



# **NON-BANK FINANCIAL INSTITUTIONS REGULATORY AUTHORITY (NBFIRA)**

## **OVERVIEW OF FIRST INITIATIVE FUNDED PROJECTS**

FIRST Consultative Group Meeting

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***Marcelina Gaoses***  
***Director: Insurance and Pensions***



## OUTLINE OF TOPICS

- 1 Overview of Financial Sector - Botswana
- 2 NBFIRA Mandate
- 3 NBFIRA Operations
- 4 Size of Industry 2010/2011
- 5 Overview of FIRST Funded Projects
- 6 Main Outputs & Outcomes
- 7 Outputs Not Achieved
- 8 Challenges
- 9 Benefits of Projects
- 10 Suggested FIRST Improvements
- 11 Concluding Remarks



# OVERVIEW OF FINANCIAL SECTOR – BOTSWANA

- Structure of Financial Sector
  - ✓ Various non-bank financial institutions
  - ✓ Two Exchanges
  - ✓ Nine commercial banks
  - ✓ Two statutory banks (BSB etc.)
  - ✓ One development bank (NDB)
  - ✓ Three statutory development institutions (CEDA etc.)
  - ✓ Statutory funds (MVA Fund etc)
  - ✓ International Financial Services Centre (IFSC)
  
- Regulatory Structure of Financial Sector
  - ✓ Bank of Botswana – central banking functions, regulate all banks and supervise also all statutory banks (although these are primarily controlled by MFDP)
  - ✓ NBFIRA – regulate all NBFIs, IFSC companies
  - ✓ Financial Intelligence Agency – Anti-money laundering and combat of terrorist
  - ✓ Competition Commission

# MANDATE OF NBFIRA

To regulate and supervise the business of all the non-bank financial institutions (“NBFIs”) stipulated under the NBFIRA Act which include:

- Insurance Companies; Insurance Brokers; Insurance Agents
- Pension and Provident Funds; Administrators of pension funds;
- International Insurance Firm; Member of the insurance industry; Friendly Societies;
- Asset Managers; Collective Investment Undertaking; Securities Dealer (Stock Broker); Securities Exchange;
- Central Securities Depository; Custodian;
- Micro lenders; Financial Trustees; Finance or Leasing Company; Financial Groups
- Financial Services Law is the subordinate legislation to NBFIRA Act (Insurance Industry Act, Pension and Provident Funds Act, etc.)
- Regulation and supervision of these entities will achieve five major objectives (NBFIRA Act):
  - ✓ Safety and soundness;
  - ✓ High standards of business conduct;
  - ✓ Fairness, efficiency and orderliness in the financial market;
  - ✓ Stability in the financial system; and
  - ✓ Reduction and deterrence of financial crime.

# NBFIRA OPERATIONS

- Established in April 2008 as an independent regulatory authority
- Organizational Structure:
  - ✓ Board of Directors – with regulatory oversight
  - ✓ Executive Management – delegated regulatory oversight
  - ✓ Three main departments:
    - ✧ Insurance and Pensions
    - ✧ Capital Markets
    - ✧ Corporate Services
- Current staff compliment is 35 (10 trainees)– full compliment required is 54
- Current Board approved budget is P66 million:
  - ✓ P21million approved through government subvention (current source)
  - ✓ P45 million to be funded by supervisory levies (if approved by Minister of Finance and Development Planning)



## NBFIRA OPERATIONS...

- Strategic Objectives:
  - ✓ Promote stakeholder education
  - ✓ Enhance the NBFIRA brand
  - ✓ Create a fair, stable and efficient NBF sector
  - ✓ Achieve self-funding status
  - ✓ Develop an effective risk based policy and regulatory framework
  - ✓ Implement an effective regulatory framework
  - ✓ Improve internal operational processes
  - ✓ Establish knowledge base/repository
  - ✓ Promote high performance culture
  - ✓ Attract, retain and develop skilled staff
  
- These strategic objectives were formulated to commence in 2010 for 3 years to guide NBFIRA in fulfilling its mandate
  
- Due to financial constraints some of these has been deferred

# SIZE OF THE INDUSTRY

Industries that currently fall under existing legislation are:

- Insurance Industry
- Pension Funds Industry
- Collective Investment Undertakings
- Botswana Stock Exchange

## Market Performance for 2010/2011 (Estimates)

### Insurance

GPW = P 3.2 billion

GPW to GDP = 3.4%

### Pension Funds

Total Assets = P36 billion

Assets to GDP = 39%

Financial Sector  
Employment = 7,810  
(2.2% of Total  
Employed)

### Collective Investment Undertakings

Total Assets = P4.9 billion

Assets to GDP = 5.4%

### Botswana Stock Exchange

Total Market Cap = P470  
million

# OVERVIEW OF FIRST FUNDED PROJECTS

## NBFIRA Capacity Building Project: Insurance and Pensions 2009/10

- Overview of the larger Project:
  - ✓ Develop a regulatory framework for the insurance and pensions industries in Botswana
  - ✓ Revision of the Insurance Industry Act; the International Insurance Act; the Pension and Provident Funds Act; and Regulations to all these Acts
  - ✓ Introduction of Insurance Prudential Rules:
    - ✧ Valuation of liabilities
    - ✧ Asset requirements
    - ✧ Solvency requirements
    - ✧ Behavior of intermediaries
    - ✧ Policyholder protection
  - ✓ Introduction of Pension Prudential Rules:
    - ✧ Funding requirements
    - ✧ Valuation and limitation on investments
    - ✧ Protection of members
  - ✓ Development of Forms and Returns to support the supervisory process
  - ✓ Development of supervisory procedural manuals
  - ✓ Implementation of Prudential Rules, Forms and Returns
  - ✓ Training of NBFIRA staff and industry





## OVERVIEW OF FIRST FUNDED PROJECTS...

- Overview of the Project Principles:
  - ✓ Considered international best-practice
  - ✓ Focused on the maintenance of a sound insurance and pensions industries and the protection of policyholders/members
  - ✓ Introduced risk-based principles where appropriate
  - ✓ Foster stability and development of the industry
  - ✓ Goal for regional harmonisation
  - ✓ Supervisory activities centered around the assessment of the risk of insurers and pensions
  - ✓ Build a culture of risk management among insurers and pensions and encourage a focus on the management of the insurers and pensions risks by the board of directors/trustees
  - ✓ Increased disclosure around risk management for insurers and pensions

# OVERVIEW OF FIRST FUNDED PROJECTS...

## Key players in the project, their role and costing

- Quindiem Consulting – Contracted by FIRST:
  - ✓ Actuaries, Insurance & Emerging Markets Specialists
  - ✓ Based in Johannesburg
  - ✓ Life, Non-life Insurance Practices
  - ✓ Regulation practice:
    - ✧ Various SADC countries and Eastern Europe
    - ✧ Regulatory and supervisory frameworks for insurance and pensions
- NBFIRA – Owner of project, coordinator and implementer
- Ministry of Finance – High level supporter of project and key stakeholder
- Industry – Very important stakeholder (can lobby government)
- FIRST Initiative – Key donor of project (assessment of success of project)
- Cost of Project:
  - ✓ Estimated cost = US\$1.7 million
  - ✓ Actual cost = directly paid by FIRST to consultants
  - ✓ NBFIRA made no financial contribution

# OVERVIEW OF FIRST FUNDED PROJECTS...

## **NBFIRA Capacity Building Project: Enhancing Supervision of Capital Markets 2010/11 (Anticipated to be completed by end of May 2011)**

### ➤ Overview of the larger Project:

- ✓ Create a regulatory framework for Capital Market Participants (trustees for CIUs, management companies of CIUs, financial groups, asset managers, investment advisors, custodians, IFSC offshore companies)
- ✓ Review and create regulatory framework for Self-Regulatory Organizations (SROs)
- ✓ Revision of the Collective Investment Undertakings Act (CIU Act)
- ✓ For all of the above develop guideline documents and reporting requirements

### ➤ Overview of the Project Principles:

- ✓ Based on IOSCO Principles
- ✓ Focus on the maintenance of a sound capital markets industry
- ✓ Introduce risk-based principles where appropriate
- ✓ Foster stability and development of the industry
- ✓ Regional harmonisation taken into account
- ✓ Market conduct principles for intermediaries
- ✓ Increase disclosure and protection of investors

# OVERVIEW OF FIRST FUNDED PROJECTS...

## Key players in the project, their role and costing

- Cadogan Financial Ltd & Associates – Contracted by FIRST:
  - ✓ Capital Markets, Exchanges and CIU Specialists
  - ✓ Based in London
  - ✓ Regulation practice:
    - ✧ Sub-Saharan Africa: Kenya, Mauritius, Rwanda, Tanzania, Uganda and Zimbabwe
    - ✧ Other emerging markets (including Egypt and Tunisia)
- NBFIRA – Owner of project, coordinator and implementer
- Ministry of Finance – High level supporter of project and key stakeholder
- Industry – Very important stakeholder (can lobby government)
- FIRST Initiative – Key donor of project (assessment of success of project)
- Cost of Project:
  - ✓ Estimated cost = U\$167,090
  - ✓ Actual cost = directly paid by FIRST to consultants
  - ✓ NBFIRA contribution = P175,000

# MAIN OUTPUTS & OUTCOMES

## NBFIRA Capacity Building Project: Insurance and Pensions 2009/10

### ➤ Main Outputs

- ✓ Draft Insurance Industry Bill and Regulations
- ✓ Draft Retirement Funds Bill and Regulations
- ✓ Draft Insurance Prudential Rules
- ✓ Draft Retirement Funds Prudential Rules
- ✓ Draft Forms and Returns

### ➤ Outcomes

The target outcomes for this project are:

- ✓ Promulgation of the new Insurance Industry Act and Regulation
- ✓ Promulgation of the new Retirement Funds Act and Regulation
- ✓ Implementation of Insurance and Retirement Funds
  - ◇ Prudential Rules
  - ◇ Forms
  - ◇ Returns

# MAIN OUTPUTS & OUTCOMES...

## NBFIRA Capacity Building Project: Enhancing Supervision of Capital Markets 2010/11

### ➤ Main outputs

- ✓ Final Draft of Capital Market Participant Regulations and Rules
- ✓ Final Draft of SRO Regulations and Rules
- ✓ Final Draft of CIU Act, Regulations and Rules
- ✓ Guidance Documents
- ✓ Reporting Requirements

### ➤ Outcomes

The target outcomes of this project are:

- ✓ Promulgation of Regulations governing market participants (brokers, dealers, investment advisors and assets managers and custodians)
- ✓ Promulgation of Regulations and Rules of SRO
- ✓ Promulgation of amendments Collective Investment Schemes Act
- ✓ Sufficient knowledge transfer to promote sustainability of these reforms

# OUTPUTS NOT ACHIEVED

## **NBFIRA Capacity Building Project: Insurance and Pensions 2009/10**

- Final draft revised International Insurance Act and Regulations (Projected Cell Captives)
- Final draft Prudential Rules, Forms and Returns for International Insurance
- Implementation of Insurance and Retirement Funds Prudential Rules, Forms and Returns
- Development of supervisory procedural manuals
- Training of NBFIRA staff and industry
- Reason outputs not achieved:
  - ✓ Quindim indicated during the duration of project that the time and funds allocated was not sufficient to complete the full project (consulted apparently with FIRST)
  - ✓ FIRST reasons for cutting project never received

## **NBFIRA Capacity Building Project: Enhancing Supervision of Capital Markets 2010/1**

- Received a draft final report and are assessing it now - the project expected to be completed by end of May 2011

# CHALLENGES

## **NBFIRA Capacity Building Project: Insurance and Pensions 2009/10**

- Time constraints – tied project timeline made; limited human resources made NBFIRA monitoring difficult
- Delayed responses from stakeholders
- Consultants spent little time on-site – magnitude of project
- The project ended abruptly – no formal handover of documents by Quindiem to NBFIRA – all adjustments made by NBFIRA
- No formal notification to NBFIRA by FIRST regarding end of project
- No sign-off by NBFIRA final documents to ensure all TORs were met before final payment to Quindiem
- Now applying for additional funding – rest will be covered under African Development Bank project

## **NBFIRA Capacity Building Project: Enhancing Supervision of Capital Markets 2010/11**

- Time constraints – tied project timeline made; limited human resources made NBFIRA monitoring difficult
- Lack of full participation by stakeholders
- Consultants seemed reluctant in some instances to resolve some issues raised
- Consultants prescriptive to NBFIRA of how to present a report versus appreciating NBFIRA as the client
- No sign-off by NBFIRA documents to ensure TORs are met before payment to Cadogen





# BENEFITS OF PROJECTS

- These projects allow NBFIRA to achieve its Strategic Objectives. The specific objectives are:
  - ✓ Create a fair, stable and efficient NBF sector
  - ✓ Develop an effective risk based policy and regulatory framework
  - ✓ Implement an effective regulatory framework
- Other benefits of project:
  - ✓ Encouraging growth in local investments due to well regulated financial services market, leading to job creation and overall economic growth
  - ✓ NBFIRA will have adequate oversight over all the NBFs
  - ✓ Consumers will be adequately protected and make informed decisions
  - ✓ Most importantly it contributes to transfer of skills and overall staff training



## SUGGESTED FIRST IMPROVEMENTS

- Project timelines should be such that it allows the project owners enough room to monitor the project properly.
- For projects of this magnitude it is important for Consultants to spend more time on-site. This allows for better participation of project owners and better transfer of skills.
- All interim reports and documents should be signed off by project owner for progress payments to be made to Consultants.
- Also at the end of the project, the Consultants should do a formal handover and get a sign off from the project owner before final payment is made. This way all parties agree that the terms have been met.
- If any adjustments are to be made to the TORs during the duration of the project, the project owner should be involved.
- FIRST application form needs some improvement. It seems to repeat same questions in a different way. The approval timeframes are also not so clear.
- Consistent involvement of project owners in selection of Consultants.



## CONCLUDING REMARKS

- In order for NBFIRA to meet its objective to regulate NBFIs sector effectively, it needs to achieve all its Strategic Objectives.
- NBFIRA needs to have adequate resources and powers to execute its mandate.
- FIRST Initiative through its kind funding is assisting NBFIRA to achieve some of its Strategic Objectives and providing it with proper legal capacity,
- Once the proposed levies are approved by the Minister, NBFIRA will be in a position to effectively implement all the FIRST funded project outcomes and effectively execute its mandate.
- We thank the World Bank and FIRST Initiative for its generous assistance in building NBFIRA's capacity.



THANK YOU!

QUESTIONS???