



NBFI RA

Non-Bank Financial
Institutions Regulatory
Authority

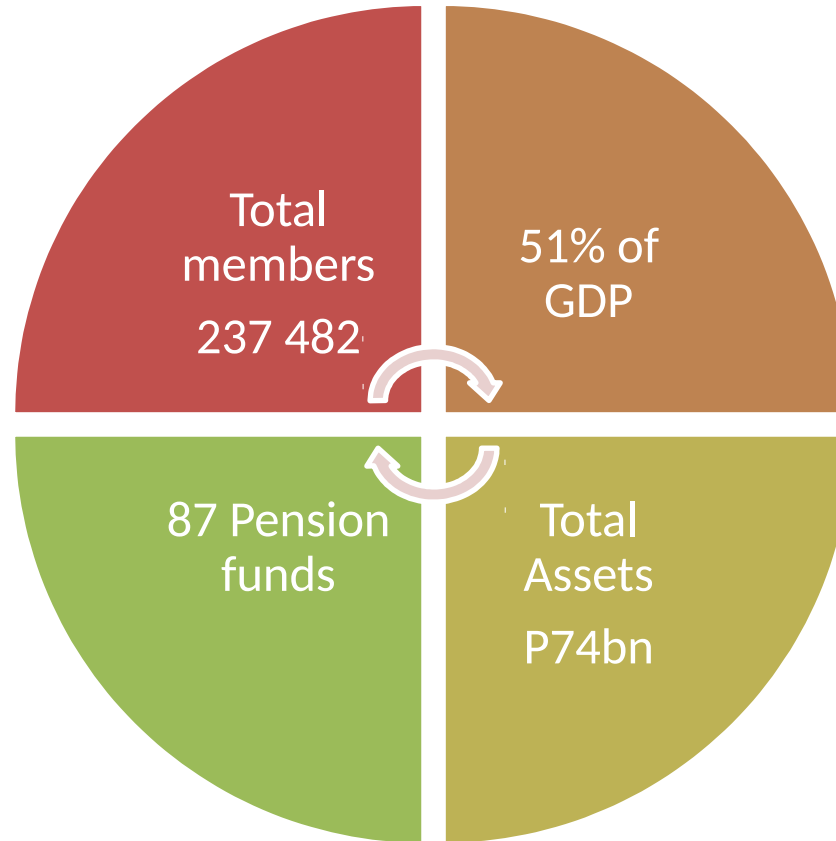
Botswana Pension Society

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Pension Statistics



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- The main objective of pension is to provide members with income during the post employment period.
- Pension income adequacy is
 - the extend at which the pension income replicate the standard of living they had while working
 - The extend at which the retirement income covers basic needs.

The World Bank had indicated that “***pension systems need to provide adequate, affordable, sustainable, and robust benefits.....***” (Holzmann & Hinz 2005.)

Pension Adequacy Related Issues

Pension Fund Coverage – share of the population that is covered or participate in a pension scheme;

- World Bank “.....**all people** regardless of their level or form of economic activity” must have access to benefits “that are sufficient to prevent old-age poverty on a country-specific absolute level.....’
- ILO (2010) – Worldwide about 40% of the working age population is covered by a pension system. (30% in the developing countries and 70% in the developed countries);
- In Botswana – pension coverage is very low
- 10% of total population
- about 34% of the working population

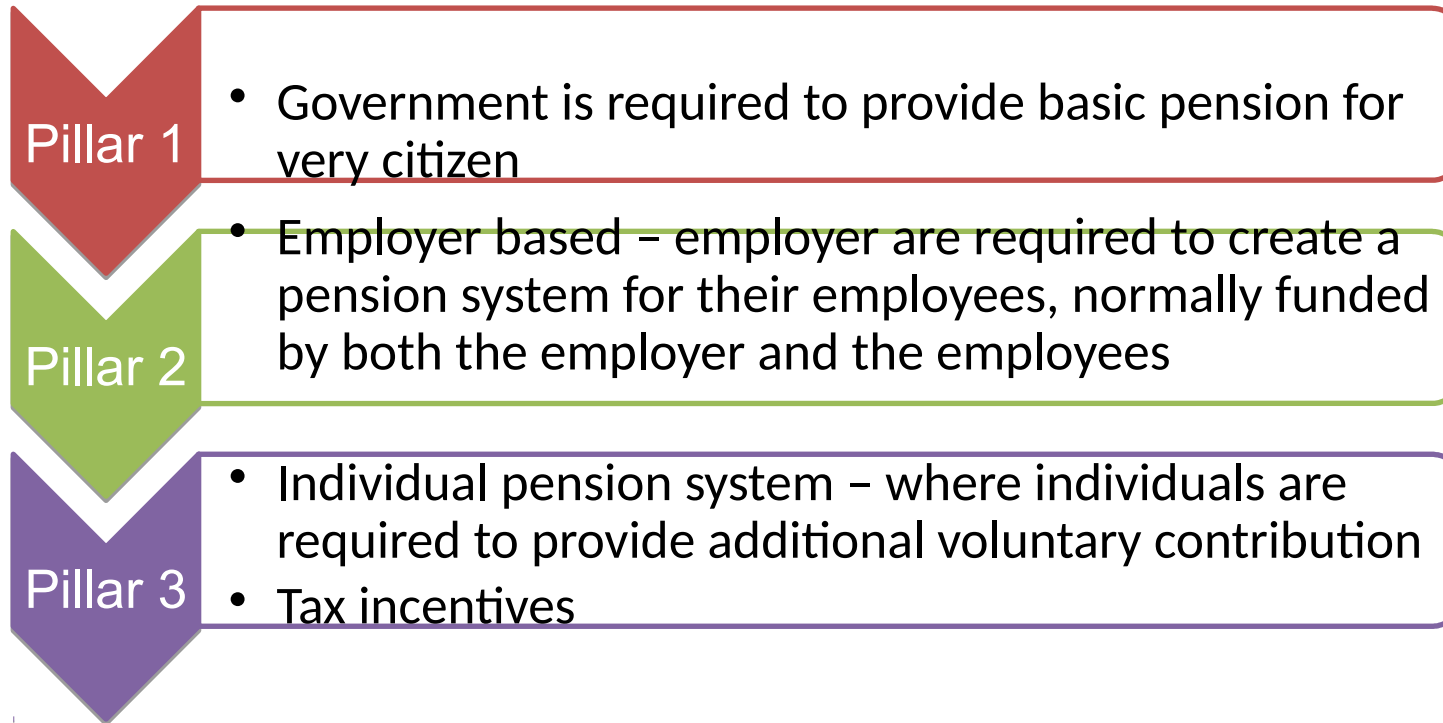
Pension Related Issues

Pension Sustainability

- Can the pension system sustain;
 - Contributions
 - Retirement Income
- Pension sustainability is affected by ;
 - Going concern of the sponsoring employer
 - Individuals employment

World Bank Three Pillar System

- In order to address issues of Adequacy, Coverage and Sustainability pension systems must be a shared responsibility of Government, Private sector and Individual



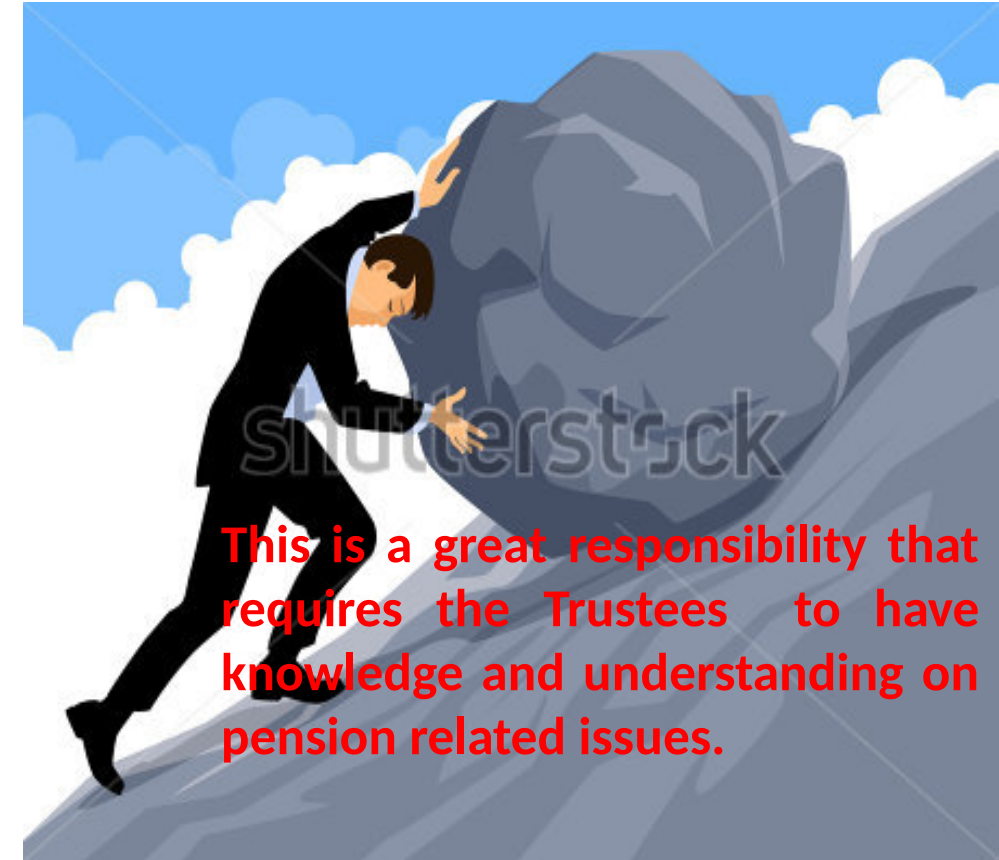
Coverage - government will cover the unemployed and the poor, private sector or employers will cover the employed.

Adequacy - the pension incomes from the three pillar should enhance the adequacy of the pension income

Sustainability - the three pillar should complement each other to provide a sustainable pension income.

Pension adequacy - Impact of Legislation

- The legislation place the responsibility of managing the pension funds to ensure adequacy of the pension income on Trustees:
- Trustees are required manage the pension funds in the best interest of the members and in accordance with the Act;
- Trustees are also required to;
 - Prescribe their own duties (Regulation 7);
 - Prescribe the Rules of the Fund.
- Legislation provides guidance to assist the trustees;
 - The law empowers NBFIRA issue Rules,



This is a great responsibility that requires the Trustees to have knowledge and understanding on pension related issues.

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Effects of Regulation

- In view of the great and important responsibility of Pension Funds Trustees, the laws requires Trustees to be fit and proper:
 - Competency
 - Capability
 - Financial soundness
 - Honesty integrity and reputation
- NBFIRA approves the Trustees before they assume office
- NBFIRA has drafted the fit and proper Rules to provide guidance on the fit and proper assessment.



Contribution - Regulation 13

Contributions

- Prescription of Contributions is one of the main role of the Trustees that directly affect the level of pension savings and ultimately the pension adequacy
 - Contribution rate has to be in line with the objective of the Fund and the expected retirement Income
 - Pension adequacy will be affected by :
 - Timely receipt and investment of Contributions – (21 days)
 - Prescription of Contribution rates -(employer/employee/additional)
 - Increased contribution rates
 - Challenges: career breaks

Retirement Ages – Length of Contribution

- Trustees are required to establish retirement age for their Funds;
 - Regulation 14 (1) “**The Rules of the Fund shall specify the normal retirement age.....**”
 - **Reulation 14(2) – The Rules of the Fund may provide for the early retirement or late requirement of a member**”.
- Extended contribution periods may leads to adequate pension income. However, it has to be done after taking in to account;
 - Membership demography and liability structure
 - Objective of the Fund e.t.c.

E.g. Singapore has increased retirement age to from 65 to 67 years in 2017

- Provides incentives for employers who have employees of over 65 years

Risk Management

- Trustees are risk managers of their Funds.
- Regulation 7 requires the Fund to establish duties of Trustees which may include
 - Appointment of Board of Trustees;
 - Establishment of proper internal controls;
 - Reporting breaches to the Regulator;
 - Independent External Review of the fund;
 - Establishing risk management policies

Regulation 10 requires the Funds to take insurance covers to protect the Fund from possible loss resulting from dishonesty of officers

Investment Management

- Trustees are required to invest the assets of the funds prudently
 - **Investment policy, strategy and procedure**
 - Asset allocation in line with PFR2 and the liability structure of the Fund
 - Benchmarks
- Expected rate of return
- Trustees are therefore required to determine
 - Liability structure of the Fund
 - Risk tolerance of the Fund;
 - Estimated cash flow requirements of the Fund

- In an attempt to assist the Trustees in this process, NBFIRA issued investment Limit (PFR2);
- In line with the
 - Industry liability structure
 - Industry risk tolerance etc

Manage Leakages from the Fund

- Trustees are required to monitor and control fund expenses
- Fund expenses, if not monitored properly, may, in the Long Run affect pension adequacy

In Ghana Fees are capped at 2.5% of AUM:

- 0.33% - Regulatory fees;
- 1.33% administrators fees ;
- 0.56% pension fund managers fees and;
- 0.28 custodians
- In Mexico fees are approved by the Regulator

- Withdrawals are permitted by the Income Tax Act.
- Trustees may provide counselling to the members so that they make an informed choice



The Role of NBFIRA

NBFIRA 's mandate in the financial sector is to foster:

(1) Safety and soundness of nbfis; (2) highest standard of conduct of business, (3) fairness, efficiency and orderliness , (4) deter financial crime and (5) ensure financial stability of the financial system (Section 4 of NBFIRA Act)

NBFIRA provides a regulatory landscape to assist Trustees in performing their duties

NBFIRA Act,
Pension laws and
Regulations

Prudential Rules
Circulars e.t.c

Trustees to manage the Fund in terms of
the Act, Regulations, Rules, etc

Fund Rules
Policy Documents

Risk Management Strategies

Pension Funds and Financial Stability

- Botswana Pension Funds Assets are 51% of the GDP- significant player in the market;
- Putting pressure on the local stock market – creation of a bubble????
- Excessive exposure to foreign macro economic instabilities (63% of assets are invested offshore);
- No geographical quantitative limits in investments
- Concentration risk – close to 90% of the pension industry assets are held by 3 big pension funds
- Sustainability risk

Challenges

- **Low coverage** – enrollment is not compulsory,
- **Adequacy** -- permitted withdrawals,
 - contribution rates not legislated,
 - retirement age not legislated – some funds allow early retirement .
- **Sustainability** – concentration of the pension assets in employer based pension system

THANK YOU