

UNCLAIMED DIVIDENDS: Controversy over transfer to Federation Account



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In this analysis, Nkiruka Nnorom chronicles the efforts made so far to address the mounting unclaimed dividends in Nigeria and why the planned transfer to the federation account should be jettisoned.

Benita Adams is an investor in the stock market. She bought the shares of some companies, particularly in banks during the banking sector consolidation that saw the influx of many Nigerians into the stock market.

However, she lost interest in the market after the economic meltdown of 2008/2009 which rendered most of the shares she bought (including every other share) worthless at the time.

Now, the market is gradually rebounding, but she cares less about the recent development. "I still wonder why I listened to a family friend that talked me into buying those shares. It's not only that the shares I bought were reduced to nothing, but some of the banks in which I had shares were taken over by the government and I lost my entire investment," Benita says. "I have some dividends warrants that were sent to me anyway, but, I do not have the time any more to do anything about them."

Osa Mbonu-Amadi is not an investor, but his father had shares in some of the earliest companies that listed in the stock exchange. "My father had the shares of AG Leventis, BOC Gas, Guinness Nigeria and a few others. I am sure he must have some money in those companies but I do not even understand anything about the stock market to pursue the payment of the money or have the shares transfer to me," Osa says, not understanding the implication of his disinterest in the investment.

Like Benita and Osa, there are thousands of other people that have abandoned their investments in the stock market (some of them, now status-barred) due to either loss of confidence in the market, sheer reluctance to follow few processes to claim the proceeds of their investment which most people consider too paltry to worth their time, disparity in investor's name or even death.

These, among many other reasons, have led to accumulation of the huge unclaimed dividend presently put at over N158 billion now threatening the stability of the stock market, given constant agitation on how to manage the situation.

Efforts to curb rise in unclaimed dividends

Although the authorities in the market have not been 'sleeping' as far as correcting the rising trend in unclaimed dividends is

concerned, their efforts seem not to have yielded enough result.

Over the years, the Securities and Exchange Commission (SEC) working with other stakeholders has come up with various measures, including the introduction of electronic dividend payment system that allows shareholders' dividends to be paid directly into their designated bank accounts. To facilitate this, SEC, along with the Central Bank of Nigeria (CBN) agreed to allow savings account holders to receive unclaimed dividend into their savings account. This particular measure, according to the Institute of Capital Market Registrars (ICMR), has resulted in payout of 92 to 95 percent of declared dividend on the payment date.

The SEC has also mandated separation of the custodian of unclaimed dividend funds into two after 15 months, which entails that fifteen months from the payable date of a declared dividend, 90 percent of the unclaimed portion will be returned to the company that declared the dividend while 10 percent will remain in the custody of the registrars who are the paying agents.

More so, to eliminate the issue of disparity in names, investors who bought shares using multiple names have been authorised to regularise their accounts through their stockbrokers and registrars with valid evidence of purchase.

However, one out of several other measures the Commission has come up with – the idea of establishment of an Unclaimed Dividend Trust Fund – has never been received well in the market. In fact, the mere mention of the Trust Fund has always elicited rancour and controversy among the investors/shareholders, who have succeeded in throwing out the plan on two different occasions.

Planned transfer to federation account

Like the issue of the Unclaimed Dividend Trust Fund, the latest move by the federal government to transfer dividends that have remained unclaimed for up to 12 years to the federation account as federation reve-

nue has incurred the wrath and criticism from shareholders with many questioning the sincerity of government in making the equities market attractive, especially for domestic retail investors.

The shareholders, who see this as dis-incentive to investment in the market, also described it as robbing them of their hard-earned money. For them, the move would only worsen issues for a market that is recording significant rebound for the first time since the 2008 capital market crash.

The proposal contained in the draft 2020 Finance Bill has it that the Unclaimed Dividend Trust Fund to be established by the FG would be managed by the Accountant-General of the Federation and the Director-General of the Debt Management Office from where the dividends would subsequently be transferred to the federation account.

According to the draft 2020 Finance Bill, quoted companies "shall render annual returns of unclaimed dividend in the format prescribed by the Accountant General of the Federation," and the Bill, when in force, would supersede all existing provisions in the Companies and Allied Matters Act (CAMA) regarding unclaimed dividend. Public companies that fail to make transfer of unclaimed dividend in its coffers to the Fund would be held liable to an offence.

Putting state of unclaimed dividend in proper perspective

But the Institute of Capital Market Registrars (ICMR) has indicated that rising unclaimed dividend and other unclaimed funds are not peculiar to Nigeria alone. In Nigeria, as in other countries where electronic dividend payment system is used, unclaimed dividend has continued to rise.

For instance, as at the end of 2019, United Kingdom had an estimated three to four billion pounds (£3-4 billion) in unclaimed dividends across FTSE 100, Australia had about one billion, one hundred Australian dollars (AS\$1.1 billion) in total value of unclaimed dividends, while Nigeria has one hundred and fifty-eight billion, four hundred and forty million naira only (N158.44 billion).

"Using a naira baseline (of N500 to £1, N380 to US\$1, and N260 to AS\$1) to make comparative analysis in terms of unclaimed dividend, the UK has the highest quantum of unclaimed dividend in naira terms at N1.5 trillion followed by Australia at N286 billion, while Nigeria has the lowest unclaimed dividend at N158.44 billion," ICMR said in its report on 'Dimensions of Global Unclaimed Funds and Benefits to Government and Institutions.'

Further findings show that there are only two countries that have records whose unclaimed benefits fall below the trillion-naira threshold and they are Nigeria's unclaimed dividend at N158.44 billion and the US's unclaimed pension benefits of N114 billion. "This indicates that there are unclaimed dividends in Nigeria and unclaimed pension benefits in the US, but they are comparatively insignificant to what obtains in their respective class in other nations and in other classes," the Institute said.

ICMR also explains that between January 2009 and October 2019, N2.41 trillion, representing 94.51 percent of N2.55 trillion declared dividends has been paid out, while N131.37 billion or 5.13 percent of the total declared dividend remained unclaimed, an indication that the effort by the stakeholders to reduce unclaimed dividends is yielding result.

Shareholders' reaction

Shareholders, who are irked by the development, have said that move by the fed-

eral government to take over the fund would not be to the best interest of Nigeria equities market.

Mr. Patrick Ajudua, National Chairman, New Dimension Shareholders Association of Nigeria, posits that the unsolicited attempt in the Finance Bill to set up an agency is uncalled for, an attempt to corrupt the unclaimed dividend, usurp the powers of shareholders and that of the apex regulatory body of the capital market – the SEC.

"The question to ask is why is the government showing much interest in setting up an agency to supervise the Fund, and also trying to cover their unsolicited advice by saying that the intention of the Bill is to remove the barrier of 12 years placed on unclaimed dividend by law?"

"Why is the government crying more than the bereaved? This money belongs to shareholders and as such, only the shareholders would decide on management of their fund. Secondly, SEC, the apex regulatory commission is doing all within its power to address the issue of unclaimed dividend via E-dividend Management Mandate System, addressing issue of identity management as well as working with all stakeholders to address it holistically. So, what is the hidden intention of government," Ajudua queries.

In his submission, Igrbrude Moses, President, Issuers and Investors Alternative Dispute Resolution Initiative (IIADRI), says the government does not have any moral justification to take such step after taking 40 percent in form of tax from the same dividend.

Igrbrude notes that the action is unacceptable, inhuman and would militate against investment in the economy. "The government that wants investors to invest in the economy is the same government that wants to take away the proceeds of such investment through the back door, just because shareholders did not claim it on time. The government has forgotten that it has taken over 30 percent tax from companies that generated the dividends on profit before tax and 10 percent from the individual investors through withholding tax on any dividends declared by companies.

"I am appealing to the National Assembly to reject and expunge in entirety, that section of the Bill because from all intentions and purposes, the Unclaimed Dividend Trust Fund is designed to collect the hard-earned money of innocent Nigerians, otherwise, how do you expect a shareholder with N1,000 unclaimed dividend in Lagos or other part of Nigeria to apply to the Accountant-General and subject to the Minister's approval to claim such dividend? How feasible and economical is such arrangements?"

Final words

Rather than transferring the fund to the federation account, the Institute of Capital Market Registrars says the SEC should insist that every new entrant to the capital market must be fully known and provide all that is required for electronic payment as part of efforts to eliminate the problem of unclaimed funds.

"ICMR should establish a special Depository licensed by the SEC with the responsibility to locate owners of unclaimed accounts or their next of kin and encourage them to activate their claims, take up insurance cover over the funds, and manage the funds which shall remain with the registrars.

"This will become Nigerian model which may be adopted by other countries. ICMR (The special Depository), will have a role in addressing the issue of unclaimed dividend funds by collecting data from registrars, building and maintaining infrastructure frameworks that will help reconnect members with their unclaimed funds so as to solve or lessen the issue of unclaimed dividend/funds on a continuous basis," the Institute says.

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