

The Economy and the Pension Industry

The Nigerian economy recorded yet another significant growth in 2007 fiscal year. GDP growth rate was approximately 7% which was driven largely by non-oil sector of the economy whereby non-oil constituent of the GDP recorded approximately 9.8% growth rate. The non-oil GDP was immensely fueled by the increased output in agriculture, trade, financial services and manufacturing industries. It is important to note that communication services though constitute relatively small portion of the overall output was the fastest growing industry in the non-oil sector of the economy.

Due to production cut emanating from unrest in the oil producing Delta region, the oil sector GDP recorded a decline. Considering the dynamics of the economic performance in 2007, it is becoming glaring that Nigeria is gradually advancing towards a multi product/services economy thereby reducing the level of dependency on the oil sector. We are beginning to see the dividends of stable political environment and successful implementation of laudable economic framework and reforms such as NEEDs and financial service reforms in Pension, Banking and Insurance industries respectively.

Prior to the 2004 Pension Reform Act, the Nigerian Pension Industry was besieged with a number of problems including lack of regulation to govern the management of pension schemes, lack of guidelines for investments and where available non compliance, owing to poor corporate governance structure and implementation.

However, with the coming into force of the act it became mandatory for the contributory pension scheme in Nigeria to be applicable to:

- All employees in the public sector of the Federation and the FCT and
- All employees in the private sector, who are in employment in an organization in which there are 5 or more employees

The market for the services of a company such as ours therefore includes:

- Individual employees in the organized private sector, many of who hitherto did not have any pension scheme arrangement.
- Employees in the government sector, for whom hitherto, contributions were not being made either by themselves or the government.

The market potential is determined by the future configuration of the Nigerian economy. Because of the on going privatization drive, Government's policy drive is expected to shrink the size of its work force (i.e. public sector) as it relinquish ownership to the private sector. However, the private sector, particularly communication, construction, power and energy, oil and gas, small and medium scale enterprises and the financial services sectors, is expected to record increased growth in the future accompanied by increase its work force (employees). This analysis thus justifies FUG's market strategy of being private sector driven.

The industry is currently undergoing a number of transformatory changes as it continues to move from infancy to growth stage. In the next five years, the industry will be characterized by the following trends.

- Increased competition as PenCom gives more prospective PFA's approval in principal in a bid to ensuring all employees are registered.
- More market growth, as more companies and employees are getting aware of the new scheme and its advantages.
- Fiercer competition and more concentration on keeping existing contributors and attracting from other PFA
- Contributors becoming more enlightened and demanding more value added services.
- More focus on service delivery in a bid to retain contributors given the implementation of the provision for change of PFA, as contained in the act
- Growth of the Nigerian economy with attendant growth in GDP and employment
- With the success of the scheme, possible interest especially in the voluntary portion by Nigerians living outside the country
- Market leaders will be able to enjoy economies of scale which will in turn be passed to contributors in terms of discounts
- Development of business synergy between PFAs and other financial institutions e.g. HMOs, Banks Insurance etc
- Introduction of more investment outlets for the investment of funds by the PFAs.

Operational Results

FUG Pensions came into being as a Pension Fund Administrator on June 22, 2007 following the issuance of the operating license by National Pension Commission. Client registration commenced in August. However initial contribution into clients Retirement Savings Accounts started in October the same month investment of the fund also commenced.

Our Company's operations are dispensed from six regional offices located in Lagos, Abuja, Port Harcourt, Ibadan, Kano and Yola, three sub-regional offices located in Enugu, Sokoto and Jos and from 23 zonal offices locations nationwide. Though the Pension Market is characterized by challenging competitive environment, FUG has been able to compete favourably amongst its peers.

Profit and Loss Account

As indicated in the profit and loss account for the period ended December 31, 2007, we closed the first financial period with a loss after tax of N146.9m. Accrued revenues for the fund under management as at December 2007 was not yet approved by the regulatory authority. Hence no income was recorded from our primary activities.

Balance Sheet

The balance sheet as at the period ended December 31, 2007 indicated a fixed assets net book value of N131.9m, and a Deferred tax assets of N57.5m, while the current assets is made up of prepayments and other receivables of N26.2m and cash and short term funds of N222.5m. Being the first financial period, we expect improvement in the subsequent years ahead as we diligently implement our marketing strategies while monitoring the implementation of compliance measures by the Commission.

Significant Development

During the year under review, FUG organized its maiden management retreat which was coordinated by Philips Consulting. Various strategic decisions were taken which covers FUG medium term business development initiatives. These initiatives will be appraised and reassessed after first full year of operation to determine their effectiveness in driving the Company towards its strategic goal of being among the top three PFAs with a prominent presence in all 6 geopolitical zones of the Country.

Future Outlook

Indeed our Company has a great future ahead of it. We shall continue to experience growth in all areas of our marketing and investment activities. Our systems and processes will continue to be fine tuned for greater levels of efficiency and effectiveness. We shall harness our staff training and development in order to position effectively for market leadership in the industry. We shall reassess our strategic imperatives on a continuous basis to ensure that we remain focused on our strategic goals.

Conclusion

It is my pleasure to express the sincere appreciation of Management for the support and co-operation of our stakeholders particularly our shareholders and our regulators. I also thank our esteemed Board members for their supportive and insightful contribution to all strategic management decisions and efforts undertaken during the period under review. Ultimately I wish to give thanks to God for making this vision a reality and setting the stage for a continuous progress.

Thank you for your attention.

Usman B. Suleiman
Managing Director/CEO