2016/17

RESEARCH BULLETIN

NBFIRA

Non-Bank Financial Institutions Regulatory Authority

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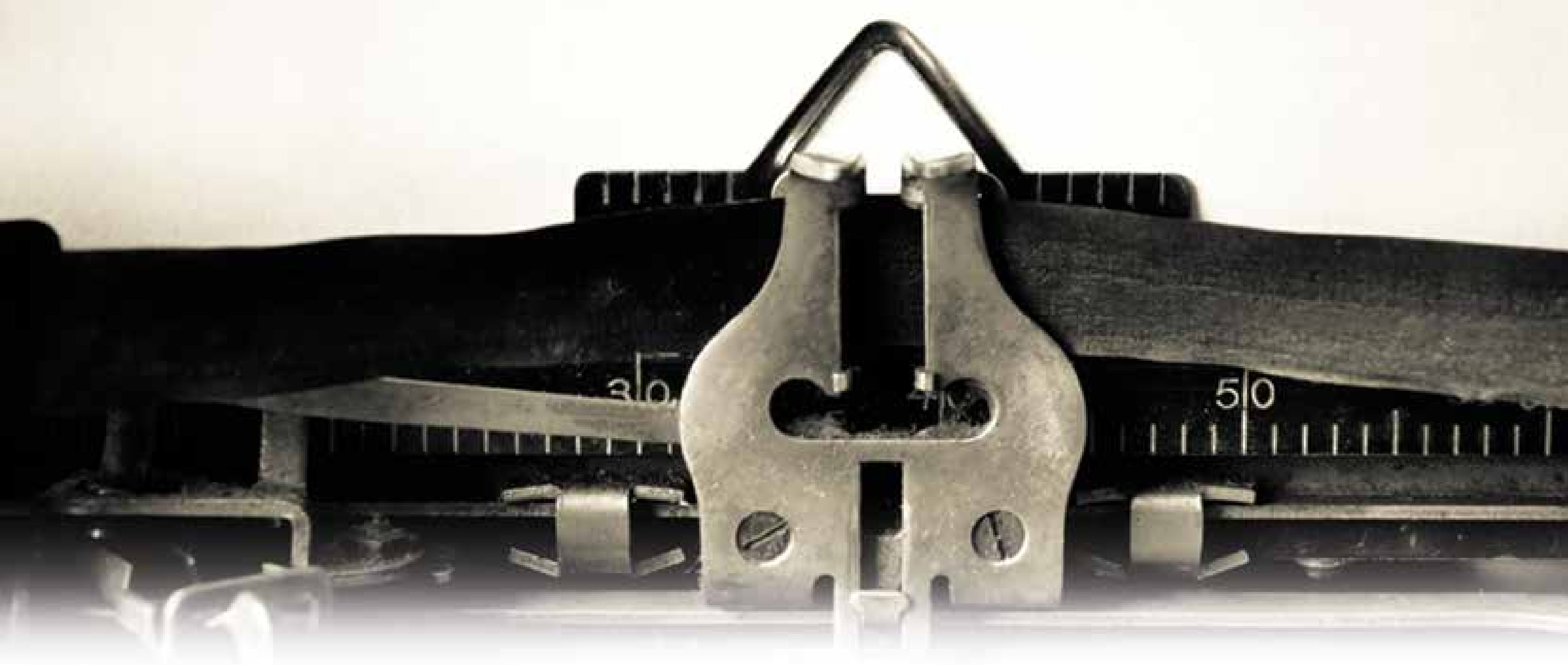
Foreword



It is with pleasure that I present for wider readership the inaugural Research Bulletin for the Non- Bank Financial Institutions Regulatory Authority (NBFIRA) hereafter referred to as ***the Authority***. The purpose of the Research Bulletin is to provide a forum where research relevant to the economy and the financial sector, with particular reference to the non-bank financial sector can be disseminated. The scope of the bulletin includes dissemination of information on developments, the regulatory policy changes and initiatives; as well as news and information of interest to the members of the public.

The articles are contributed by staff of ***the Authority***. Views expressed are not necessarily those of ***the Authority*** but of the authors and their contributors. Members of the public are welcome to submit articles on the non-bank financial sector developments that are not advertorial in nature to be vetted and amended by the Editorial Committee for publication.

I wish to acknowledge all the regulated NBFIs, Board, Management and Staff of NBFIRA for working diligently in providing all the information required to make this first publication a success.

The document is only published as a soft copy on ***the Authority's*** website (www.nbfira.org.bw) for cost considerations.

Ramasedi O. M (Mr.)
Chief Executive Officer

Mandate

The Regulatory Authority derives its mandate to regulate and supervise the non-bank financial institutions (NBFIs) from Section 8 of the NBFIRA Act (CAP46:08). In terms of the NBFIRA Act, the principal object of ***the Regulatory Authority*** is to foster the following:-

- Safety and soundness of the NBFIs;
- The highest standards of conduct of business by the NBFIs;
- Fairness, efficiency and orderliness of the Non-Bank Financial sector;
- Stability of the financial system; and
- Reduction and deterrence of financial crime.

VISION, MISSION AND VALUES

To support its fundamental and principal object, ***the Regulatory Authority*** subscribes to the following vision, mission and values statement in order to embrace a culture of a high performance organization.

Vision: To be an efficient and effective regulatory and supervisory authority in line with international best practices.

Mission: To regulate and supervise the Non-Bank Financial Institutions for the purpose of contributing towards financial stability.

Values:-

Integrity	We adhere to the highest ethical standards.
Transparency	We are open and frank in our operations.
Fairness	We consistently promote equal treatment in our dealings with all stakeholders.
Accountability	We are responsible to our stakeholders.
Diligence	We are thorough and persistent in the execution of our duties.

Editorial Commentary

The 2016/17 Annual Research Bulletin is themed around policies and practices that support ***the Regulatory Authority*** in executing its mandate. The objective of this issue is to promote understanding of what ***the Regulatory Authority*** does and how it does it, in brief.

All articles were prepared by the Research Department staff except as indicated.

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1. Regulatory Profile of NBFIRA - *The Regulatory Authority*

Historical Background: The Non-Bank Financial Institutions Regulatory Authority (NBFIRA) was established by an Act of Parliament, the Non-Bank Financial Institutions Regulatory Authority Act CAP 46:08 (the Act) in 2006, but only started operations in 2008. Prior to this, regulation of the non- bank financial institutions (NBFIs) was split between the Ministry of Finance and Development Planning and the Bank of Botswana (The Central Bank). The NBFIs includes the Insurance, Capital Markets, Lending Activities, Investment Institutions and Retirement Funds industries.

Mandate: The mandate of NBFIRA, also known as ***the Regulatory Authority***, is specified by Section 8 of the Act. Its principal objective is to regulate and supervise the NBFIs with the aim to:

- Achieve safety and soundness;
- Maintain the highest standards of business;
- Ensure fairness, efficiency and orderliness in the financial system
- and finally, to reduce and discourage financial crime.

Scope of NBFIRA's Regulatory Process: NBFIRA conducts a combination of both market conduct and prudential regulation of the NBFI sector. ***The Regulatory Authority*** also has established information sharing channels with the Bank of Botswana that feeds into the financial stability assessment and regulation.

Licensing: Key to ***the Authority's*** regulatory process is the regulation of entry into the sector through licensing. The licensing process prescribes entry requirements to be fulfilled upon entry. Any person who carries a business as an NBFI in Botswana or carrying such business by providing financial services to a person outside Botswana, needs to be licensed by NBFIRA.

The Regulatory Authority may, upon written request of the licensed NBFI, vary the conditions of the license, suspend or cancel the institution's license. ***The Regulatory Authority*** is also empowered to cancel the institution's license should it appear that; the licensed institution is not carrying or is likely not to carry on the business for which it is licensed with integrity, prudence and professionalism; or is in an unsound financial position; it's a risk to financial instability, it's not compliant to financial service laws or is likely to commit crime or has failed to submit reports as required under section 52 of the Act.

Capital Requirements: ***The Regulatory Authority*** use both the minimum size capital requirements and variable capital adequacy requirements. Most NBFIs are subject to a minimum capital requirement at inception, and for some, throughout the life of the entity. However, where risk is perceived to increase with the growing balance sheet a variable capital requirement that is scaled with the growing perceived risks is imposed throughout the life of the NBFI.

Disclosures: NBFIs are required to submit regulatory returns periodically on their financial performance and operations. These include audited annual reports, or where entities are below the threshold stipulated by the Companies Act, financial statements prepared by independent but qualified accountants.

Other disclosures pertaining to pricing, contractual terms and conditions, changes in key personnel etc., are also made to ***the Authority***.

Market Conduct: ***The Authority*** also has responsibility, to some extent, to protect consumers against unfair business practice of suppliers of financial services. Examples are, amongst others, misleading advertising, inadequate information disclosures and unfair dealings. Only key personnel who pass the fit and proper tests can be approved for business ownership, management or beneficial ownership. Customer complaints are arbitrated and resolution assured with minimum delay.

Compliance Monitoring: ***The Regulatory Authority*** uses both the on-site and off-site regulatory tools to monitor compliance; typically observance of licensing conditions, including ownership, key personnel, capital requirements etc. Non-compliance is subject to regulatory enforcement actions including imposition of administrative penalties, statutory management or at worst terminations of licenses.

Financial Stability: ***The Authority*** analyses information received for financial instability indicators and takes proactive actions. To that end, a risk based supervisory approach has been adopted to identify early warning signals and hence target allocation of limited staff resources to resolve problem areas. NBFIs are risk profiled and rated in accordance with prudential regulation and Anti Money Laundering requirements.

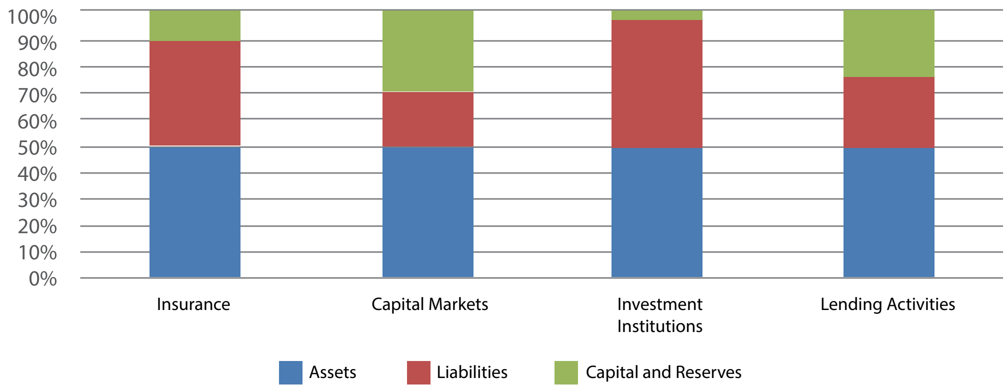
The Regulatory Framework: The NBFIRA Act is supported by Rules and Regulations derived from industry specific legislation for its effectiveness in regulating specific industries and its business sectors. Some of which include; the Insurance Industry Act, The International Insurance Act, The Pensions and Provident Funds Act, The Collective Investment Undertakings Act and relevant portions of Part XIV of the Income Tax Act. Other applicable financial services laws include: Botswana Stock Exchange Act, Companies Act, Income Tax Act, Financial Intelligence Act and Financial Services Act.

Table 1 below provides a synopsis of profitability on the basis of employment of assets for the NBFI sector during the two year period ending December 31. Chart 1 shows key items of the statement of financial position relative to total assets.

Table 1: Return on Assets Ratios

Return on Average Assets in 2013		Return on Average Assets in 2014	
Insurance		**Insurance**	
Life	3.0 %	Life	3.9%
General	10.3%	General	7.3%
Capital Markets		**Capital Markets**	
Brokers	(2.1)%	Brokers	14.2%
Investment Institutions		**Investment Institutions**	
Mancos	20.0%	Mancos	18.5%
Asset Mgrs.	1.3%	Asset Mgrs.	1.4%
Lending Activities		**Lending Activities**	
Microlenders	21%	Microlenders	15%

Chart 1: Compressed Statement of Financial Condition of NBFIs in 2014



2. Corporate Profile of NBFIRA – *The Regulatory Authority*

Governance Structure: NBFIRA has a governance structure with a clear identification and separation of operational and oversight responsibilities for regulating the non-bank financial sector in accordance with best international practice. Section 11 (3) of the NBIRA Act CAP 46:08 established a Six (6) member Non-Executive Board of Directors to govern ***the Regulatory Authority***. The Board is responsible for policy and general administration of ***the Regulatory Authority***, including ensuring adherence to good corporate governance principles. The Board Charter and Terms of Reference sets out respective duties and obligations of the Board and of Management of the NBFIRA. The Board structure includes the main board, with two (2) Ex-Officio members representing the Ministry of Finance and Development Planning and the Bank of Botswana (central bank), Finance and Audit Committee (FAC), Human Resource Committee (HRC).

Funding structure: The operations and activities of NBFIRA are partly funded through Government Subvention. On February 1, 2012 ***the Regulatory Authority*** introduced the collection of supervisory levies on regulated entities to improve its funding base, and to reduce reliance on Government funding. ***The Regulatory Authority*** has other revenue collection avenues, which although small, include: license fees, administrative penalties for violation of prescriptions of regulatory statutes etc. The graph below shows a 4 year funding record and the trends that reflect ***the Authority***'s policy towards sustainable and independent funding from Government overtime.

Organizational Structure: The Board and its sub-committees are at the apex of the organizational structure of ***the Regulatory Authority***. The operations of ***the Regulatory Authority*** are driven by a six (6) member Executive Committee (EXCO) led by the Chief Executive Officer (CEO). Other members of Exco include Deputy CEO Corporate Services, Deputy CEO Regulatory and Directors: Insurance, Lending and Retirement Funds & Investment Institutions (RFII). Additional members of the Executive Committee are drawn from other functional departments.

Functions of the Departments:

The Chief Executive Officer's Office is supported by general management which consists of the two divisions, namely, the Regulatory and Corporate Services Divisions, led by two (2) Deputy Chief Executive Officers (DCEOs). In addition, the Chief Executive Officer's (CEO) office is supported by the Strategy and Compliance Departments. An internal audit division reports directly to the Board and administratively to the CEO.

Compliance Department: responsible for all the legal and enforcement work of ***the Regulatory Authority***, which includes among others, the provision of Board Secretariat and Legal services to ***the Regulatory Authority***.

Internal Audit Department: the department ensures conformance and compliance to ***the Regulatory Authority's*** policies and internal control procedures, laws and regulations, compliance to other external requirements and best practice.

Strategy and International Affairs Department: the department facilitates and coordinates the development, review and implementation of ***the Regulatory Authority's*** strategy. It also monitors performance of the work plan initiatives against the strategic objectives. Moreover, the department liaises with international and regional standards setting bodies and tracks implementation of the set standards and principles.

The DCEOs head the Divisions made up of the following Departments:

Corporate Services Division	Regulatory Division
Human Resources & Administration	Insurance Department
Information Technology Department	Capital Markets Department
Finance Department	Lending Activities Department
Department	Research Department
Communications & Public Affairs Department	Retirement Funds & Investment Institutions Department

Human Resources & Administration Department: the role of HR & Admin is to facilitate the Human Capital and provide Administrative Services to ***the Regulatory Authority***.

Information Technology Department: the IT Department supports ***the Regulatory Authority's*** operations with provision, maintenance and support of appropriate IT infrastructure.

Finance Department: the department is responsible for the coordination and control of the financial aspects of ***the Regulatory Authority***.

Communications & Public Relations Department: provides clear and accurate information about ***the Regulatory Authority*** to its internal and external stakeholders, as well as utilizing opportunities to enhance the image of the organization.

Insurance Department: regulates and supervises reinsurers, insurers, medical aid funds and insurance intermediaries in accordance with the provisions of the relevant Acts.

Retirement Funds & Investment Institutions Department: the department has a dual role of regulation of pensions and Provident Fund Administrators, and Investment Institutions.

Capital Markets Department: the role of the department is to regulate and supervise securities infrastructure businesses, securities institutions and global businesses which are NBFIs accredited to the International Financial Services Centre.

Lending Activities Department: the Lending Department is responsible for the regulation and supervision of microlenders, pawnshops and finance and leasing companies.

Research Department: the main function is to coordinate market intelligence within the NBFI sector, particularly for purposes of accurate and timely reporting to inform policy formulation and review as well as facilitate regulatory strategic and operational decision making.

Strategy Implementation: The 2013-2016 Strategic Plan, which ended on March 31, 2016 paved way for a new and refined plan for the 2016-2021 period, which was approved by the Board in March 2016. The strategic plan identifies strategic objectives adopted to achieve a safe, fair, stable and efficient NBFI sector and an orderly development of the market through a consultative process involving the Board, Management and the staff.

Chart 2: Evolution of Staff Complement over Past 4 Years

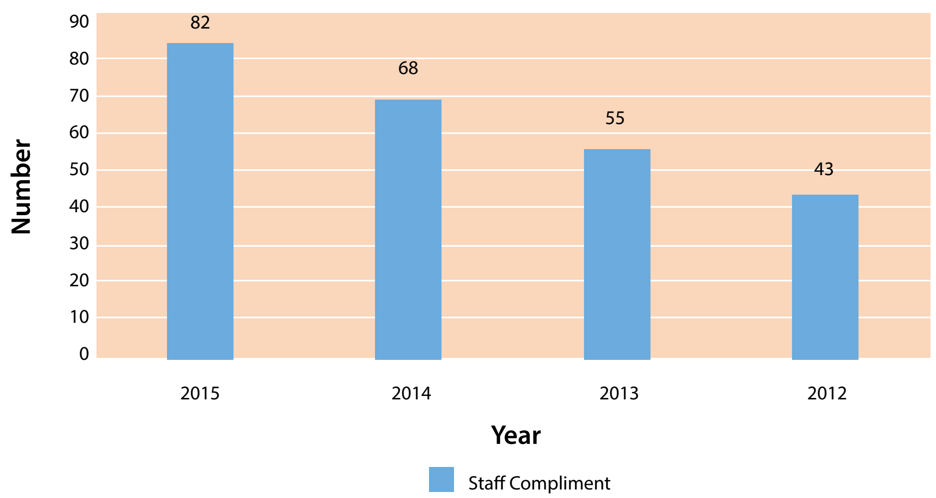
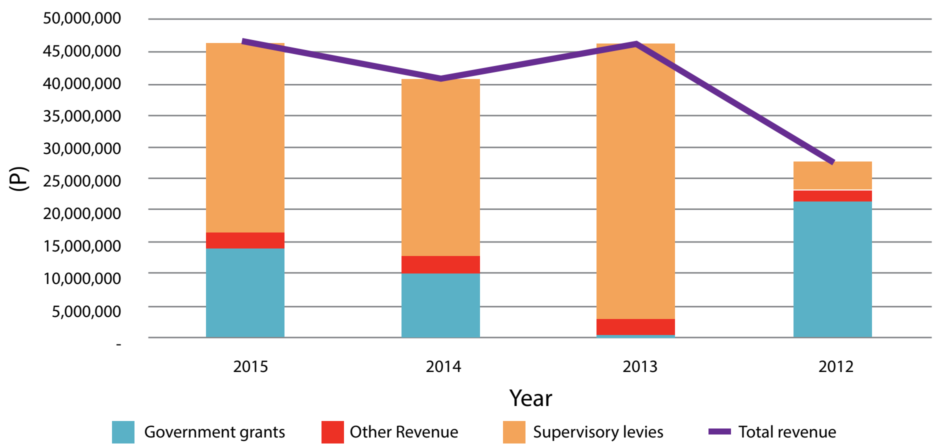


Chart 3: ***The Authority's*** Funding Structure during 2012-2015



3. Key Regulatory and Administrative Policies of NBFIRA

The policies of NBFIRA aim to provide guidance in the implementation of the administrative and regulatory prescriptions of the regulatory framework. These are periodically reviewed to reflect the evolving market conditions.

Licensing Policy: Section 43 of the NBFIRA Act requires that all regulated NBFIs listed in Section 49(2) of the Act be licensed prior to commencing their operations and to comply with the terms and conditions of their license category and other prudential or market conduct regulations during the entire life of their operation. This section gives guiding principles which may be varied slightly in accordance with the specific industry laws. Any NBFI seeking to be licensed under the financial services laws administered by ***the Authority*** should meet the following conditions:-

- The Applicant should, unless otherwise permitted, be a company fully incorporated under the Companies Act of Botswana;
- The entity should have its principal office in Botswana;
  The NBFIs' Controller (s), Directors, Principal Officer, Management and all key personnel who handle the day to day operations should be resident in Botswana; and should be persons with sufficient business knowledge and experience.
- The key personnel and controllers should satisfy the requirement of fit and proper tests. That is the tests which establishes integrity and. probity to run a financial institution.
- The Applicant should demonstrate that the proposed business will be conducted in accordance with sound business principles;
- The Applicant must proof availability and adequacy of the initial capital injection as prescribed for the business sector and continually update on the contingency plans to meet capital adequacy requirements;
- The Applicant must undertake to comply with all the prudential and other requirements of the laws.

Capital Adequacy Requirements: Most licensed NBFIs are required to maintain a minimum capital of a prescribed amount in accordance with the type of business. However, some entities are required by law to augment their capital positions in keeping with the risks emanating from the growing business undertaking. For example, some entities are required to retain 25 percent of their net income after tax to augment their capital positions on an annual basis. Any licensed entity who allows the capital to be eroded such that it falls below the minimum prescribed amount or fails to meet the capital requirements is guilty of an offense and must restore solvency within reasonable time or have its license cancelled.

Risk Based Supervision: ***The Regulatory Authority's*** regulatory framework operates on a risk based supervisory approach basis. The process is a forward looking mechanism, which entails identifying, measuring, rating and mitigating business risks that may impede the attainment of regulatory objectives. Entities are assessed through both quantitative and qualitative data and information analysis and rated on a scale of 1 to 5; being Normal to Restructure. Ratings attract regulatory interventions and actions commensurate to its gravity. The Risk Based Methodology utilizes the "Supervisory Attention Index" as shown in the probability/impact matrix below.

Strategic Planning: NBFIRA has adopted a balanced score card premium execution process developed by Kaplan and Norton. It "aims to create an integrated, closed loop, strategic management process that links strategy formulation and planning with operational execution". The highest level of the strategic framework defines the vision, mission statement and core values of NBFIRA. The plan identifies corporate strategic objectives that are aligned to its vision and mission statement and classifies them into the four perspectives of Financial, Stakeholder, Business Process and Learning & Growth. The objectives and initiatives form the basis of the corporate scorecard which are then further cascaded to the departmental functions. The medium to long term rolling objectives are reviewed annually for performance evaluation and refinement, if so required.

Customer Complaint Management Policy: ***The Regulatory Authority*** has implemented a customer complaint policy with the primary aim of protecting the needs of a customer. The customers must first lodge complaints with the service providers in a written form. If the complaint resolution is unsatisfactory, the customer should escalate it to higher ranks within that organization. Should all the efforts fail to resolve the matter and after thirty (30) days, the customer should lodge the written complaint with NBFIRA and should provide all support correspondence with the NBFI. NBFIRA undertakes to attend to the complaint within 14 days.

Performance of Reporting: Section 32 of the NBFIRA requires ***the Authority*** to publish reports evaluating its operational and financial performance together with that of regulated NBFIs. ***The Authority*** meets this requirement through the publication of the Annual Reports, the Annual Statistical bulletins and operational quarterly reports to the Board. ***The Authority*** holds bilateral and industry meetings with regulated entities as well as engage the wide readership through publications in the NBFIRA website (www.nbfira.org.bw), in order to contribute to stakeholder engagements.

Performance Measurement System (PMS): ***The Authority*** uses the HAY job evaluation system to measure job sizes and reward its employees accordingly. Staff performance is subject to measurement and evaluation on a quarterly basis to ensure that a high performance culture is promoted.

IT Policy: ***The Authority*** has adopted a robust regulatory data management system (The Risk Based Supervisory System) which is integrated with enterprise resource management IT systems that cater for on line management of regulatory and administrative records and utilizes the business intelligence reporting system. Once fully implemented ***the Authority*** will operate on a paperless work environment.

Chart 4: Supervisory Attention Index Matrix

	Impact Rating	Impact index					
Impact Rating			Supervisory Attention Index				
	Extreme	250	16	35	63	142	253
	High	125	11	25	45	101	179
	Upper medium	12.5	4	8	14	32	57
	Lower medium	1.25	1	3	4	10	18
	Low	0.25	1	1	2	5	8
	Probability rating		Low	Lower Medium	Upper Medium	High	Extreme
	Probability index		1	5	16	81	256
			ProbabilityImpact				

4. NBFIRA Regulates The Insurance Industry

The Purpose and Structure of Insurance Regulation: NBFIRA, ***the Regulatory Authority***, is responsible for the regulation of the insurance industry. Its objective is to protect the consumers of insurance services on one hand, and ensuring an orderly development of the market on the other hand. ***The Regulatory Authority*** ensures that insurers are held accountable and honour promises made to policy holders. It is accessible to the public and has proven to be effective in protecting the interests of consumers. Regulation of the Insurance industry is structured around several key functions; including company licensing, intermediary licensing, product regulation, market conduct, and financial regulation as well as consumer services.

Insurance Company Licensing: The NBFIRA Act CAP 46:08 and supporting rules and regulations stipulated in the Insurance Industry Act CAP 46:01, require insurers and insurance-related businesses to be licensed before commencing operations to sell their products and / or services. Furthermore, the law prescribes that companies can operate exclusively as either Life Insurers or General Insurers, and not both. By end of 2015, there were nine (**9) Life Insurers** and fifteen **(15) General Insurers**; including three **(3) General Re-insurers**. In addition, Nine **(9) Medical Aid Funds** were registered and specific regulatory framework was being developed at the time of writing this article.

The Applicant for the insurance business license must be locally incorporated as a limited liability company in Botswana. However, ***the Regulatory Authority*** also has oversight responsibilities for global insurance businesses and these are subject to the provisions of the International Insurance Act 2005.

International insurance includes insurance services such as reinsurance, captive insurance and related activities, which can be provided to non-citizens and in foreign currencies (other than the Pula). Such companies are IFSC accredited and it is expected that the low tax rates in Botswana will encourage more entrants to the country.

Licensing of Insurance Related Businesses: Insurance agents and brokers, also known as insurance intermediaries, are appointed and accounted for by insurers. They are also subject to the licensing requirements of the insurance regulatory laws. By end of 2015, there were **46 insurance brokers** and **205 corporate insurance agents**. In addition, a register of more than 3,000 individuals appointed by insurance companies as sub-agents **(representatives)** were actively providing insurance support services.

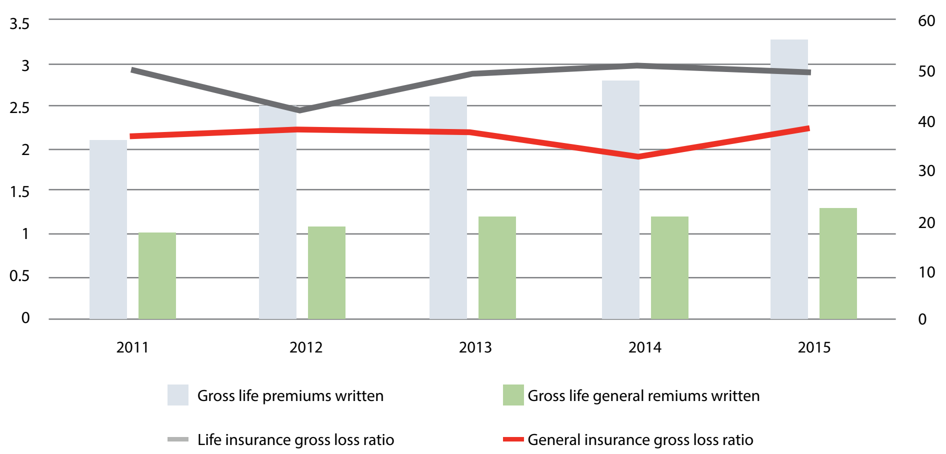
Insurance Product Regulation: ***The Regulatory Authority*** protects consumers by ensuring that insurance policy provisions are reasonable, fair and comply with the law. This eliminates major gaps in coverage that might be misunderstood by consumers and leave them unprotected. ***For Life Insurance, the Authority*** requires, amongst others, printed standard policy documents and standard endorsements, together with actuarial statements of the rates of premium charges and surrender values. These are to be submitted within three months of commencement of operations for prior approval; and any amendments thereof. Furthermore, the moneys and assets of the insured are protected under law and beneficiary payments managed. For ***General Insurance, the Authority*** requires insurers to report separately for undermentioned insurance groupings: ***Fire, Motor, Personal Accident & Sickness, Workmen's Compensation & Employers liability, Liability, Credit & Suretyship, Marine & Aviation and Miscellaneous.*** Insurers and insurance intermediaries are subject to respective codes of conduct establishing a recognized professional standard.

Financial Regulation: Financial regulation provides crucial safeguards for the insurance consumers. ***The Regulatory Authority*** maintains a database of insurance information, which provides a history of annual and quarterly statistics submitted by the insurance companies. ***The Regulatory Authority*** conducts scheduled inspections to validate what is presented in the company's returns. The objective is to ascertain whether the company is in good financial standing. The investigations include the insurance company's accounting methods, procedures and financial statement presentations. The data analysis together with other qualitative information, inform the risk profiling and rating of insurance companies. The nature of regulatory interventions is determined by the ratings on a scale, of 1 to 5, being: 1. ***Normal***, 2. ***Watch list***, 3. ***Remedial***, 4. ***On-Site*** and 5. ***Restructure***. When a company is financially impaired, ***the Authority*** takes appropriate corrective measures. These include issuing directives, financial penalties and in severe cases, applying to court to take control of the company (statutory management). In other instances, ***the Authority*** aggressively works with the financially troubled company, to rehabilitate it or manage the liquidation, in case of insolvency.

Market Regulation: Market regulation attempts to ensure fair and reasonable insurance prices, products and trade practices. Although there is no price regulation in Botswana, peer comparisons offer regulators insights into industry average levels and use moral suasion to influence pricing and practices. The Regulatory staff review licensing issues, complaints, types of products sold by the company and agents, agent sales practices, proper rating, claims handling and other market-related aspects of an insurer's operation.

Consumer Services: ***The Authority*** is vigilant in the protection of consumers of non-bank financial services. Customer complaints and whistle blowing by members of the public are received through, letters, walk in clients and the internet (Facebook and NBFIRA website). ***The Authority*** through the Insurance and Compliance departments worked together with policyholders and insurers to resolve disputes. In addition, ***the Authority*** sponsor consumer educational events country-wide on a variety of insurance topics. Some entities publish rate comparison guides to help consumers get the best value when they purchase insurance.

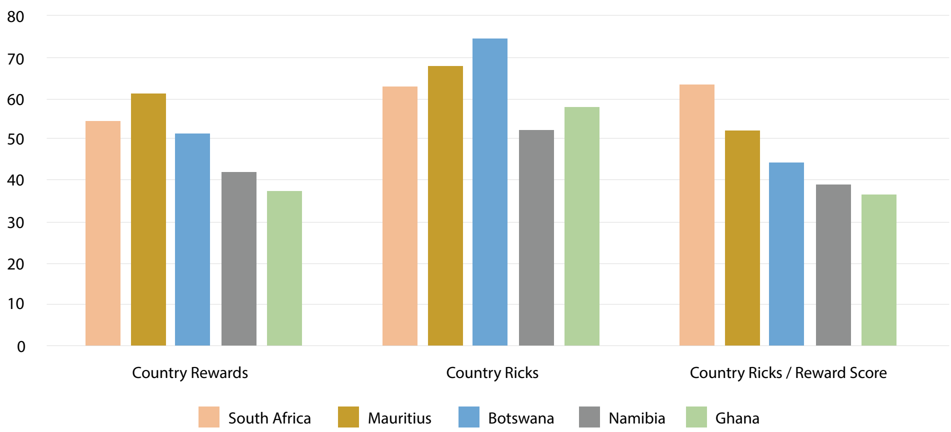
Chart 5: Life and General Insurance Gross Premiums Written for Year Ending December 31



Life Insurance: Steady growth in Gross Written Premiums and consistently above 10% since 2009. Gross loss ratio has remained in the 40 – 50 % level over the 6 year period to-date; a significant reduction from the high of 95.8 % in 2009.

General Insurance: Fairly slow growth in Gross Written Premiums overtime. Gross loss ratio were contained to below 40% over 5 year period.

Chart 6: Insurance Risk/Reward Scores

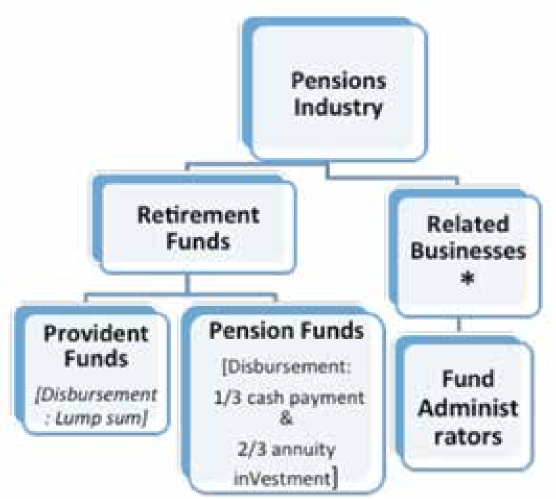


At the end of 2015 Botswana among top 5 and ranked 3rd out of 31 Sub-Saharan countries in the Insurance Risk/Reward Scores by Business Monitor International (BMI).

5. NBFIRA Regulates The Pensions Industry

The Purpose and Structure of Pension Industry Regulation: **NBFIRA** is responsible for the regulation of the pensions industry. **A pension fund** is defined as the fund whose principal objective is to provide for the payment of income to a person who is or has been a member of the fund, on his retirement.

Chart 7: Structure of the Retirement Fund Industry



The pensions industry consists of **retirement funds and related businesses.** There are two types of retirement funds, namely, **Pension and Provident Funds**, while supporting businesses and governance structures includes, among others, fund administrators and boards of trustees.

The tax law requires the payment of **Pension Fund** savings to be in two portions of; one-third in cash, and two-thirds to be invested in an annuity for long term and periodic disbursements. The annuity is commonly invested by life insurance companies but may also be self - administered by a pension fund. **The Provident Fund**, on the other hand, means a retirement fund which is not a pension fund and whose proceeds are paid in a lump-sum upon maturity and they are not exempted from tax.

All these are under the regulatory purview of ***the Authority***, whose regulatory objective is to provide the standard of professionalism required to foster safety, market efficiency, consistency, transparency, accountability and an orderly development of the industry.

Regulatory Framework of Retirement Funds: ***The Regulatory Authority*** is a key driver of pension funds' risk management. This is archived through the approval of the fund rules that aims to ensure safety and the protection of the benefits that have accrued to its membership. ***The Authority*** administers a legislative frame work which consists of the NBFIRA Act, the Pensions & Provident Funds Act and Part XVI of the Income Tax Act. These Acts are also supported by the Pensions and Prudential Rules (2012), Pensions Prudential Rules (1987) and Financial Intelligence Regulations.

Licensing: All Retirement funds in the country must be licensed with ***the Regulatory Authority*** and shall under the name it is licensed become a body corporate capable of suing and being sued. Furthermore, under its corporate name it shall exercise its powers and/ or perform its functions in terms of its rules. The governance structure dictates that a management body and an oversight board should be in place. The former is led by a Principal Officer, while the latter consists of the non-executive board of trustees. Together, they have a statutory duty to exercise care, diligence and skill in the management of the Fund. The retirement funds (pension or provident funds) may be either a stand-alone fund or an umbrella fund - to which, sub-funds can subscribe. Furthermore, it could be a defined benefit scheme (DBS) or defined contribution scheme (DCS). Every licensed fund shall have its principal office in Botswana and the address should be advised, in writing, to ***the Regulatory Authority***.

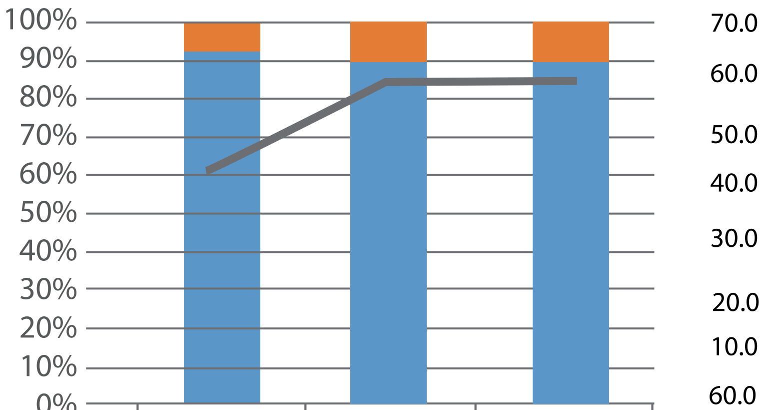
Licensing of Retirement Funds Related Businesses: **Fund administrators** are required to apply for licensing exemptions, pending the promulgation of specific industry regulations. In the interim, applicants are exempted from licensing, but are subjected to minimum supervisory requirements, including, fit and properness of key personnel, submission of annual financial statements, and are subject to ***the Authority's*** undertaking to require information and conduct inspection at freewill.

Retirement Funds Regulation: ***The Regulatory Authority*** protects interests of the fund members by ensuring that Fund Rules are observed. Rules are in effect to establish the management and oversight roles as well as to determine the value of benefits that may be transferred or divided for family law purposes.The retirement fund must have sufficient funding to provide the benefits that have been committed under it. The Rules further assures that protections are in place, in the event of the winding up of a plan in case of a DCS, or in the DBS underfunding of a plan in the event of the employer's insolvency. Prior authorization of ***the Regulatory Authority*** is required for any transfers between the retirement funds, transactions that may impact on the retirement savings, change of key personnel etc.

Financial Regulation of Retirement Funds: Financial regulation provides for proper maintenance of books, records and financial accounts and other information pertinent to the fund business. The financial accounts of a fund are subject to an annual audit, which, together with other prescribed reports, must be submitted to ***the Authority*** within six months of its financial year end. On a periodic basis, the fund is required to submit an actuarial valuation report to ***the Authority*** within 12 months of its completion; and ***the Authority*** reserves the right of waiver of same based on satisfactory financial methods; or cause for an actuarial investigation to be conducted. Investments of the funds with more than ten (10) members are subject to prescriptions and prior approvals in terms of offshore investments and credit thresholds etc. It is important to underscore that the law requires all assets of a licensed fund, including any policy of insurance, should be controlled and held in the name of the fund or a nominee company licensed under the Banking Act. Furthermore, a ministerial decree may prohibit the fund from making investments of a certain class or description.

Market Regulation and Consumer Services: ***The Authority*** analyses regulatory returns and any other information submitted by the funds or fund administration/management businesses in order to assess financial soundness of the NBFI. The data analysis, together with other qualitative data, inform the risk profiling and rating of the NBFI on a five point scale, 1. ***Normal*** 2. ***Watch list*** 3. ***Remedial*** 4. ***On-Site*** and 5. ***Restructure***. The degree of risk receives the corresponding level of supervisory attention. ***The Authority*** is vigilant in the protection of the interest of fund members and attends to requests for fund withdrawals to meet pension disbursements, customer queries and complaints without undue delays.

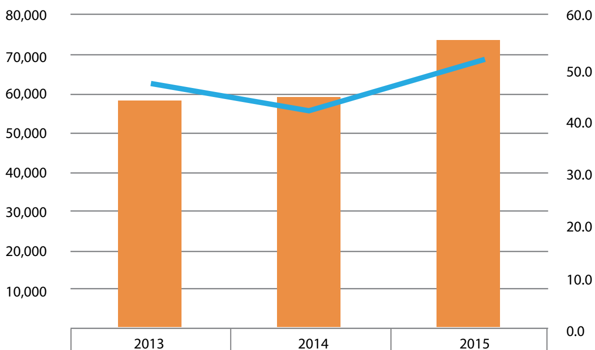
Chart 8: Membership of the Retirement Funds Industry



	2013	2014	2015
Membership of Retirement Funds	171,407	234,999	237,482
Total Population	2,114,890	2,156,366	2,195,134
Membership/Formally Employed (RHS)	42.9	58.1	58.8
Membership as % of Population	8.1	10.9	10.8
Number of the Formally Employed	399,530	404,461	403,681

Over the past 3 years membership of the retirement funds grew by 39 % to 238,000 in 2015. Membership as a percetage of the population of Botswana registered an increase to 11 %, albeit unchaged from the prior year but represents a significant increase from 8 % in 2013. The ratio of membership to formally employed labour force increased to 59 % from 43 % registered in 2013.

Chart 9: Retirement Funds Assets for 2013 to 2015



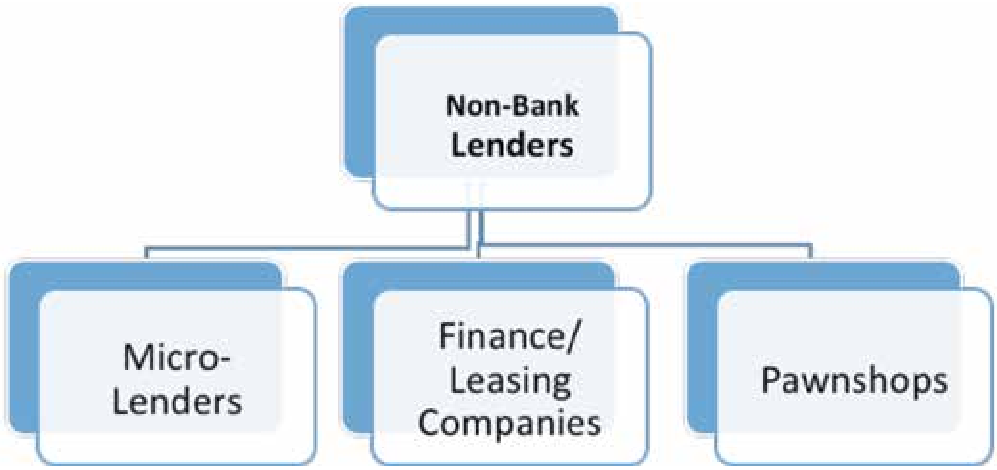
	2013	2014	2015
Retirement Funds Assets (LHS)	58,443	59,392	73,845
Retirement Funds Assets / GDP (RHS)	47.0	41.7	50.7

Retirement Funds' assets reached P74 billion in 2015, representing an increase of 26 % over the past three years. In 2014 one of the main funds took a significant portion of the assets offshore and was directed by ***the Authority*** to reverse the transaction in 2015. Offshore investments should remain under the regulatory purview of ***the Authority***. Retirement Funds when expressed as a percentage of GDP reached 51 % in 2015 compared to 42% and 47% in 2014 and 2013, respectively.

6. NBFIRA Regulates The Non Bank Lending Activities Industry

The Purpose and Structure of Non-Bank Lending Regulation: ***The Authority*** regulates Micro-Lenders and Finance and Leasing companies as prescribed by the NBFIRA Act. A micro lender means a person (or body corporate) who advances loans to persons where the loan amount does not exceed a prescribed amount. While Finance and Leasing means a body corporate that provides loans, advances or leasing products but does not include a bank or a deposit taking institution. Pawnshops are currently recognized as non-bank finance institutions. The objective of regulation of the non-bank sector is to ensure financial stability, good market conduct, an orderly development of the market and to deter financial crime.

Chart 10: Structure of the Non - Bank Lending Sector

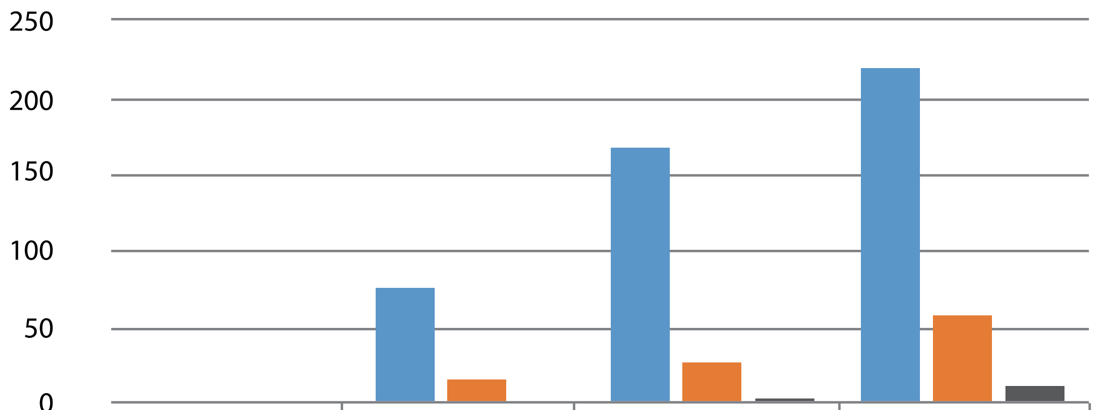


Licensing of Institutions in the Lending Businesses: All non-bank lenders are in accordance with the provision of Section 43 of the NBFIRA Act, required to obtain licenses from ***the Authority*** prior to commencement of operations. Furthermore, the entities must comply with the licensing conditions and prudential or market conduct regulations imposed by specific rules and regulations.

Licensing of Micro-Lenders is supported by the Micro-Lending Regulations of 2012. Finance and Leasing companies are through a letter issued by ***the Authority*** exempted from licensing pending promulgation of relevant rules and regulations. These letters are issued in conformity to regulatory practice requiring fit and properness of promoters and key personnel, disclosures of investigations for financial improbity over past 10 years, undertaking to submit audited financial statements (or for small operators - those prepared by professional Accountants), and undertaking to provide ***the Authority*** with information, as and when required.

Non-Bank Lending Product Regulation: Non-bank lenders must demonstrate availability of a financial balance (or capital) to mitigate businesses risks. Furthermore, documented policy documents governing issuance of credit, provisioning for bad debts, penalties for payment default must receive prior approval of ***the Authority*** at inception and during the entire life of the business. Any changes are also subject of prior approvals. ***The Authority*** is in the process of categorizing micro lending institutions into cash lenders and term lenders, that is lending term of up to 3 months and up to 5 years, respectively. The latter would be subject to prudential regulation given the size and likely impact on financial stability. Regulations of finance and leasing and pawnshops businesses are also being developed. No lender is allowed to confiscate bank cards and identity cards of customers – it is criminal offense to do so; however, details of such maybe taken for bank account or salary payment source direct debit arrangements.

Chart 11: Licensing Status of the Non-Bank Lending Sector



	2013	2014	2015
Micro Lenders	73	166	218
Pawnshops	13	27	57
Finance & Leasing Companies	1	3	11

Financial Regulation: A minimum capital injection of P20, 000 (twenty-thousand) is currently required for non-bank lenders and should be maintained at all times. Capital adequacy requirements will be incorporated in the specific business regulations, including for large micro lenders. Loans are subject to a two day cooling off period such that early repayment (pre-payments) does not attract a penalty but is subject to prorated interest payment. The maximum penalty for late payments of micro lending loan instalments is capped at 5 percent of the outstanding balance. Furthermore, the maximum interest earned on a loan facility, is subject to the in-duplum principle such that the aggregate interest earned by the lender does not exceed the principal amount disbursed.

Market Regulation: All non-bank lenders are required to display information in their premises; including licenses, Business days and Hours of operation, contact details and dispute resolution policies. Advertising and marketing materials of micro lenders should predominantly display cautionary statements as a deterrent for excessive-borrowing (over-extension) and must disclose the total cost of borrowing. Affiliation of businesses to the Micro Lending Association (Cash Lenders) and Micro Credit Association (Term Lenders) is encouraged as it is seen as an appropriate forum for instilling good governance practices.

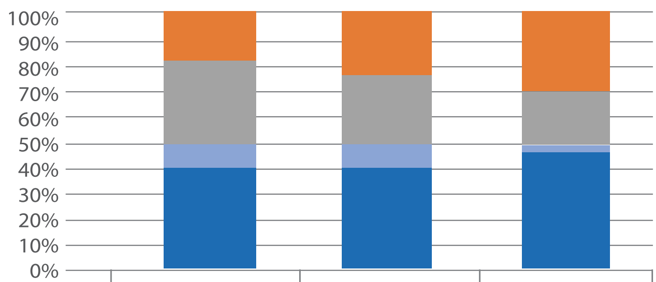
Consumer Services: Consumer literacy programs are undertaken regularly to empower the consumer of his rights and obligations to the non-bank lender. Furthermore, consumer complaints are subject to mediation of ***the Authority*** if they remained unresolved for over a 30 day period.

Warnings:

(i.) Pawnshop loan agreements are not above the penal law and therefore realization of their collateral/security on payment default is subject to court rulings.

(ii.) Unlicensed operations of non-bank NBFIs are illegal. It is also illegal to seize customer bank cards and identity documents.

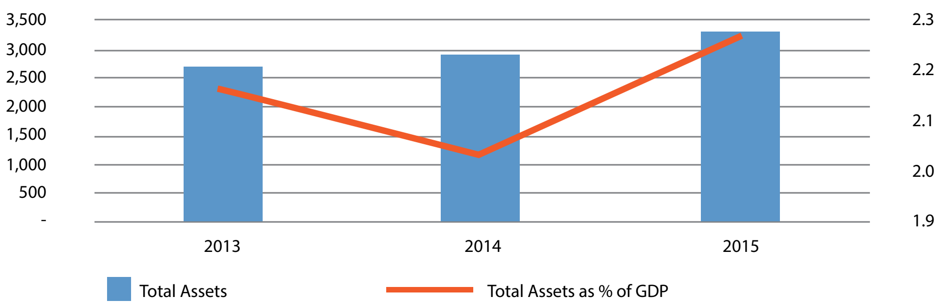
Chart 12: Compressed Statement of Financial Condition of the Microlenders



	2013	2014	2015
Capital	998	1,376	1,870
Other Liabilities	1,689	1,516	1,434
Other Assets	480	237	294
Loan Book	2,207	2,655	3,011

Total capital of top 20 micro lenders doubles from P1 Mio in 2013 to P2 Mio in 2015. The Loan book values increased from 80 % to over 90 % of the balance sheet total over the same period.

Chart 13: Microlender Assets Relative to Gross Domestic Product



Total assets of top 20 micro lenders have been about 2 % of GDP over the past 3 years.

7. NBFIRA Regulates The Investment Institutions Industry

Article by Research and Capital Markets Departmental Staff

The Purpose and Structure of Investment Institutions Regulation: The Capital Markets is a sector that comprises investors/savers and borrowers, which may be categorized as retail, professional, or institutional investors/savers and borrowers. The two sectors are brought together by several means which include markets such as the stock exchange, as well as through market intermediaries also known as investment institutions and these consist of Asset Managers, Brokers, Custodians, Investment Advisors, Management Company of Collective Investment Undertakings (Mancos), and Trustees of Collective Investment Undertaking. Asset managers manage the funds of the investors with the aim of growing and providing a return. The brokers as members of the exchange buy and sell shares on behalf of the investor. The Custodians and Trustees of Collective Investment Undertaking safe keep the investors funds whilst investment advisors as the name suggest provide financial advice but do not manage client funds. Lastly, a Manco is the administrator of a fund known as a collective investment undertaking.

A collective investment undertaking (CIU) is an arrangement with the principal object of collectively investing funds in real or personal Property of whatever kind, including securities and other liquid assets, with the aim of giving its members or unit-holders the benefit of the result of management of its funds and spreading investment risk. Such undertakings may be constituted as a Unit Trust or Investment Company with Variable Capital.

A Unit Trust is a collective investment undertaking in the form of a trust under which an obligation is imposed by a Trust Deed, which binds the Trustee to deal with the deposited property solely for the benefit of the unit-holders. An Investment Company with Variable Capital provides that the actual value of paid up capital of the company shall at all times be equal to the net asset value of the company and the shares shall have no par value. The capital invested and managed is raised from a number of investors including institutions and the general public with the view of investing it in accordance with a defined investment policy for the benefit of those investors. The objective of regulating Investment Institutions is primarily to protect the investor's best interest by ensuring market integrity through good market conduct that practices good governance, fair treatment of customers and adequate information disclosures.

Asset Managers on the other hand provide bespoke portfolio management for high net worth individuals and pension funds. This involves constructing and managing a portfolio around the specific needs of a client and can be managed on a discretionary or advisory basis. Discretionary management is where the client gives full authorisation to the asset manager to manage their investments on their behalf. The asset manager makes changes to the portfolio, without referring to the client, but within the constraints of the client's investment objectives and investment strategy that has been agreed. Advisory management is a service that is also offered by asset managers who understand that some clients do not want to give up the decision making process and want to remain actively involved in the management of the portfolio as they also have adequate knowledge of the investment processes. An asset manager will consider what changes might be made to their portfolio and these changes will be discussed and the client will either accept or decline the changes to their portfolio.

Licensing of Investment Institution Businesses: In October 2010 NBFIRA received technical assistance to draft the licensing regulations for the capital markets sector; these were at the time of writing being considered for legal drafting by the Ministry of Economic Development and Planning.

Further, the prudential rules of the capital markets have been approved by the NBFIRA Board of Directors. The approved rules are currently being enforced to supervise and monitor the industry, albeit limited as some entities are not yet 'licensed' but exempt. The Licensing requirements are set out in the Market Intermediary Licensing Rules 2012. The rules focus on establishing whether the key employees are fit and proper persons to carry out their responsibilities to investors. The assessment of applicants includes the verification of professional references and police reports; as well as evaluating the evidence that the Professional qualifications are consistent with the type of investment services offered. Securities brokers and dealers are licensed as capital market players.

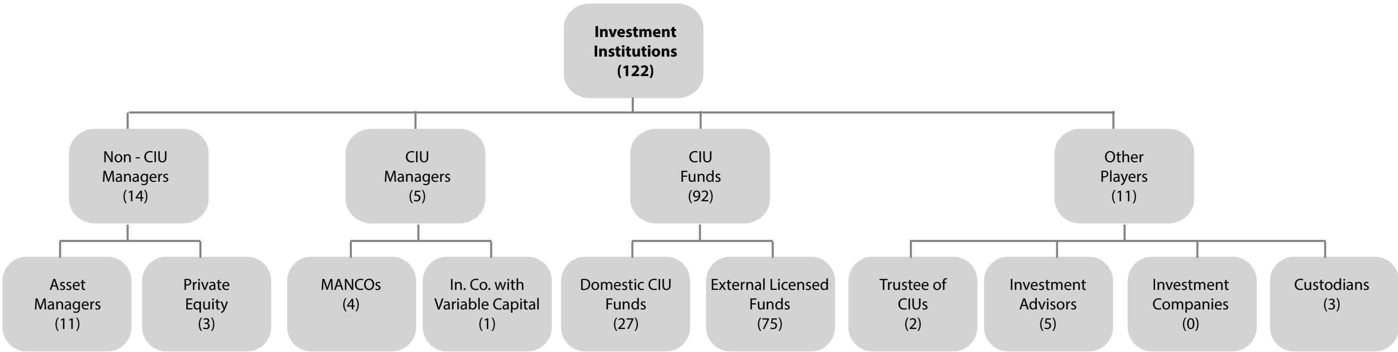
Investment Institutions Product Regulation: Section 59 of the CIU Act requires that any approved management company should publish their prospectus for each of the trusts it manages. The prospectus shall include the information necessary for the investors to be able to make an informed judgement concerning the investment proposed to them. All prospectuses are approved by ***the Regulatory Authority*** and are required to meet the set minimum information prescribed before being published to prospective investors. NBFIRA ensures that each prospectus has a disclaimer warning investors that their capital is at risk and may diminish during their investment tenure in accordance to the risk appetite of the product invested in.

Financial Resources Requirements ("FRR"): All licensed Market Intermediaries are required to manage their financial risks and maintain at all times financial resources should be commensurate with the level of risk undertaken for the proper performance of their business. Furthermore all Manco's are required as per Regulation 15 of the CIU Act to maintain the greater of P500, 000 or the equivalent of 3 months total expenditure. Assets under Management of Investment Institutions are strictly off-balance sheet items of the management company and are held in custody of a licensed service provider. Although the FRR are still at draft stage asset managers are also required to employ risk management techniques that will ensure the assets under management are protected from adverse market conditions, these techniques may include the use of derivatives, futures, options or any alternative investment methods that may be deemed suitable. To further protect the investor's capital asset managers are required to take out Professional Indemnity Insurance which is also seen as a risk mitigation strategy.

Market Regulation: This can be broadly categorized into off-site and on-site review. Off-site monitoring primarily entails maintaining ongoing dialogue with senior management of licensed Market Intermediaries, stress testing and other detailed analyses of financial and non-financial intelligence. Business conduct and compliance risk are subject to further assessment during an on-site review. On-site inspection is a key supervisory tool that helps ***the Regulatory Authority*** understand an intermediary's business operations, risk management, internal controls and gauge the level of compliance with the relevant regulatory requirements. The Market Intermediaries Conduct of Business Rules 2012 ensure high ethical requirements from operators. Furthermore, evidence of robust back office systems and controls to satisfy the legal and accounting requirements is mandatory. CIUs on the one hand must demonstrate compliance to Providers of custody services are mainly commercial banks who are required to ring fence their custody business through autonomous nominee companies.

Consumer Services: ***The Authority***'s principal object is to regulate and supervise Market Intermediaries so as to foster the safety and soundness of institutions, enforce the highest standards of conduct of business, fairness, efficiency, orderliness, stability of the financial system, reduction and deterrence of financial crimes. Once an intermediary is found to be unsound, ***the Regulatory Authority*** shall report to the Minister, vary or suspend their license and announce to the general public through the publication of notices through various media platforms.

Chart 14: The Structure of the Investment Institutions



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8. NBFIRA Regulates The Capital Markets Industry

Article by Capital Markets Department Staff

The Purpose and Structure of Regulation of Capital Markets:

The Authority is responsible for the supervision and regulation of Capital Markets participants, broadly categorized as Securities businesses. The Securities businesses can be further categorized into Securities Infrastructure Businesses (SiBs) and Market Intermediaries. Furthermore, ***the Authority*** supervises Global Business entities which are non-bank financial institutions (NBFI's) with an IFSC accreditation.

The Capital Markets participants are supervised with the aim of ensuring that entities operate in a manner which does not unfairly disadvantage clients. This is achieved by adopting rules and regulations which ensures that clients' interests and assets are safeguarded from unfair practices, unlawful use and market abuse. In addition to the rules and regulations implemented by ***the Authority***, The Botswana Stock Exchange (Securities Exchange) also drafts rules to guide the operations of its members (the Securities Brokers and listed companies), central securities depository and the operations of the automated trading system. The rules are approved by ***the Authority*** and cover areas such as general restrictions, listings and membership requirements, disclosure requirements and general obligations of the participants. They ensure that operations are as fair and as transparent as possible.

Licensing of Institutions in the Capital Market Businesses:

In 2010, ***the Authority*** was assisted by the World Bank with the development of Capital Markets legislation. The legislation development included the Securities Infrastructure Business Licensing Regulations, Securities Institutions Regulations (which covers all the market intermediaries), as well as, other operational rules governing the conduct of business and corporate governance. The regulations await the approval by the Minister of Finance and Economic Development, while the rules have been approved by the NBFIRA Board of Directors in 2012. The licensing requirements aim to ensure that controllers of NBFI's are fit and proper in terms of having the relevant skills and experience, have good financial standing and are of high integrity.

Capital Market Product Regulation: ***The Authority*** does not regulate specific products, but rather has a set of business conduct requirements for the operators of those products and services which were implemented in 2012. Conduct of business requirements include, the development of adequate internal controls, managing conflicts of interests, confidentiality and security provisions, handling of client assets and client money amongst others.

The Authority also enforces compliance with the Corporate Governance Rules 2012, which have provisions relating to the responsibilities of the NBFIRA Board of Directors. The Corporate Governance Rules aims to ensure that the Board of Directors are accountable for the operations of the business, including management of information, risk management, development and review of internal controls and due diligence regarding the appointment of employees. For international best practice, NBFIRA is an Associate members of the International Organization of Securities Commissions (IOSCO) and therefore strives to align its rules and regulations against the standards set by IOSCO.

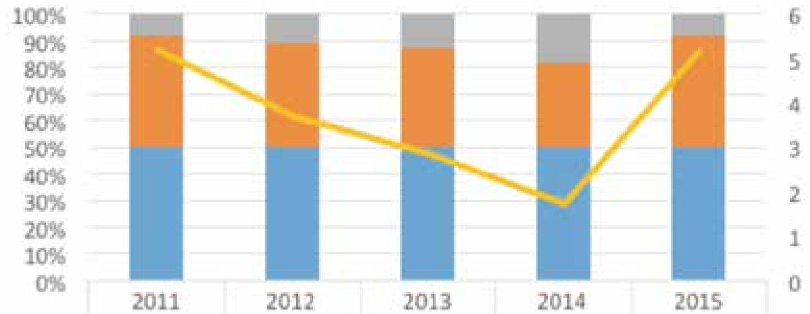
Financial Regulation: ***The Authority*** has drafted Financial Resources Requirements ("FRR") which will form part of the draft Licensing Regulations. The FRR stipulate the minimum financial resources for entities and the required level of liquid capital which must be maintained. These requirements are based on the liabilities that the company has taken on. Each entity type has a set of periodic reporting requirements, amongst them is the submission of financial reports to ***the Authority***. These submitted reports enable the entities management accounts to be evaluated for indications of potential problems relating to solvency and liquidity.

Market Regulation: ***The Authority*** has in place tools to prevent market manipulation and abuse of clients such as insider trading, churning and misleading advertisements. The BSE and ***the Authority*** do not have a market surveillance system as yet, however, the Automated Trading System (ATS) is used to monitor abnormalities in the market, although the ATS has limited monitoring capabilities.

Consumer Services: Complaints from the public are made through the online complaints portal bearing in mind NBFIRA's complaints procedure. ***The Authority***'s Communications and Public Affairs Department is responsible for consumer awareness initiatives.

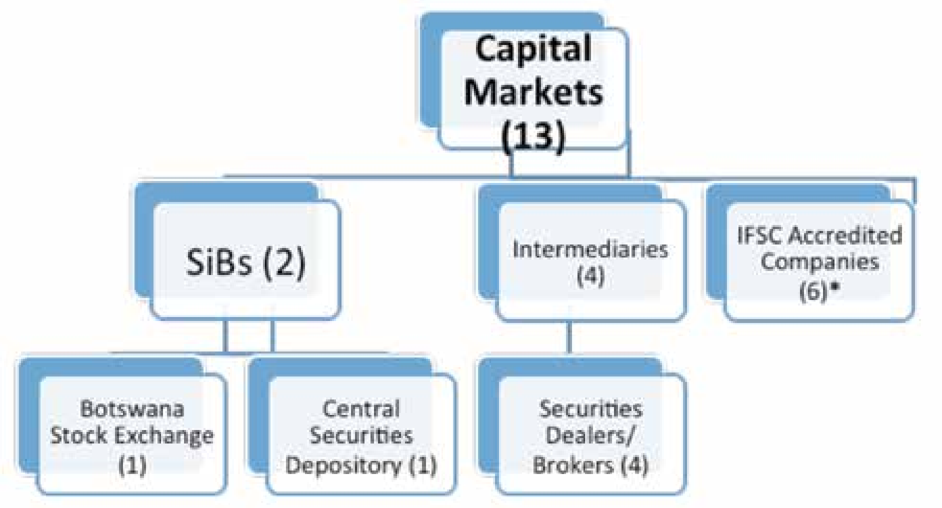
The graph below displays compressed balance sheet of the securities broker/dealers for the 5 year period ending 31st December.

Chart 15: Compressed Statement of Financial Condition



	2011	2012	2013	2014	2015
Equity	7	9	14	22	22
Liabilities	39	31	40	38	115
Assets	46	40	54	59	137
Debt - Equity	5.18	3.69	2.86	1.73	5.16

Chart 16: Structure of the Capital Markets



Note: The number of IFSC Accredited companies is different from the previous publications of ***The Authority***, showing a reduection from 7 IFSC Accreduted companies to 6 IFSC Accredited companies, due to a de-registering of one company from NBFIRA which was previousely misclassified.

NOTES

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