

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



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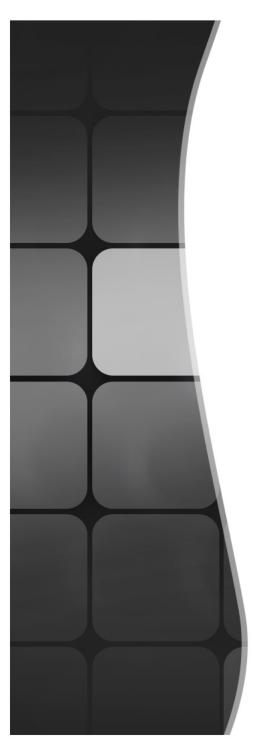
OVERVIEW OF FINANCIAL SECTOR -BOTSWANA

- 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



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 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%

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 <u>FIRST</u> 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 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



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...

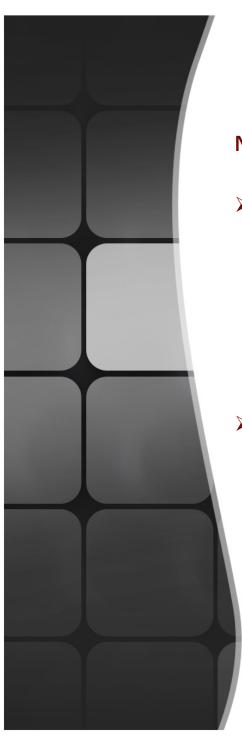
NBFIRA Capacity Building Project: Enhancing Supervision of Capital Markets 2010/11 (Anticipated to be completed by end of May 2011)

- Overview of the larger Project:
 - ✓ Create a regulatory framework for Capital Market Participants (trustees for ClUs, management companies of ClUs, 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



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
- Inplementation 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



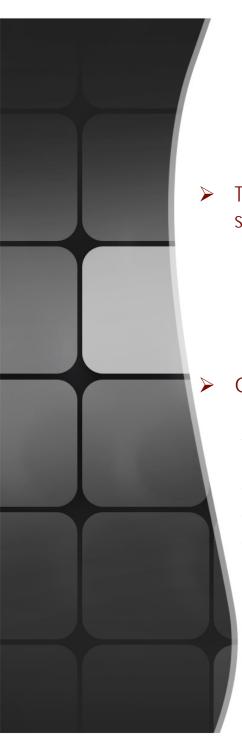
CHALLENGES

NBFIRA Capacity Building Project: Insurance and Pensions 2009/10

- Time contraints 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 upruptly 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

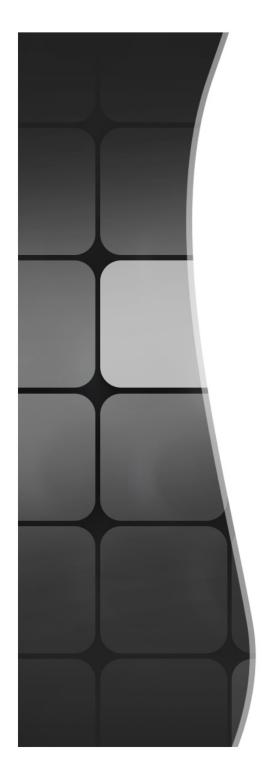
NBFIRA Capacity Building Project: Enhancing Supervision of Capital Markets 2010/11

- Time contraints 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



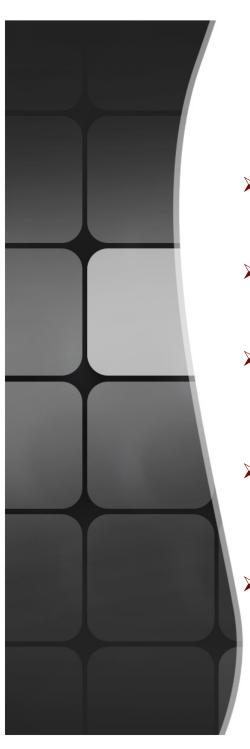
BENEFITS OF PROJECTS

- ➤ 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 magnite 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 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.

