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EFFECT OF STOCK MARKET REGULATIONS AND REFORMS ON INVESTORS' WEALTH IN NIGERIA

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Abstract

This paper examines the impact of stock market regulations and reforms on frequent wealth – loss often experienced by investors in Nigeria Stock Exchange Markets right from March, 2008 in Nigeria. Secondary data on two selected banks- listed on the Nigeria Stock exchange market in Nigeria before April, 2003 using random selection method, viz: First Bank of Nigeria and Union Bank of Nigeria. The data collected were analyzed using descriptive statistical method of time series and Simple Percentage Method (SPM). The study revealed that share values are attractive and considerably stable in term of return to investment of shareholders during the pre-share crisis period due to the effectiveness of the enabling stock market regulations than in the post share crisis period when value of shares went into spiralling declension. Stock market regulations and reforms is now under serious challenges as the percentage of indigenous investors has reduced drastically from 19% to less than 14% in the Nigeria Stock Exchange markets. Thus the study recommends more proactive regulations and reforms, potent enough to bring back confidence to investors in this post share crisis periods in Nigeria.

Keywords: Stock Market, Regulations, Reforms, Investors' wealth, Nigeria

INTRODUCTION

Generally, stocks are facilities traded in the stock exchange markets for prospective investors to buy and sell all over the world. Nigeria stock market is a principal financial market that provides these facilities in Nigeria for mobilizing medium and long term funds to listed companies for economic development and growth, (Udochuku, 2007). The market has been described as a framework of institutions that arrange for the mobilization and channelization of funds from the surplus units to the deficit units of the economy for long-term productive investment (Adaramola, 2012). All Stakeholders have clearly defined motives for participating in the game-like market. The Intermediaries are out for immediate gains and commissions (a fixed percentage of deals that passed through them to the floor of the stock exchange market), the fund users aimed at profit-making - when the fund obtained is effectively turned-around while the Shareholders benefit is in form of returns obtained from the stocks - dividends and capital gains.

History had shown that change in the price of shares is an important part of dynamism of stock market of any Nation. It influences stakeholder response and actions towards stock business in the stock exchange market. According to Yerima, as at June 2012, 81% of trading that goes on the floor of Nigeria stock exchange markets are done by foreign investors leaving 19% to a population of 150 million people. In this line, an economy where the stock market performance is declining is usually considered as an emerging one. In fact, the stock market is usually considered as the primary indicator of economic strength and development of any country (Abu, 2009).

In 2007 a study carried out on Standard & Poor's (S&P) described the Nigerian equity market as the fastest growing in the emerging markets universe. Capitalization of the Stock Exchange increased by 141% in 2007 and crossed $85 billion (N8.262 trillion) in July of that year. In 2008, Daily Average Trades (gross) averaged over N10 billion, compared to just over N200 million five years before. .In 2007 trades topped N2 trillion - 50% more than in 1999. As at then, the value of new equity issues increased at a compound annual growth rate (CAGR) of 87% but by the middle of 2008, the total market capitalization which has increased up to over 90% fall from a peak in March 2008. Share market capitalization went into a spiralling decline, dropping at 45.8% by the end of the year and since then, investors had been lamenting and are in search of Messiah.

Clearly, Nigeria's capital market is at a crossroads. The general belief is that fall in share market Capitalization was due to the global financial crisis of 2008 - an external factor which was singled out as the sole cause of capital market crisis all over the world, but share index – a measure of market average performance revealed that during the global economic meltdown all share prices fell together but they are not rising together in Nigeria Stock Exchange Markets aftermath. The cause of not rising together has been attributed to other factors such as ineffective market regulation, inadvertent supervision, weak institutions, /improper corporate governance, lack of regulatory pro-activity cohesion, unregulated margin financing and lots of inadequacies about transparency of the dealings among operators in most emerging Stock Exchange Market – which are problems that can be solved internally by sound regulations and reforms..

The stock industry which is the only markets that has tendency to be highly regulated and investment secured is no longer safe for investors in Nigeria (Ekpenyong, 2008). Solving these problems successfully through investigating the linkages between existing stock regulation in Nigeria, the new stock regulation reforms and their alleviative measures on stock returns values to Stakeholders wealth problems in Nigeria Stock Exchange Market is the focus of this paper.

THEORETICAL FRAMEWORK

The Nigeria capital market came into existence in 1962 before the first popular regulation tagged the Nigerian Enterprises promotion Decree promulgated in 1972, and its subsequent amendments in 1977. The regulation purpose was actualized in 1982as Nigeria Stock Exchange Market started thriving and more investors subscribed than when it was started Maku and Atanda (2009). The Stock Exchange Market also became a limited liability company under section 21 of Companies Ordinances in 1960 with authorized share capital on formation of 10,000 share of N20 each. The Market became a federal government agency through regulation that was established by SEC Act No 71 of 1997 as amended. Thus, the regulations established the fact that the Nigerian Stock Exchange (NSE) was not owned by government as is often erroneously assumed by most investors and the business class (Adamun &Sanni, 2003). In reality, the NSE is owned by shareholders comprising financial institutions, stock-brokers and individual Nigerians of high integrity. The market is a secondary market medium for investors to buy and sell securities but placed under strict regulations of Securities Exchange Commission (SEC) and other related agencies of Government. SEC performs the function of Listing of companies desiring to trade on the Exchange, supervising listed firms to comply with listing requirements, ensuring that required quarterly and annual reports are filled, monitoring earnings and dividend distributions, reviewing and addressing the rights of shareholders, responding to investors' and brokers' complaints concerning earnings reports, dividend distributions etc. running the trading floors of the Exchange and ensuring that trades are conducted according to the rules, regulations and general procedures of the Exchange Market. Other related stock markets regulations in Nigeria and their reforms with attendant results on overall market performances were the Manual Trading System operated up to April 2002 and latter reformed to Automated Trading System (ATS) from March, 2003, it led to accelerated trading results. Localization of more stock market to contained wealth formation features in 2006. Internationalization of the Nigeria capital market (NCM) from April 2007, financing opportunities to domestic companies in Nigeria which resulted into accelerated business transaction, Consolidation of banks Margin lending to market operators from Jan. 2005 Consolidation of banks Restoration of the investor's confidence in capital market. This regulation led to increase in trading activities (Ashaolu & Ogunmuyiwa, 2011). Creation of bond markets that brought out the universal stock market businesses out of diversification had a link with the Corporate Governance Code 2005 and its implementation of 2006, (Goswami &Jung,2012). Review of 2006 corporate governance code in 2007and it subsequent implementations. All these regulations were attributed to steady and stable returns to investments in the Nigeria stock markets in the period classified as pre- share crisis period in Nigeria.

POST SHARE CRISIS PERIOD'S REGULATIONS

The post share crisis period stock related market regulations and reforms started immediately from April 2008. The regulatory bodies swing into action by instituting series of reforms to capture the emergency inflict upon the market. Immediately the global share crisis upsurge, reforms began to capture the negative effect the crisis caused on stock markets, but most of the reforms did by various regulatory institutions in 2008 were not able to achieve expected results, thus, from 2009, some post economic crisis reform came up.

In 2009, the Central Bank of Nigeria and NDIC replaced some executive and Directors of Banks to achieve financial system standardization and this resulted in fortification of banking sector. Immediately after this, a sum of six hundred and twenty billion naira (#620b) was injected into the stock market system to achieve a general overhauling. Also, debt recovering policy of banks were rein figured on the non performing loans that the banks were carrying from the pre share period. Then in 2010, there was put in place a remedial programme for all the operating agencies in the financial sectors in Nigeria. This was immediately followed by articulation of blue print for reforming the financial system in Nigeria by the Central Banks of Nigeria in other to achieve: 1. Enhancement of quality of financial system 2. to enable healthy financial market operations and 3. to repair the key causes of financial crisis.

Thus, the Central Bank of Nigeria and other stock market regulatory institutions establish a form of link to establish financial stability where NSC establishment of in bud monetary policy and macro prudential rule in 2010. The directional economic policy and the development of capital market as an alternative to bank funding were also put in place at the end of accounting year 2010. Thus in 2011 and by extension to 2012 there is a review of universal banking policy and special capital requirement consumables of their licenses as a renewal of what operates in year 2008. Regulation of shadow banking was put in place. Also there is direct capital infection into target bank – a form of market resolution policy. Specification functions of market regulation need to be focused, especially on the alleviative policies to safe the indigenous investors from incessant wealth – loss experienced in the Nigeria Stock Exchange Markets.

METHODOLOGY

The data used for this paper include secondary information on key Nigerian macroeconomic variables especially the stock prices, dividend payment profile, share capitalization and volume of transaction compared to the data used by Levine in 2001 which includes inflation rate, interest rate, money supply, Gross Domestic Product and Foreign Exchange Rate. All data were sourced from various issues of the Statistical Bulletin and Annual Report of the selected banks and the Central Bank of Nigeria bulletin. However, data on stock prices was our main focus and such data were sourced from the Fact Book published by the Nigerian Stock Exchange (various issues). The methodology adopted for this study was based on the improvement on the model suggested by Levine, Esther, Ikavbo, Evbayiro and Osagie (2008) which states as follows:

SMI = f (IR, IFR, FD, ER, MS, GDP) ....(1)

$SMI = \beta_0 - \beta_1 IR_t - \beta_2 IFR_t + \beta_3 FD_t + \beta_4 ER\ t - \beta_5 MS_t + \beta_6 GDP\ t + \mu_t$ .... (2)

With the variables defined as follows:

SMI - Stock market index, IR - Interest Rate, MS - Money Supply, GDP- Gross Domestic and ER- Exchange Rate, while the present study modify and adjusted the variables to stock prices, dividend payment, share capitalization and volume of transaction and the model adjusted to the variables to include the operations of the Nigeria stock exchange as follows

The model used in this study is stated as:

$WV_1 = f (SR_1, SP1, DP_1, SC_1, VT_1)$....................... (1)

$WV_2 = f (SR_2, SP_2, DP_2, SC_2, VT_2)$ ---------------------(2)

With the variables defined as follows:

SR_1 = Stock Market Regulation in the pre- share crisis period

WV_1 = Wealth value of shareholders in the pre-share crisis periods

SP_1 = Stock Price in the pre-share crisis periods

DP_1 = Dividend payments in the pre-share crisis periods

SC_1 = Share Capitalization in the pre-share crisis periods

VT_1 = Volume of transactions in the pre-share crisis periods,

SR_2 = Stock Market Regulation in the post- share crisis period

WV_2 = Wealth value of shareholders in the post-share crisis periods

SP_2 = Stock Price in the post-share crisis periods

DP_2 = Dividend payments in the post-share crisis periods

SC_2= Share Capitalization in the post-share crisis periods

VT_2 = Volume of transactions in the post-share crisis periods

For the method of analysis, this study employed Granger causality to test the direction of causality among the aforementioned variables and stock wealth values movement trend which was represented and could be read out from the stock price index graph in the Nigeria Stock Exchange Market.

DATA ANALYSIS

Monthly/Yearly Average Share Prices 2004- 2014

Table 1: First Bank PLC

EAR	*APR*	*MAY*	*JUN*	*JUL*	*AUG*	*SEPT*	*OCT*	*NOV*	*DEC*	*JAN*	*FEB*	*MAR*	*YEARLY AVERAGE*
2004	*25.50*	*25.98*	*28.49*	*22.00*	*20.50*	*20.00*	*24.00*	*22.00*	*20.00*	*23.60*	*24.60*	*26.49*	23.59667
2005	*30.20*	*32.00*	*29.90*	*27.88*	*23.76*	*24.00*	*26.00*	*25.10*	*24.00*	*25.00*	*22.00*	*27.00*	26.40333
2006	*27.00*	*29.40*	*30.00*	*31.00*	*30.99*	*32.00*	*32.00*	*31.00*	*32.00*	*22.72*	*23.60*	*27.02*	29.06083
2007	*38.00*	*48.99*	*48.99*	*57.69*	*62.98*	*58.00*	*28.00*	*29.60*	*32.00*	*33.68*	*33.12*	*34.00*	42.0875
2008	**39.00**	**40.00**	**42.00**	**51.54**	**52.00**	**39.91**	**40.00**	**44.78**	**33.50**	**35.25**	**38.11**	**-**	38.0075
32009	**47.24**	**45.00**	**43.00**	**42.77**	**36.05**	**32.05**	**27.08**	**24.05**	**22.23**	**48.70**	**50.10**	**58.05**	39.69333
2010	**15.00**	**23.68**	**19.50**	**16.00**	**14.90**	**14.00**	**12.00**	**10.20**	**10.00**	**8.02**	**10.20**	**9.20**	13.55833
2011	**15.42**	**14.50**	**14.38**	**14.00**	**13.80**	**14.00**	**12.25**	**12.32**	**12.20**	**10.30**	**10.00**	**10.00**	12.76417
2012	**13.95**	**14.00**	**14.50**	**12.44**	**12.60**	**10.24**	**10.80**	**12.40**	**12.40**	**13.20**	**12.80**	**12.00**	12.61083
2013	**11.05**	**11.50**	**11.50**	**11.44**	**10.40**	**12.14**	**12.00**	**10.80**	**14.20**	**16.20**	**15.20**	**14.00**	12.53583

Figure 1: Graph for First Bank Share Price Movements Yearly Average

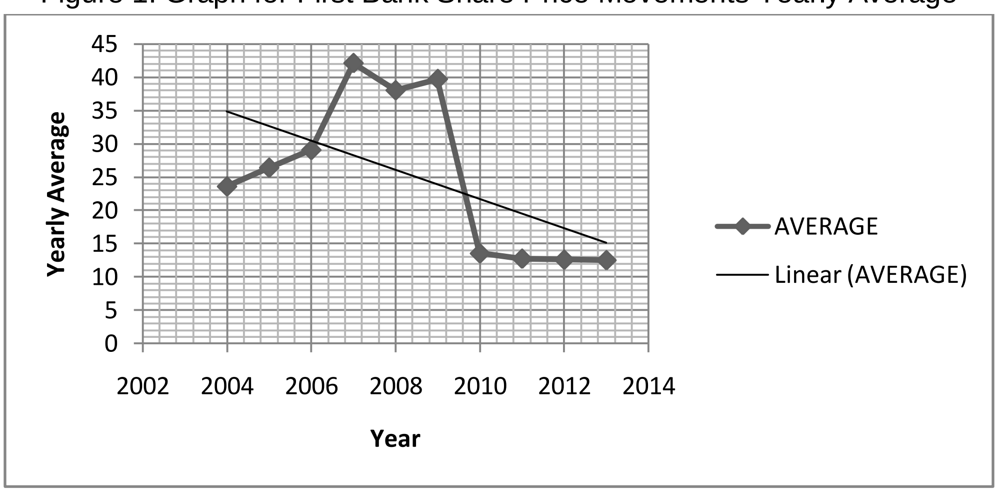
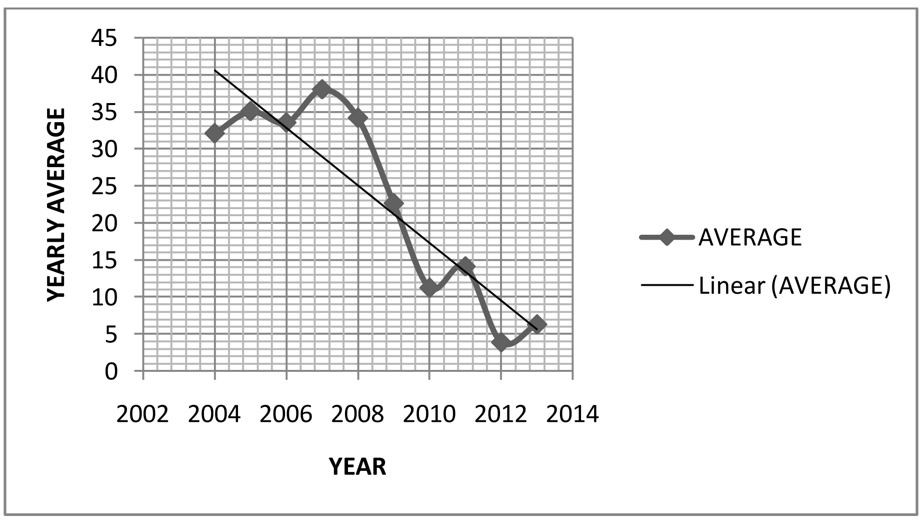


Table 2: Union Bank PLC

YEAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	YEAR AVERAGE
2004	26	27	29	30	32	32	33	34	34	36	36	35	32
2005	32	32	33	35	34	34	34	36	38	38	37	37.67	35
2006	34	34	35	37	36	35	36.	28	34	30	31	31	33.42
2007	37	35	35.	35	36	37	38	35	38	42	46	42	38
2008	40	36	36	36	34	34	33	33	32	32	32	32	34.17
2009	**32**	**30**	**28**	**30**	**28**	**26**	**18**	**17**	**17**	**16**	**14**	**15**	**22.58**
2010	**16**	**18**	**15**	**12**	**7**	**8**	**6**	**5**	**16**	**10**	**9.98**	**11**	**11.12**
2011	**15.55**	**14.00**	**14.00**	**15.00**	**12**	**13**	**14**	**8.**	**16**	**16**	**16**	**16**	**14.13**
2012	**3.46**	**6.00**	**8.00**	**2.28**	**2.29**	**2.09**	**2.02**	**2.00**	**5.75**	**4.90**	**3.34**	**6**	**4.01**
2013	**6.70**	**3.72**	**3.50**	**4.39**	**5.00**	**7.51**	**7.27**	**6.50**	**8.00**	**8**	**6.**	**7**	**6.13**

Figure 2: Yearly Price Average Graph for Union Bank



From the analysis and graph below, the trend of share value in the period classified were steady and on improving trend while the trend was slope and spiraling in the post share crisis period. Based on this, the study attributed the steadiness in the pre period to effective stock market regulations and the unimpressive result of the post period to defectiveness of the post crisis regulation. This position was also supported by the response report of selected shareholders from the questionnaire administered that dividends payment were not regular and where they are paid the amount declared are on a low range compared to past payment of these banks. The unit root test performed to confirm the fluctuation of share prices between the post share crisis period (April, 2008 – March, 2014) and Pre share crisis data April, 2004– march, 2008, also confirm this position. Therefore, it is cognizant to examine the stock market regulations and relate it to the upward movements of price since April, 2004 till mach, 2008 and the downward movement from April 2008 till date.

CONCLUSION AND RECOMMENDATIONS

The study has examined the interrelationship among stock wealth value variables in each of the identified period in the face of Stock market regulations and reforms using annual data from 2004 -2012 of the two orthodox banks in Nigeria. To establish a short-run relationship between the variables, the study had to initially establish that the variables are stationary. The study revealed that stock prices and stock market operations had the tendency to increase economic growth and thus the central bank of Nigerian and Nigerian stock exchange markets regulators should work collaboratively with Nigerian commercial banks to effectively mobilize investible funds from the private and public sector efficiently in financial institutions so as to intermediate, increase social marginal productivity of capital market and to influence private savings by creating rules and regulations that will bring life back to stock business in Nigeria. Therefore, to invigorate and strengthen the stock markets in Nigeria, more proactive regulations and trouble-shooting reforms in the stock markets in Nigeria should be the area of focus of regulatory authorities.

SCOPE FOR FURTHER RESEARCH

There were not less than 33 different industries traded on the floor of Nigerian Stock Exchange. The scope of this research is limited to only the banking industry; and even in this, only two (2) banks out of twenty-one (21) were plunged into the research, representing 9.5%. In spite of the fact that Krejcie & Morgan (1970) prescribe that a minimum of 5% of a defined population is considered as an appropriate sample size in making generalization, further research is recommended that will cover more industries and firms so as to make the research more robust.

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