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THE NEXUS BETWEEN CONTRIBUTORY PENSION FUNDS AND DEPOSIT MONEY BANKS' PROFITABILITY IN NIGERIA

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ABSTRACT: *The issue of pension fund management and how pensioners are being owed substantial amounts at their retirement year is still a rampaging case in Nigeria. Also, many retirees do not understand the dynamics of pension fund management. Hence, the main objective of this study was to investigate how the contributory pension fund has impacted Nigerian bank's profitability. A model was adopted and modified with variables relevant to the course of study like profit after tax (PAT), Pension Funds (PEN) and inflation, and secondary data for each variable was extracted from the banks' financial statement, PENCOM financial statements, and the CBN statistical bulletin. The data was from period 2015Q1 till 2022Q4 and was analyzed by using the multiple regression analysis. The study found out that both pension funds and investment were positively significant. The study thus recommended that all pension firms must be monitored frequently so as to reduce the incidence of fraud.*

KEYWORDS: Pension Funds, Deposit Money Bank, Contributory Pension Funds, Regression.

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INTRODUCTION

It is generally expected in social welfare speculating that an employee who has worked for a relationship for a couple of years is fit for a couple of points of interest, which could be in sort of tip and advantages payable to such laborer by its supervisor at the period of retirement. Annuity is additionally the strategy whereby a man pays into benefits and plots a percentage of his profit during his year of service as a worker. Then again, a tip is a solitary measure of money payable to a leaving officer who has served for a base time of term year, generally ten years (Adam, 2005).

In Nigeria today, the financial sector is seen as an important area of development, especially the deposit money bank (Olurotimi & Isibor, 2024), but this is often faced with a lot of problems in opening a diverse range of opportunities for foreign investors (Olurotimi, Isibor, Ogbebor, & Lawal, 2024). Due to the efficiency and breakdown of the old pension scheme, the banking industry was seen as the backbone of the country and it provided various financial services and gave out long term loans to individuals, firms and even to its home country. Pension is a large pool of money kept for a long period of time for employees after retirement. The funds collected are then used to invest in long term projects and supply to the country with an interest at payback. Prior to the former experiences with the pension system, people do not see any reason why they should keep their money with pension; they rather invest in shares or government bonds and get returns since they are sure of getting their money and some interest as at when due. The funds going into pension are deducted monthly from employees and employers and are diverted into different sections majorly on long term investments. They also deposit in banks and then the banks give out funds to investors so as to yield returns and also to pay back PENCOM (Pension Commission). Banks mostly deal with short term loans because of the willingness to pay back by their debtors. In other words, when banks do not get back their returns from their debtors they will not be able to pay pension back their money and this leads to owing pensioners.

In Nigeria, living day to day after retirement is feared by laborers generally. The dread of facing the future after retirement is very unsettling among representatives, which is why people would rather work even in their old age and claim younger ages so as not to be retired without any means of income. Retirement is seen by specialists as an advancement that could provoke mental, physiological and money related issues (Ogunbameru & Bamiwuye, 2004).

Prior to the commencement of the 2014 pension scheme, the pension industry accumulated assets of $25 billion (Leriba, 2014). In October, 2014, National Pension Commission (PENCOM) said a country's pension assets had hit N4.6 trillion (News Agency of Nigeria (NAN), 2014). Under this contributory pension scheme, workers are ordered by regulation to open a Retirement Savings Account (RSA) with any Pension Fund Administration (PFA) of their choice where funds are deposited from both parties: the worker and his employer.

The recent 2014 Annuity Act, Section (4) (1) says rates at which employees and employers contribute is a minimum of 8% and 10%. Upon the new scheme, it increases the employee's productivity to work, knowing well that their employers motivate and push them to work because of the high percentage of income deposited for employees. The pension scheme in nature is contributory as both the private and public sectors get their retirement benefits at the stipulated date. It was initiated so that employees will store and have a good standard of living after retirement (Sule, 2009). Each employee is expected to keep their portion of

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income with a chosen Pension Fund Administrator (PFA). Right now, there are 24 Pension Fund Administrators (PFA), 6 Closed Pension Fund Administrators and 5 Pension Fund Custodians, and they are relied upon to catch a potential 50 million benefactors.

According to Ojiya (2017), one noteworthy issue confronting the contributory benefits conspire is the lack of speculation (investment) outlets. For example, in Nigeria, we have just eleven classes of speculation accessible for venture of benefit resources, valued at N2,029.77 billion (PENCOM, 2010). There is still uncertainty with regards to the capacity of the plan to take care of the issue of shortage of long-term funds for long term investments. The new frameworks of the defined contributory system were relied upon to supply new venture capital or investment opportunities that will improve the domestic capital markets, be that it may, have needed to confront a constrained cluster of potential investments in the local capital market.

As such, different recipients and would-be retirees that were not well instructed about the errands of contributory annuity plot should be well taught (Omoni, 2013). This has ventured out to the disadvantage of productivity of surrendered local officials, their wards and undeniably on the image of the organization. The whole issue has been evaluated on the disappointment of the governing body to continue keeping up completely financed characterized benefit annuities plot.

According to the contributory scheme, each employee is expected to have a Pension Fund Administration (PFA) of his or her choice which can also lead to risk. Employees due to the mandatory law have to determine who deals with his or her Retirement Savings Account (RSA) and accepts maximum obligations for risk included.

Throughout the years, it appears that accentuation has dependably been upon workers' profitability from associations and administrations for strategic corporate targets without thinking of the human exertion that does the errand either over a span of administration or after retirement. Retirement advantages obviously help retirees to manage themselves when they resign or are very old and unable to do anything.

The new frameworks of the defined contributory system were relied upon to supply new venture capital or investment opportunities that will improve the domestic capital markets, but have needed to confront a constrained cluster of potential investment in the local capital market. In addition, there is an absence of trust in the plan by potential givers emerging from disappointments of past approaches on benefits administration. There was also fear of sustainability of the scheme due to change in government.

The investment environment in Nigeria today is not too favorable, so it affects bank investment. For an investment to be efficient and for creditors to have their full amount of money with interest back, the country has to be favorable and developed, which will attract foreign investors to invest without fear (Isibor, Alexander, Benjamin, Godswill, Adenike, Adedoyin, & Kikiyanu, 2023; Omoni, 2013).

Furthermore, funds invested in banks by pension are not at times recovered; some turn into bad debt as the bank suffers the loss and it affects their profitability and their performance in their services. It also affects PENCOM since they do not get their money back at times and it boils down to pensioners.

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CONCEPTUAL FRAMEWORK

In Nigeria, the annuity scheme was built up amid the provincial time to give improvement remuneration and security to British subjects working in the nation upon retirement. Nigeria's first verifiably definitive instrument on pension matters was the Pension Ordinance of 1951, which had an effect from 1st January, 1946. As at that point, the Nigeria Pension Board (NPB) was wasteful from various perspectives as specialists needed familiarity with the annuity framework and laborer's rights; pension funds and board were inefficiently overseen (Ahmed et al., 2016).

In Nigeria, from 1951 till date, different advantage plans have been set up either through show of parliament and a declaration under the military. Such ideal condition structures are Nigeria Pension Scheme (NPS) of 1951, National Provident Fund (NPF) of 1961, Nigeria Social Insurance Trust Fund (NSITF) of 1990, Local Government Pension Scheme (LGPS) set up by a military pronouncement in 1977 which was later changed to Civil Service Pension Scheme (CSPS) by a military disclosure in 1979, Armed Forces Pension Scheme set up in 1979 by a military accreditation to cook for the military work power, and Police Pension Scheme (PPS) which was surrounded with various affiliation benefit plots set up by an attestation in 1993 Pension Reform Act (PRA) (1958), Uzoma (1993), Balogun (2006) and Fapohunda (2013). There are four noteworthy depictions of annuity in Nigeria. These are:

Resigning Pension: This sort of annuity is by and large permitted to workers who are allowed to leave in the wake of completing a set time of qualification in the country from 30–35 years.

Compensatory Annuity: This kind of advantage is permitted to an expert whose enduring post is dropped and the government cannot give him sensible elective business.

Superannuation Pension: This is given to experts who leave at the upheld age motivation behind suppression of 60–65 years only.

Compassionate Allowance: This happens when annuity is not acceptable or permitted by virtue of an open hireling's expulsion from administrations for unfortunate behaviour, bankruptcy or inefficiency (Ugwu, 2006; Amujiri, 2009). Annuity makes workers scrutinize just themselves legitimately into the overall public in the wake of leaving the business and an annuity system is essentially an income security program which offers preferences to beneficiaries who may be retirees (retired people) (Ako, 2004; Amstrong, 2010).

Contributory Pension Scheme

Contributory benefits is a level of assets set aside by a worker or manager or both to guarantee that at retirement there is something to fall back on as pay. Contributory advantages plan is a system in which a business pays a certain proportion of money reliably into an annuity while the delegate further pays some money into a comparable advantages fund, which shapes the aggregate of what the laborer gets at the period of retirement. Either the individual has worked in broad daylight or in a private division; it fills in as a social welfare plot for the age and ensures specialists provide food for their fundamental needs after retirement (Sule, 2009; Egbe, 2013).

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The Pension Reform Act 2004 is a change in setting from the 1979 Annuity Act. Under the new arrangement, associations and specialists alike are to contribute 7.5% of workers' month to month settlement which intertwine key pay, cabin and transport reward. Incidentally, in the military, work power is depended upon to pay 2.5% while the focal government contributes 12.5% of the delegates' month to month settlement.

There are changes in the rates of commitment to be made to the Scheme. Under the Act, both businesses and representatives are required to make at least 10% and 8% individually of the worker's month to month remittances (7.5% of the worker's month to month fundamental, lodging and transport stipends by the two parties under the repealed Act).

Bank Profitability

Bank profitability is a fundamental element of financial development. In the long run, a higher return to some substantial degree lessens the nature of the bank being defenseless or harmed. At the macroeconomic dimension, expanded profitability makes for the productive management of an efficient banking sector that can subsidize financial development and improvement, as indicated by the intermediation job of the banking system; higher interest rate on advances pulls in higher returns which is the reason why monetary authorities are constantly inclined to control and manage the banking industry (Folowosele, Ikpefan, & Isibor, 2022). Improved and strict guidelines have realized challenges among banks. Banks regulators somewhere between 1990 and 2004 expanded the base offer capital of banks working in Nigeria multiple times (Aburime & Uche, 2008). This system was to improve the asset report, gainfulness and supportability of banks in Nigeria.

Simpson (2014) in his article saw that banks advantage determinants are usually divided into inside and outside variables. The inside factors are those that pick a bank's association choices and particularly sway system objectives, for example, liquidity chance, credit chance, bank measure, and cost organization. The outer factors are those that come from industry related elements and macroeconomics which incorporates rivalry, dimension of center, dimension of joblessness and swelling rate. In Nigeria, conversion standards may speak to a macroeconomic impact on the bank's benefits as a result of the swapping scale of local money to US dollar and other huge fiscal monetary standards.

Amazingly, different nation level examinations have depended only on banks' determinants while ignoring the effect of macroeconomic factors on bank proficiency. On the occasion that banks contribute, it transforms into a fundamental wellspring of huge worth capital and thus advances quality. On the other hand, delicate money related execution reduces credit quality and improves likelihood of development default (Flamini, Calvin & Liliana, 2009).

In assistance of the Central Bank of Nigeria (CBN) statutory commitment of ensuring a secure and sound budgetary framework, the rise game plan for banking framework trouble goals, which was grown mutually with the Nigerian Deposit Insurance Corporation (NDIC), ended up successful in July 2002. Moreover the Central Bank started a private portion sponsored "help" office that was obtained by setting aside some cash with brief liquidity issues. These, regardless of the Financial Sector Assessment Program (FSAP), were driven usually by the International Monetary Fund (IMF) and the World Bank to survey the soundness of Nigeria's cash related division, in the perspective of worldwide models, and were a way to invigorate the budgetary structure.

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Another real change for enhancing bank execution was presented in July 2002 as a component of a home developed financial improvement motivation. One of the auxiliary targets of the National Economic Empowerment and Development Strategy (NEED) was to strengthen the financial system. The Central Bank with an end goal announced an expansion in the minimum capital of banks from 2 billion to 25 billion naira, with a due date of December 31, 2005 for full compliance. The declaration of the change with the orderly increment of the minimum capital sent shockwaves through the banking industry. After the announcement, merger and acquisition took place. One of the significant reasons given by the Central Bank was that many Nigerian banks cannot provide the necessary financing needed to grow the economy and several of them had bad balance sheets.

The number of banks reduced from 89 in 2004 to 25 as at January 2006 through mergers and acquisition and their minimum capital was 25 billion naira. In a bid to raise 25 billion, banks were able to raise an equivalent of $3 billion from the capital market through Initial Public Offerings (IPO) and attracted over US$652 million in Foreign Direct Investment (Okonjo-Iweala, 2012). The Nigerian banking sector experienced a rapid growth between June 2006 and June 2008; the number of bank branches grew by 54%, deposit accounts by 39%, total loans and advances by 197%, bank credit to the private sector grew by 60% in 2007 and by 90% in 2008. Some Nigerian banks became significant players in the international market by opening branches in other West African countries and in major European capitals.

Theoretical Framework

Theory of Life Cycle: This hypothesis is according to utilized structure and sparing choice of individuals who check out coordinating in a course of action. This is associated with Modigliani and Brumberg implied in Idowu (2006). It states that utilization is a piece of life time riches open to one. These riches (monetary, genuine resources and foreseen estimation of future remuneration) are not influenced by the changes by virtue of pay that comes to one after some time.

The hypothesis advances one remarkable protection to the above proposal, holding that there is one ground in which use can be influenced. It is that an annuity change plan can change the wealth of a favorable circumstances plan. While the hypothesis includes the impact of tremendous salary creation and redistribution to individuals or supporters, prompting extended wealth; its game plan is that the annuity plan be systematized and viable while the benefits change can change or impact the presence cycle. Regardless of the unwavering quality nature of the Pension Fund Administration (PFA), the administrative bodies and security authorities are along these lines, passed on to the fore. The last point means that the hypothesis is not affected by financial wretchedness, for example, monetary subsidence.

Empirical Framework

Abdulazeez (2015) conducted research on pension schemes in Nigeria (history, problems and prospects) and drew a conclusion that due to the challenges of the old scheme, the government established a new act. In the 2004 act, the researcher also found some drawbacks like limitations in terms of coverage, investment outlets, lack of transparency and financial limitations of employees. In other words, this scheme may not translate into economic security for the retired. Pension Commission (PENCOM) needs to tighten up as an institution and be transparent to afford pensioners the benefits of informed decision as to which pension

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house to engage and investment outlets need to be expanded to create more opportunities for investments.

Observational proof by Bourke (1989), Demirguc-Kunt and Huizinga (1999), Abreu and Mendes (2002), Goddard (2004), Naceur and Goaied (2001), and Pasiouras and Kosmidou (2007) showed that banks that hold an abnormal state of value with respect to their benefits perform better regarding gainfulness. Besides, overhead expenses are additionally an imperative determinant of productivity: the higher the overhead expenses in connection to the benefits, the lower the gainfulness of a bank (Athanasoglou, 2008). Molyneux and Thornton (1992) in their study on the determinants of bank profitability used a sample of 18 European countries between 1986 and 1989. They found a significant positive association between the return on equity and the level of interest rates in each country, bank concentration and government ownership.

Edogbaya (2013) in his explorative study opined that pension firms must put resources into a less unsafe portfolio to support brief installment of benefits to retirees.

As indicated by Chizueke (2011), contributory benefits plot essentially influences representatives’ pledge to work and mentality towards retirement. His exploration necessitates that severe measures be placed all together by government to empower an observation and execution of the arrangements of the 2004 Pension Reform Act.

Ayegba (2013) did an assessment of Pension Administration in Nigeria and stated that an efficient structure that will guarantee brief installment of retirees and beneficiaries is profoundly alluring and this must be vivaciously sought after by the administration to encourage monetary advancement. He likewise opined that the Nigerian government ought to support the alternative of having the banks where the pay records of representatives are domiciled to make benefit findings on month to month premise conceivable and have them transmitted to Pension Fund Administrators.

Nigeria’s pension reforms and management conducted by Akabom-Ita (2012) revealed that a lot of changes of the defined benefit have been made based on their research data gotten from pensioners in Cross River State that pensioners after the 2004 pension scheme have something to rely on, and the 2004 pension act is helpful to pensioners, even to the country as a whole.

Gaps in Literature

While some of the reviewed literature examined the pension scheme and how it has impacted the standard of living, others investigated bank profitability and factors that impact it. However, this study will be centered on the effect of contributory pension funds on banks’ profitability.

Pension is a very crucial sector that has to be monitored to eliminate all forms of malpractices so as to enable a sustainable smooth-running process and employees’ funds will be accounted for appropriately.

Reviewed studies like Edogbaya (2013) did not consider investment as a variable in their research and investment of the pension funds is a major element that determines the success

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or failure of the pension scheme. Hence, this study would examine investment alongside pension fund variables.

Another gap is that other reviewed works of literature like Ayegba (2013) failed to consider the theory of life cycle which is important for their pension study because pension in actual fact is concerned with the kind of strategy put in place. Hence, this study considered the life cycle theory to fill this gap.

MODEL SPECIFICATION

The implicit form of the adopted and modified model from Ojiya (2017) is:

PAT = F (CPF, INV, INF) ………………………………………………..……. (1)

The explicit form of the model is:

$PAT = a_0 + a_1 CPF + a_2 INF + a_3 INV + e$ ………………………………………. (2)

Where

PAT = Profit after Tax used as a proxy to measure bank profitability

CPF = Contributory Pension Fund

INV = Investment

INF = Inflation

a_1, a_2 and a_3 = parameters estimating CPF, INV and INF

a_0 = constant

e = error term (white noise)

Description of Variables

Contributory pension fund is the independent variable and was measured using PENCOM (Pension Commission) deposits in the Nigeria banking sector. Investment is also anpther independent variable and was measured using Gross Fixed Capital Formation (GFCF). Inflation affects the profit from investments by banks and was another independent variable.

Bank performance is the dependent variable and was measured using profit after tax (PAT).

Data Source and Methods

Data was gotten from PENCOM financial statements and all the three banks' financial statements. Investment and inflation was gotten from the Central Bank of Nigeria (CBN) statistical bulletin. The data was from 2015Q1 till 2022Q4. All information gotten is secondary data and wwas estimated using the Ordinary Least Square regression technique.

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Analyses

This segment focuses on testing the hypothesis used in chapter three using the statistical tool of regression. The results obtained from this chapter serve as a basis for summarizing and making conclusions in the study. Regression analysis was used to analyse the two hypotheses to check for effects. This chapter is concerned with analysis and interpretation of the results for data collected. Based on this study, this chapter would be divided into two sections. The first section is the presentation of results derived from unit root analysis using Augmented Dickey Fuller (ADF). The second section is the presentation and interpretation of results derived from the regression analysis.

PRESENTATION OF RESULT

Summary of the Unit Root Test

From the table below, variables were stationary at 10%; Log Profit After Tax (LPAT) with the Augmented Dickey Fuller test statistic value of -5.440791 which is higher than the 10% significant figure of -3.590496, is stationary at levels, trend and intercept. Log Investment (LINV) which is an explanatory variable is stationary at levels, trend and intercept with the Augmented Dickey Fuller test statistics value of -3.913672 which is higher than the 10% significant value of -3.590496. Log Pension Commission fund (LPEN) with the Augmented Dickey Fuller test statistic value of -3.77151 which is higher than the 10% significant figure of -3.515047, is stationary at levels, trend, and intercept. Log of inflation (LINF), with the Augmented Dickey Fuller test statistic value of -4.675020 which is higher than the 10% significant figure of -3.590496, is stationary at levels, trend and intercept.

Table 4.2: Augmented Dickey-Fuller Unit Root Test

Variable	ADF Test Statistic	5% level	Stationary	Remark
LPAT	-5.440791	-3.590496	Stationary	I (0)
LINV	-3.913672	-3.590496	Stationary	I (0)
LPEN	-3.77151	-3.515047	Stationary	I (0)
LINF	-4.675020	-3.590496	Stationary	I (0)

Source: *Authors' Compilation Using E-views 9 (2024)*

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Analysis of Multiple Regression Result

The table below is the multiple regression analysis. The R-squared value of 0.827079 showed that the independent variables explained 82% of the dependent variable. After adjusting for degree of freedom, R-squared was adjusted to 0.754158 which is 75%.

The F-statistic value of 4.782983 showed that the independent variables (LINV, LPEN, and LINF) were all statistically significant in explaining the dependent variable (LPAT).

The Durbin-Watson statistic of 1.959675 showed no autocorrelation in the variable.

The probability value from the result must be significant at 5% level to show it is significant in explaining the dependent variable LPAT. Log Investment (LINV) with a probability value of 0.0000 was significant at 5% significance level in explaining the independent variable. Log Pension Commission fund (LPEN) with a probability value of 0.0000 was also significant at 5% significance level in explaining the independent variable. Log of Inflation (LINF) with the probability value of 0.4658 was not significant at 5% significance level in explaining the independent variable.

To also find out if the insignificant and significant values were positive or negative, we examine the coefficient value. LINV, with value 5.122865, was positively related to LPAT. LPEN, with coefficient value of 1.099621, was also positively related to LPAT. Only LINF, with coefficient value of -0.092535 was negatively related to LPAT.

Table 4.3: Regression Analyses

Variables	Coefficient	Standard Error	T-Stats	Probability
LINV	5.122865	0.304589	16.81894	0.0000
LPEN	1.099621	0.151148	7.275128	0.0000
LINF	-0.092535	1.114903	-0.082998	0.4658
C	8.557182	8.317711	1.028790	0.1829
R-SQUARED	0.727079			
ADJUSTED R-SQUARE	0.684158			
DURBIN-WATSON TEST	1.959675			

Source: *Author's Computation with E-Views 9 (2024)*

Null Hypothesis Testing

The following null hypotheses (H_0) were tested:

H_0: Contributory pension scheme does not significantly have an effect on bank profitability.

Decision: Contributory pension scheme has a significant relationship on bank profitability because it has a probability value of 0.0000. So H_0 is rejected.

H_0: Domestic investment does not significantly have a relationship with bank profitability.

Decision: Investment has a significant relationship with bank profitability because of its

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probability with the value of 0.0000. So H_0 is also rejected.

H_0: Inflation does not significantly have a relationship with bank profitability.

Decision: Inflation does not have a significant relationship with bank profitability because of its

probability with the value of 0.4658; so H_0 is accepted.

RECOMMENDATIONS

1. Government financial security bodies like the Economic and Financial Crimes Commission should work hand in hand with the Pension Commission to ensure that pension funds are not corruptly stolen but used for investment purposes and also ensure that pensioners are paid at the appropriate time.

2. Monetary policy makers should ensure that low inflation rates are kept so as to impact investment positively and thus improve bank profitability.

3. Nigerian banks should ensure that pension funds deposited with them are monitored frequently so as to boost both the bank performance and also the performance of the pension funds.

4. There should be a flexible investment environment that will be conducive for the public at large to invest their received pension funds and boost national development.

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