

RESEARCH BULLETIN

2017/18



NBFIRA

Non-Bank Financial
Institutions Regulatory
Authority





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Preamble

The Non-Bank Financial Institutions Regulatory Authority (NBFIRA) derives its authority to license and supervise retirement funds and related businesses from the NBFIRA Act, 2016, the Retirement Funds Act, 2014 and its supporting regulations.

Glossary of Terms

Administrator of a pension or provident fund - means a person who provides administration or similar services to the fund.

Pension Fund - means any fund the principal objective of which is to provide for the payment of a pension to a person, who has been a member of the fund, on his retirement.

Provident Fund - means any fund which is not a pension fund where a lump sum payment is made at retirement.

Trustee of a Pension or Provident Fund - means a person acting as a trustee of a pension or provident fund.



FOREWORD

It is my pleasure to present the 2017/18 NBFIRA Research Bulletin which highlights key developments in the Botswana pension system. The bulletin documents the industry trends and the significant role that the pensions play in the economic development of Botswana.

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. Comments and suggestions on papers published in the Bulletin are welcome from the wider public. 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.

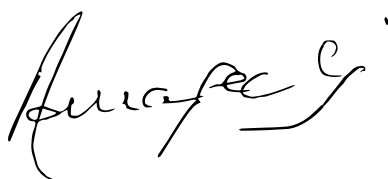
The Research Bulletin is published on an annual basis and it is envisaged that once data availability issues have settled and with timely online submission of regulatory returns by NBFIs, the Bulletin will be published on a quarterly basis.

The articles in this publication are contributed by staff of the Authority. Articles of relevance to the non-bank financial sector are welcome from members of the public. Views expressed are not necessarily those of the Authority but of the authors and their contributors.

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 second publication a success.

The document is only published as a soft copy on the Authority's website for cost considerations.

Website: www.nbfira.org.bw



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 2017/18 Annual Research Bulletin is themed around developments, policies and practices that support the Authority in executing its mandate. The objective of this issue is to provide insights into the Authority's role of regulating the retirement funds and the industry developments, thereof.

All articles were prepared by the staff of the Authority.



Oakantse Modisa

Head of Research Department

Contact Details of the Editorial Committee:

Telephone: (267) 3686100

NBFIRA Website: www.nbfira.org.bw

Tebogo Munyengwa

Manager, Research Department

Email: tmunyengwa@nbfira.org.bw

Gosego Hambira

Assistant Research Officer

Email: ghambira@nbfira.org.bw

Oakantse Modisa

Head of Research

Email: omodisa@nbfira.org.bw

Dimpho Selema

Graduate Intern Officer

Email: dselema@nbfira.org.bw

SITUATION ANALYSIS OF BOTSWANA PENSION SYSTEM

Authors: Oakantse Modisa and Gosego Hambira

Introduction

Retirement funds or pension funds provide an important source of income to retirees and their families and act as strong base for national savings and investments. In Botswana, establishment of retirement funds is subject to the provisions of the Retirement Funds Act, 2014, hereafter referred to as the RFA. The RFA provides for the licensing, incorporation, regulation and dissolution of pension and provident funds and for oversight of matters incidental or connected with the funds. The mandate of the Non-Bank Financial Institutions Regulatory Authority (NBFIRA) also known as the Authority is to administer and enforce the RFA and its supporting regulations in order to protect the rights and benefits of the fund members. The Authority also ensures that regulation of retirement funds and related businesses is done in a fair, efficient and responsive manner. Furthermore, it is a requirement under the RFA that prior approval of the Authority be sought for transfer of assets between retirement funds.

The membership of the retirement funds in Botswana has over the past five years ending December 31, 2016, increased to 238,000 from 166,500, representing a five-year increase of 43%. The membership constituted 69% of the formal labour force by end of December 2016. During the same period, the active membership stood at 88% of total retirement funds membership while deferred and pensioners were only 12% which is a reflection of the infancy of pension schemes in the country.

Table 1: Membership of Retirement Funds

Year	Active Membership		Deferred Membership		Pensioners		Total Membership	
	Number	% of Total	Number	% of Total	Number	% of Total	Number	% of Total
2016	209,629	88	16,734	7	11,662	5	238,025	100
2015	206,212	87	19,696	8	11,301	5	237,482	100
2014	206,709	88	17,432	7	10,699	5	234,840	100
2013	155,797	91	13,295	8	2,315	1	171,407	100
2012	152,348	92	11,897	7	2,255	1	166,500	100

Source: NBFIRA

The larger share of the pension membership is in the public service (154,266 members) whose proportion remained at 65% since 2014 and increased to 166,500 in the year-ending December 2017. This is attributable to the Government being the largest employer in Botswana.

Table 2: Membership of Retirement Funds by Type of Employer

Year	Public Service		Parastatals		Private Sector		Total Membership	
	Number	% of Total	Number	% of Total	Number	% of Total	Number	% of Total
2016	154,266*	65	n/a		n/a		238,025	100
2015	153,326	65	n/a		n/a		237,482	100
2014	151,980	65	n/a		n/a		234,840	100
2013	150,370	88	n/a		n/a		171,407	100
2012	111,542	67	n/a		n/a		166,500	100

* Source: BPOPF March 2017 Annual Financial Statements and NBFIRA

* n/a not available

Botswana's Population and Employment Structure

In January 2017, the population of Botswana was estimated at 2.3 million (2,331,390); an increase of 1.99% (45,534) from the prior year. This compares with the 2011 census population count of 2.0 million (2,024,904) which at the time recorded a population growth of 1.9%. The population of Botswana is still young as the proportion of the population above age 55 is estimated at 9.5% whilst 33% of the population is estimated to be below age 15 years.

Table 3: Population and Percentage Distribution, 2011 (Compressed)

Age	Count	Percent	Percent
Below 15	660,014	32.59	32.5
15-54	1,172,427	57.90	57.9
55-59	54,048	2.67	9.5
60-64	37,578	1.86	
Above 65	100,837	4.98	
TOTAL	2,024,904	100	100

Source: Statistics Botswana: 2011 Census statistics

The dependency ratio measures the percentage of the elderly and children (ages above 60 and below 15) to the working population (15-59). As at the 2011 census the dependency ratio for Botswana was 65. However, if we make adjustment to remove the children from the calculation so we focus on pensioners and have a moving target population we get the result depicted in Chart 1 below. The young population (below 15) is projected to age and by the time today's labour force market entrants retire, the proportion of the population above age 55 is expected to double by 2030. The adjusted dependency ratio (ratio of elderly to active labour force) is also expected to increase from 14% to 21% by 2030. The calculations are based on the BMI Research population projects for Botswana which shows the population to increase to 2.8 million by 2030.

Source: BMI Population projections.

Chart 1: Adjusted Dependency Ratios – 2011-2030



Source: NBFIRA/BMI Population Forecasts

Employment Statistics

Botswana formal employment statistics including (Ipelegeng – a poverty alleviation program) stood at 406,982 in December 2016. The formal sector employment grew by 5 % from 2012 largely underpinned by Ipelegeng program which doubled from 31,000 in 2009 to 65,000 in December 2016. The job market has been subdued over the past several years due to poor economic activity emanating from poor diamonds and other commodity exports, as well as a lack of success in developing non-mineral export.

Table 4: Results of Formal Sector Employment Surveys

Year	Private	Parastatal	Central Govt.	Local Govt. excluding Ipelegeng	Total Employment excluding Ipelegeng	Total Employment including Ipelegeng
2016	194,202	19,008	104,598	24,618	342,377	406,982
2015	191,484	19,411	104,349	25,871	341,115	403,681
2014	191,399	18,790	104,317	25,601	340,107	404,461
2013	189,894	18,838	104,541	25,634	338,907	399,530
2012	188,531	17,484	104,925	26,108	335,260	387,877
% Change					2.1	4.9

Source: Statistics Botswana 2016 Employment Survey

Similar to many other countries in Africa, a significant majority of workers in Botswana belong to the informal urban or agricultural sector which segment cannot participate in formal pension schemes. With job creation presenting a challenge to the Government, economic stimulus package recently made, is expected to have a positive impact on employment and its impact is yet to be assessed.

Table 5: Membership of the Retirement Funds as Percentage of Formal Sector Employment

Year	Membership	Formal Employment (Excluding Program)	Membership as % of Formal Employment
2016	238,025	342,377	70
2015	237,482	341,115	70
2014	234,840	340,107	69
2013	171,407	338,907	51
2012	166,500	335,260	50

Relevant Macro-Economic and Poverty Incidence Data

The State of the nation address (SONA November 2017) has forecast “the economy to grow by 4.7% in 2017 and 5.3% in 2018, higher than the 4.3% growth recorded in 2016. The forecasted growth is expected to be supported by high growth in Mining, Trade, Hotels & Restaurants, Transport & Communication and Water & Electricity sectors. The continued improvement in the global demand for diamonds is expected to bolster growth in mining as production increases”.

The Central Bank monetary policy has adopted an inflation target range of between 3 - 6% or below, and has succeeded to remain within target over the past few years, and inflation reached a historical low of 2.8% in 2016 and was 3.2 % at end of December 2017.

Overall poverty rate was estimated at 30.3% in 2016 (SONA 2017) Three social welfare benefits, though little, are in place, namely, Old Age Pension Allowance, World War Veteran Allowance, Destitute Allowance and the Disability Cash Allowance. These together with Relief employment programs (Ipelegeng, special constables etc.) have provided relief to the poor but have potential dependency syndrome with negative impact on subsistence agricultural production, more so if Government support with seeds and ploughing costs is continued.

Relevant Financial Sector Data

The financial services sector in Botswana is relatively small with the following structure and balance sheet asset size:

Table 6: Financial Sector Data

Type of Financial Institution	Number of Institutions	Assets size for Year ending December 2016 In Pula Billion
1. Banks	13	88
1.1 Commercial	10	81
1.2 Statutory	3	8
2. Non-banks	..	115
2.1 Insurers	24	21
2.2 Capital market	25	7
2.3 Retirement Funds	88	75
2.4 Others (Lenders, etc.)	>250	5
3. Other		84
3.1 Central bank (Bank of Botswana)	1	78
3.2 Botswana Motor Vehicle Accident Fund (BMVAF)	1	4
3.3 Botswana Development Corporation (BDC)	1	2
GRAND TOTAL*	..	287

*Excludes Citizen Empowerment and Development Fund (CEDA)

Only two or three Life insurers, offer annuity services. Over the past five years, there has been growth of consumer banking products, especially access to digital money through cards and cellphones which has slightly improved access to financial services. The level of penetration ratio (Gross Written premiums as a percentage of GDP at market prices) of life insurance remains low at 2% of GDP but is more favorable relative to most SADC member countries, save for South Africa, Mauritius and Namibia (BMI Research).

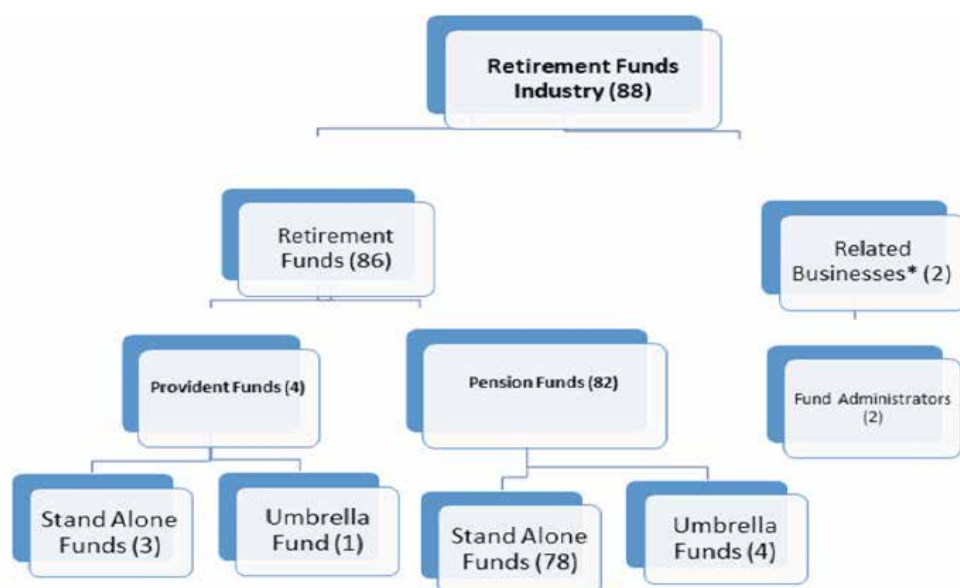
Botswana is continually making efforts towards improving the financial markets, including the dematerialization of securities, automated trading, and more recently adopting road map to financial inclusion and plans to establish a central securities depository. These are expected to improve the investment environment in which pension schemes operate.

“Owing to overall balanced fiscal budgets of the Government, Botswana bond market falls short in meeting the investment appetite of pension funds, local banks, annuity funds and other investors. In turn, the bond market is small and illiquid. The other problem facing pension funds is a shortage of long term bonds. The pension funds invest in a range of other assets, such as equities, money markets, property, corporate bonds and foreign currency assets (capped at 70% of the portfolios). However, these assets classes pose risks: credit risk, currency risk, re-investment risk, equity risk and interest rate risk; ideally long-term bonds should be the ideal matching asset making over 70 % of the annuity book value” (Econsult).

There are 4 registered stock brokers, 14 fund managers and 3 custodians. Botswana had not been successful in operating vibrant cooperative societies and there is room for improvement, especially in Savings and Credit Societies covering the agricultural producers.

Current Pensions System in Botswana

The retirement funds (pension or provident funds) may be either a stand-alone fund or an umbrella fund; the latter provides for several sub-funds to subscribe to a major fund. As at March 31, 2017 there were 5 umbrella funds with 267 sub-funds. The players in the Botswana retirement funds industry are: Retirement Funds, Pension Fund Administrators and Pension Fund Trustees.



Source: NBFIRA 2017 Annual Report

Retirement Funds

There are two types of retirement funds, namely, Pension Funds and Provident Funds. With regards to the former, the tax law requires the payment of pension fund savings to be in two portions of; one-third in cash upon retirement, and two-thirds to be invested in an annuity for long term and periodic disbursements during the life of the pensioner. The annuity is commonly invested by life insurance companies but may also be self-administered by an authorized 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.

Pension Fund Administrators and Custodians

The Fund administrators and Trustees provide related businesses supporting governance structures and administrative services to the pension funds. Tracing pensioners or their beneficiaries for unclaimed pension benefits is the responsibility of the board of trustees of respective pension funds. The new Act prescribes the establishment and licensing of a preservation fund (Section 12 RFA) for unclaimed benefits of over a period of 12 months. These are to be advertised in the public domain to locate the pensioners or their beneficiaries. This is a significant improvement from the previous dispensation where funds were allowed to write back unclaimed funds into the Fund after 3 years, albeit remaining claimable.

Relevant Macro-economic and Pension Fund Reforms Policies

“Since the shift of the Botswana pension policy from defined benefit scheme (DBS) to defined contributory scheme (DCS) in the early 2000s, pension funds have grown in importance in the economy. The largest component being the establishment of the Botswana Public Officers Pension Fund (BPOPF) which saw majority of Government employees convert from the unfunded DBS to DCS. Similar trends also took place in the private sector leading to exponential growth in pension assets.” (Econsult).

The proportion of pension membership to formal employed population increased to 70 percent over the past decade. There is a need for policy reforms targeted at inclusion of the 30% formal employees who do not belong to pension schemes and other income earners who may otherwise save for old age.

Furthermore, efforts have to be made aimed at diversifying not annuity providers but the products at improving benefits to pensioners’. Currently, limited services for pension annuitants are being provided by few entities, namely Life insurers (Botswana Life, Metropolitan and Bona Life); and peculiar to Botswana the BPOPF and Debswana Pension Funds.

Although Government runs a balanced budget and therefore has been no need to borrow, the case for issuance of Government bonds along the maturity spectrum will go a long way in the development of the capital markets and to meet the investments needs of pension funds and other institutional investors. The case of Singapore with similar macro-economic conditions is often sighted (Econsult).

The private sector also has an opportunity to offer internet based search for unclaimed retirement benefits by to the wider public. This will augment the efforts made by board of trustees to locate the beneficial owners or their beneficiaries.

Other issues that deserve further investigation and research include an assessment of whether the system is providing adequate pension for those who are members. This study should include the cost benefit of migration to defined contribution pension schemes (DCS) versus defined benefit pension schemes (DBS) and the level of fees charged by asset managers and administrators relative to peer countries.

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3. State of the Nation Address 2016.
4. Business Monitor International (BMI) Research Tool.

BOTSWANA DEMOGRAPHIC SHIFT: IMPLICATION FOR PENSION POLICY

Authors: Bopelokgale Soko and Dimpho Selema

1. INTRODUCTION

Demographic dividend occurs when a country's economically active population is increasing at a faster rate compared to the dependency population. This typically happens when both the fertility and the mortality rates decrease at a faster rate, normally due to improved standards of living. During this period of/or transition, the working population grows more rapidly than the population dependent on it, freeing up resources for investment in economic development (Drummond, et al., 2014). This will lead to an increase in output per capita income, Bruni, et al., (2016), and calls for policies that can enhance the economic activities in a country. Social protection policies are some of the important policies that need to be adjusted during this period.

With the decline in mortality and fertility, Africa's share of the working age population is expected to increase from about 54 percent in 2010 to peak at about 64 percent in 2090 (Drummond, et al., 2014). This shift potentially increases Africa's productiveness at a time when most of the advanced economies face an ageing population (Drummond, et al., 2014). Africa's share of the global working age population is thus projected to increase from 12.6 percent in 2010 to over 41 percent by 2100 (Drummond, et al., 2014).

Botswana together with other Southern African countries are going through the demographic dividend period. In 2011, the working population in Botswana stood at 62.3% compared to only 37 % of the dependency population. The proportion of working population is expected to grow steadily until it stabilizes in 2050 (Bruni et al 2016). Thereafter the working population is expected to decrease as the current workers retire and make room to the current youth population which is proportionally smaller (only 27% of the population). Consequently Botswana need to put together policies that would optimize the opportunities presented by this demographic divided period.

Pension systems reforms policy becomes very relevant, mostly because pension funds in this country are employer based and will be directly affected by the changes in the economically active population. Furthermore, Botswana has a universal pension system funded fully by Government. An increase in the number of workers will ultimately translate to an increase in the number of retirees in future, and an increase in the number of dependent under this scheme. In fact, World Bank (2015), had projected that the old age population is expected to increase from 3.9% in 2011 to 12% in 2050. This will increase the government budget eligible for old age pensioners and will definitely require proper planning.

It is against this background that this paper discusses the demographic transitions in Botswana and possible consequence on the Botswana pension system.

2. BOTSWANA DEMOGRAPHY

The population in Botswana stood at 2,024,904 in 2011 (Statistics Botswana, 2016). Table 1 below shows that the population has been increasing since 1971, though at a decreasing rate. The rate of growth declined from 4.6 % in 1981 to 2.4% in 2011. The decline is attributable to the sustained declining fertility and mortality rates as observed from Table 1. However, the population is expected to continue growing as the youthful population, which constitutes about 32% of the total population, enters the child bearing age.

Table 1: Botswana Demographics, 1971-2011

	1971	1981	1991	2001	2011
Fertility rates	6.5	6.6	4.2	3.3	2.9
Mortality rates	13.7	7.4	11.3	10.4	8.8
Life expectancy	55.5	56.5	65.3	55.6	68
Population growth	3.3	4.6	3.6	2.4	2.4

Source: Statistics Botswana

The Botswana fertility rates stood at 2.9 in 2011. The fertility rates started a sustained decline in 1991 as it fell from 4.2 to 2.9 in 2011. Though declining, the rate has been above the replacement rate for the population, which is 2.1 births per woman. Forecasts assume that the rate will continue to hover around 3 births per woman in the next 20 years and remain at that level as women are now having fewer children than before. The country experienced a decline in mortality levels between 2001 and 2011. Due to the improved standards of living observed in the country, the mortality rates are expected to sustain the decline in the next 30 years (Statistics Botswana, 2014).

Life expectancy has increased steadily from 55.5 years in 1971 to 68 years in 2011 and is expected to continue increasing. Increasing life expectancy has generally led to increased old age dependency ratio which calls for an increased benefit bill for the country.

Table 2 highlights the trends in the structure of the population since 1971. Generally Botswana's population is mainly youthful with 53% of the population being 25 years old (UNDP, 2014). The population of children declined from 47% in 1981 to 32% of the population in 2011. Contrary to the declines in the population of children, the economically population has been increasing steadily from 47% in 1971 to 62% in 2011. The increase is projected to continue until it stabilizes in 2050 (UNDP, 2015). The proportion of the population over 65 years was 3.9% in 2011 after it declined from 5% recorded in 2001. It is observed that the proportion of population over 65 years hovered around 5% for about 30 years due to an increased in mortality rates during the period 1990s and early 2000s. This figure is below the 7 percent for Mauritius but slightly above those of South Africa, Zimbabwe and Lesotho at 4.5, 4.2 and 4.2 percent respectively (Bruni, et al., 2016). That notwithstanding, old age population is expected to increase to 12.1% in 2050 (World Bank, 2015).

Table 2: Botswana Population Structure, 1971-2011

	0-14	15-64	65+
1971	47.5	46.9	5.6
1981	47.3	46.6	4.6
1991	43.2	51.9	4.9
2001	36.6	58.4	5
2011	32.7	62.3	3.9

Source: Statistics Botswana

The demographic situations described above, where mortality and fertility rates are decreasing, life expectancy and longevity increasing is known as the demographic dividend. During this period, the ratio of the working age population to the dependent aged increases rapidly. The World Bank (2015), had shown that between 2015 and 2050, the Southern African working age population (including that of Botswana) will double with only modest increases in the dependent age population.

3. DEMOGRAPHIC SHIFT EFFECT ON PENSION FUND SYSTEMS

The change in age structure of the population have a huge influence on the pension fund system. In particular, the period of demographic dividend present an opportunity for pension funds to build robust pension systems which will provide sustainable and adequate income to its retired members.

Pension system should be structured in such a way that they will be able to 'harvest' as much contributions from the working population as possible. This may include changing of pension policy to make pension funds compulsory as it is done in countries like Chile, Singapore etc. This policy may include prescription of the minimum contribution rate that will ensure attainable of a reasonable retirement income levels.

A number of countries have taken drastic policy changes in order to take advantage of demographic dividend. Some countries have increased retirement age (Singapore), others had made contributions compulsory (Chile, Mexico) while others have developed policies that include the informal sector (Kenya and Mexico).

In addition to policies that promote the increase in contributions, other countries have also included policies that prevent leakages from the pension 'pot'. For example in West Africa, Ghana and Nigeria prescribes allowable pension fund fees and their limits. Other countries prescribe the allowable asset classes and the expected returns.

Botswana is currently experiencing the demographic dividend. The proportion of the working population was 62.3% in 2011, and is expected to increase to around 70% in 2050. As this demographic shifts occur, resources can be reallocated towards different mechanisms, one of which is the financial market savings and borrowings. Resources can be transferred to savings for retirement by the working-age population either through private or government mandated programs leading to increased contributions and financial wealth. This will reduce dependency on familial and public sector transfers and increase dependency on assets accumulated thorough pensions later in life. During this period, social sector expenditures are expected to reduce due to lesser demand for health care services by the smaller young and old aged population as well as reduced demand for educational services due to declines in the growth of school aged population (Drummond, et al., 2014).

4. CONCLUSION

A demographic shift is occurring in Botswana and this presents an opportunity to reflect and possibly make changes to the pension policy to take advantage of the shift as reflective on the discussions above. Factors such increasing life expectancy has generally led to increased old age dependency ratio which calls for an increased benefit bill for the country. Increasing the retirement age is one of the most promising method to improve the sustainability of pension systems. In effect, it combines raising contributions and lowering benefits. Workers who work longer contribute more to the system and take out less, since they will be receiving the benefits for a shorter period. Whether such approaches are taken or not, it still remains that changes should be made otherwise expenditures will continue to rise because traditional pension systems do not take into account events such as demographic shifts.

It is also important to manage demographic dividends wisely. It should be noted that though there is a window of opportunity, with the increase in the working population and youth, the productivity and substantial economic contribution depends on education decisions, employment practices and policies. Unless contributions are adjusted as the population age distribution changes, the share of gross domestic product (GDP) spent on financing pensions will continue to increase.

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PENSION FUND FEES: COMPARISON AND ANALYSIS OF BOTSWANA AND SELECTED IOPS MEMBERS

Authors: Retirement Funds staff

1 INTRODUCTION

The primary objective of a pension system is to provide adequate income in old age. However, there is a notable concern across the globe, that pension fund fees are generally high (Tapia and Yermo, 2008) and that these fees may have a negative effects on the value of the pension funds' assets, in the long run. Cost efficiency therefore has become a very important factor in pension fund management (Kurach et al, 2016).

In the past two decade, international policy institutions such as the World Bank, IOSCO and IOPS had been in the forefront in the advocacy of pension fund cost efficiency. For example, IOSCO had been publishing a report on good practice for fees and expense since 2004. Similarly IOPS had published a report on the level, structure and methods of calculation of pension funds fees in their member countries in 2008 and 2014. The general concern in both publication was the proper disclosure and the avoidance of excessive fees.

A number of empirical studies such as those by Whitehouse (2001), De Dreu (2009), Sy and Lie, (2010) and most recently (Thurley, 2017) etc. concurred that pension funds fees may have a negative effect on the growth of the pension assets over time, thus affecting their ability to provide members with adequate pension. In particular, Thurley, (2017) argued that a 1.5% pension charges can erode up to 34% of the pension asset value over a 40 year period.

In the past decade, some IOPS members such as Singapore, Chile, Mexico, Nigeria etc. revamped their pension policies to address the issues of excessive and inadequate disclosures of fees. The approach varied across countries. For example, Ghana and Nigeria prescribes both the allowable fees and a limit to the fees, Chile prescribes a standard method of calculation of fees, while Hong Kong and Singapore Regulators provides a fee comparison platform in their websites, where pension funds service providers are required to publish their fees annually for public scrutiny.

This papers provides a comparative analysis of the levels, structure and method of calculation of pension fund fees across a selected IOPS members and the fees regulatory approach adopted by the countries. The paper further analysis the administration and investment fees levied on the Botswana pension assets for the period 2011 – 2016. The choice of countries is not consistence throughout the paper. This is because the pension systems across IOPS members are different in many respects. For example other systems are voluntary, while others are mandatory etc. This makes comparison of fee across countries practically difficult (Whitehouse, 2001). Despite the setback, the papers is envisaged to provide better understanding of the fees, especially the recent trends in pension policy reforms and their impact on the pension assets. The aim is to ultimately influence policy reforms in pension funds fees.

The paper is organized as follows: Section 2 analysis the methods of calculation of fees across countries, Section 3 and Section 4 looks at fee regulation structures and analysis of Botswana fees respectively, while Section 5 concludes the study and 6 draws recommendations.

2. METHOD OF CALCULATION OF FEES

There are various types of fees structure across jurisdictions: flat rate, proportion of contributions, proportion of assets, share of investment performance, or a combination of any of these (IOPS, 2017). The most common methods are the contribution-based and the asset-based method.

Contribution-based fees are levied as a percentage of each member contribution, while asset-based fees are levied as a percentage of total asset under management (AuM). Some countries e.g. Chile allow pension funds to charge contribution-based fees only, while others e.g. Nigeria exclusively allow asset-based fees. Some countries such as Hong Kong, Botswana and South Africa allow a combination of both methods. The choice of method is influenced by a number of factors including the level of maturity of the pension system, policy direction, the level of development of the country etc.

The contribution-based fees are usually employed in the early phases of implementing pension plans, where assets are insignificant and would yield smaller fees for the service providers. Similarly, asset-based fees will be preferred in mature pension plans, where the assets are significant enough to provide adequate revenue to the service providers (Whitehouse 2000). Furthermore, most countries avoid contribution-based fees on a mature pension systems because, as plans mature, the number of deferred members' increases (due to suspended contributions as a result of job losses), resulting in a decreased revenue. This is because deferred members do not pay fees under the contribution-based method. Table 1 below shows the method of calculation of fees employed by selected IOPS members

Asset-based fees are also favored because they redistribute from people with large funds to people with small funds. So older members, who have accumulated significant AuMs, will pay more fees, than younger members, who will be paying less relative to their funds size.

Table 1: Method of Calculation of Fees Employed By Selected IOPS Members

Country	Method Used
Hong Kong	Contribution-based, Asset-based
Chile	Asset-based
UK	Asset –based
Botswana	Contribution-based, Asset-based
South Africa	Contribution-based, Asset-based
Nigeria	Asset-based

Source : IOPS, 2015, 2017



3. REGULATION OF PENSION FUND FEES

A number of IOPS members have implemented regulations on pension fund fees in order to alleviate the risk of assets being depleted by the fees over time. Again the approach to fee regulation varies significantly between countries owing to the different pension policies, level of maturity, structure of pension etc. Generally the fees regulations prescribe the type and level of charges to be levied on pension funds and the manner in which the fees must be disclosed to the members.

3.1 Limits on fees

A number of IOPS members has established maximum limits on fees chargeable to pension funds. While fee caps are generally considered effective in controlling excessive fees, Tapia and Yermo (2008) cautioned that, setting the fees at wrong levels may have far reaching consequences. Low fees might mean that the service providers are not able to adequately cover their costs, undermining their viability and consequently affecting public confidence in the system. Again the limit may become a de facto charge minima, which destroys competition among service providers (IOPS, 2017).

Again due to differences in pension policy, countries have employed different approaches to capping of fees. Nigeria allows asset based fees only and has prescribed caps of 1.33% for administrators, 0.56% for fund managers, 0.28% for custodians and 0.33% cap on supervisory levies. In Chile, Administrators are free to charge any fee. However, the fees shall be the same for every member, charged as a fixed per cent of salary (Chant West, 2014). It is observed that developed countries such as Australia, Canada and the US do not impose any limit on pension funds fees. UK has implemented the fee cap on their default funds only. However, in Africa, this model is adopted by developing countries such as Botswana, South Africa, and Mauritius etc. Table 2 below shows some IOPS members who have implemented fee caps.

Table 2: Limit on fees of selected IOPS Members.

Country	Fee limit
UK	0.75% of total assets for default funds only
Nigeria	0.28%-1.33% of total assets depending on the service provider
Costa Rica	1.1% of total assets envisaged to be slowly reduced to 0.35% in 2020
Turkey	2% of contributions

Source, IOPS, 2017

3.2 Restricting Charge Structure

Another way of reducing complexity of fees structure and avoid hidden charges is to prescribe only one method of calculation of fees for all pension service providers. For example Chile allows only contribution-based fees, while the UK allows asset based fees only. Some countries allow both methods but for different service providers. The choice of method will depend on each country's intended pension policy direction.

3.3 Disclosure of fees

In order to ensure proper and adequate disclosure of pension fund fees, countries such as Mexico, Hong Kong and the UK, mandates Pensions funds service providers to disclose their fees through a fee comparative platform on the Regulator's website. The method is more effective in country where pension funds are managed as Individual account. This will allow a member to move to a better or cheaper service provider as and when needed. This method therefore encourages competition between service providers leading to better services and performance and in some cases pushing the fees down. However, the mechanism will not be effective in markets like Botswana where there are very few service providers.

Another approach is to have a standardize fee, for example in Hong Kong all pension funds service providers are required to disclose the fees in a standardized formula.

4. ANALYSIS OF BOTSWANA PENSIONS FUND FEES

4.1 Analysis of Administration fees

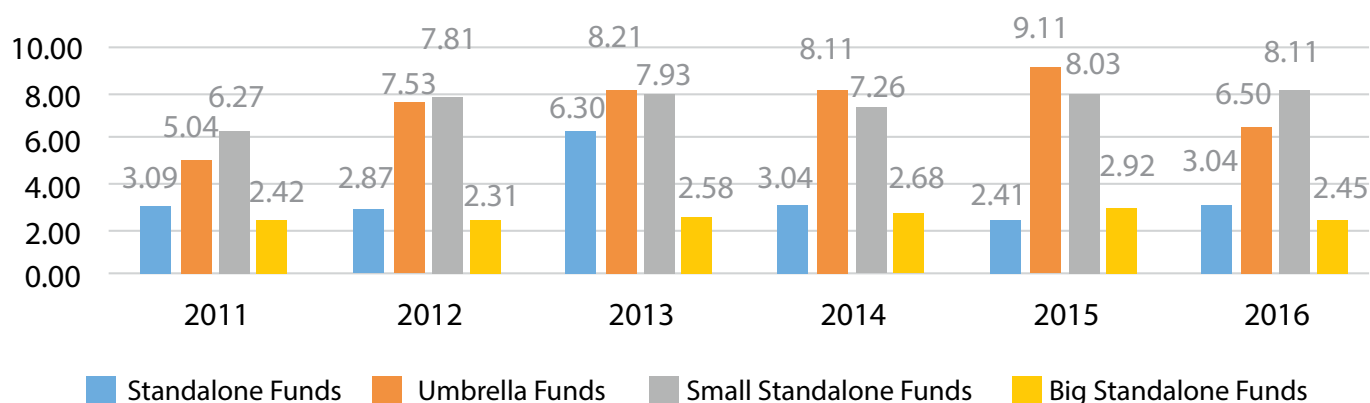
Administration fees in Botswana are charged based on the pension funds' total contributions and total membership. The level of fees is therefore influenced by the contribution rate and the total membership of the administered funds. This method is used in Chile (IOPS 2014). However, unlike in Chile where the fees are levied on top of the contribution, in Botswana these fees are levied out of the contribution, thereby reducing the levels of contributions. Levying fees on top of the contribution ensures that the fees reduce the members' current income rather than future retirement income (Whitehouse, 2001). This method is favorable for low income earners as the charge is lower for low income and increases with the increase in income (World Bank Pension Reform Premier, 2012). Whitehouse (2001) had shown that contribution-based fees favors deferred members as they would normally not pay fees. However, in Botswana, in order to avoid loss of income by administrators, administration fees on deferred members' accounts are levied on the members' total asset under management.

In Figure 1, administration fees are divided into 4 groups (Standalone, Small Standalone, Big Standalone and Umbrella Fund). There is a considerable variation in the level of fees among the four groups, ranging from a fee of 2.4% (Big Standalone pension) to 8.11% (small standalone pension fund) in 2016. These fees are generally high by international standards. For example, Chile, which uses a similar method of calculation of administration fees, registered an average of administration fee of 1.42%, during the same period (IOPS 2015). Having said that, the comparison must be made with caution because the application of contribution based methods differs across countries. First Chile has prescribed a contribution rate of 10% compared to Botswana whose contribution rate differs across pension funds, but are capped to 20%. Secondly, Chile contribution fees are front loaded, while in Botswana the fees are back loaded.

Figure 1 further shows that the Standalone pension funds administration fees are consistently lower than those of the small pension funds and the umbrella funds. The result suggests an inverse correlation between size of the pension funds and the administration fees. Big Standalone pension funds, which account for more than 80% of the pension fund industry assets, recorded lower administration costs compared to small standalone pension funds and umbrella pension funds. This is an evidence of economies of scale and massive bargaining power of large pension funds. The finding is consistent with (Whitehouse 2000), (Turner and Beller's 1989) and The Australian Prudential Regulatory Authority (1998b) who found evidence of economies of scale in pension funds.



Figure 1: Administration Fees of Selected Pension Funds For The Period 2011-2016



4.2 Disclosure of fees

It is further observed that the fees vary insignificantly during the 6 years under review. For example the big standalone fees hovered around 3 % during the period under review. The rigidity in the fees might be attributable to the oligopolistic nature of the industry, where only 2 players are operating in the market. In this environment, entities are not motivated to compete by price as price deductions may not gain them any market share.

4.3 Analysis of investment management fees

This section analysis pension funds investment fees. Investment fees are charged based on percentage of asset under management. The fees are influenced by a number of factors chief among them, the investment strategy chosen by the pension fund. In this regards, the choice between, active, passive and alternative strategies, or a combination of the three will have a huge influence on the level of fees payable by the pension fund. Table 3 below gives an example of equity investment fees structure as prescribed by the Chilean Regulator, where active investment fees are more expensive than passive investment fees.

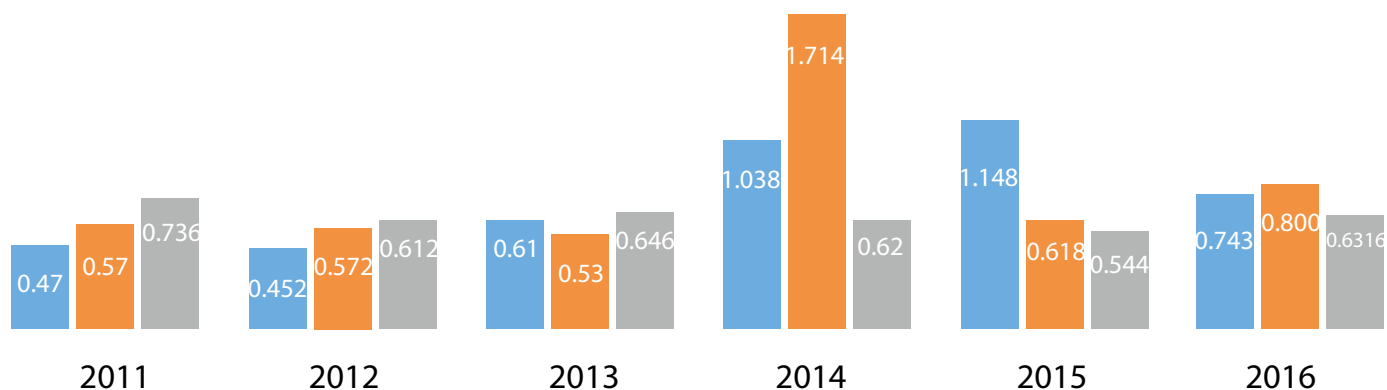
Table 3: Chilean Maximum Investment fees for Equity

Asset Class	Sub Asset Class	Style	Maximum fee
Equity	Domestic	Index	0.69
	Global	Active	1.29
	Emerging Market	Active	1.59

Source: Chant West, 2014

Figure 2 shows the average investment management fees of Botswana pension funds for the years 2011 to 2016. The main finding is the inverse relationship between size of the fund and investment fees. The investment fees for Big Pension Fund pension funds is lower than those of the small standalone pension fund and the Umbrella pension fund. The results re in line with Eckard (2015) who found that the major benefits of umbrella funds are that they can reduce trading and operating costs for individual funds and their investors as they benefit from economies of scale.

Figure 2: Average Investment fees for the period 2011 - 2016.



In 2014 recorded a huge increase in standalone pension fund investment fees, from 0.53% to 1.71%. The increase was attributable to a significant reduction in pension funds' assets as one of the big pension funds in Botswana invested their assets directly offshore. As assets under management grow, investment costs are expected to decrease due to economies of scale. In this case, it is observed that over the years, the decrease in fees for the bigger pension funds was insignificant, despite in growth in AuMs. This might be attributable to the assets allocation effect: Larger pension funds, had, in recent years, been increasing their allocation to alternative investment, which are more expensive,

5. CONCLUSION

This paper provides a review of the levels, structure, methods of calculation and regulatory approaches of pension fund fees across a selected IOPS members. It also analysis the administrative and investment fees of Botswana pension funds to see how they compare with those of IOPS members. The study was motivated by the recent profound interest of policy institutions such as the World Bank, IOSCO and IOSCO on the effect of fees on pension funds' assets, and the subsequent policy changes in many IOPS members' countries to address these issues. The following are the main findings of the analysis:

- Pension funds fees may be high compared to other markets. For example in Ghana, the total maximum fees that can be deducted for administration, Custodian and investment management services is 2.5% of total assets under management. While in Botswana, the same amount is enough to cover administration fees only (for Big Standalone pension fund).
- Fees are not adequately disclosed to pension funds. This is more prominent in investment fees, where in most cases the fee are deducted from the returns
- Fees are not standardized and vary significantly between funds both in terms of the structure and level.
- Small pension funds are expensive to maintain compared to bigger funds (including Umbrella Funds) The results suggests that that the maintenance of small funds is costly in comparison to umbrella funds
- Disclosure of fees might not be adequate despite the requirement of Retirement Fund Rule 10 ("PFR 10"), which prescribe disclosure requirements for pension funds fees.



6. RECOMMENDATIONS

6.1 Reform of the Pension System

The review of IOPS members' pension systems shows that, during the past two decades, countries have been taking conscious decisions to change their pension policy in order to address a number of issues, pension funds fees included. Botswana need to adopt a similar approach, especially putting in place policies that will address the low coverage and adequacy of the pension system. This may include making pension funds mandatory. This main aim will be to increase pension funds' assets, which will in turn stimulates establishment of more service providers, who will be able to compete and hopefully, in the long run, result in lower pension funds fees. The high fees observed is mostly attributable to lack of completion in the industry, especially on the pension fund administration space.

The policy direction chosen, will also guide on other issues such as the method of calculation of fees, disclosure requirements, standardization of fees etc. In particular, we will not, at this point, advocate for the prescription of the limit on fees, especially on the pension fund administration industry (which was, during the review time, served by only 2 players). This will be left to the market forces (although the analysis shows that effectively these fees are "determined" by the Big standalone pension fund). Regulatory intervention in this space may render the space unattractive to service providers, who are already not making a lot of money" due to the size of the pension assets.

6.2 Having said that, the Authority may consider prescribing price caps on the asset management fees based on asset classes as it is done in Chile.

6.3 Another important policy that may be adopted in the long run is to take away pension fund management from the Trustees and giving it to the Pension fund Management Companies. This model is used effectively in the UK, US, Nigeria, Chile, Mexico etc. The companies must employ qualifying Board of Trustees and must have adequate controls in terms of international best practice. This will improve the quality of pension fund management, to run the funds at a lower costs due to economies of scale

6.4 Threshold for Licensing as a Standalone Fund.

The study shows clearly that smaller pension fund lack economies of scale and therefore, have higher s service fees. To address the issues, the Authority may consider establishing a threshold in terms of asset under management, which will be used to determine whether the funds must be licensed as a standalone or an umbrella fund. Any pension fund whose asset are below the threshold would only be licensed as a sub fund in the umbrella fund.

6.5 Fees reporting Standard - The Authority may also consider standardizing the fee structure for comparisons purposes and requirements for the fees to the disclosed in the website and/or in the members' statements.

Effect of the REER on Pension Fund Asset Allocation

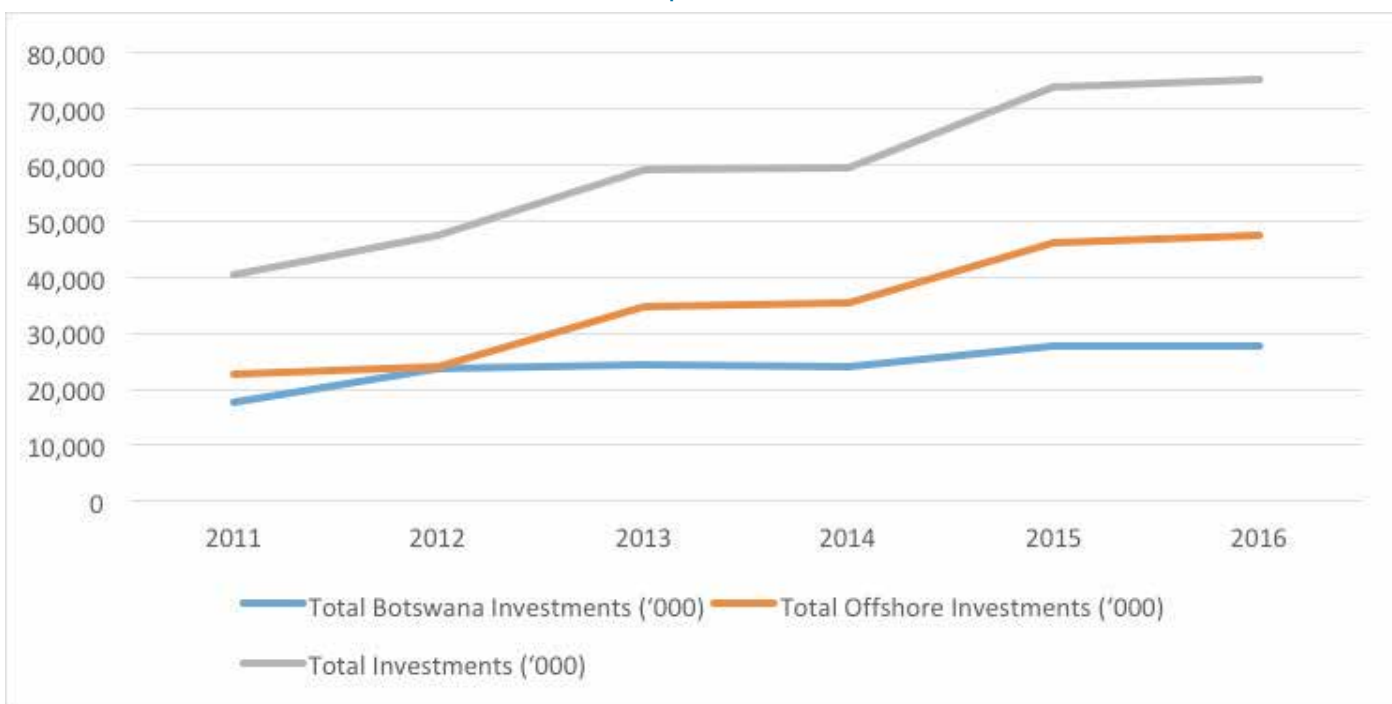
Author: Tebogo Munyengwa

Introduction

The main aim of this paper is to assess if Botswana pension funds strategic investments are influenced by exchange rate fluctuations. The paper also checks the responsiveness of pension funds asset allocation to interest rate differentials. However, it is also noted that asset allocation can be affected by other external factors like economic crisis and asset price shocks (Bikker et al, 2009). The exchange rate fluctuations are chosen as they pose immediate risks to pension funds meeting their benefit promise.

Over the past eight years, retirement fund assets recorded significant growth to the year ending December 2016. The fund assets grew from P32.1 billion in 2008 to P75.1 billion, recording a significant growth of 134%. Even though growth from onshore assets contributed slightly to RFA growth (mainly increases in membership income), growth in the RFA was mainly driven by income gains from foreign holdings. The on-shore assets registered a maximum growth of 33% in 2011 while offshore recorded a maximum growth of 46% in 2013.

Figure 1: Retirement Fund Asset Local/Offshore Split 2011 to 2016





The growth in the asset split does not reflect a consistent growth pattern, but continue to reflect biasness to foreign holdings (see table1 below). In 2008, the offshore-onshore split was 64% / 36%, which balanced to 50%-50% in 2012 and increased biasness to foreign by 63% / 37% by end of 2016 (NBFIRA Annual Statistical Bulletin, 2017). This is in line with the requirements in the Pension Prudential Rules (PFR2) which requires that a maximum of 70% of the fund assets should be invested offshore, while a minimum of 30% should be invested locally.

Table 2: Local/Offshore Split

Year	Local/Offshore Split	
	Local	Offshore
2008	36	64
2009	40	60
2010	38	62
2011	44	56
2012	50	50
2013	41	59
2014	40	60
2015	37	63
2016	37	63

Assets Under Management

Fund managers, however, invest funds under management in different classes or instruments, both locally and offshore. The funds can be invested in equity, fixed income, money markets or property. The PFR2, however, continue to impose restrictions in investing in different assets classes. The table below brief summary of investment limits.

Table 2: Investments Limits

Asset Category	Total Limit
Local Cash	25%
Foreign cash	30%
Bills, bonds, or securities guaranteed by or issued by the Government of Botswana, including supra-national bonds.	100%
Bills, bonds, or securities guaranteed by or issued by corporate body established by act of Parliament or local authority in Botswana that is approved by the Regulatory Authority.	20%
Bills, bonds, or securities guaranteed by or issued by the development bank.	20%
Total Listed and Unlisted corporate bonds	40%
Corporate Bonds listed on the Botswana Stock Exchange provided that the Regulatory Authority has approved the listing criteria;	35%
Unlisted Corporate Bonds approved by the regulatory Authority.	
Foreign bonds	50%
Immovable property, units in property collective investment undertakings, and shares in, loans to and debentures, both convertible and non-convertible, of, property companies, in Botswana or deemed to be in Botswana.	25%
Listed units in property collective investment undertakings and debentures, both convertible and non-convertible, of, property companies, outside Botswana.	10%
Preference and ordinary shares in companies (excluding property companies), convertible debentures, whether voluntarily or compulsorily convertible (but excluding such debentures of property companies), and units in 70% collective investment schemes (but excluding units in collective investment schemes invested primarily in property shares).	70%
Shares and convertible debentures in a single company listed on the Botswana Stock Exchange	Market Cap > P500m- 5% Market Cap <P500m> P1500m-10% Market Cap <1500m -15%
Unlisted shares	20%
Paid up shares in a building society	10%
Loans and equity investment in the sponsoring employer together with loans and equity investment in the holding company of the sponsoring employer, if any	5%
Listed shares in foreign companies listed on a foreign stock exchange	50%
Unlisted shares in foreign companies exchange (in aggregate)	5%
Instruments based on the value of an underlying commodity commodities, where the instruments are settled in cash (in aggregate for all such instruments)	10%
Exposure to alternative investments	15%
Hedge Funds and other assets not listed in the rules	5%
Funds of hedge	
Local private equity	5%
Offshore private equity	5%



The table above reflects two columns, where the first column indicates the assets category and the second column indicates the maximum value of assets (expressed in percentage of total assets of the fund) each fund manager can hold per asset category.

Factors Influencing Investment decisions

Fund managers are faced with some challenges when making investment decisions to split investments between local and foreign investments. These challenges can range from demographic change, investment climate for both local and foreign investment destination, and mostly local governance. For example, in equity instruments, a shift towards offshore is mainly explained by a strong economic global market. That is, strong economic indicators in safe haven countries like US and Japan will result in an outflow from the rest of the world to US and/or Japan, especially during periods of economic crises, countries want to attain recovery from significant cash returns. Macro-economic stimulus taken to by foreign countries will lead to increased foreign investment allocations.

While countries with favourable returns are destination of choice, investment decisions by pension fund managers are dominated by expectations of currency movements (that is appreciation or depreciation), which dampen interest gains from foreign markets. Appreciation of the Real Effective Exchange Rate (REER) (that is the nominal exchange rate adjusted for inflation) is expected to offset foreign gains while the depreciation is expected to foster capital inflows. Therefore, there is an expected negative relationship between appreciation of the REER and Retirement Fund Assets held abroad.

The Pula Exchange Rate Environment

Figure 2: Real Effective Exchange Rate Trends

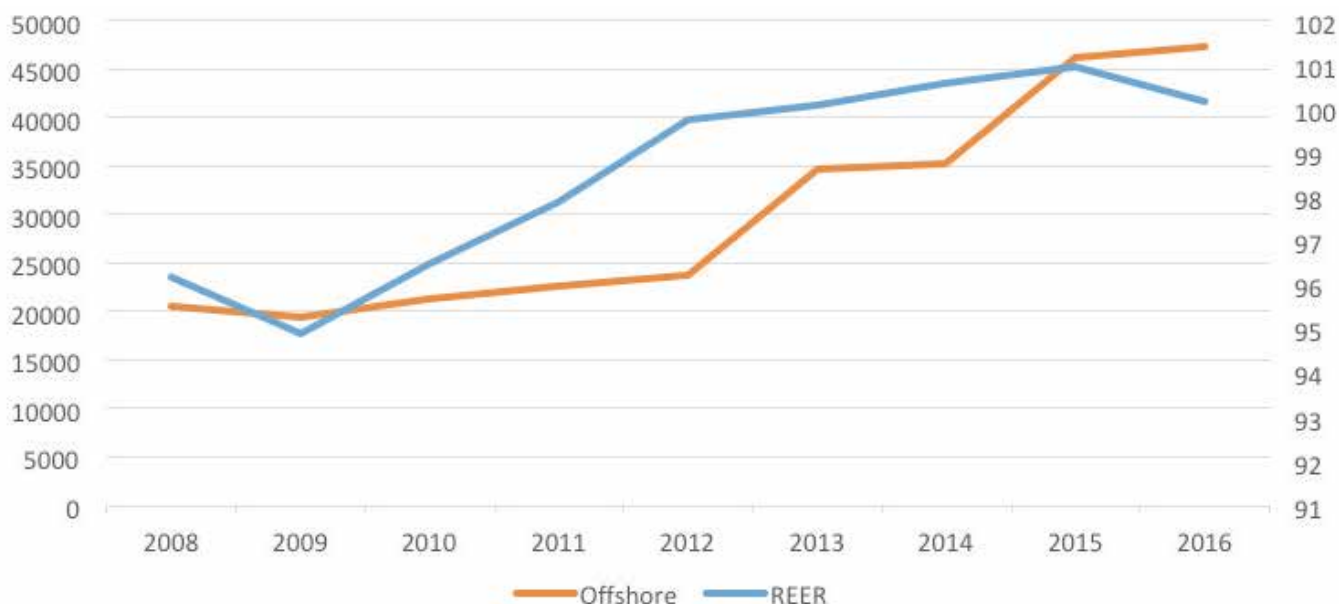


A crawling peg exchange rate mechanism was introduced in May 2005 with the objective of enabling small continuous nominal adjustment of Pula exchange rate with a view of maintaining REER stability (Mohohlo, 2005). Since the introduction of the crawling peg in 2005, the REER depreciated by 0.8 percent by the end of 2008, but appreciated to an overall 8.4 percent by the end of the fourth quarter of 2016.

Relationship between REER and RFA

The graph below presents the historical trends between the REER and the offshore position of pension funds. Periods from 2008 to 2012 reflect effects and recovery phases of the 2008 financial crisis. Investments after the 2008 financial crisis were slow as financial markets were regaining investor confidence. This could be explained by a flat slope on the offshore investment curve. Also, the faster appreciation of the REER was due to Botswana's trading partner countries reacting to the effects of the world financial crisis in the same period. From 2012 to 2013 and 2014 to 2015, the rate of appreciation of the REER slowed down from 1.9% to 0.3 % and from 0.5% to 0.4%, respectively. This saw the offshore assets increasing by 46 % and 31 %, respectively. However, between 2013 and 2014, the REER appreciated slightly, slowing down the growth of offshore RFA in the same period.

Figure 3: Offshore Assets and REER



Methodology

In providing an empirical evidence of the effects of pension fund allocation, A Vector Autoregression (VAR) model will be constructed for this purpose. A VAR model is a system of simultaneous equations which are suitable for describing a data generating process of a set of time series variables. For example, in a case where a VAR model involves two variables; y_t and x_t , Enders (2004:264) indicates that a VAR model can be specified as the following simple system;

$$Y_t = b_{10} - b_{12}X_t + \gamma_{11}Y_{t-1} + \gamma_{12}X_{t-1} + \varepsilon_{1t}$$

(1)

$$X_t = b_{20} - b_{21}Y_t + \gamma_{21}Y_{t-1} + \gamma_{22}X_{t-1} + \varepsilon_{2t}$$

Where b_{10} and b_{20} are the intercept coefficients, and b_{12} , b_{21} and γ 's are the autoregressor coefficients. This system can be represented as follows in matrix form;

$$\begin{pmatrix} 1 & b_{12} \\ b_{21} & 1 \end{pmatrix} \begin{pmatrix} Y_t \\ X_t \end{pmatrix} = \begin{pmatrix} b_{10} \\ b_{20} \end{pmatrix} + \begin{pmatrix} \gamma_{11} & \gamma_{12} \\ \gamma_{21} & \gamma_{22} \end{pmatrix} \begin{pmatrix} Y_{t-1} \\ X_{t-1} \end{pmatrix} + \begin{pmatrix} \varepsilon_{1t} \\ \varepsilon_{2t} \end{pmatrix} \quad (2)$$

For the purpose of this study, we want to map out if higher foreign yields influences the offshore investments and most importantly, if appreciations in domestic currency will dampen foreign investments. Three variables are selected which are the REER, offshore pension fund assets, and interest rate differentials. The REER is a weighted average exchange rate between Botswana's major trading partners, while the proxy for foreign yields is a difference of domestic central bank rate and an average of central bank rates of major trading partners.

Results and interpretation

Lag Selection

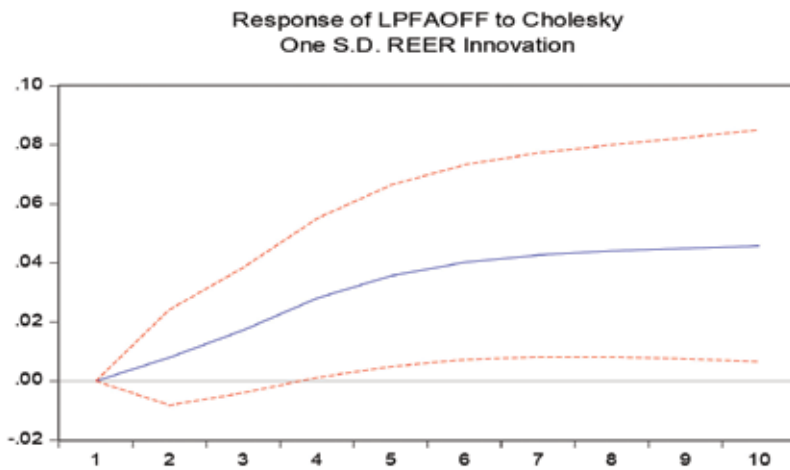
The aim of selecting a lag length in a VAR is to identify the best-fitting model. Additional lags increase the coefficients estimated which are associated with a loss of degrees of freedom which affects the performance of the model. Therefore, five tests are used to select the appropriate lag length. These are Swartz Information Criterion (SC), the Akaike Information Criterion (AIC), Sequential Modified LR test statistic (LR), Final Prediction Error (FPE) and Hannan-Quinn (HQ) Information Criterion. Four out of five tests suggests a lag length of two.

Table 3 VAR Lag Order Selection Criteria

Lag	LogL	LR	FPE	AIC	SC	HQ
0	-207.4321	NA	0.769991	8.252240	8.365876	8.295664
1	-39.38469	309.7345	0.001507	2.015086	2.469633*	2.188782
2	-24.10494	26.36506*	0.001183*	1.768821*	2.564279	2.072789*
3	-21.77879	3.740078	0.001553	2.030541	3.166909	2.464781
4	-16.31200	8.146594	0.001818	2.169098	3.646376	2.733610
5	-13.01911	4.519649	0.002346	2.392906	4.211095	3.087690

* indicates lag order selected by the criterion

Figure 5: Impulse Responses



Conclusion

The aim of the paper was to assess the relationship of pension asset allocation and REER. In order to do this, a VAR model was utilized which included three variables; the REER, offshore pension funds and the interest rate differentials between Botswana and major trading partners. The response of pension funds allocations to interest rate differentials confirms that asset managers prefers destination of high return. However, the response of offshore pension fund assets is minimal reflecting to exchange rate shock, implying that currency movements are not significant enough to dampen foreign gains.

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EXECUTIVE SUMMARY OF ANNUITIES SURVEY REPORT

Authors: Summary of Research Consultancy Findings by Seaton (Pty).Ltd

The Non-Bank Financial Institutions Regulatory Authority (NBFIRA) commissioned a research project to establish the structure; policy imperatives and growth pattern of the annuities market in Botswana. The report was based on a sample size of 37 responses from the life insurance industry; other annuity providers; fund administrators and the broader insurance industry.

Annuities Demand Side

Demand for annuities in Botswana was fueled by the defined contribution occupational pension scheme members. This was a compulsory and contractual obligation for each permanent and pensionable employee in public sector to subscribe to a pension scheme.

Private sector employees preferred gratuity to pension because the voluntary annuities market (open market) suffered various constraints that included low disposable income to invest in long term financial plans such as pension; low levels of familiarity with retirement products and high levels of financial illiteracy; legislative bottlenecks that did not allow one to draw-down on pension contributions as well as the fact that annuity income was taxable.

Botswana Annuity Market Structure

Annuity products were provided by Botswana Life; Metropolitan Life and BONA Life out of eight life insurance companies. The country had 92 retirements funds and an additional 248 sub-funds, however only the Botswana Public Officers Pension Fund (BPOPF) and Debswana Pension Fund offered annuities to their members.

De Vere Group, offered offshore pension products in the Botswana market and other competitors such as investment companies and fund administrators also offered annuities to the voluntary market.

In 2017, Botswana had approximately 20,632 annuitants in the compulsory annuities market and Botswana Life had the highest market share of the annuitants by number with 42% and BONA Life had the least number of annuitants at 1%.

There were 18% more males that had purchased annuities than females between the period 2013 and 2015. The average age of purchase of annuity was 55 years old at a purchase value of P768,537.18 which was paid out at an average of P5,147.96 per month over an average period of 9.13 years.

Annuities Supply Side

The annuities market in Botswana is an oligopoly whereby two players own over 80% of market share. There are regulatory and structural barriers to entry into the market that include low appetite for longevity and mortality risks by life insurance companies; low age of retirement; lack of expertise in annuities; small population and substitute products that erode profitability in the market. Therefore the market is not expected to grow in the near future.

Annuity Products In Botswana

Overall, the aggregated nominal values of Fixed annuity products experienced a 16% growth rate and Indexed annuity products had a 15% growth rate compared to the 36.6% growth enjoyed by Guaranteed Annuity products between the years 2013 and 2015. Indexed Annuities commanded the highest share of market in nominal values at 48% whilst fixed annuities were the least popular with 12%.

Mortality Tables

The majority of actuarial specialists used foreign mortality tables because Botswana had a small population and sample size used in valuation was reported to be inadequate and this affected the pricing formula.

NBFIRA Policy Interventions

In order to influence the growth of the annuities business, stakeholders encouraged NBFIRA to advocate for Government to increase the retirement age to 65; to replace gratuities with term annuities; introduce tax concessions on purchase of voluntary retirement products; and diversify long term investment vehicles; promote FDI. NBFIRA was urged to stimulate growth in the annuities market through increased financial literacy programmes.



The Report is available on request from NBFIRA: Send Email of your request to:
Head of Communications and International Affairs Email: info@nbfira.org.bw

NBFIRA

Non-Bank Financial
Institutions Regulatory
Authority

