

THE LINK

NEWSLETTER OF THE NON-BANK FINANCIAL INSTITUTIONS
REGULATORY AUTHORITY

SEPTEMBER
2020

Be Part of the Solution

- ALERT & DETER Unethical Conduct

●.....
Q&A about
Pension Funds

●.....
What you need to know
about **investments**

●.....
**Tips For Managing
Personal Finances** During
COVID-19

NBFIRA

Non-Bank Financial
Institutions Regulatory
Authority

ABOUT NBFIRA

Non-Bank Financial Institutions Regulatory Authority (NBFIRA) was promulgated by an act of Parliament in 2006 and began its operations in 2008 deriving its mandate from the NBFIRA Act (2016). The principal objective of *the Authority* 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 sectors;
- Stability of the financial system;
- Reduction and deterrence of financial crime.

VISION

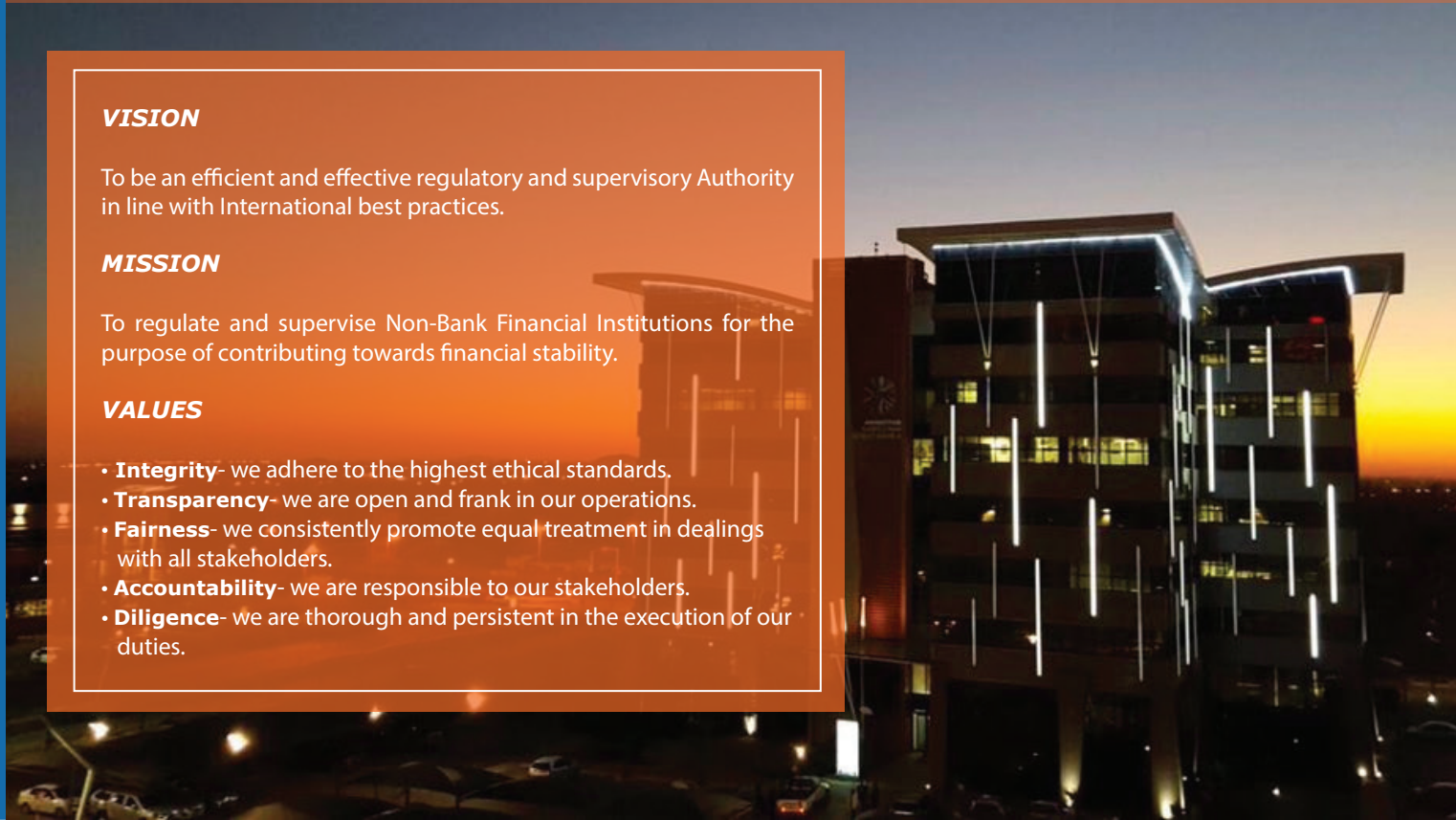
To be an efficient and effective regulatory and supervisory Authority in line with International best practices.

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:

- Lending Activities Directorate
- Anti-Money Laundering/ Combatting the Financing of Terrorism & Proliferation (AML/CFT&P) Directorate
- Capital Markets Directorate
- Insurance Directorate
- Retirement Funds Directorate

Corporate Services

Consists on the following Departments:

- Information Technology
- Finance
- Enterprise Risk Management
- Communication & International Affairs
- Human Resources & Administration

Anti-Money Laundering/ Combatting the Financing of Terrorism & Proliferation (AML/CFT&P) Directorate

The AML/CFT&P Directorate ensures compliance to AML/CFT&P obligations by regulated entities within the Non-Bank Financial Institutions (NBFI) sector.

Capital markets Directorate

The Capital Markets Directorate regulates and supervises:

- Securities Business
- IFSC Accredited Entities
- Investment Institutions & Approved Funds

Insurance Directorate

The Insurance Directorate regulate and supervises:

- Insurers
- Reinsurers
- Insurance Intermediaries (brokers and corporate agents)
- Medical Aids Funds

Retirement Funds Directorate

The Retirement Funds Directorate regulates and supervises:

- Retirement Funds
- Fund Administrators

Lending Activities Directorate

The lending Activities Directorate regulates and supervises:

- Micro lenders
- Finance
- Leasing
- Pawnshops

Research Department

The Research Department conducts market intelligence within the NBFI sector. This is through tracking developments in the economy, particularly the financial sector for the purpose of informing policy formulation review and implementation.



EDITOR'S NOTE

Boa Chombah

In this edition of **The Link** we are pleased to introduce the NBFIRA Ethics Hotline which is a platform that allows **the Authority's** stakeholders to anonymously report possible acts of unethical conduct and fraud occurring within the offices of **the Authority** or those of entities it regulates. **Be Part of the Solution** and partner with us to bring attention to and deter unethical conduct.

We also explore the Retirement Funds and Capital Markets industries. We examine topics that are commonly misunderstood and often leave consumers inadequately informed and therefore unprepared. We seek to continue to educate, empower and protect consumers of products and services of Non-Bank Financial Institutions (NBFIs), particularly during the prevailing challenging times brought on by the Covid-19 global pandemic.

A solid understanding of how to manage our finances in preparation for retirement is crucial for all of us. Therefore, knowing the type of retirement fund you are covered by, understanding your rights and how your pension fund benefits will be paid out is important for you and your loved ones.

The world of capital markets is enthralling for some but intimidating for most. This issue of **The Link** provides some important fundamentals to empower prospective retail investors and hopefully encourage greater levels of participation in the domestic market. Topics discussed range from providing clarity on common investment objectives, understanding your risk appetite, the importance of understanding T's and C's before investing, alternative investments and online trading. We also explore the commonly asked question of the distinction between the roles of **the Authority** and that of the Botswana Stock Exchange limited (BSEL) in the supervision and regulation of the Capital Markets Industry.

Finally, we leave you with some tips for managing your personal finances during these trying times of Covid-19 and a reminder to adhere to the prevention measures advised by health officials. Stay connected and informed about developments at **the Authority** through the contact information provided.

Stay Safe. Together we can beat Covid-19!

Be Part of the Solution- ALERT & DETER Unethical Conduct

The Authority is proud to introduce the **NBFIRA** Ethics Hotline which is a whistleblowing service designed to:

- **ALERT the Authority** to possible unethical behavior within its offices as well the Non-Bank Financial Institutions Sector; and
- **DETER** possible future unethical conduct.

Fraudulent or unethical activities are a present reality and usually involve the violation of an established process or control process within an organization, or non-compliance to relevant financial services laws.

The **Ethics Hotline** will enable **the Authority's** internal and external stakeholders to anonymously report suspicious or confirmed acts of unethical activities by any of its employees or regulated entities, without any fear of reprisal or breach of confidentiality.

The **Ethics Hotline** which is managed by Tip-Offs Anonymous (Deloitte), ensures the identity of the anonymous reporter is protected and strengthens **the Authority's** values of integrity, fairness and accountability. This in turn enhances stakeholder confidence and protects **the Authority's** reputation.

Where to make an anonymous report?

- **Toll-Free Number:** 16133 - Avoid using your work landline or contract cellphone.
- **Email:** nbfira@tipoffs.com - You can create a new web mail address and use it to make a report if uncomfortable with your existing personal email.
- **Website:** www.tipoffs.com - Access the website and register your report.
- **Postal Address:** P.O. Box 448, Gaborone - May be used to make an initial report or to send evidence.

Make the Right Choice and Report



Q&A

about Pension Funds

What is a Pension Fund?

• A pension fund is any fund whose principal objective is to provide for the payment of a pension to a person upon his/her retirement, who is or has been a member of the fund.

What is the Purpose of a Pension Fund?

• The main purpose of a pension fund is to provide members and their beneficiaries with retirement income security after the member's employment period in order to alleviate poverty.

What legislation regulates Pension Funds?

• The Pension Legislative Framework in Botswana includes; NBFIRA Act, (2016); Retirement Funds Act, (2014) and Regulations, Income Tax Act; Employment Act; Financial Intelligence Act; and Pension Funds Prudential Rules.

Difference between a Pension Fund and Provident Fund?

• A provident fund means a fund which is not a pension fund, which permits a person who is or has been a member of the fund upon his/her retirement, to take their accrued benefit as a cash lump sum. On the other hand in a pension fund, a member is only entitled to a cash pay-out, in accordance with Regulation 30 and the Income Tax Act, upon retirement. That is one-third (1/3) upon retirement and the remaining two-thirds (2/3) to purchase an annuity policy from a licensed life insurer in Botswana, that shall pay a monthly pension to the member and or their beneficiaries for the rest of their life.

What are the Types of Pension Funds available in Botswana?

• **Individual Pension Fund Vs. Employer Sponsored Pension Fund:** An individual retirement fund is a fund in which a person applies to join in his/her individual capacity. Eligibility to membership is not dependent on an employer-employee relationship. Whereas eligibility for membership in an employer-sponsored fund is dependent on an employer-employee relationship.

What are the pension funds related conditions upon leaving employment or changing jobs (Resignation, Dismissal, Retrenchment, Retirement)?

• The legislation stipulates that, a member is entitled to receive one third (1/3) of his/her benefits, tax free upon attainment of retirement age, and the remaining two thirds (2/3) is used to purchase an annuity policy for the member from a licensed life insurer in Botswana, that shall pay a monthly pension to the member and/or their beneficiaries for the rest of their life.

	Cash Entitlement/Withdrawals	Deferred/ Transfer to another Fund / Annuity
Resignation	1/4	3/4
Dismissal	1/4	3/4
Retrenchment	1/3	2/3
Retirement	1/3	2/3
Preservation Funds Only Regulation 35	1/4 - After 12months membership and unemployed. (once-off withdrawal)	
Full cash entitlement of the benefit payable if the pension/annuity pays the member less than P5000/annum.		



Income Tax Act, Regulation 30, 35 of the Retirement Funds Regulations.

• Section 40 of the Retirement Funds Act (2014) provides guidance on allowable deductions from a benefit payable to a member, or to his/her dependents, beneficiaries or nominees, in the event of the death of a member.

Rights and Obligations of Pension Fund's Members

Members of Retirement Funds have rights and obligations regarding their entitlements in terms of the pension fund rules and legislation. This include

- **Regulation 44** - provides guidance on the minimum information that shall be communicated by a retirement fund to members.
- **Retirement Funds 37 & 38** - provides guidance on information required from beneficiaries and information for beneficiaries respectively.
- **PFR10** - Members and beneficiaries of pension funds, as well as potential fund members, have a legal right to access to or disclosure of basic information about the pension plan, including adequate information regarding their rights of access and waiting periods, anticipated contribution and/or benefit accrual rates, vesting schedules, other rights and obligations, investment policy, the names and means of contacting the parties responsible for fund administration and governance, and claims processes or procedures.

What is the Role of the Board of Trustees?

- The objective of the Board of Trustees is to manage a licensed fund in the best interest of its members, and in terms of the Retirement Funds Act and the Fund Rules. The Board shall take all reasonable steps to ensure that the interests of members in terms of the Fund Rules and the provisions of Act are protected at all times.
- Section 13(1) and 14 of the Retirement Funds Act - states that every licensed fund shall have a Board, which shall be the governing body of the Fund and the objective of the Board shall be to manage a licensed Fund in the best interest of its members, and in terms of the Act.

What are the key laws regarding allocation of Pension Death Benefits?

- **Determining beneficiaries or dependents on death benefits:** Section 39 of the Retirement Funds Act outlines that in determining who will receive the benefit upon the death of a member, the trustees are granted 12 months from the date of death of the member to locate all dependents or beneficiaries of the deceased member. This must be done despite the availability of a beneficiary nomination form. The trustees have the final decision with regards to the distribution of the death benefit.
- **Beneficiary Nomination Form:** Regulation 29 of the Retirement Funds Regulations- states that members shall complete a beneficiary nomination form which will be used as a guideline to the trustees as to the wishes of the member and will be taken into consideration when investigating the claim. This provision also provides guidance on matters the Trustees have to consider.

ADDITIONAL VOLUNTARY CONTRIBUTIONS REGULATION 4 (5(G)) OF THE RETIREMENT FUNDS REGULATIONS

Retirement Funds Regulations, Regulation 4

Did you know that you can make additional voluntary contributions to your pension benefit according to the rules of the Fund that you are a member of?

3rd floor Exponential Building
Plot 54351, New CBD • Off PG Matantle Road
Private Bag 00314 • Gaborone • Botswana
Tel: +267 310 2595/368 6100
Fax: +267 310 2376
info@nbfira.org.bw
www.nbfira.org.bw



NBFIRA...Working Towards Financial Stability



What you need to know about investments

Many people wonder why investment is necessary? The simple answer is that investments provide financial security in the long run as their purpose is to get a return on funds invested, whether in the short, medium or long term. Investments provide an avenue to generate wealth in the future as assets purchased today will give a profitable income in the long run.

Three main types of investment objectives:

a) Capital Appreciation: is concerned with long-term growth and is most common in retirement plans where investments work for many years inside a qualified plan. Investors using this strategy are not concerned with day-to-day fluctuations of the stock, instead they keep a close eye on the fundamentals of the company for changes that could affect long-term growth.

b) Current Income: Involves investing in stocks that pay a consistent and high dividend. Many people who focus on current income are retired and use the income to cover their living expenses.

c) Capital Preservation: Is often associated with retired or nearly retired individuals who want to make sure they don't outlive their income stream.

Common reasons for investing:

- Build or accumulate wealth;
- Provide financial security;
- Improve one's life style;
- Investing for retirement.

The earlier you invest the more profit you can gain out of the funds you invested.

Investment Risks

Investment risk can be defined as the likelihood of occurrence of losses relative to the expected return on any particular investment. The risk level of an investment is linked to many factors including various risk categories (e.g. market risk, political risk, interest rate risk, legislation risk, inflation risk, taxation risk etc.).

Low-risk investment: Is where you are likely to gain a return on your money (or at least preserve the amount of money you put in). However, the earnings are bound to be relatively small compared to other investments. Treasury Bills (TB) are short-term debt obligations of the government payable on a certain future date. TBs are considered to be free of domestic credit risk and therefore have a lower yield than other money market instruments.

Understand the Terms & Conditions for Retail Investors:

Capital Markets Consumer Education Awareness

- The purpose of an investment is to get a return on funds invested, whether in the short, medium or long term.
- Ensure to ask your investment adviser sufficient questions about an investment prospectus until you are satisfied that the information you have been provided with will enable you to make an informed investment decision.
- Do not sign up for something you do not understand.
- Before investing, understand the terms and conditions required to redeem or exit the investment.

3rd floor Exponential Building
Plot 54351, New CBD - Off Gig Matantse Road - Gaborone
Private Bag 00314 - Gaborone - Botswana
Tel: +267 310 2505/368 6100
Fax: +267 310 2376
info@nbffra.org.bw
www.nbffra.org.bw



Moderate-risk investment: Bonds and other long-term debt instruments are debt instruments that require the issuer or borrower to repay the bondholder or lender or investor the amount borrowed as well as interest thereon over a specific fixed period of time. Government bonds are essentially risk-free within a country as they constitute evidence of debt of the government. Semi-gilt stock may have a degree of credit risk. The quality of corporate bonds depends on the issuer.

A high-risk investment: Is when there is a high probability of losing the capital you have invested. With these types of investments, there is usually the possibility of earning a much higher return. Equity are high risk and represent shareholder ownership in a business or company. A share is one of a number of equal portions of the capital of a company and gives the owner rights in respect of the company.

What is a Dividend and how is it Paid Out?

A dividend is a distribution of profits by a listed corporation to its shareholders.

Dividends payouts do not include the principal amount invested and are only paid out if the company has declared so and in line with its dividend policy. The frequency and size of the dividend payout is determined by the terms and conditions of the respective corporation's dividend policy.

A dividend policy is a document contained in the prospectus which guides financial decision that refers to the proportion of the firm's earnings to be paid out to the shareholders. A firm decides on the portion of revenue that is to be distributed to the shareholders as dividends or to be ploughed back into the firm. The amount of earnings to be retained back within the firm depends upon the availability of investment opportunities. Once declared, dividends are paid out on a half yearly basis.

Understanding the T's and C's of Investments for Retail Investors

As you plan your future, don't let fear, desperation, or the need to catch up financially push you to make hasty investment decisions. As a general principle, in all legitimate investments, higher returns are accompanied by higher risks - risks you may well not want to take as you approach retirement. Be wary of anyone who claims they can sell you an investment product that offers great reward without great risk, this would be a sure sign of a scam.





The following are a few pointers to take into consideration when making financial decisions:

Recognize that not all “Financial Consultants” or “Investment Advisors” are legitimate: In order to avoid being swindled, you are advised to **ALWAYS** ask about licensing and professional designations and verify them. All investment advisors operating in Botswana **MUST** hold an NBFIRA Licence, if they do not have it then they are operating illegally. Holding a licence issued by a foreign regulator **does not** grant an individual permission to legally operate in Botswana.

Do not sign up for something you do not understand: Make sure that you read and understand all the terms and conditions attached to an investment and that you are satisfied with the product being offered.

- Ask your investment adviser sufficient questions about an investment prospectus until you are satisfied that the information provided will help you make informed investment decisions;
- Exercise diligence and understanding by keeping yourself informed about the product as much as possible;
- Remember that the past performance does not guarantee future performance. It should only be used as a guide on how the market has been performing;
- For high risk products be wary of disclaimers informing potential investors of the targeted investors, those willing to take high risk;
- Once you have signed up for the investment, you have given consent to what should be done with your money and if you do not understand what you have invested in, you may feel cheated.

Before investing, understand the Terms and Conditions required to redeem or exit the investment: Exiting an investment is not that simple as they mostly require investors to adhere to the maturity dates of the investments. Redeeming an investment earlier than its maturity date may come with a hefty penalty and lead to the investor losing out on their hard earned money. Make sure there is a provision for you to get regular updates or all the necessary reports and statements. This can help the investor track the performance of their investments.

Monitor the performance of your investments: Become an informed investor. In investments if it sounds too good to be true, it probably is!

Alternative Investments



Which Alternative Investments does NBFIRA supervise?

An alternative investment is any investment that falls outside the traditional investment areas of cash, bonds and stocks. Alternative investments include investments in tangible assets such as art and wine, as well as financial assets, such as derivatives and private equity. **The Authority** regulates the private equity operators and allows the use of derivative instruments by Asset Managers and Collective Investment Undertakings (CIU's) for risk management purposes.

- **Private Equity:** Is an alternative investment class and consists of capital that is not listed on a public exchange. Private equity is composed of funds and investors that directly invest in private companies, or that engage in buyouts of public companies, resulting in the delisting of public equity. Institutional and retail investors (mostly high networth individuals and professional investors) provide capital for private equity, and the capital can be utilized to fund new technology, make acquisitions, expand working capital, and to bolster and solidify a balance sheet. The majority of private equity structures are partnerships. A private equity fund has Limited Partners (LP), who typically own 99 percent of shares in a fund and have limited liability in the fund, and General Partners (GP), who own 1 percent of shares and have full liability. The latter are also responsible for executing and operating the investment.

- **A Derivative:** Is a financial security with a value that is reliant upon or derived from an underlying asset or group of assets—a benchmark. The derivative itself is a contract between two or more parties, and the derivative derives its price from fluctuations in the underlying asset, e.g. futures contracts, options, Contracts For Differences (CFDs).



Are you Interested in Online trading of Securities?.... [Read on](#)

A trading platform is a software used for trading. Online trading platforms are frequently offered by brokers either for free or at a discount in exchange for maintaining a funded account and/or making a specified number of trades per month.

Online trading platforms:

- Offer a mix of robust features and low fees;
 - Allow for trading (i.e. opening, closing, and managing market positions) through a financial intermediary such as an online broker.
 - Are software tools used to manage and execute market positions;
 - Range from basic order entry screens for beginner investors to complex and sophisticated toolkits with live streaming quotes and charts for advanced traders;
- Traders and investors are advised to be mindful of various considerations and balance trade-offs when selecting a trading platform.

When investing online, look out for the following:

1. **Easy to invest too much too fast:** The ease of online trading through the click of a button increases the risk of making poor investment choices or overinvesting. Online investors can protect themselves by understanding the stocks they are buying; setting up safeguards in fast-paced markets and placing a limit order on your account is one way to control what you buy and how much of it.
2. **No personal relationships with brokers:** From getting help on how to create an investment strategy to understanding how the results of feedback mechanisms affect the market, online traders are left to their own devices. Investors need to learn as much as they can about the companies in which they invest in.
3. **Addictive nature:** Studies have indicated that online can be addictive as traders can experience a certain “high” when trading that is similar to what people experience when gambling.
4. **Internet-dependent:** The nature of online trading means that access to the internet and the quality of your internet connectivity is important. If the internet connection is too slow or is interrupted, you could lose out on a potentially important or lucrative trade.
5. **Buying errors due to computer missteps:** With online trading, to simply assume that a trade was not completed can cost you money. Investors who believe their trade was not completed might make the trade again and end up investing twice as much as they intended. Assuming a trade was completed without seeing confirmation of the fact also is a mistake. Make sure you understand how to verify trades and review statements before you begin using an online investing system.

Does the Authority Regulate and Supervise Online Trading?

- **Legislation for Online Trading:** *The Authority* is currently drafting legislation to regulate Online Trading of securities. The proposed legislation will only be applicable to securities as defined in the Securities Act (2014) such as shares and derivatives. It will exclude online trading of foreign exchange/currencies as they are regulated by the Bank of Botswana.
- **Current status situation:** public is advised to ONLY deal with NBFIRA licensed or exempted market players as NBFIRA would have done its due diligence prior to approving them. Therefore, should any non-compliance to the terms and conditions of their license occur, the Authority would be in a position to address the matter to protect the client.

Supervising the Capital Markets Industry: The Role of the Botswana Stock Exchange limited

The Botswana Stock Exchange Limited (BSE) is a Self-Regulatory Organization (SRO) that has been tasked to perform all due diligence requirements, gives final approvals when any private entity intends to list on the local exchange and the monitoring of continuing obligations of listed entities. The Authority approves the listing requirements used by the BSE. The listing requirements are guiding instruments for the Exchange to adequately regulate listed entities.

Further, the BSE provides a platform or a market place where the listed shares are traded through stock brokers and also acts as the primary regulator for all its participants. The BSE is therefore able to take action against listed entities which contravene the requirements guiding their participation in the exchange.

Pyramid Schemes



How to recognize Pyramid Schemes

A pyramid scheme is an unsustainable business model, where a few top-level members recruit newer members, who pay upfront costs up the chain, to those who enrolled them. As newer members in turn recruit underlings of their own, a portion of the subsequent fees they receive is also kicked up the chain. Often called "pyramid scams," these operations are illegal in Botswana in terms of Section 9 of the Consumer Protection Act of 2018.

Features of pyramid Scheme:

- Emphasis is on recruiting;
- No genuine product or service is sold;
- Promises of high returns in a short time period;
- Easy money or passive income;
- No demonstrated revenue from retail sales;
- Complex commission structure.











The Authority does not regulate pyramid schemes.

Tips For Managing Personal Finances During COVID-19



In the wake of the sobering and often somber impact of Covid-19 on economies, businesses, households and individuals across the globe, we have seen how the varying degrees of uncertainty about various aspects of our daily lives have brought on anxiety and fear for many. It is during such times of crisis that we need to be more intentional about remaining informed about various developments that may affect our personal finances as well as proactively managing our personal finances. Below are some tips to help you along:

-  Inform yourself of the relief measures on offered by the Government and various service providers;
-  Assess your financial situation and take control;
-  Revise your budget accordingly;
-  Manage debt
-  Increase your savings;
-  Diversify income sources where possible;
-  Take Advantage of Lower Interest Rates where possible;
-  Watch out for fraud and scams.

TOGETHER WE CAN BEAT

COVID-19

#StaySafe

NBFIRA. Working Towards Financial Stability


 STAY AT HOME


 WASH
HANDS WITH SOAP


 AVOID
CROWDED
PLACES


 SOCIAL
DISTANCE
(1-2METRES)


 WEAR
FACE MASK


 TOLL-FREE NUMBER:
16649 / 0800 600 111

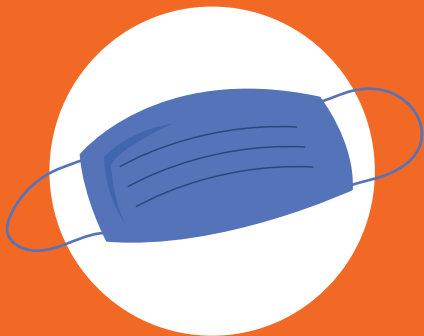


NBFIRA
Non-Bank Financial
Institutions Regulatory
Authority

COVID-19

PREVENTION MEASURES

NBFIRA



wear a mask



clean your hands



temperature check



Stay Home



keep safe distance

TOLL-FREE number: 16649 / 0800 600 111

#StaySafe

Contact us at:

3rd Floor Exponential Building
• Plot 54351 New CBD
Off PG Matante Road • Gaborone
Private Bag 00314 • Gaborone • Botswana
Telephone +267 310 2595 / 368 6100
• Fax +267 2376 / 3102353
@ info@nbfira.org.bw f NBFIRA
www.nbfira.org.bw

