



BOTSWANA PENSIONS SOCIETY 2017 ANNUAL CONFERENCE

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VENUE: GABORONE INTERNATIONAL CONVENTION CENTRE

WELCOME REMARKS

BY:

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1. Thank you Director of Ceremonies.

2. Protocol.

3. Bagaetsho, it is an honour and privilege to be invited to officially open the 2017 Annual BPS Conference. I have been a patriot of this annual conference for many years and am happy to still be able to avail myself to play a role in the development of the domestic pension fund industry.

4. Director of Ceremonies, it has been a little over a year since I became the CEO of the BSE and, as most of you would agree, it has been a year of rapid and far reaching change in global markets. In the January 2017 update of the World Economic Outlook, the International Monetary Fund (IMF) estimated the global economy to have grown by 3.1 percent in 2016, a slight decline from 3.2 percent recorded in 2015. It is however pleasing that following a year of subdued growth, being 2016, in Advanced Economies and Emerging Markets, Sub-Saharan Africa included, global economic activity is projected to recover in 2017 and 2018 with growth rates of 3.4 percent and 3.6 percent respectively.

5. The optimism around the global economic recovery is projected to have positive results for the domestic economy in 2017. In the National Budget

Speech for 2017/18, the Minister of Finance and Economic Development indicated that the domestic economy is expected to record a growth rate of 4.2 percent in 2017 underpinned by anticipated slight improvement in the mining sector, and positive growth prospects for the non-mining sector.

6. The recovery of both the global economy and the domestic economy should be expected to have spill over effects onto the domestic capital market. As most you would vividly recall, the slowdown in global commodity prices in 2015 due to China's reduced industrial demand adversely affected a number of mining companies in Botswana, resulting in the

closure of some while leaving behind a dark shadow on investor confidence and a slight dent on the quality of investment savings. Therefore, the positive outlook inferred from IMF's World Economic Outlook and the National Budget Speech for 2017/18 brings expectations of renewed optimism in the world economy and the domestic economy which we hope will inspire confidence regarding the prospects for the domestic capital market.

7. Director of Ceremonies, without bias and prejudice I would like to affirm that the last decade has indeed been a fruitful era in the context of the transformation of the capital market, particularly the Stock Exchange. Although, the period in question commences at the onset of the global financial crisis, time and collective effort have afforded the market an opportunity to recover from the effects of the crisis. As at the end of December 2016, the Domestic Company Index (DCI) has risen by 54.8 percent from its lowest point of decline due to the financial crisis which was in May 2009 and has surpassed the pre-financial crisis by over 16.3 percent. This compares favourably to peer markets such as Mauritius where the Stock Exchange of Mauritius Index has only surpassed pre-financial crisis levels by 9.3 percent.

8. Further, the size of the domestic companies listed on the BSE has expanded from P23.8 Bn with only 19 companies in 2006 to P46.6 Bn with 24 companies

as at the end of 2016. Over this comparable period, pension fund assets have grown exponentially from P29.0 Bn in 2006 to P75.7 Bn as at September 2016, according to Bank of Botswana Financial Statistics released in December 2016.

9. Director of Ceremonies, during the past decade the Exchange pioneered developments in many fronts such as infrastructure, products, market as well as legislation and regulation.

10. Please allow me to highlight some milestones within these 4 facets of growth:

a. **Infrastructure Development:** Robust Securities Settlements and Trading Infrastructure are common inflections points in the development of securities markets. As such, in May 2008 the BSE commissioned the Central Securities Depository (CSD) system to facilitate the clearing and settlement of securities traded on the BSE. Subsequently, in August 2012 the BSE commissioned a world class Automated Trading System (ATS) moving from an ancient method of trading securities to a central order book. These developments, and the subsequent ones such as dematerialization of listed securities have improved the quality of service to pension funds, retail investors and elevated our international status.

b. **Product Development:** Following the liberalisation of the domestic pension industry in 2006, it became imperative for the BSE to meet the growing demand by broadening the product offerings. Not only did we increase the number of equity and debt listings, but we also introduced solutions that helped to provide homage to the ever growing size of pension assets. In 2010, the BSE became the first Stock Exchange to list Exchange Traded Funds (ETFs) outside of South Africa, bringing to the domestic market access to commodities and

international securities. As we speak the BSE has 4 listed ETFs and the number is set to grow over the coming years.

c. **Market Development:** Whilst the development of the supply side was bearing fruits, the development of the demand side, particularly of retail investors also remained a key priority for us over the years. In 2008, retail investor participation in the stock market amounted to only 3 percent and in recent years it has ranged between 8 percent

and 15 percent, owing to the market initiatives that we conduct that have improved literacy levels, awareness, visibility and the reach of the BSE. In April last year, we welcomed over 45,000 retail investors to the BSE, most of them new, following the IPO of BTCL. Our numbers as at the end of 2016, count over 78,000 investors.

d. **Legislation and Regulation:** The evolution of the legislative environment is part and parcel of the evolution of Stock Exchanges. You would have noted that upon the establishment of NBFIRA in 2008, the BSE became a regulated entity whilst also retaining its capacity to oversee the regulation of the securities market. In recent years, we have scrutinized our listing rules in an effort to make them relevant to the current environment. As a result, a revised set of equity listing rules which incorporates feedback from market participants is with NBFIRA for approval. Additionally, we are revising the debt listing requirements and also establishing rules for other instruments that are in the pipeline. Our approach has been democratic, characterized by extensive consultations which helps generate material feedback. In the execution of our regulatory mandate, we deployed our best arsenal to promote investor protection and without giving ourselves to much credit, I would like to believe that it is an undertaking that we are doing very well as we have not experienced corporate scandals that could have arisen as a result of lack of regulatory

compliance. As such, we are confident about the safety we afford your assets and our duty is to continue to do so.

11. Ladies and gentlemen, the past is only as good a yardstick when it is well for when it is not one would definitely shy away from being associated with it. On a forward looking basis, I would like to highlight that the Main Committee of the BSE approved a new 5 year Strategic Plan of the Exchange that commenced in January 2017 and ending in December 2021. The BSE being at the epicentre of the capital market, this Strategic

Plan is not only for the BSE it is holistically for this industry, and given the contribution of the BSE to Botswana's economy this Strategic Plan it is vital for turning around the business and economic fortunes in Botswana.

12. Perhaps to give some overview, the Strategic Plan encompasses some of the following targets:

- To grow the ratio of the BSE's market capitalization to GDP from 34% to 40% by 2021
- To increase the number of listed domestic companies from 24 to 30 by 2021
- To increase the number of listed foreign companies from 10 to 15 by 2021
- To increase the number of listed bonds from 39 to 50 by 2021
- To increase the number of Exchange Traded Products (ETPs) from the current 4 to 10 by 2021
- To increase the number of asset classes from the current 3 to 6 by 2021
- To increase the average daily turnover levels to P18.0 Million per day by 2021
- To increase the number of investors from 78,193 as at the end of 2016 to 100,000 by 2021

13. With these targets our mission is loud and clear – we want to “*drive sustainable economic growth by providing a gateway for raising capital and accessing investment opportunities*”. These, we shall achieve but I must also add that to a greater extent it takes the entire investment securities value chain for us to realise these target. On that note, your support and contribution will be called for as has always been the case.

14. Director of Ceremonies, with the foregoing background and a layout of how far we have come and where we are going as the BSE, please allow me to now dwell on the theme of this conference. I truthfully believe and can attest that the Botswana Pension Society has done a great job over the years to promote its reach among the pensioners and the industry as a whole and to bring into the movement other stakeholders such as the BSE.

This is important because we exist in an ecosystem where relationships are symbiotic in order for the industry to grow. We leverage off forums such as these to extend our messages and updates to a broader number of stakeholders. Similarly, it is through these forums that we also receive input and feedback for us to act upon in order to move this industry forward.

15. The theme for this conference speaks to our traditional adage that “**mosele wa pula o epiwa go sale gale**”. It is rightful and befitting to allege that majority of members in Botswana retirement funds retire with insufficient incomes. Whether this is backed by empirical research or not, to me it is the truth because we are talking about the people within our society whose struggles and shortcomings we see every day, especially following their retirement.

16. The business that this industry is in is about selling a promise. A promise that a pension contribution will give a retiree a dignified retirement. What is a dignified retirement? Dignity resonates well with words such as noble, distinguished, elegant, and phrases such as “free from agitation”, “stateliness in bearing or appearance”, and “having self-esteem” to mention but a few. Re bua ka seriti. Therefore, a dignified retirement is “a noble transition from work life to life after work”. There may be other definitions but this speaks well to me. In this transition, you should be free from agitations about how you are going to meet your monthly payment obligations (be

it shelter, meals, health), you should be highly esteemed, be less worried about life and rather be looking for peace, relaxation, doing the things you like the most and the enjoyment of the remaining days of your life. There is only one hindrance to achieving this dignity - the lack of adequate retirement savings resulting in inadequate pension benefits.

17. Where does the problem come from and what are the solutions? Perhaps to mention a few, I would like to touch on the following issues which come

across as challenges faced by retirement funds, and speak to potential solutions.

18. Supplementary and voluntary private savings: The onset of the global financial crisis in 2008, which affected the investment savings, showed us that there is need to complement and supplement public pensions with voluntary private pensions. This calls for the voluntary enrolment of employees in schemes that encourage participation and savings in voluntary pension plans, such as commercial umbrella funds, retirement annuities and preservation funds. In an ideal scenario, there is usually the prevalence of fiscal incentives that make private savings more attractive. For example, Tax-Preferred Individual Savings Accounts which could invest directly into listed instruments and Retail Savings Bonds paying decent rates of interest. To a larger extent, these are an invention of Government targeted at promoting national savings. Luckily and to my understanding, the Government of Botswana is considering the introduction of Retail Savings Bonds, and we believe if the public actively takes up these instruments they will go a long way to complement lower pensions arising from either performance issues or lower earnings replacement rates. Additionally, one corporate in the country is also looking at offering Retail Bonds and it is good to see such an initiative emerging from the private sector. Notwithstanding, let me mention that as Botswana we need to develop a culture of savings and minimize current consumption. Statistics

published by Bank of Botswana show us that if at all our discretionary spending in the form of “other loans – other than mortgages, motor vehicles and credit card ” account for more than 64% of total household loans then we clearly have capacity to save by channelling these “instalments” into savings instruments and savings schemes. This can indirectly help improve the adequacy of our pension benefits.

19. Increase pension contribution rates: In most institutions pension contributions are kept at a particular rate forever, with escalated contributions only depending on salary increments. A more direct way of improving the adequacy of pension benefits is to increase contribution rates. Let me cite a few cases where this has happened or happens: In Australia, mandatory defined contribution rates will start to increase from the current rate of 9.5 percent effective 2021 and reach 12 percent in 2025. In Israel, the mandatory minimum contribution rate increased from 15 percent to 17.5 percent in 2014. There are also similar developments in countries such as UK and Norway. As such, we might also consider the feasibility of escalating minimum contributions in order to maintain the adequacy of pension benefits.

20. Improve administrative efficiencies: Since costs generally reduce the value of accumulated pension savings, an improvement in administrative efficiencies directly reduces administrative costs and strengthens pension assets. The trend in some countries, particularly OECD countries has been to merge administrative functions, centralize the administrative functions or use new technology with inclination towards automation of processes. As an example, government-sponsored supplementary pension funds in Greece have been merging since 2011. In Spain, administrative efficiencies around collections were improved by centralizing the function within the Treasury office. The trends resonate well with the recent transitions at BPOPF,

of relocating the administrative functions in-house in order to curtail costs and cushion the pension assets. In 2013, the National Treasury in South Africa commissioned a study on the “Charges in South Africa Retirements Funds” which recommend some reforms to try and reduce layered of cost structures that considerably erode retirement funds. These could be considered on a case by case basis locally and where applicable to yourselves.

21. It is also important to note some of the proposals that South Africa was considering which are aligned with some of the practises in several OECD countries. The basic aim being to strengthen pension assets and oversight:

- a. **consolidation of funds** as most funds are not sizeable enough to achieve economies of scale – leading to high costs and lower member benefits;
- b. **improvement of fund governance** particularly to align with the King III governance principles, a result of which is to strengthen oversight and formalise the roles, rights and obligations of Trustees in retirement funds. Am aware that Trustees here are familiar with their key role of protecting beneficiary assets and their obligation to expedite such duty with due care and diligence;
- c. Others include: **strengthening the fund regulations** through rules, service level agreements and code of conducts, **aligning remuneration of intermediaries** with incentives they provide customers, **automatic enrolment** into retirement funds, among others.

22. Director of Ceremonies, the level of engagement and research being conducted about retirement funds particularly with a focus on protecting and strengthening pension benefits just demonstrate the extent and the concern globally about the erosion of assets by functions and actions that

could otherwise be mitigated. I understand that the issue of costs is a major issue, be it administrative or compliance. Compliance costs have clearly fallen upon us and are inevitable. As a debatable matter, the question I want to leave you with is this “***how can retirement funds best account for the cost of compliance in order to apportion it appropriately to its involvement in managing pension funds other than the operations of the firm?***”. I hope this questions is addressed in today’s proceedings so we can hear some insights from the industry.

23. Director of Ceremonies, the extent to which the aforementioned solutions can address the insufficiency of pension benefits may not be an obvious and straight forward undertaking. The approaches may also affect current financial convenience and may take us out of our comfort zones as individuals and intermediaries in the pensions value chain. While some approaches are readily justifiable, others have to take into the fiscal position as a test of their feasibility, an indication that some approaches are outside the control of the pensioners and retirees themselves. As such it leaves only one option for you – to supplement the pension contributions, the function of which is to reduce current consumption. This ties in well with the notion that **“mosele wa pula o epiwa go sale gale”** kgotsa **“sare go tlogelwa tsatsing se ikise moriting”**.

24. With those remarks Bagaetsho, it is my pleasure to declare the Botswana Pensions Society 2017 Annual Conference officially opened.

25. Thank You and Good Day.

