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THE LINK

NBFIRA
Non-Bank Financial Institutions Regulatory Authority

NEWSLETTER OF THE NO-BANK FINANCIAL INSTITUTIONS REGULATORY AUTHORITY

MARCH 2018

PENSIONS

UNDERSTANDING

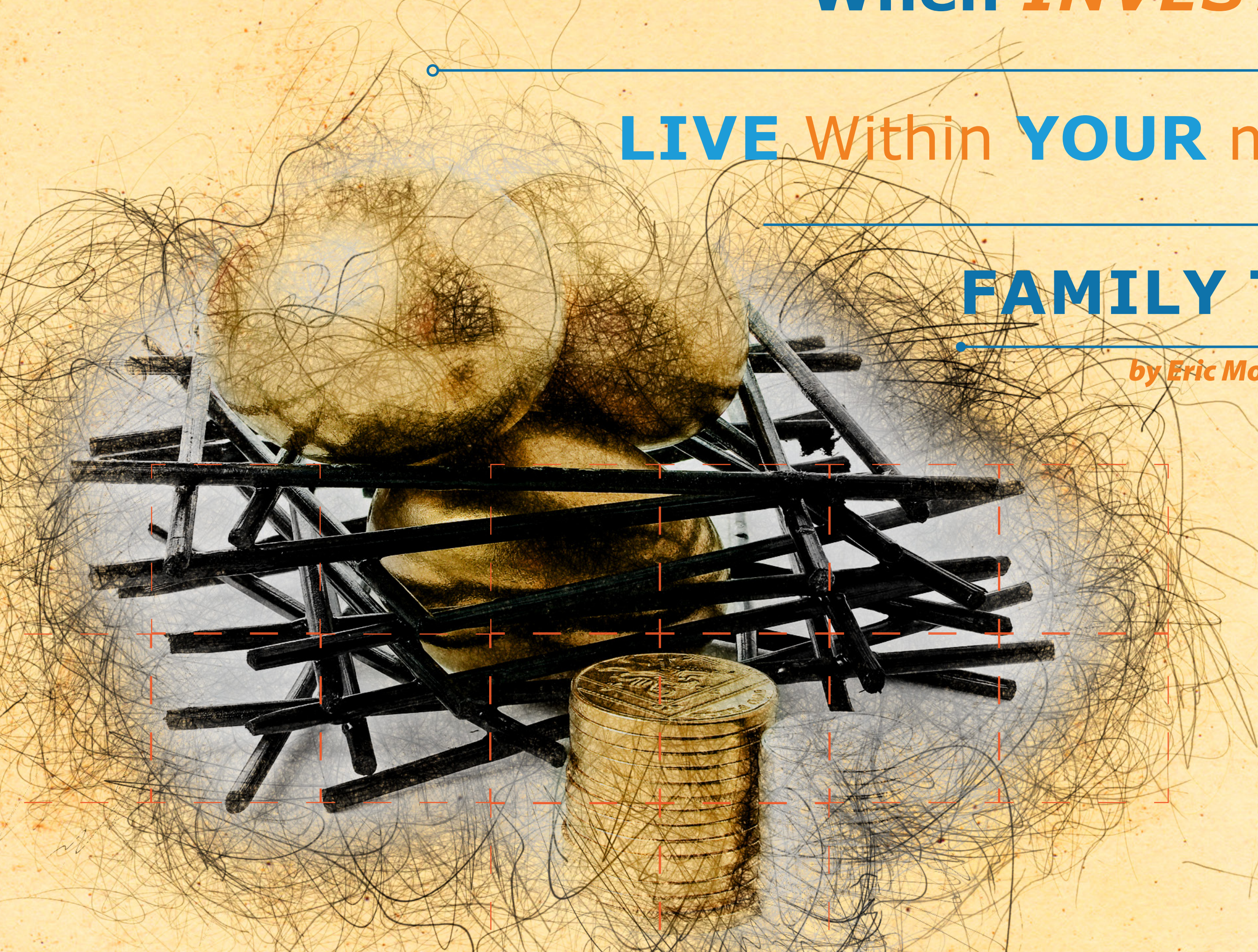
MONEY LAUNDERING AND TERRORISM FINANCING

What To Consider When *INVESTING*

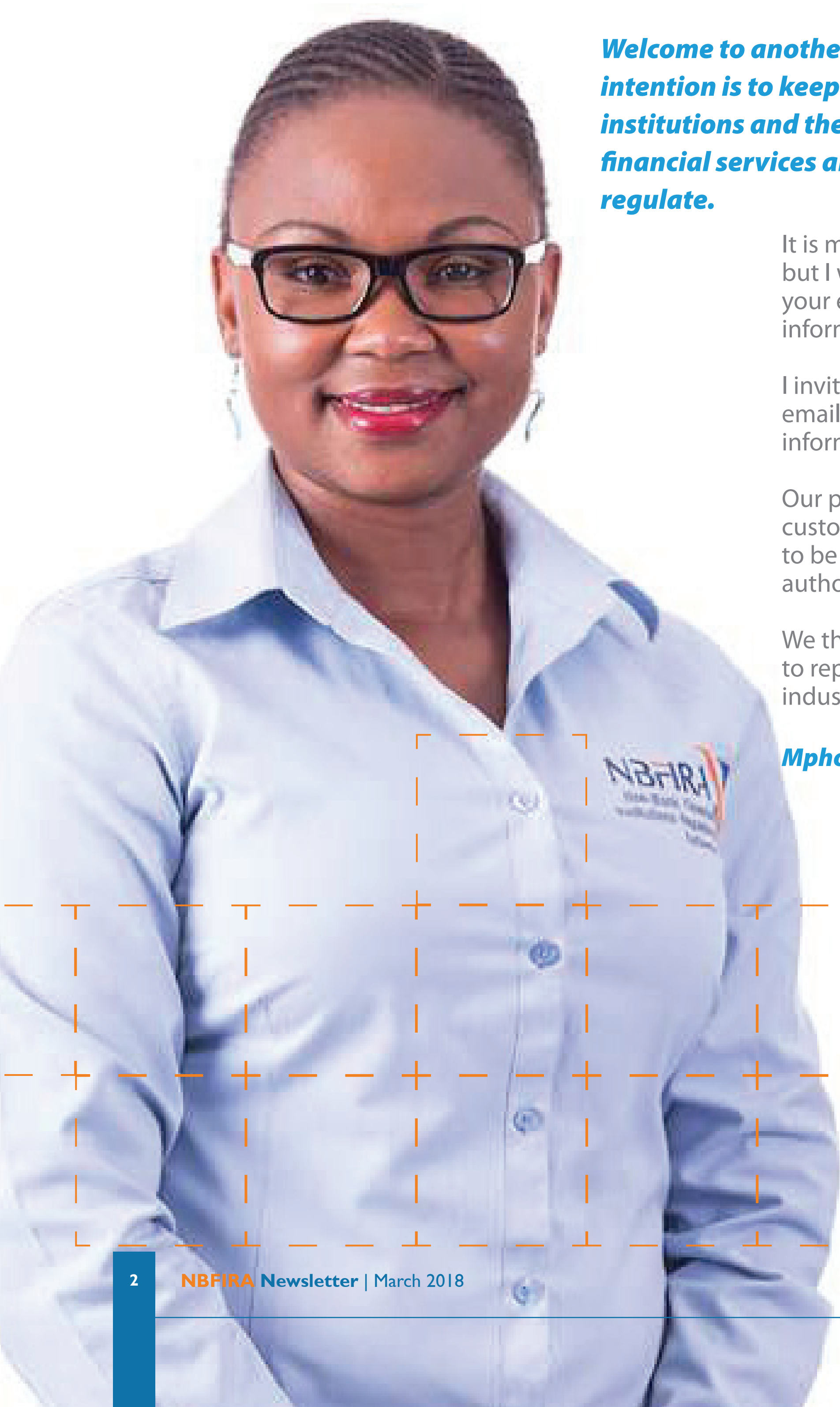
LIVE Within YOUR means

FAMILY TREE

by Eric Mogotsakgotla



EDITOR'S NOTE



Welcome to another edition of our newsletter. Our intention is to keep consumers of non-bank financial institutions and the general public informed on financial services and products offered by entities we regulate.

It is my first newsletter with the Authority but I will continue to make sure it meets your expectations. Keeping our stakeholders informed is of the utmost importance.

I invite you to engage us through our info email on the website to ask questions, seek information or lodge a complaint.

Our promise to the public is to offer good customer service in pursuit of our endeavour to be an efficient and effective regulatory authority.

We therefore ask for your cooperation to report any unlawful practises in the industries.

Mpho Mpai

ABOUT NBFIRA

Non-Bank Financial Institutions Regulatory Authority (NBFIRA) was established as an independent regulatory agency for the non-bank financial institutions in April 2008.As outlined in section 4 of the NBFIRA ACT, the principal objective of NBFIRA is to regulate and supervise the non-bank financial institutions so as to foster the:

- Safety and soundness of non-bank financial institutions
- Highest standard of conduct of business by non-bank financial institutions
- Fairness, efficiency and orderliness of the non-bank financial sector
- Stability of the financial system
- Reduction and deterrence of financial crime

VISION

To be an efficient and effective regulatory and supervisory Authority in line with International best practices.

MISSION

To regulate and supervise 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 dealings with all stakeholders
- **Accountability**- we are responsible to our stakeholders
- **Diligence**- we are thorough and persistent in the execution of our duties

NBFIRA comprises of five (5) directorates being;

CORPORATE SERVICES DIRECTORATE

The directorate provides strategic leadership in the designing and implementation of ICT, finance, accounting, human resources, capital strategies, communications, policies, and other programs for the authority.

The four regulatory departments are industry specific and are responsible for the, implementation of provisions of the NBFIRA Act and their respective industry Legislations. Some of their functions include licensing, off-site monitoring, on-site inspections and consumer complaints handling.

CAPITAL MARKETS DIRECTORATE

The department is mandated with the supervision and regulation of securities businesses, collective investment undertakings, intermediaries such as, Transfer Agents/Transfer Secretaries, Market Makers and Central Counterparties. The department also supervises the International Financial Services Centre (IFSC) accredited entities

INSURANCE DIRECTORATE

The department is mandated with the supervision and regulation of insurers, reinsurers, medical aid funds and insurance intermediaries.

LENDING ACTIVITIES DIRECTORATE

Under the Lending Activities department, the Authority is responsible for the regulation and supervision of Micro-Lenders, Pawnshops and Finance or Leasing Companies.

RETIREMENT FUNDS DIRECTORATE

The department regulates and supervises Retirement Funds (Pension and Provident Funds) and related businesses (Fund Administrators)

PENSIONS

Retirement Funds are regulated and supervised by NBFIRA in terms of the NBFIRA Act (2016), Retirement Funds Act (2014), Retirement Funds Regulations (2017) and the Income Tax Act Superannuation Fund Regulations.

In this regard, your pension benefits are protected and payable in accordance with these Acts.

The stipulated legislation prescribes that, a Member is entitled to receive a maximum of up to one third (1/3) of his/her benefit, tax free upon attainment of retirement age, and the remaining two thirds (2/3) is used to secure a pension from the fund, or purchase an annuity for the Member from a licensed life insurer that will pay a monthly pension to the Member for life.

If the pension or annuity policy pays the Member less than P5, 000 per annum, he/she is entitled to full encashment of the benefit payable.

INSURANCE-PRINCIPLE OF SUBROGATION

For an insurer, writing you a policy may pose as big a risk as the risk you are insuring against. There are principles of insurance that help the insurer reduce the risk of paying out more in claims than he should. These principles include; insurable interest, utmost good faith, indemnity, proximate cause, subrogation and contribution. This piece of writing will focus on the Principle of Subrogation.

Subrogation is the substitution of one person by another in respect of a debt, accompanied by the transfer of any related rights or duties. In insurance it is a legal right held by insurers to legally pursue a third party that caused an insurance loss to the insured. This is done in order to recover the amount of the claim paid by the insurer to the insured for the loss. This is to say, if Mpho has insured her car with insurer A and gets involved in a car accident i.e. Lesego hits her car from behind. Insurer A will repair Mpho's car, provided the damage sustained is also covered by the policy of insurance, and has the right to recover the cost of repairing Mpho's car from Lesego since she is the one who caused the loss.

Under subrogation, insurers are only entitled to benefit to the extent of payment made. That is, Insurer A is entitled to recovering only the cost of repairs or claim due to the insured. If the insurer recovers more than the amount paid out, they can only retain the amount that is equal to the payout or claim made to the insured then give the difference to the insured.

Furthermore, an insurer may only apply this principle if the insured has the right to claim against a liable third party but the insurer will be prevented from pursuing a recovery if the insured does not have the right to claim against the third party. Additionally, the insurer cannot go after the third party for the purpose of recovery unless the insurer has made payments to the insured (payout).

The subrogation process is meant to protect policyholder or the insured in that, the person or party who caused the loss must pay the insurer during subrogation, this will keep the insured's insurance rates low. The process also keeps the insured from claiming twice for the same loss and helps the insurer recoup its losses.

For the at-fault party to avoid paying hefty amounts in the name of subrogation, they can take up third party insurance cover. In this cover, the insured is the first party, the second party is the insurer and the third party is any other third person. Third party insurance does not cover you and your motor vehicle, it covers your legal liability for damage you may cause to a third party only. Going back to the earlier example, say Lesego has third party insurance cover with insurer B, she would not have to pay insurer A for the costs incurred to repair Mpho's car or paying out her claim. Instead, insurer A will pursue insurer B to recover the loss.

THE IMPORTANCE OF JOINING A MEDICAL AID WHILE YOU ARE STILL YOUNG AND HEALTHY

One of the biggest misconceptions that young professionals have is that they're too young and don't need medical aid. They wonder why they should waste their money paying for medical aid cover that they don't need yet. Many reckon that medical aid is for the 50 years and older generations who have multiple diseases and health challenges.

In truth, accidents and illnesses can happen at any time and one needs access to private healthcare as soon as possible when these things happen. Most people only realize the importance of having a medical aid when they find their lives and health in danger, or their family starts to expand.

Risk pooling

The pooling of risk is fundamental to the concept of medical aid or insurance. A medical aid risk pool is a group of individuals whose medical costs are combined to calculate premiums or contributions. Pooling risks together allows the higher costs of the less healthy to be offset by the relatively lower costs of the healthy, either in a plan overall or within a contributions rating category. In general, the larger the risk pool, the more predictable and stable the contributions can be.

Age is one of the most important criteria for managing risk and predicting claims. Most people join medical aid funds when they are young and healthy. This means that they pay a monthly contribution to their medical aid fund, but on average, they make fewer claims against their medical aid than older members. Their contributions are thus used to help support members who, over time, have become ill or have started to require increased medical care or cover for chronic conditions.

However, if an older, unhealthier person were to join a medical aid fund, he or she poses a greater risk to that fund, because he or she would never have paid medical aid contributions before. Thus, the contributions of the younger and healthier members would be supporting this older member, who'd never previously contributed to the medical aid fund. This wouldn't be fair to existing members, who'd diligently paid their fees but rarely claimed from the scheme.

Late Joiner penalties

Joining a medical aid scheme when still young and healthy is actually cheaper in the long run, but if you are unhealthy with pre-existing conditions, there may be waiting periods and exclusions. Did you know that if you are over 35 years, late-joiner penalties may apply?

Late-joiner fees have been put in place to compensate for potentially increased claims by people who join a medical aid fund when they're already older and unwell, and can range from 5% of contributions to 75%. The fees are imposed at the discretion of the medical aid company.

How late-joiner penalties are calculated

Late-joiner penalties are calculated as a percentage of one's medical aid contribution, but exclude the savings component of the contribution (where applicable). A simple equation is used to determine the late-joiner penalty fee:

Age upon application minus (35 years + years of previous cover) = Total years uncovered.
The number of years uncovered corresponds to a percentage on the following table, which is used to calculate the fee:

TOTAL YEARS UNCOVERED	MAXIMUM PENALTY
1 – 4 YEARS	5% X CONTRIBUTION
5 – 14 YEARS	25% X CONTRIBUTION
15 – 24 YEARS	50% X CONTRIBUTION
25+ YEARS	75% X CONTRIBUTION

It must be borne in mind that 'years of previous cover' excludes any cover as a dependent under the age of 21. Applicants must also be able to produce proof of cover for any period of time during which they were members of a medical aid fund. Without proof, any previous medical aid cover will not be taken into account.

Example

Mr Tshega Ngangatswane is an active 63-year old retiree who doesn't have medical aid cover. Recently, while at his farm, he suffered a heart attack, and now wishes to join a medical aid fund. From the ages of 52 to 59, Mr Ngangatswane ran a large construction company where he enjoyed a medical aid benefit. However, apart from this 7-year period, he has never had medical aid cover.
His late-joiner penalty would be as follows:
63 – (35 + 7) = 21

Therefore, according to the table above, Mr Ngangatswane would be penalized with a 50% late-joiner penalty. Should he wish to join a medical aid fund, he would have to pay his regular contributions plus an additional 50% of these contributions to become a member.

He is also likely to be subject to certain benefit exclusions for a set period of time, due to the fact that he was diagnosed with an illness prior to joining to scheme. This means that he won't be able to claim any benefits for the condition for a certain period of time, known as a condition-specific waiting period.

It must be noted that late-joiner penalties are not applied on a once-off or temporary basis; they are permanently added to your contributions. To avoid incurring this additional expense, join a medical aid fund when you're still young and healthy.

WHAT TO CONSIDER
WHEN INVESTING

It is important to have a plan whether you are an experienced investor or a beginner, there are plenty of steps you can take to grow your money and keep it safe.

- To buy an investment one has to approach the financial institution that offers that investment. Confirm with the Regulators in the concerned jurisdiction if the entity is authorized to trade. If in Botswana, **PLEASE MAKE SURE IT IS A NBFIRA LICENSED ENTITY.** Investment institutions are regulated all over the world. Do not engage any investment institution without checking its registration status with the Regulators to avoid being scammed.

- When investing, It is important to consider your risk appetite, investment goals and duration period of the investment, this will help you choose the most suitable investment vehicle. If you are promised exquisite investment returns question how and where your funds would be invested.

- Diversification reduces overall investment risk and reduces volatility of returns on your investment portfolio as a whole. It is important to note that it is impossible to avoid all risks when you invest. Higher potential returns usually come with higher risks. The important thing is to understand your risk appetite.

- Most investments are complex and difficult to understand, it might be in your best interest to enlist a financial adviser to assist you, **PLEASE MAKE SURE IT IS AN NBFIRA LICENSED INVESTMENT ADVISOR.** Before you make a decision on any investment, ensure that you have read and understood the contract and salient features.

COMPLAINTS HANDLING AT NBFIRA

- If you are a consumer of financial services you should take time to know the NBFIRA Complaints Procedure.
- NBFIRA is committed to receiving, considering and resolving complaints lodged by consumers of financial services. The complaint should first be lodged against a financial service provider that is regulated by NBFIRA. Complaints should meet the requirements of the complaints procedure.
- After receiving a complaint, we determine whether the complaint is against an NBFIRA regulated entity. If a complaint is not best suited for NBFIRA, the client will be advised where to seek assistance. The department that receives your complaint will notify you of the progress of your complaint and resolve the matter between the client and the entity.
- NB: In the process of complaints handling we determine whether the conduct or decision of the entity is appropriate, not all outcomes are in favour of the client.
- The complaints that you can lodge at NBFIRA include complaints about the non-payment of insurance claims, complaints related to illegal and unauthorised deductions, overcharges by cash loans, non-payment of pension benefits and non-cancellation of contracts.
- A complaint can be lodged in person at the NBFIRA office and the summarised complaint should include details of the complainant such as his/her name, contact details, name of the financial service provider complained about and any efforts made by the complainant to resolve the complaints. Furthermore the complaint should be accompanied by supporting documents such as an identification document and copies of any relevant correspondence that are in the possession of the complainant

FAMILY TREE

by Eric Mogotsakgotla

We are all from one and are the same. One distinctive feature that differentiates a family relationship from any other is the DNA and the blood that runs through its members. The financial sector, just like a family, is from one and is the same.

Technology has reduced distance and made today's society more connected. Turbulance in one end of the financial sector is felt by people in markets thousands of miles away in a split of a second. The small global village and the connection has led to increased monitoring and scrutiny of all countries operating in various financial markets across the globe.

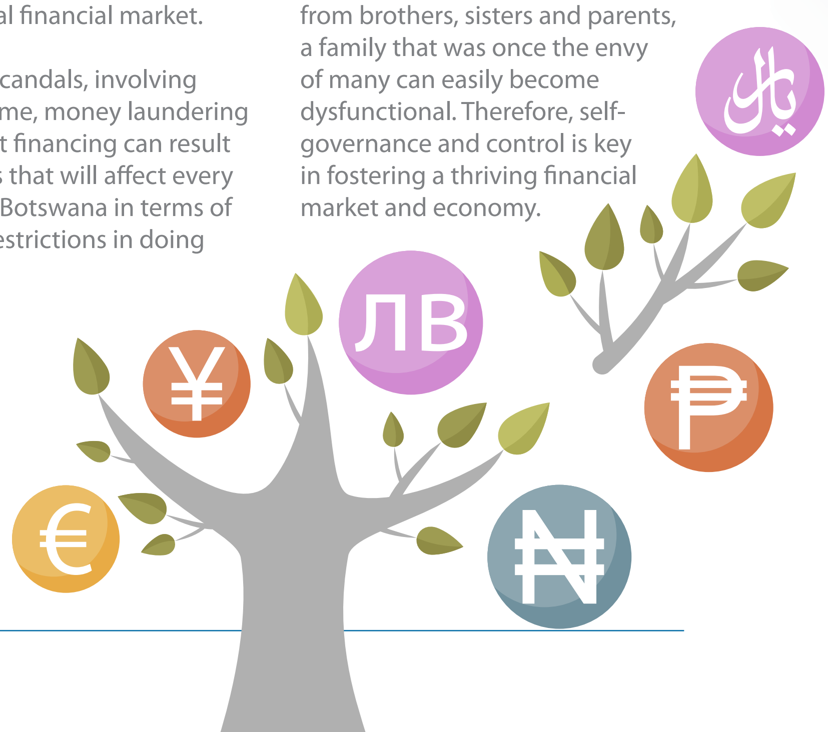
Like the adage says "you can choose your friends but not your family". This fundamental truth is as true for the financial sector as it is for the family. On a daily, businesses need to choose carefully which friends they partner with because when it's all said and done it's the family that will remain with the loss of money, reputation and even lives long after friends in business are gone. The financial sector shares the same DNA structure just like family members who are from one and are the same. Therefore, a corporate scandal, just in a day can lead to multimillion Pula loss in business, increase in lending rates and increase in fuel prices just to name a few. Since Botswana is part of a bigger family tree of the financial sector, such, can result in harsh sanctions from our brothers and sisters in the international financial sector should it be unruly.

In any family setting if bad news reach uncles and aunts, the perpetrators know that there will be discipline, some rights revoked and constant monitoring of all activities that the perpetrator is involved in. Botswana being a member of international bodies such as the United Nations (UN), Common Wealth, Financial Action Task Force (FATF) and International Organisation of Securities Commission (IOSCO) has signed treaties that govern its relations with other countries in the international financial market.

Corporate scandals, involving financial crime, money laundering and terrorist financing can result in sanctions that will affect every business in Botswana in terms of increased restrictions in doing transactions, imports, exports and ultimately speed to market developments.

Discipline handed down by uncles and aunts is deemed as corrective actions with the aim of aligning the perpetrators with family values and principles. Unfortunately in the financial sector such corrective actions cost billions of Pula and lost opportunities that Botswana cannot afford to incur. The regulators and law enforcement agencies are key in maintaining orderliness, fairness and effectiveness of the financial sector as much as family can receive guidance and counsel from institutions such as churches and social workers.

The overall tone of the family is set and controlled by the parents. There is only so much parents can do to keep the family safe and sound but without proper uptake of guidance and counsel from brothers, sisters and parents, a family that was once the envy of many can easily become dysfunctional. Therefore, self-governance and control is key in fostering a thriving financial market and economy.



LIVE WITHIN YOUR MEANS

Due to the ever rising cost of living in the country and the world, living within our means should be a considerate need and no longer a procrastinated want.

What is living within my means you might ask? For some people it is to make sure every thebe received as income is utilised until the next income. For some people the norm is having to borrow money every month. We would encourage it to be to be cutting your expenses so you have money left over at the end of each month. With discipline and careful budgeting, you should have a significant amount of money left each month.

Usually discipline + budgeting = good financial position, until we bring in social pressures to this equation. The habit of addictive unplanned spending will create deeper financial burdens and, as we "rise" with popularity of followers on social media and friends, we become victims of over-indebtedness.

NBFIRA would like to share this with consumers:

1. An annual budget is best to help you plan. A monthly budget helps you plan only for that month and not for extra expenses that are incurred during holidays etc. Have the discipline to stick to your budget.
2. Save up for your purchases to avoid buying on credit. If you cannot afford to save up for the purchase, then chances are that you can also not afford to buy it.
3. Don't spend to impress, we need to embrace that our life journeys are different and that we should never compare ourselves to others.
4. Have an emergency fund, having savings that are dedicated to emergencies will keep you from resorting to credit whenever you have a financial emergency. An emergency fund of three to six months of living expenses is ideal, but starting out with BWP100-00 to BWP1000-00 per month will help with some of the minor emergencies from time to time.
5. Financial Literacy is important. Having knowledge can empower our lives. Always educate yourself about budgeting, spending, cost of borrowing and ensure you plough this knowledge back into the lives of your family and friends.
6. Change your attitude about money, sometimes we underestimate how much money we can spend .You may find yourself spending more money on things you want than things you need.
7. Pay yourself first. Save a portion of your income before spending.

SHOULD PENSION SAVINGS BE FOR ANNUITY INVESTMENT OR LUMP SUM PAYMENT?

by Dimpho Selema

There will come a time in a person's life where they are no longer employed due to old age or retirement.

Saving for retirement is important for the purpose of continued consumption after retirement and so is how one spends their pension. It is thus important for people to understand the objective of planning for retirement and the options available to enable them a comfortable living after retirement.

The options that are prevalent amongst individuals and institutions are as follows;

- To have one's pension fund benefits provided monthly after retirement in a form of an annuity; or
- To take one third of the pension as a lump sum and buy annuities with the remaining two thirds (referred to as Retirement Fund); or
- To withdraw all retirement fund income at retirement (referred to as a Provident Fund).

Pension Annuity

An annuity is an agreement between an individual and an annuity provider such that at retirement, the pensioner gives over their pension 'pot' to an annuity provider for investment and to have monthly income provided for a specified period of time or for the rest of your life.

One of the things that are very enticing when it comes to annuities is their certainty. Monthly payments are guaranteed regardless of financial market fluctuations (stocks and shares market). Annuities reduce the risk of outliving retirement funds and inability to meet cost of living expenses. There are different kinds of annuities in the market, it is thus wise to shop around and be informed before purchasing one.

Pension Lump sum

A provident fund on the other hand pays a lump sum amount at maturity of the pension savings contract; which is the opposite of an annuity. The lump sum payment is a single payment due to an individual rather than a series of periodic payments.

Provident funds allow members to withdraw all their money upon retirement. A lump sum payout allows the individual freedom to use all their retirement money as they please. A lump sum will allow a person an unrestricted opportunity to grow their income substantially through wise investments.

If a lump sum is invested wisely, then the individuals may have enough money to maintain a good standard of living and to leave an inheritance to their beneficiaries. However with every investment there is a risk, should a person have an unfortunate investment, they would lose their money and will not have income to meet their basic needs.

Important points to note;

- Retirement funds are meant to maintain the same standard of living, if not better, after retirement. Empirical evidence suggests that most pensioners who receive lump sum payouts use the money to pay off existing debts, and thus defeat the purpose of having a pension fund.
- There are different kinds of annuities as such knowledge and understanding is important when reviewing various annuity options.
- Shop around for an annuity that suits your lifestyle, albeit limited choices are available in the Botswana market. Sales commissions and management costs are a concern for retirees. Shopping around and exploring different option is a good decision.
- Generally, once annuities are acquired or purchased, they cannot be reversed after elapse of the grace period.
- Individual retirement accounts should also be considered as they add to the occupational pension. An option of additional voluntary contributions can also help increase pension income and are tax exempt.
- It is important that individuals seek financial advice from regulated financial advisors on how best to select a suitable option that will sustain them through their retirement.

You work hard for your money **so you should be careful how you spend it**

Do the quiz below and try the tips.

More than 5A's (Always) - you are above the average
Between 3-5S's (Sometimes) - you need to improve
More than 5 N's (Not at all) - you are in danger

1. I only buy when items are on sale
   - Always
   - Sometimes
   - Not at all

2. I don't buy junk food when I am shopping
   - Always
   - Sometimes
   - Not at all

3. I stick to my shopping list
   - Always
   - Sometimes
   - Not at all

4. I never regret buying items
   - Always
   - Sometimes
   - Not at all

5. I don't decide how much to spend on my shopping
   - Always
   - Sometimes
   - Not at all

6. I buy in bulk when items are on sale
   - Always
   - Sometimes
   - Not at all

7. I enjoy shopping alone
   - Always
   - Sometimes
   - Not at all

QUICK TIPS

- Always compare prices and don't assume that if it's on sale it's cheaper. Be aware of marketing strategies that try to get you to buy more.
- Don't shop when you are hungry… Junk food is more expensive than home cooked meals. It can really make a difference!
- Prepare a shopping list and stick to it when you do your groceries.
- Before buying something, ask yourself: Is this essential for me to have? Is it a need or a want? Will I really regret it tomorrow if I don't buy it now? This will help you screen out things that are not worth spending your money on.
- Decide how much you're going to spend before you go shopping and stick to your budget.
- Buy wise: When non-perishable items are on sale buy in bulk and use later. Buy winter clothing in summer and summer clothing in winter when shops are clearing for seasonal stock.
- Shop alone and do it quickly. Spending too much time in a shopping mall will only make you buy more unnecessary stuff.

BUDGET SHEET

1. Monthly Income

Income is the total sum of everything your household earns. It can come from salary of a steady job or work you do on the side.

You: Monthly salary (after tax) ....
Husband/wife: Monthly salary (after tax) ....

Total Income (A) A = ...

2. Savings

We always stress the importance of putting money aside for the future. Pay yourself first. Set aside a percentage of your monthly income and save it from the start, before paying all other obligations. You can save for a particular goal like the purchase of a new washing machine, rather than buying one on credit at high interest rates, or you can save 'for a rainy day', so that you are better prepared for life's downtimes, emergencies and unforeseen obligations. You can also save for investment. After your savings exceed a certain amount, your financial institution or banker can advise on options for higher interest products or returns on commercial investments that can help your money earn money.

Savings (B) = ...

3. Monthly Expenses (C^1)

Expenses are everything that you spend your money on each month. Expenses on your monthly budget sheet can include:

Rent/mortgage/bond ....
Bills (water, electricity, rates and taxes) ....
Food (cooking at home) ....
Clothing and shoes (average expenditure) ....
Toiletries ....
Medical/prescriptions ....
Taxi/bus/petrol ....
Domestic staff salaries ....
Plumber/electrician - home maintenance ....
Credit/charge card payments ....
Car loan repayments ....
Personal loan repayment/overdraft fees ....
Bank charges for ATM/card/account usage ....
School fees ....
Cellphone/Airtime ....
Telephone bill/internet data costs ....
Charity/church contributions ....
Entertainment (including eating out, movies, sports events, etc...) ....

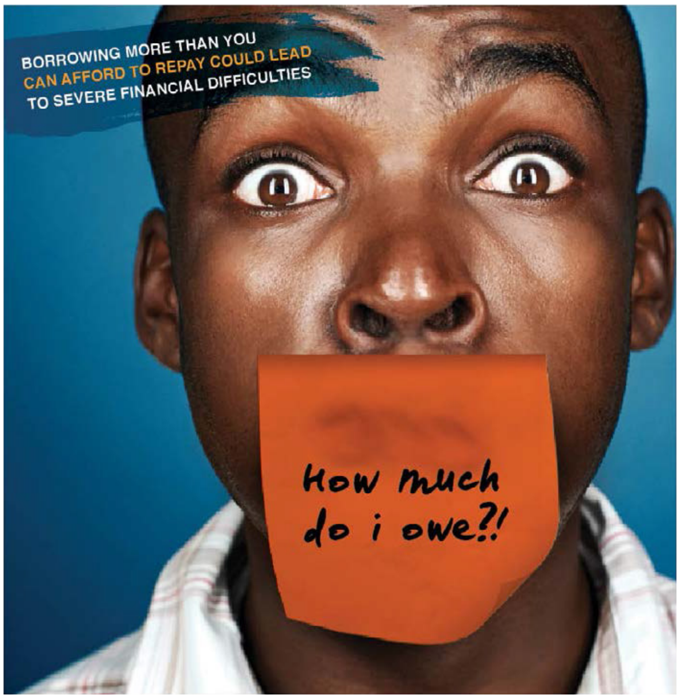
3.1 Expenses you should have (C^2)

Medical Aid ....
Life Insurance ....
Funeral Insurance ....

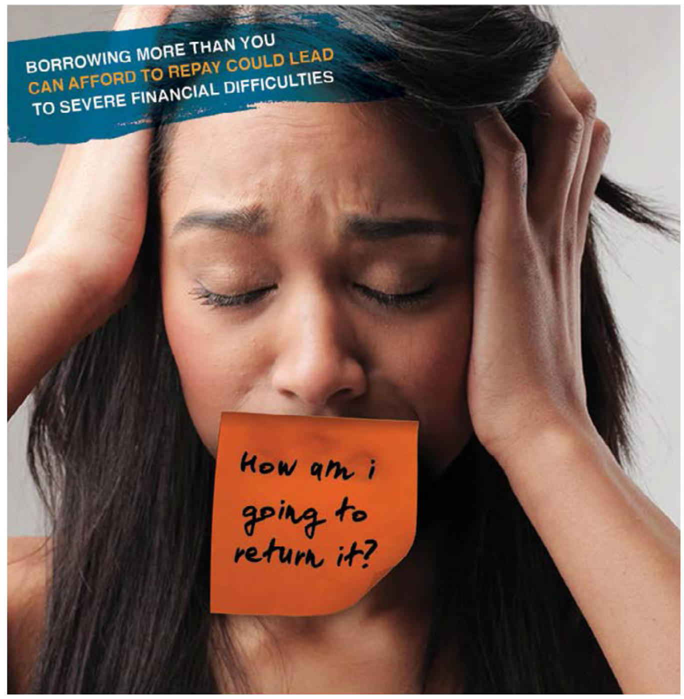
3.2 Other Expenses (C^3)

....
....

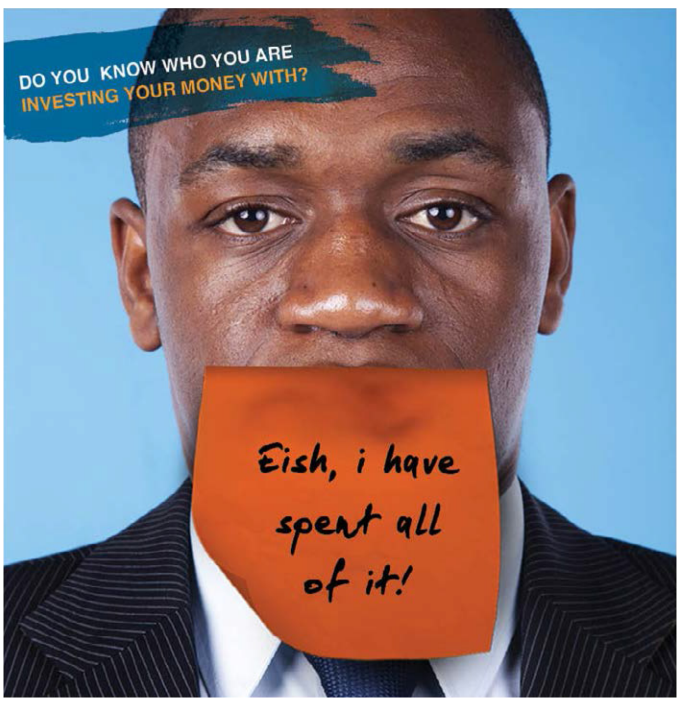
Total Expenses (C) $C^1 + C^2 + C^3$ = = (C) ....



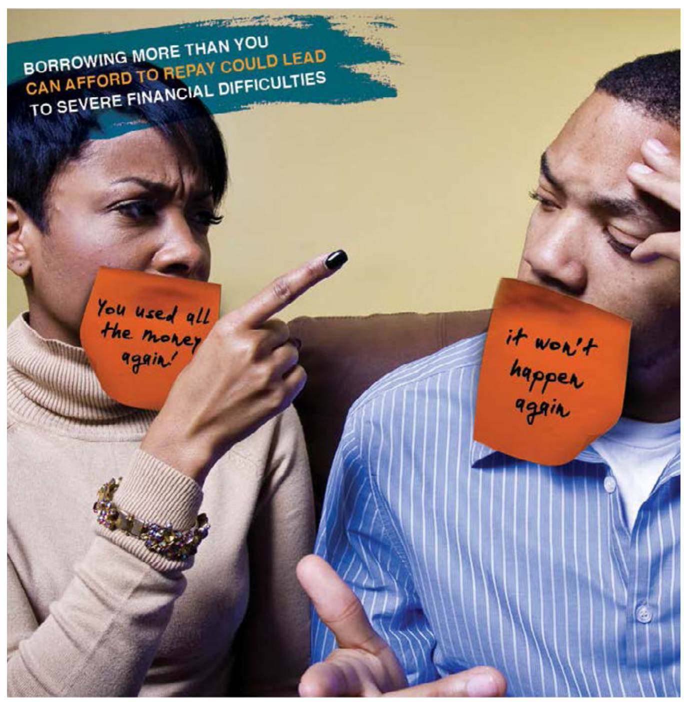
Molebogi is a tertiary student living in G-West. He has been borrowing money from money lenders and he doesn't use it wisely. The interest has multiplied. Do you have plans for the money that you borrow?



Sethunya is a young lady living in Phakalane. She borrowed money from motshelo to spend over the holidays. She finds it difficult to return the money. ***Overborrowing can lead to financial ruin.***



Geoffrey is a businessman who invested his hard earned money with a bogus investor and lost it all.
Contact NBFIRA to check if your investor is licensed.



Koketso and Leungo are a young couple. Koketso has been borrowing money without consulting Leungo. He misuses it and this gets both of them into financial trouble. ***Overborrowing can lead to financial ruin.***

NBFIRA. keeping your interests at heart in the Non-Bank Financial sector.

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