



REPUBLIC OF BOTSWANA

**OFFICIAL OPENING ADDRESS
OF THE BOTSWANA PENSIONS SOCIETY
2021 VIRTUAL ANNUAL CONFERENCE**

**THEME: KEY ISSUES IN THE MANAGEMENT OF
RETIREMENT FUNDS DURING THE COVID-19 CRISIS**

**BY
DR. THAPELO MATSHEKA
HONORABLE MINISTER OF FINANCE AND ECONOMIC
DEVELOPMENT**

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Director of Ceremonies,
The Chairman of the Botswana Pensions Society,
Management Committee of the Botswana Pensions Society,
The Regulator,
Chairpersons, Principal Officers and Trustees of Pension Funds,
Distinguished guests,
Ladies and Gentlemen.

Good morning to you.

1. I am pleased to officiate at this Botswana Pensions Society 2021 Annual Conference.
2. The Botswana Pensions Society was founded in 1994, with the main objective of promoting retirement industry knowledge amongst pension fund members, trustees, service providers and the general public. I am informed that the Society has been holding annual conferences since 2006, as part of its efforts to engage the retirement funds sector and other stakeholders, not only on issues that relate to retirement funds but also on those that affect the affairs of the entire nation. I, therefore, believe that they deserve to be applauded.

3. Ladies and Gentlemen, this year's theme, '**Key Issues in the Management of Retirement Funds during the COVID-19 Crisis**' is timely, given COVID-19's impact on pension systems throughout the world. This theme topic is relevant as it provides the Society with an opportunity to review the performance of the domestic retirement funds sector in terms of how it responded to the COVID-19 Pandemic and discuss strategies to ensure resilience of industry beyond.

4. Director of Ceremonies, the retirement funds sector has grown tremendously over the years. As at March 2020, there were 86 licensed entities in the retirement funds sector, including standalone funds, umbrella funds and fund administrators. Its total membership stood at 264,591 as at December 2019. The total assets of retirement funds stood at P93 billion, or 47 percent of GDP in 2019. These were almost as large as the assets of the banking system, illustrating the size and the systemic importance of the pension fund industry. The way in which these assets are invested is of paramount economic importance.

5. As we are all aware, the impact of COVID-19 has extended far beyond the health sector. We are in the midst of a multi-dimensional crisis whose economic effects are forecast to be worse than the 2007-2009 global financial crisis and probably comparable to the effects of the 1930s Great Depression. It is also negatively impacting the pension industry, and may affect the provision of pensions for decades to come. The immediate consequences of COVID-19 on pension systems include reduced contributions, due higher unemployment, wage and salary reductions for some employees, or the flexibility granted by regulators to allow contribution holidays. The volatile performance of financial markets, and investment assets such as property, have also had an impact on investment returns. Finally, monetary policy easing has resulted in lower interest rates and, in many cases, lower returns on fixed income instruments such as government bonds.

6. Director of ceremonies, looking further ahead, the negative consequences for retirement funds may potentially lead to:
- Reduced incomes in retirement;

- Decisions by some individuals to defer retirement, where possible, and make up their pension shortfall through additional years in the workforce.
 - Attempts by some fund members or fund managers to increase investment returns by raising the level of risk within their portfolio.
7. Naturally, the impact of the pandemic on financial markets has led pension fund trustees and fiduciaries to review their asset allocation and investment strategies. In most cases, the reaction has not been steeped in short-termism, rather they have adopted the longer-term view while keeping a close watch on economic developments. Two key developments have been observed globally;

Firstly, there is some adjustment to asset selection, with increased portfolio diversification; this involves a greater emphasis on equities that have relatively less volatility as well as fixed income assets offering higher returns, including more liquid infrastructure investments. This is consistent with a more cautious and risk-aware approach that has been adopted around the world.

Secondly, there is a greater focus on liquidity, particularly in markets where there has been a significant reduction in investment income. In this regard, as some members are switching to conservative assets or a higher level of benefit payments.

COVID-19 has therefore highlighted the important role that risk management should play in the responsibilities of trustees and fiduciaries.

8. Alongside the impact of COVID-19, there are longer-term issues relating to the Botswana pension fund sector that still need to be addressed, including by policy and regulatory actions. The first is that, in a small economy, it is difficult to attain a sufficiently diversified range of investment assets to give pension fund members good returns at an acceptable level of risk. Hence the legal environment that allows asset managers, on behalf of pension fund members, to invest a significant proportion of assets externally, so as to secure higher returns at a lower level of risk. Nevertheless, the

appropriate regulatory approach to offshore investment is currently under review.

9. The second issue is that at the same time, there are investment needs locally, both in the private sector to finance diversification and in the public sector to finance higher government borrowing requirements with the expanded bond issuance programme.

10. I am aware that some local investments have underperformed in recent years, with, for instance, the negative performance of the BSE domestic companies index. This discourages the repatriation of funds invested in external markets. At the same time, however, I am confident that there are investment opportunities in the Botswana economy, especially with the reforms and public investments entailed in the government's Economic Recovery and Transformation Programme (ERTP), focused on reinvigorating economic growth and diversification and the stimulation of new investment opportunities. I therefore urge our financial experts to develop funds and instruments that will help to channel pension fund assets into

promising investments while maintaining a suitable level of risk and diversification to the benefit of fund members.

11. A further issue that I need to draw attention to is the disappointing response from the pension and asset management sector to the increased government bond issuance programme. Despite the fact that there have been calls for more bond issuance over the years, it has proven difficult to sell the bonds on offer at recent auctions, even at higher yields. There is clearly a need for dialogue between Government, the Bank of Botswana – who handle bond auctions on behalf of Government - pension funds and the asset managers, to address this blockage and ensure that the assets of the pension fund sector are deployed to finance crucial public investments.

12. Director of Ceremonies, I am acutely aware that the pension regime created by NBFIRA is comprehensive and exhaustive, but it still remains your responsibility as boards of Trustees to uphold values and ethical principles. I will be banking on you to do that with a spirit of selflessness and excellence, while putting the interests of pensioners first. As previously stated,

more than ever, the industry is entreated to step up to the plate to help the government to navigate the turbulent times occasioned by COVID-19. By so doing the pension industry will contribute to national aspirations such as Vision 2036, NDP 11 and the E RTP.

13. Furthermore Director of Ceremonies, everybody in the industry recognises the importance of legal restrictions regarding how the Retirement Fund assets can be invested. This is mainly aimed at protecting members and ensuring that these savings are not jeopardised by excessively risky investment strategies. However, as the environment changes and as the industry becomes more complex, the regulatory framework needs to be updated; hence the current exercise being undertaken by my Ministry and NBFIRA in consultation with the industry for the review and amendment of the Retirement Funds Act to reflect these developments and challenges.

14. As I draw to a close, allow me to highlight key takeaways:

Ladies and Gentlemen, the **first takeaway** expected from the conference is that, within the context of Botswana pension

fund approaches to portfolio management, “The COVID-19 crisis’ impact on the industry has shed new light on the importance of encouraging a more diversified portfolio approach by pension funds that allows for investment in a range of asset classes as a means of enhancing risk management, including during times of crisis and economic downturns”.

The **second takeaway** is that, “The COVID-19 crisis also underscores the importance of accelerated reforms agenda. To this end, my Ministry is reviewing the pension legislation and I take this opportunity to thank you for having provided input in the process.

15. Director of Ceremonies, as I near my conclusion, I cannot over-emphasise the importance of good pension governance, particularly, during unprecedented times. So, all of you must stand up and be counted as practitioners of good pension governance.

16. And as I conclude, I wish to thank the Botswana Pensions Society for this privileged opportunity to interact with you and exchange important ideas.

17. With these remarks, it is my pleasure and privilege to declare the Botswana Pensions Society 2021 Virtual Annual Conference officially opened.

PULA!