NON-BANK FINANCIAL INSTITUTIONS
REGULATORY AUTHORITY
(NBFIRA)

OVERVIEW OF FIRST INITIATIVE FUNDED PROJECTS

FIRST Consultative Group Meeting
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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:
  - P21 million 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 NBFI 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%

**Collective Investment Undertakings**

- Total Assets = P4.9 billion
- Assets to GDP = 5.4%

**Financial Sector**

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

**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 = U$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 asset 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 NBFI 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 NBFIs
  - 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 NBFI 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???