

# THE ACTIVITY OF INSTITUTIONAL INVESTORS ON THE SECURITIES MARKET OF THE REPUBLIC OF MOLDOVA

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## Abstract

This article includes the analysis of the activity of institutional investors on the securities market of the Republic of Moldova, particularly transactions performed by the banking and the insurance sectors. The activity of investment funds is not analyzed, as practically there are no transactions performed by these institutions on the capital market. Also, there are stated main problems and barriers faced by institutional investors on the domestic capital market.

**Keywords:** institutional investor, bank sector, insurance sector, stock exchange capitalization, securities market, state securities, primary dealers, joint-stock company, capital concentration.

**Jel classification:** G14, G22, G 23

## Introduction

The activity of institutional investors on the capital market of Moldova is limited to two main sectors: banking and insurance sectors. Another important participant in international practice relates to the activity of investment funds, which are considered an important investment pool within the process of capital concentration on the capital market, but in Republic of Moldova, in conditions of a less developed capital market, practically no important activity of these institutions is registered, as all of them, at present, pass through the process of forced or benevolent liquidation.

### Activity of bank sector on the securities market of Moldova

According to data presented by National Bank of Moldova at situation from 31.07.2013, 14 banks possess the license of rendering bank activity issued by central bank authority, out of which **11 banks also possess the license of professional participant on the capital market as dealer with additional rights of broker, underwriting and consulting**, which is issued by the National Commission of Financial Market. So, this license gives the banks the right and possibility to activate on the domestic securities market.

The most active role of banks on the securities market is exercised through intermediation on the capital market and through investment activity.

Analyzing the volumes of transactions performed by the members of the Moldova Stock Exchange for their whole activity<sup>55</sup>, a great weight within transactions is held by banks on the secondary market. In 2012 banks owed a 48,63% participation part in the whole volume of transactions at stock exchange made by dealers or brokers, in amount of 755,6 million lei. At the same time, it is important to mention "Mobiasbanca – Groupe Societe Generale" JSC that uniquely owed 24,67%<sup>56</sup>.

In Republic of Moldova, banks are legally registered as joint-stock companies, and their shares are constantly traded on the Moldova Stock Exchange. According to data provided by Stock Exchange of Moldova, the 1st level of quotation cumulated listing of 8 issuers out of which 7 were banks, while on the OTC market out of 951 issuers – 6 were banks.

Another important indicator that shows us an active participation of banks on the secondary market is stock exchange capitalization. During the whole activity of the Moldova Stock Exchange, the total volume of stock exchange capitalization within the top 10 companies is 5,3632 billion lei (See Table 1), or 47,6% of the total. In this rating it is important to mention that 6 classes of shares belong to banks with the total volume of capitalization of 3,6141 billion lei, or 32,1% of the total volume of capitalization<sup>57</sup>.

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<sup>55</sup> Out of 20 members of the Moldova Stock Exchange, 11 members are commercial banks.

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<sup>57</sup> Rating and estimation agency "Estimator-VM" JSC

**Table 1**

**Rating of stock exchange capitalization during the whole activity of the Moldova Stock Exchange (at 31.07.2013)**

Name of Company	Capitalization, lei	Name of Company	Capitalization, lei
1. CB "MOLDOVA-AGROINDBANK" JSC	1 084 317 154	6. CB "MOLDINDCONBANK" JSC	447 101 460
2. CB "MOBIASBANCA-Groupe Societe Generale" JSC	800 000 000	7. MC "MOLDOVAGAZ" JSC	373 214 240
3. CB "VICTORIABANK" JSC	675 002 457	8. BC "BANCA DE ECONOMII" SA	327 694 696
4. MC "EFES VITANTA MOLDOVA BREWERY" JSC	595 170 984	9. "SUDZUCKER-MOLDOVA" MC, JSC	305 666 480
5. "LAFARGE CIMENT" JSC	474 672 288	10. BC "ENERGBANK" JSC	280 000 000

Source: Rating and estimation Agency "Estimator-VM" JSC

The total volume of capitalization of the bank system (13 banks) registers 6,0154 billion lei, or about 53,38% of the total volume of capitalization.

According to data provided by stock exchange trading statistics, from 2008 till the II-nd quarter of 2013, there have been traded on the stock exchange market shares of 9 (from 13) banks in value of 735,74 million lei, representing nearly 27,17% of the total volume of stock exchange transactions registered on the stock exchange for this period in amount of 2708,41 million lei. As an example, shares of BC "Moldova-Agroindbank" S.A. have been traded in value of 432,12 million lei, representing nearly 15,95% of the total volume of transactions, or 58,73% of the total volume of transactions with banks' shares.

Also, during this period, as a result of financial reports of banks, 10 of 13 banks did 12 closed additional issues of shares in volume of about 1574,24 million lei.

But these issues were forced to be performed by legislation in order to conform to new requirements of capital adequacy and thus to increase the level of I-st grade capital from 32 million lei in 2002 till 100 million lei in 2008 and 200 million lei in 2012. ***So, these issues did not have as objective to attract new investors, but to increase minimal necessary capital required by legislation in bank supervision. Banks even did not try to attract foreign capital, they operated in base of resources of existent shareholders. All these issues passes through closed procedure, and shareholders brought additional capital resources, or reinvested through distribution of new shares on the account of banks earnings.***

Another important role of banks relate to investing on the capital market as primary dealers with transactions with state securities. Only 11 banks from 14 are present on the OTC market to participate within auctions of selling state securities organized by the Ministry of Finance. The main reason to participate within transactions with state securities, is the possibility to manage liquidities and to invest by banks.

The presence of banks as primary dealers with state securities on the capital market is regulated by Regulation on placement and repurchase of state securities in form of account writing, according to which banks are obliged to participate at each auction and:

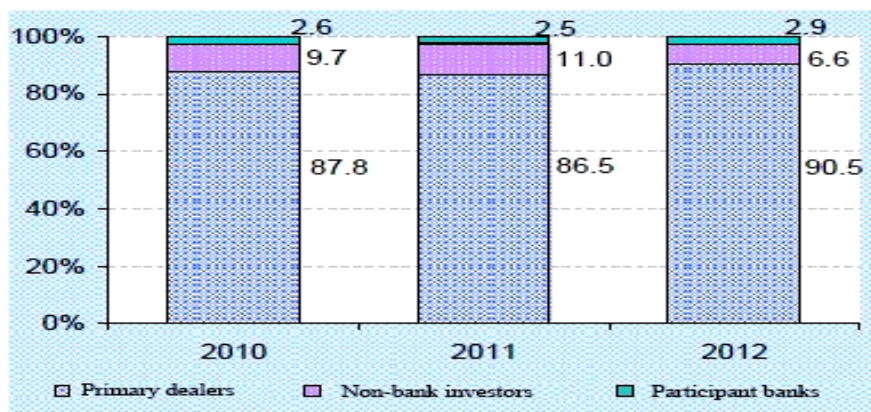
- To purchase 2% of the average quarterly volume offered by the Ministry of Finances during the 4 precedent quarters – banks with the level of assets exceeding 1000,0 million lei;
- To participate at minimum 50% of the total number of auctions of selling state securities and purchase 1% of the average quarterly volume offered by Ministry of Finances during the 4 preceding quarters – banks with the level of assets that do not exceed 1000,0 million lei.

The value of transactions with state securities registered on the secondary market in 2012 increased 3,7 times in comparison to 2011, reaching 98,1 million lei, as a result of increasing the number and value of transactions concluded between banks and clients (54,6% of the total), and also between the clients of the same and unique primary dealer (1,2% of the total)<sup>58</sup>.

<sup>58</sup> The most commonly traded state securities were with maturity below one year (28-91 days), representing 71% of the total volume of transactions with state securities.

During 2012, 12 primary dealers activated on the state security market, which according to agreements on accomplishing primary dealer functions on non-materialized state securities market concluded with NBM, **contributed towards the placement of state securities on the primary market and assurance of liquidity on the secondary market.**

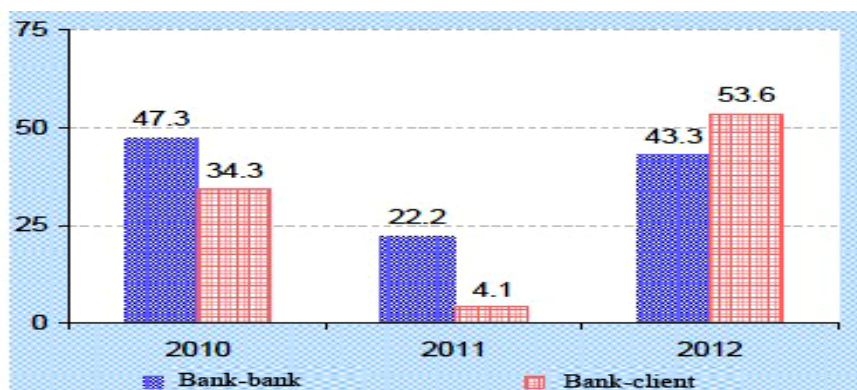
Figure 1 shows the structure of purchases of state securities by primary dealers, banks and non-bank investors. Thus, in 2012, 90,5% (6321,5 million lei) securities were purchased by primary dealers on own account, while the volume of non-bank investors registering a diminishing trend as number of purchasing agreements and volume.



**Figure 1. Structure of purchases of state securities within auctions on the primary market (per participants)**

Source: Report of 2012, National Bank of Moldova, p. 68

In 2012 the activity of primary dealers on state securities considerably intensified, namely in performing transactions of bank-client category, registering a volume of 53,6 million lei (54,6% of the total volume of transactions with state securities), in comparison to 4,1 million lei (18,5%) in 2011 (see Figure 2).



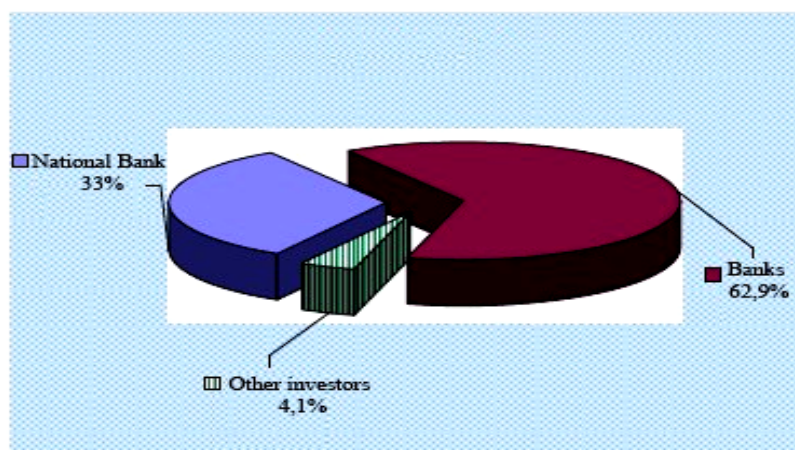
**Figure 2. Selling-purchasing transactions made by primary dealers on the secondary market (million lei)**

Source: Report of 2012, National Bank of Moldova, p. 68

In 2012, there have been produced the following changes in the structure of state securities registered in the System of Accounts Registering (see Figure 3):

- Increasing the weight of banks (from 55,4% in 2011 till 62,9% in 2012) as a result of increasing the volume of purchases of state securities on the primary market;
- Decreasing the weight of NBM (from 37% till 33%) determined by decreasing trend of interest rates on state securities issued and delivered as a result of converting loans granted previously tot state, as well as repurchasing by state securities by the Ministry of Finances from the portfolio of National Bank of Moldova in volume of 150,0 million lei;
- Diminishing the weight of non-bank investors (from 7,6% till 4,1%) as a result of *preferences of population for placements into higher income rendering state securities.*





**Figure 3. Structure of state securities in circulation according to owners, at 31.12.2012**

Source: Report of 2012, National Bank of Moldova, p. 70

The certificates of National Bank of Moldova were registered in the System of Accounts Registering of NBM in the portfolio of licensed banks in amount of 3719,0 million lei, while 25,0 million lei – in portfolios of other investors.

### **Activity of insurance companies on the securities market of Moldova**

The number of insurance companies during 2002-2012 period decreased from 49 till 18 companies, while the number of insurance/reinsurance brokers reached 76 companies in 2012 (from 32 companies that started their activity in 2008).

The same as previous years, **insurance market is characterized by a high level of concentration**. Thus, 5 insurance companies subscribed 835,2 million lei (76,7% of the total). These companies are:

- “Moldasig” JSC (30,7% of the total);
- “Asito” JSC (15,26%);
- “Moldcargo” JSC (12%);
- “GRAWE CARAT ASIGURĂRI” JSC (10,9%);
- “Donaris-Group” (7,82%).

Table 2 presents the list of insurance companies with foreign capital, out of which we find 3 companies that were mentioned earlier as the ones that have subscribed the highest volume of premiums: “Asito” JSC, “GRAWE CARAT ASIGURĂRI” JSC and “Donaris-Group”. This could indicate us **a strong relationship between companies’ efficiency of activity and foreign participation in capital**.

**Table 2**

#### **List of insurance companies with foreign capital, 2012**

Nr.	Insurance companies	Origin country of foreign investor	Social capital, mil. lei	Foreign capital, in social capital, mil. lei	Stake of foreign capital in social capital
1	“ASITO” S.A.	Great Britain	46,5	22,5	48,4
2	“DONARIS – GROUP” S.A.	Liechtenstein	39,1	36,7	93,9
3	“EXIM – ASINT” S.A.	Holland, Italy, Israel	15,0	14,8	98,7
4	“GRAWE CARAT ASIGURĂRI” S.A.	Austria, Romania, Russia	57,4	56,8	99,0
5	“TRANSELIT” S.R.L.	Great Britain	15,0	0,4	2,7
6	“VICTORIA ASIGURĂRI” S.R.L.	Holland	15,0	12,3	82,0
	<b>Total 6 companies</b>		<b>188,0</b>	<b>143,5</b>	<b>x</b>
	<b>Total on the market</b>		<b>561,2</b>	<b>143,5</b>	<b>25,6</b>

Source: National Commission of Financial Market, Annual Report 2012, NCFM activity and functioning of non-bank financial market

A good indicator on the activity of insurance companies is investment policy of accumulated resources. In order to cover risks assumed through insurance and reinsurance contracts, as well as to guarantee the norms of liquidity and solvency, insurance companies should invest carefully into some types of assets that are allowed to represent insurance reserves and one third of minimal solvency margin, respecting dispersion criteria according to norms stipulated in Regulation on solvency margins and liquidity coefficient of insurance (reinsurance) companies.

Analyzing the structure of insurance reserves, the great part of accumulated funds by insurance companies is preferred to be placed into bank deposits (35,2%) and land and constructions (20,6%)<sup>59</sup>.

Unfortunately, we cannot attest an active participation of insurance companies on domestic capital market, as the weight of placing reserves into transactions with securities represents only 15,8%, out of which placements into:

- State securities issued by Government of Republic of Moldova or other state authority – 11,7% of the total, or 106,3 million lei;
- Corporate securities traded on a national stock exchange – 4,1% of the total, or 37,1 million lei.

In 2012 there were no investments in state securities issued by other countries, or international financial organizations.

At the same time, insurance companies traded securities on foreign trading platforms in value of 9,2 million lei (1,0% of the total volume) in 2012.

Table 3 presents evolution of placements in assets by insurance companies during 2008-2012.

If we compare evolution of placements into securities by insurance companies, it can be stated a not uniform situation. For example, the weight of investment on domestic capital market represented 23,9% in 2011, being higher in comparison to 2012, due to an active investing into state securities – 18,9% (142,0 million lei), and transactions with corporate securities on the Moldova Stock Exchange – 5,9% (46,4 million lei).

Out of insurance companies that did investments with securities in 2012, the following ones can be mentioned:

1. State securities issued by Government of Republic of Moldova or other state authority:

- “Grave Carat Asigurari” JSC – 9,4 million lei;
- “Donaris-Group” JSC – 6,0 million lei;
- “Victoria Asigurari” JSC – 3,4 million lei;
- “Auto-Siguranta” JSC – 2,5 million lei;

**Table 3**

**Structure of assets allowed for investments by insurance companies:  
evolution during 2009-2012**

Indicators	2009		2010		2011		2012	
	mil. lei	%	mil. lei	%	mil. lei	%	mil. lei	%
Securities	34,3	7,1	68,4	13,3	203,2	26,0	152,8	16,9
Bank deposits	276,5	57,2	249,0	48,3	184,8	23,6	317,8	35,2
Liquidities on hand	41,8	8,6	49,0	9,5	74,7	9,5	61,0	6,8
Land and constructions	94,9	19,6	106,9	20,7	160,0	20,5	185,8	20,6
Claims from clients	36,2	7,5	36,6	7,1	44,4	5,7	53,9	6,0
Deposits at transferring comp.	-	-	5,7	1,1	-	-	-	-
Weight of reassurer	-	-	-	-	115,1	14,7	130,4	14,5
<b>Total</b>	<b>487,5</b>	<b>100</b>	<b>515,6</b>	<b>100</b>	<b>782,2</b>	<b>100</b>	<b>901,7</b>	<b>100</b>

Source: National Commission of Financial Market, Annual Report 2012,  
NCFM activity and functioning of non-bank financial market

<sup>59</sup> According to data provided by National Commission of Financial Market, Annual Report 2012, NCFM activity and functioning of non-bank financial market

## 2. Corporate securities traded on a national stock exchange:

- “Asito” JSC – 34,6 million lei;
- “Euroasig” JSC – 2,4 million lei;
- “Victoria Asigurari” JSC – 11 thousand lei.

Also, data presented on investments with securities during the last years, attest the participation, in major part, of insurance companies with foreign participation in social capital, meaning that only these companies implement investment policy in securities, thus, being able to afford this type of placement, due to the highest level of reserves accumulation and revenues receiving from activity rendered.

### Conclusions

Capital market from Republic of Moldova has not escaped out of incipient phase and does not offer population and real sector sufficient instruments of financial intermediation. There can be mentioned the following statements that conclude the poor development of domestic capital market:

- ***on the domestic capital market there are no active institutional investors;***
- capital market infrastructure ***is poorly activating and does not correspond to standards of European capital market model;***
- ***a weak development of material basis on the domestic capital market as investments are not sufficient for the creation of the market material basis and its subsystems of insurance;***
- ***lack of financial instruments***, as on the stock exchange market only stocks are traded, while the issue of corporate bonds is limited. Public issues of securities through public auctions have an episodic nature. Thus, state securities are not used to finance investment projects of national importance and are missing on the secondary market. Also, collective investment institutions also are missing;
- few profitable securities that could bring profits to investors in form of dividends or from speculative transactions;
- the major shareholders in companies from the real sector are primarily directed towards consolidating their controlling stake.
- even the investment risk is considered to be zero for state securities, on the Moldovan capital market only banks are investing in these tools, while other investors interesting in placing resources into state securities lack.
- practically all issues of shares on the Moldovan capital market are closed and limited to a restrained circle of persons, being performed outside the stock exchange, thus, limiting the participation of other potential investors;
- the real sector of economy is poorly developed, few companies from real sector are listed on the stock exchange, while the major part is represented by shares of commercial banks.

A financial system characterized by active presence of institutional investors and extensive capital market financing is more stable than a bank-based one. Institutional investors, having good information and low transactions costs, provide liquidities to the capital market, adjust asset prices to fundamentals and dampen price volatility.

In Republic of Moldova, there are no active institutional investors on the capital market, besides banks, and still the activity of banks is reduced only to the consolidation of shares' packages of existent shareholders, thus, the capital market remaining outside the interest of strategic investors. But, considering the actual development conditions of the domestic capital market, there is a crucial need to reanimate the activity of institutional investors in our country.

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