

5<sup>TH</sup> PENSION FUNDS AND ALTERNATIVE INVESTMENTS AFRICA CONFERENCE



14 - 15 JULY 2022 | MAURITIUS

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## ***SESSION 1***

***THEME: THE REGULATORY RADAR- SEEKING CERTAINTY IN  
UNCERTAIN TIMES***

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## Content

- The Nigerian Pension Industry
- Global Pension Trends
- Global Developments and Impact on Pensions
- Challenges in Developing Suitable Risk Assets for CPS
- Refocusing Regulation

# The Nigerian Pension System

- Defined Contribution (PRA2004/14)
- Licensed Pension Operators: 20 PFAs, 3 PFCs, 6 CPFAs
- AUMN14.2Tr (\$34bn)
- Registered RSAs: 9.62mn
- 50% aged 40 & below

# Global Pension Trends Cntd

- The rise of Defined Contribution increases the need to pay attention to the following:
  - Contributors bear the risk yet have little control
    - The impact of crystalized risk hurts the contributor more than the manager who has significant control
- Pension fund investments tend to be significantly skewed in favour of traditional asset classes:
  - OECD countries had invested, on average, 27.10% of their portfolios in equities, 44% in bills and bonds and 5.4% in Cash and deposits
  - Allocation to this asset class amongst non-OECD countries including African countries like Nigeria, South Africa, Namibia, Kenya etc was 89.65%

# Global Developments

- The Covid-19 created a lot of distortions and slow down in the global economy growth
- The Russia-Ukraine war and its impact on energy and commodity prices
- Central Banks across the globe have adopted tight monetary policy to moderate inflationary pressures
- Flight to Safety – Foreign Portfolio Investors
- International Financial Reporting Standards

# Global Developments...cont'd

- The outcome for EMDEs include:
  - Asset repricing (lowering of asset prices)
  - Increased borrowing costs
  - Deterioration of investor confidence and flight to safety
    - Capital Market depreciation: Nigeria -7.11%; Ghana -14.69%; South Africa -3.26%
  - Foreign exchange pressure and heightened risk of currency crisis
- Monetary authorities across developing and emerging markets have also increased benchmark interest rates to stem inflationary pressures and ensure capital retention/inflow.

# Global Development...cont'd

- Nigeria particularly underperformed its oil producing counterparts due to:
  - Insecurity, Oil theft and its ability to export optimal volumes
  - Huge payments in petrol subsidies made it difficult to derive any benefit from up-swings in energy prices
  - Nigeria still grapples with maintaining its foreign reserves (around USD 40 billion in the last ten from USD 50 billion in 2007-2009
    - Exchange rate depreciated by 25.78% in 2years (NGN/USD: 306.5 as at 31 December 2019 versus 412.99 as at 31 December 2021) (CBN,2022)

# Challenges in Developing Suitable Risk Assets for CPS

- The focus is the alternative asset space but is yet to attract significant pension funds investments due to:
  - Short-term investment behaviour among pension fund managers
    - Partly influenced by peer performance pressure
    - A culture of overtly cautious optimism entrenched by regulation
  - Dearth of suitable investment outlet-
    - Specialist fund managers tend to create investment vehicles from their prism without addressing risk concerns of pension funds
  - Poor investment climate for specialist long-term investment decisions
  - Lack of adequate skills to evaluate potential investment in this asset class



# Refocusing Regulation

- In 2018, the multifund structure was introduced to match the lifecycle risk appetite of Pension Contributors
  - 80% of the most active Funds (I & II) were in Fixed Income
- In 2022, the regulatory provision for private equity investment was expanded to accommodate co-investment structure for pension fund investment
  - Co-investment is also being considered for investments infrastructure funds
- Discussions on offshore investments for Nigerian pensions are approaching advanced stage

# Concluding Thoughts

- Pension systems across Africa are fast evolving from nascence to growth stage, hence regulations must evolve to support orderly growth, development and ultimate objective of capital preservation and real growth
- Regulators should begin to consider safe ways of diversifying country risks via offshore investments and derivative instruments
- Development agenda for regulators should begin to engage with creators of risk asset to ensure that products that make it to the market address the risk concerns of pension funds

**Thank You**