

## **REPORT OF THE STUDY ON THE LEVEL AND AGE ANALYSIS OF UNCLAIMED DIVIDENDS IN THE NIGERIAN CAPITAL MARKET 1999 – 2002**

### **INTRODUCTION**

The problem of unclaimed dividends in the Nigerian capital market has not only persisted for quite sometime, it has also generated a lot of passionate controversies this has in turn attracted the concerns of all stakeholders including regulators. These concerns are not misplaced because a major attraction to investors in the capital market is the expected dividend payments. While the amount of dividend declared by a company may influence investors and other shareholder's perception of such companies, it is obvious that equally important to the investor is how much he actually receives as return on his investment.

Thus, when dividends are declared but not paid on time or at all, the investor is the loser. Indeed, the investor may also not be better off when companies declare dividends and are willing to pay dividends but the investor is, for a plethora of reasons, unable to claim such dividends.

For this reason, while the companies and their registrars may not always be the cause of the problem, it can safely be argued that the incidence of unclaimed dividends can dampening effect on investors interest in such companies and by extension the capital market.

The phenomenon has also raised the question of how equitable it is for dividends which rightly belong to identifiable investors to be taken over by the companies and utilized supposedly for the benefit of all shareholders of the company including those who have claimed their own dividends.

### **DEFINITIONS**

Unclaimed Dividends, according to the Securities and Exchange Commission, refers to dividends due to a shareholder fifteen (15) months after initial payment. Such dividends which remain unclaimed after fifteen months of being declared are supposed to have been returned to the company from which the beneficiary/investor may make a claim not later than twelve years afterwards. Subsequently, such unclaimed dividends are considered statute-barred and thus forfeited by the shareholders.

It is assumed that the dividends have been forwarded by the registrar/company to the beneficiary but same have been returned as unclaimed,

Some provisions vide Sections 379 – 386 of CAMA indicate as follows:

- a) Where dividends are returned to the company unclaimed, the company shall send a list of the names of the persons entitled with notice of the next annual general meeting to the members,
- b) After the expiration of three months notice, the company may invest the unclaimed dividend for its own benefit in an investment outside the company and no interest shall accrue on the dividends against the company.
- c) Such dividends are to be regarded as special debts due to and recoverable by shareholders within 12 years and actionable only when declared.

The description of unclaimed dividends above obviously did not focus on the cause but rather on the length of time for which the benefit due to the investor has not been received by him. It is however clear that while unclaimed dividends may have resulted from any one or more of the often-cited causes, it may also result from delay or non-payment by registrars/companies.

### **OBJECTIVE OF STUDY**

In attempting to resolve the problem of unclaimed dividends in Nigeria, three major issues have generated much of controversy. These are:

- i) The quantum of funds involved in unclaimed dividends.

- ii) The age of such dividends.
- iii) The causes of the problem.

This study is aimed at:

- i) Determining the quantum of unclaimed dividend between the periods of study 1999 to 2002.
- ii) Determining the age analysis of the unclaimed dividends in (i) above.
- iii) Identifying the causes of the problem.
- iv) Making recommendation as appropriate.

## **METHODOLOGY**

The study was partly carried out in-house using data collated from quarterly returns by registrars to the Securities and Investment Services Department of the Commission and the Commission's annual reports and accounts. From this, the cumulative figure of unclaimed dividend as at year end of 1996 to 1998 was obtained.

In order to widen the scope of the study and determine the actual amount of dividend declared on annual basis from 1999 and how much of these remained unpaid at the time of survey, questionnaires were administered on registrars in March 2004. This was followed up with personal visits to some registrars' offices to enhance timely responses. Since the returns only indicated the years dividends were declared and not the specific months, we have refrained from including dividend declared in 2003 in the analysis of unclaimed dividends in this report. Although this may have the effect of slightly reducing the quantum of unclaimed dividends, this position was considered safer rather than including all dividends declared during the year, some of which may not have been so declared for up to 15 months as in definition of unclaimed dividend above.

## **SCOPE OF STUDY**

Data on dividend declared, dividend paid and dividend unpaid were collected from the registrars for the period five year between 1999 to 2003. However, as indicated above the analysis explained data for year 2003 for the stated reason.

A total of 37 questionnaires were administered to registrars out of which 29 responses had been received at the time of analysis. This represents a response rate of 78 percent, which is considered good enough for the analysis. The returns received however, covered only 94 quoted companies out of a total of 202, suggesting that the actual quarter of unclaimed and dividends as at time of study must be higher than what is reported in the study.

Whereas only – registrars handling – registers had not responded at all to the questionnaires, many who responded left out data on some important dividend paying companies such as Cadbury Nig. Plc. Similarly, as there was no response from FSB International Bank Plc's registrars department, the study could not capture dividends, if any, in respect of FSB International Bank Plc and Hallmark Bank Plc for which FSB acts as registrars.

It should however also be noted that many of the companies in respect of which there were no returns, have not been performing well and thus not declaring dividends.

## **DATA ANALYSIS/FINDINGS**

### **(i) Dividend Declared**

Data collected in house indicated that the level of unclaimed dividends based on returns received from 22 registrars stood at N793.1 million in 1994. The figure however had risen to N1.4 billion by 1997 when returning were received from 28 registrars with one registrar alone accounting for N273.6 million or 19.2 percent of the total. While the top five registrars on their records N895.1 million or 60 percent of the aggregate at the end of 1997. In 1998, 25 out of 29 active registrars made returns on unclaimed dividends to the Commission. By the end of the year, the level of unclaimed dividends had risen by 38.2 percent to a cumulative figure of N1.97 billion. The responses received from registrars to the questionnaire designed to gather data on unclaimed dividends on annual basis from 1999 to 2003 indicated that a total of N10.63 billion was declared as dividends by the reporting quoted companies in 1999. The figure rose to N15.00

billion in 2000, N20.49 billion in 2001 and N25.80 billion in 2002.

In 2003, total dividend declared, as captured by the study was N32.2 billion. In all, a total of N104.3 billion dividends were declared for the five-year period between 1999 and 2003. However, out of this figure only N72.0 billion had been declared for over 15 months and thus qualified for the analysis in this study.

#### (ii) Dividend Paid/Unpaid

Of the N10.7 billion declared in 1999, a total of N10.1 billion had been paid as at the time of study. The payment represents 94.25 percent of the declared dividends leaving N0.6 billion or 5.75 percent outstanding about four years after the dividends were declared.

For dividends declared in 2000, N14.1 billion representing 94.19 percent has so far been paid leaving out N0.9 billion or 12.17 percent of the N15.0 billion dividend declared. Similarly a total of N18.1 billion and N22.5 billion representing 88.21 percent and 87.33 percent were paid in year 2001 and 2002 respectively. Consequently, the sum of N2.4 billion (or 11.79 percent) and N3.3 billion (representing 12.67 percent) of dividends declared remained outstanding for the two years respectively at the time of study.

The sum of N24.3 billion or 75.37 percent of the N32.2 billion dividends declared in 2003 has so far been paid leaving a balance of N7.9 billion or 24.63 percent. The outstanding dividends cannot however be classified as unclaimed (as a large proportion of this would not have been declared for at least 15 months as at the time of study). It is therefore classified simply as unpaid.

#### (iii) Quantum of Unclaimed Dividends

From the data obtained through the administered questionnaire, a total of N7.2 billion has remained outstanding from the total of N71.9 billion dividend declared between 1999 and 2002. This represents about 10 percent of the total dividend declared. Although the cumulative outstanding dividends of N2.0 billion could not be established by the end of 1998 from quarterly returns received from registrars, (see SEC Annual Report and Account 1998 Pg 77) this could not be added to the aggregate for 1999 to 2002 as a large proportion of this is expected to have been paid over the year since then.

It is significant to note that in the five-year period from 1999 to 2002 more than N7.0 billion or over three times the figure for 1998 had accumulated. This is notwithstanding the fact that returns were not received in respect of some companies.

#### (iv) Age Analysis of Unclaimed Dividends

Year	Amount unclaimed (N'M)	% of 4 year Total	Remarks
1999	613.72	8.56	4 years
2000	872.45	12.17	3 years
2001	2415.3	33.68	2 years
2002	3269.27	45.59	1 year
4 year Total	7170.74	-	-

It is obvious that none of the unclaimed dividends during the period of study (1999 – 2002) could have become statute barred, having been declared within the last five years and not longer that 12 years.

Taking the analysis further back, even when the cumulative figure of unclaimed dividends of N2.0 billion as at 1998 is added (assuming that none of this has since been paid) the total unclaimed dividends will amount to 9 billion out of which N7.2 billion or 78.3 percent will be only about four years old (1999 – 2002). It is however reasonable to believe that most of the accumulated dividends up to 1998 would have been paid, thus reducing the proportion of unclaimed dividends that could possibly have remained unclaimed for more than twelve years. Consequently, the proportion of unclaimed dividends not yet statute barred can only be higher, contrary to some views being expressed in some quarters that most unclaimed dividends are already statute-barred.

#### (v) The Causes of Unclaimed Dividend

Although various reasons have always been advanced for the problem of unclaimed dividend in the Nigerian capital market, responses from registrars indicate the following as the causes:

S/N	Causes of Unclaimed Dividend	Number of Registrars Citing Cause
1	Lapses on the part of NIPOST	5
2	Lack of notification of change of address by investors to the registrar	2
3	Death of shareholders and lack of necessary follow-ups by deceased families.	4
4	Small values of some dividends leading to non-presentation of warrants by shareholders when collected.	1
5	Ignorance of what to do with a dividend warrant.	2
6	The rejection by banks to accept payment of dividend warrants into 1savings account.	3
7	Some shareholders not operating bank accounts.	1
8	Closure of bank account without notifying registrars in case of mandate dividends.	3
9	Investors supplying inadequate information during the floatation of an initial public offer.	1
10	Change of ownership of post office box without notifying the registrar.	7
	<b>TOTAL NUMBER</b>	<b>29</b>

From the foregoing, it can be established that the two most often cited causes of unclaimed dividend are “change of ownership of post office box without notifying the registrar” (7) and “lapses on the postal services”.

It should however be noted that the identified causes are from the perspective of registrars. It is therefore not surprising that registrars have not admitted t contributing in any way to the problem. Investors and other stakeholders may think otherwise and proffer genuine and

additional reasons. Efforts aimed at addressing these causes, including investor's education, will go a long way in ameliorating the problem of unclaimed dividends in Nigeria. It must however be acknowledge that whereas NIPOST has recorded commendable improvements in its services in recent times, the problem appears unabating with the level of unclaimed dividends still rising.

### **Recommendation**

In view of the foregoing, the move to set up an Unclaimed Dividend Trust Fund is not only commendable but also virtually inevitable. The following recommendations are made:

- a) Investors should always endeavour to inform registrars whenever they change their addresses and follow-up to confirm the change of the address.
- b) The Commission should liaise with the Central Bank of Nigeria to enable them come up with a policy to encourage banks to accept dividends warrant into savings accounts.
- c) Investors should be educated on the need to mandate the payment of their dividends into bank accounts.
- d) There should be further improvement in postal services.
- e) Shareholders need to be more enlightened no how to clearly complete their share application forms.
- f) Constant reminders to share holders through creation of investors' forum by registrars should be encouraged.
- g) Zonal shareholders association should help to reduce their Zonal Unclaimed Dividends.

### **CONCLUSION**

Based on the above findings on the level of unclaimed dividends, the Commission's position on the unclaimed dividend trust fund is no doubt justified, as it seems clear that the problem has refused to abate in spite of the various measures so far put in place by all stakeholders.

It is evident that with the increasing level of dividends being declared by quoted companies, the quantum of unclaimed dividends will continue to rise unless such a drastic measure is put in place urgently to complement other measures.

