in order to retain existing clients and attract new contributors.

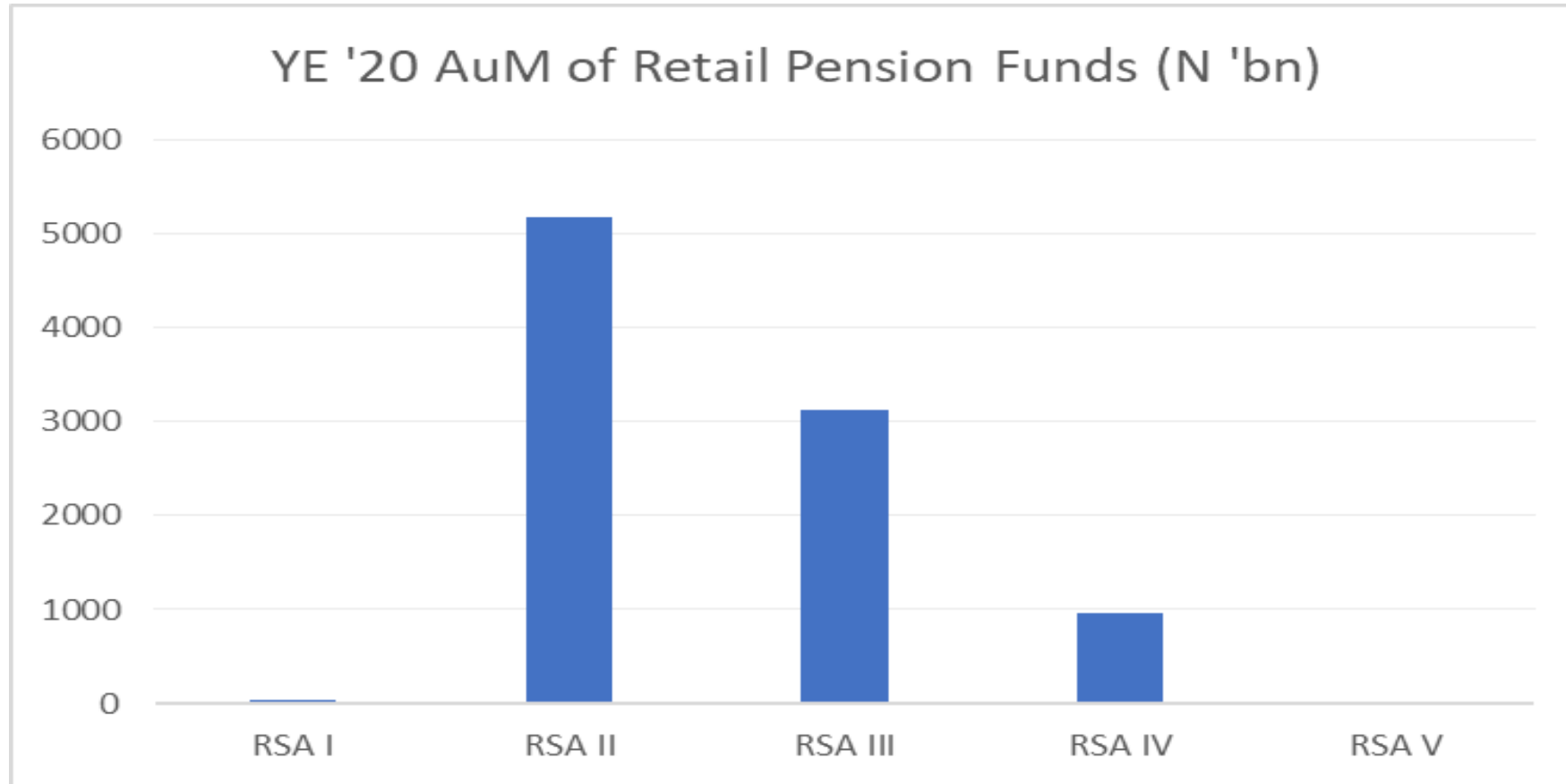


## MINIMUM PENSION GUARANTEE

MPG was introduced to ensure sustainable pensions for vulnerable retirees



# Uptake for Optional/non-default funds have been slow



\*RSA I: N35bn

\*RSA V: N185mn

Source: PenCom, ARMP research



# Challenges

## Low coverage

Only 13.5% of the Labor force are currently enrolled in the Contributory Pension Scheme

## Devaluation risk

Inability to adequately hedge returns against devaluation

## Inadequate awareness

The scheme's benefits and operations as well as distinction between other government schemes that are fraught with challenges still need to be more publicized

Pension Industry

## Negative Real Returns

Delivering real returns has been a challenge due to high inflation

## Non-Compliance by some State Governments

Some states governments have not showed enough political will to implement the CPS

## Dearth of investment outlets for pension assets

There are limited investment options for Pension assets in Nigeria



## Globally, Islamic Pension Funds are still relatively underdeveloped

	Outstanding Value USD 'bn, 2018
Mutual Funds	97
ETFs	9
Insurance Funds	2
Pension Funds	0.37

- Data collection/Integrity Issues
- Poor Institutional Setup of Pension funds in predominantly Muslim countries
- Only 3 pension funds from 2 countries are listed in the global top-300 pension funds (2 from Malaysia and 1 from Kuwait)

### Potential Growth Drivers

- Gradual Conversion of Existing conventional pension funds
- Reform of Social Security System in most OIC member countries
- New awareness of Muslims living in Western developed economies preferring to use Islamic products
- More close alignment between Islamic finance and Sustainable/Responsible ESG investing as these two approaches are quite intertwined





## Fund VI Launch

- Fund VI could fare better than other optional funds launched so far due to the strong value-based intent driving adoption
- The Times UK reported that as many as 30% of Muslims opted out of Workplace pension schemes because of a lack of options that align with their religious principles
- This demonstrates that the fund VI launch is critical as there is no “opt-out” option in the Nigerian CPS
- It is unclear if this could serve as a conversation starter for Segments of the economy that have yet to embrace the CPS and we would have to wait and see for the “financial inclusion” argument to play out (for instance, none of the State governments have cited the lack of a Halal-option as reason for not legislating the scheme in their states)



## Fund VI Launch requires a radical shift in the investment mindset

	Capitalization	Pension Assets	CPS ownership
FGN bonds, N'tn	12.29	7.78	63.3%
Listed Equity, N'tn	21.82	0.85	3.9%
FGN Sukuk, N'bn	362.56	73.8	20.4%

***“The Shariah Plan invests 100% of your money in company stocks and so it carries a higher level of risk than some of our other plans, which invest a higher percentage of your money in bonds that are less risky. This means that there is a higher growth potential over the long term, however you may also see larger ups & downs along the way. Please bear in mind that these short-term ups & downs are to be expected when it comes to investing in the stock market, and are in fact necessary when trying to grow your money over the long term”***

***.....HSBC Islamic Global Equity Index Fund / PenFold***

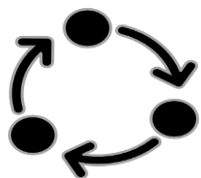


## Fund VI Launch requires a radical shift in the investment mindset

- More reliance on specialist investment vehicles and 3<sup>rd</sup> party providers
- Higher exposure to variable income instruments and equity-type investments
- Clear differentiation in investment strategy and outcomes
- Clear communication to the sell-side and capital markets that non-interest fund should not translate to sub-par returns
- Willingness to back and invest in new product structures and new managers
- Education and Reorientation of Investing Public and subscribers

# Looking Forward

## Expand Coverage



Pursue increased coverage through the newly introduced options and continuous enforcement for compliance

## Capacity Development



Continuous strengthening of the industry's capacity to evaluate and manage associated risk with new kinds of asset classes

## Increased Government Support



Government support needed through legislation, policy and regulation to de-risk investments and drive increased private sector participation

## Promote Diversification



Remove barriers to pension funds efforts to diversify their investments in offshore assets or other alternative assets in search of positive real returns

## Closer Collaboration



Closer collaboration with other regulators to achieve deepened financial markets that is constantly creating new asset classes that can absorb pension assets growth

## Improve Ecosystem Education/Awareness



Deliberate effort to educate and inform the contributing public as well as employers, media, PFA staff, capital market operators etc on mutually beneficial priorities



*We are optimistic that the launch of the RSA fund VI will further catalyze the growth non-interest investing in Nigeria*

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# Thank You

