



NBFI Sector Performance Overview

2022 Annual Report Highlights

November 16, 2022

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NBFI
Non-Bank Financial
Institutions Regulatory
Authority

PRESENTATION OF NBFIRA ANNUAL REPORT

Salutation

Members of the Media

1. The Annual Report of the Authority was prepared and submitted to the Honourable Minister of Finance in accordance with the NBFIRA Act, and will be presented to the National Assembly at the earliest opportunity. While that is the minimum legal obligation of the Authority, with respect to reporting and dissemination of the Annual Report, it is important to engage with other stakeholders to share the Report contents, but equally important, to elicit feedback from yourselves about your views that are relevant to the Report. It is in such context that we will be presenting the highlights of the Annual Report in the course of the morning.
2. The worst effects of the COVID-19 pandemic have receded at home and abroad, however, economic recovery is yet to reach pre-pandemic levels across many parts of the world, including our country.
3. Despite such rather bleak assessment, however, I am pleased to report that the Authority performed relatively well and attained success across the key deliverables in the reporting period. In that regard, the risk based supervision method remained the cornerstone of the supervisory approach and proved its worth during the unprecedented challenges and risks to the non-bank financial services sector and its customers in recent times.
4. The Authority adopted a five-year corporate strategy beginning in 2021. The strategy contains 12 strategic objectives and the corresponding initiatives. For purposes of my remarks today, the key themes of the strategy are attainment of:

- (a) Robust and Modern Regulatory Framework;
- (b) Strengthened NBFIs Sector Resilience and Governance;
- (c) Strong Consumer Protection;
- (d) Enhanced Operational Efficiency and
- (e) Effective Stakeholder Engagement and Influence.

5. While it is rather early to draw meaningful assessment of the success of the strategy, the key achievements to date may be summarised as follows:

- (a) completion of corporate governance rules for some industries to promote financial soundness;
- (b) development and implementation of AML/CFT&P Action Plan to enhance compliance;
- (c) development and implementation of stakeholder engagement plan and completion of a holistic survey to assess stakeholder confidence;
- (d) implementation of the ladder of intervention in line with a risk based regulatory and supervisory framework;
- (e) a risk maturity assessment conducted in which the Authority scored three on a scale of one to five.

NBFI Industry Performance

6. For the reporting period, the Authority assessed the non-bank financial sector to be relatively stable and buoyant with no obvious vulnerabilities in the short to medium term. The growth in the NBFI sector assets and capital was strong in spite of the challenging conditions and the sector remains financially sound to date.

Key NBFBI Sector Performance Indicators: 2020 and 2021 Comparison

7. As an indicator of resilience, the regulated entities increased in number from 786 to 799 between 2020 and 2021. Growth in the numbers was mainly recorded in the insurance industry. Total sector assets grew by a respectable 18.4 percent from P129 billion in 2020 to P153 billion in 2021; contrast that with the 2.5 percent growth in the prior year. The growth in total sector assets was largely driven by the retirement funds industry which continued to dominate the NBFBI sector, accounting for 72 percent of the sector assets in 2021; while lending activities, capital markets and insurance assets increased by 19 percent, 45 percent and four percent, respectively, albeit from lower bases.
8. The sector's capital position improved by eight percent from P8.1 billion in 2020 to P8.8 billion in 2021, mainly on account of changes in the lending activities and insurance, while capital markets recorded a decline in liabilities. Overall, the NBFBI sector's profitability ratio decreased from seven percent to five percent reflecting a reduction in profit for both insurance and lending activities. Capital markets' profitability ratio on the other hand, increased from 14 percent in 2020 to 29 percent in 2021.

Supervisory Developments

9. I now wish to share highlights of the significant ongoing supervisory and organisational developments. In the year under review, the Authority continued to review the supervisory tools to align them with international best practice and ensure that they are effective, responsive and appropriate for the current environment; of interest, I will mention the following:

- (a) Insurance Corporate Governance Principles were issued to insurers and reinsurers in an effort to standardise and imbed good corporate governance principles across the industry;
- (b) The Authority's organisational structure was reviewed and implementation of the revised structure is ongoing with some of the functions, namely, centralised licensing and data management getting high priority in order to meet stakeholder expectations;
- (c) The Authority is currently refining the Domestic Systemically Important Financial Institutions (D-SIFIs) framework to identify and monitor systemically important institutions to manage macroprudential risks and ensure financial stability in the NBFIs sector;
- (d) The Authority is conducting AML/CFT & P sectoral risk assessment which will form part of the National Risk Assessment tenable in August 2023.

Regulatory Developments

10. A fair amount of legislative work was undertaken during the reporting period, allow me to mention some of them:
- (a) **Collective Investment Undertakings (CIU) Act:** The Collective Investment Undertakings (CIU) Act was amended and commenced in February 2022, to include emerging subsectors such as partnerships.
 - (b) **Medical Aid Funds Bill:** The medical aid funds sector, which has been regulated under the NBFIRA Act, has sufficiently matured to warrant an Act of Parliament geared towards addressing the specific needs of the sector.
 - (c) **Retirement Funds Act:** The Retirement Funds Act (2014) and its Regulations (2017) have been reviewed with the objective of ensuring that the Act remains relevant and effective in regulating the pension fund industry, among others, to include fund administrators' business, enhance funds governance, enhance benefit withdrawals and attain alignment with

international best practice. The Authority has also commenced a study to assess the strength of the retirement funds industry in Botswana, in relation to its sustainability, as well as evaluate the social impact and coverage of the retirement system in Botswana.

- (d) Virtual Assets Act, 2022: The Authority was designated as the regulatory authority for Virtual Assets Service Providers. The Act regulates virtual assets businesses and their operators in Botswana, with primary focus on risks associated with virtual assets in the context of emerging business models and technologies.
- (e) Bail Out Funds: In line with the objective of the Macroprudential Policy Framework for Botswana that seeks to strengthen resilience of the financial market infrastructure, the Financial Stability Council recommended that bail out funds be set up for the non-banking financial sector. Thus, the Authority initiated the process of establishing a Policyholders' Protection Fund aimed at protecting insurance policyholders in case of bankruptcy or liquidation of an insurer.

Compliance and Legal Enforcement Activities

11. In a world of uncertainty and limited resources, the best outcomes are not always achieved, in that regard, there were incidents of non-compliance with the NBFIRA Act, other industry laws and regulations; without getting into details, this is an area where improvements are necessary for the sake of the sector, but also for the customers and other stakeholders.

Overall, there was an increase in the number of enforcements from 72 in 2021 to 77 in 2022 financial year, which is a high and increasing figure. Needless to say, this should be a matter of concern to all stakeholders.

NBFIRA Operating Environment and Performance

12. As I conclude, let me briefly remark on key developments within the Authority during the review period.

The Authority continued to optimise both the available human and financial resources to achieve the strategic plan objectives. To ensure a healthy workforce, the Authority promoted psychosocial wellness through staff counselling, in particular, interventions were made to ameliorate the social and emotional impacts of COVID-19, when it was at its worst.

The Authority completed the development of a digitalisation strategy for the period 2022 to 2026, which provides a framework for the coordinated and controlled identification, acquisition and implementation of digitalisation initiatives aligned to the corporate strategic plan. When implemented properly, the strategy should lead to improvement in the service levels to all customers of NBFIRA.

Furthermore, the IT infrastructure and network security were upgraded to counter cyber-attack threats and the risk based IT operating platform was upgraded to address identified deficiencies.

13. Finally, I am thankful to all of you as members of the media for being the link between us and the rest of the citizenry. Financial literacy continues to be lower than desirable hampering the citizens' meaningful access to and effective use of financial services. We remain at your service in sharing information timely for the benefit of the readers subject, of course, to confidentiality constraints.
14. I appreciate your attention.