RETIREMENT FUNDS INSTITUTE OF NAMIBIA

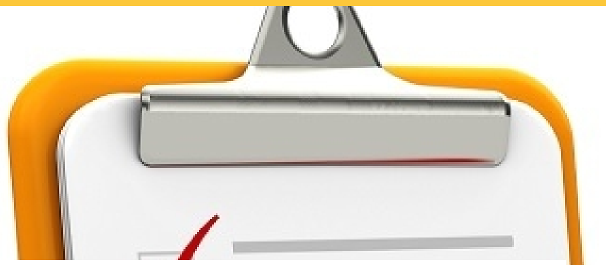
ISSUE 3, 2021

RFIN REVIEW

IN THIS EDITION

ED'S CORNER

By: Sydwill Scholtz



The Dutch philosopher Desiderius Erasmus in around 1500 coined the phrase: "*Prevention is better than cure*". This phrase proves as relevant today as it did in the 16th century and is the best way to describe the aim of Risk Based Supervision (RBS) recently introduced in the Namibian Financial Services Sector.

The Namibia Financial Institutions Supervisory Authority (NAMFISA) has pronounced itself on their intention of moving away from the well-known compliance-based supervision method to the risk based supervisory approach. In a presentation at the 14thAnnual RFIN Conference, NAMFISA mentioned and elaborated on the 10 principles they would apply as the framework for their RBS approach.

The first principle relates to the supervisory methodology to be utilised. Under this principle, NAMFISA's interventions will be future oriented, principle and outcome focused and will be aimed at ensuring timely intervention for the prevention of non-compliances or regulatory breaches. This provides us with an indication that NAMFISA has an eye on the bigger picture and keeps in mind the future impact of their regulatory interventions with the aim of mitigating risks in the visor.

The second principle deals with the accountability of the Boards of Directors, Trustees, and senior management within regulated entities. Under this principle, the main emphasis will be on the common law fiduciary duties which each Director, Trustee or Management member owes to the institution they are accountable for.

This would be in addition to the duty on management to prudently manage the affairs of the entity and to ensure financial soundness and compliance with applicable legislative instruments which are applicable to the entity and the industry.

It is a known fact that the fiduciary duty is the highest standard of care found in law or society today and hence the Directors, Trustees and Management are expected to manage the affairs of the institution they are accountable for at a higher level of care and skill than they do their own affairs.

Thirdly, the RBS approach will consider risk tolerance as a principle.

The aim or focus under this principle will be to reduce the likelihood and impact of the failure of financial institutions and pension funds, rather than prevent all failures. In addition thereto it also seeks to identify and address material market conduct and legislative breaches. This introduces the essence of RBS which aims to mitigate and anticipate risks and ensure that these are mitigated effectively before they become a reality.

The next principle will deal with the consolidated supervision of the entities under the regulatory framework of NAMFISA. Here the Financial conglomerates are supervised on a consolidated basis in conjunction with other supervisors such as the Receiver of Revenue or the Namibian Revenue Authority.

We then turn to the 5th principle to be applied dealing with the Sound Predictive Judgement in identifying and assessing whether the risk is fundamental to the effectiveness of the institution.

This principle therefore draws on a combination of the future orientation and the approach to risk mitigation explained above which shows us that the aim of the entire RBS system is based on the inherent risk taking and mitigation of the risk to prevent the materialisation of any of these identified future risk items.

This moves us to the use of Governance and Oversight Functions as the sixth principle in the RBS approach.

This principle deals with the appropriate leveraging off the works of the institution's governance and framework functions which aims to minimize the duplication of effort. Here we can clearly identify the intention of the Regulator that institutions need to be more efficient and apply their resources effectively to avoid having to spend too much time redoing the same activity.

We now move from the internal environment to the external environment and focus on the Reliance placed on and use of work done by External Stakeholders. Under this principle the focus moves to the reliance the institution places on the external auditors for the fairness of the financial statements and uses their work to modify the scope of supervision to minimize duplication of effort. It also looks at the reliance placed on actuaries for the adequacy of policy liabilities and the use of their work to modify the scope of supervision of such financial institutions and pension funds.

As the eighth principle NAMFISA explained that the timely risk focused reporting which looks at the communication of assessments and the requirements for financial institutions and pension funds become important. Under this principle, NAMFISA will look at the method and time of the communication from the financial institution to the relevant parties who receive the communication. In essence, the aim would be to communicate well in advance and within the limits of the legislative provisions as well as in the format required by the Financial Institutions and Markets Act which requires the clear and plain communication with Members of a fund especially.

As a second last principle, we direct our focus to the continuous and dynamic monitoring of risks and the environment in order to identify changes in risks which arise from both the financial institutions as well as the pension funds.

Under this principle the funds specifically are required to keep track of any and all developments in their area of operation to allow them to have a real-time impact analysis of the landscape and the evolution of the risks they are managing.

The aim under this principle is to allow for the timely and accurate intervention as far as the supervisory priorities are concerned which NAMFISA will look at regularly. Funds therefore need to regularly assess the impact of the materialisation on their risk on their risk analysis and profiling and keep track of the evidence of such monitoring and tracking activities. This would make the application of the RBS approach of NAMFISA much more effective in the application of the rules to the funds they are responsible for.

Lastly, NAMFISA requires that resources should be allocated to the risks which have been identified in terms of their importance to the fund. This would imply that the more important, or higher ranking risks should enjoy the most effective and most efficient resources available at the disposal of the funds. It would therefore seem counter intuitive to allocate so much resources to a risk that highly unlikely to materialise and thereby causing the most imminent risk to not have available resources for mitigating actions. The resources deployed per risk should therefore correspond with the likelihood and impact of the specific risk item.

From the principles discussed above, we can identify the future oriented approach that NAMFISA is targeting which would aim to avoid materialisation of risks and ensure the effective mitigating actions are in place throughout their regulated entities. NAMFISA has also made it clear that there are numerous benefits to this approach being adopted and in order to test the efficacy of the approach, a pilot project is currently underway with the Government Institutions Pension Fund (GIPF).

We therefore think that all industry players can agree that the prevention of a risk would certainly be better than doing damage control as under this approach NAMFISA has the option to use their initiative- as the Regulator and apply learnings in one area of the financial sector to another where the risk would prove to be relevant.

Further to the above, and to conclude, this approach with the future orientation and risk mitigation at the forefront would certainly prove to be effective should the application be conducted as described by NAMFISA.

RFIN BOARD MEMBERS

Ms. Sabrina Jacobs

Ms. Jacobs is a Human Resource and Industrial Relations practitioner. She worked for multi-national and local companies in the Oil and Gas, Retail, Wholesale and Hospitality Industries. She holds a Bachelor's Degree in Human Resources and a BA Honours Degree in Human Resources & Labour Relations obtained from the Nelson Mandela Metropolitan University (NMMU), and she completed a Senior Management Development Programme through the University of Stellenbosch Business School.
She currently serves as a General Manager: Human Resources on Executive level at CYMOT (pty) Ltd, and as the Principal Officer of the CYMOT Pension Fund. She presently serves as a Non-Executive Director and Chairperson of the Board at the Retirement Funds Institute of Namibia (RFIN). She also serves as an Independent Trustee of the Benchmark Retirement Fund.

Mr. Martino Olivier

Mr. Olivier is a results-driven administrator successful at optimising administrative procedures to control costs and improve operations. Mr. Olivier is experienced in building positive relationships with students and teachers to underpin sustainable policies. A natural leader and analytical problem solver with an articulate communication style. He is an astute educator with a proven background in meeting and exceeding operational objectives across a multi-year career. He maintains currency on trends in field to keep systems modernised and streamlined. A people-person with excellent organisational skills. Motivated professional offering wide administrative knowledge who adds value to any organisation in need of great collaboration, with interpersonal, and multitasking abilities able to meet tight deadlines every time.

Ms. Beata Muteka

Ms. Muteka is a strong, assertive and confident, versatile, experienced and dynamic Human Resources Professional. Through her 24 years tenure in Human Resources, she has mastered streamlining processes and resources to ensure the enhanced productivity at affordable rates and influencing the human capacity to achieve more, with pride and loyalty. She currently serves as an Executive Officer of Namport Pension Fund.

Mr. Ramon Hansen

Mr. Hansen is a seasoned Executive with more than 15 years experience in the employment benefit space. He holds a Bachelor's Degree of Economics from the University of Namibia, and an MBA from the University of Orange Free State. He is currently the Principal Officer of Orion Namibia Pension and Provident Funds, and three years prior he was the Chief Operating Officer at Alexander Forbes Namibia, leading the Consulting, Administration and Actuarial Teams in the business.

Ms. Sara Mezui-Engo

Ms. Mezui-Engo heads up the Alternative Investments Unit at the Government Institutions Pension Fund of Namibia with committed capital allocated globally to the Alternatives Programme totalling N$22.8 Billion. The Alternatives programme comprises of unlisted investments in Real Estate; Private Equity; Private Debt and Infrastructure.

She holds Investment Management and MBA degrees from the University of Stellenbosch and Stellenbosch Business School, respectively. She is a multi-skilled Investment Professional with over 12 years of experience in both the Listed and Private Debt & Equity investment landscape from Institutional Investor; Asset Management and Corporate backgrounds.

Equally, she serves on the Board of the Retirement Funds Institute of Namibia and is a Commissioner on the Law Reform and Development Commission where her contributions seek to champion Namibia's socio-economic footprint.

Ms. Saima Pokolo

Ms. Pokolo is an Admitted Legal Practitioner of the High Court of Namibia with demonstrated experience of working in the legal, financial services and regulatory sectors. She has a comprehensive legal risk, compliance and governance background and her strengths include the ability to influence and persuade others thorough research and by presenting the issues at hand with solutions. She currently holds a leadership role in risk and compliance, and serves as a Trustee on various funds and Enongo Dependents Trust.

Mr. Dugald O C Hammerslacht

Mr. Hammerslacht is an Economist, Analyst, Planner, Strategy Manager, Development Specialist whose day job currently is Principal Petroleum Economist at NAMCOR. He served in various capacities in his 20+ years career as an Economist and Project Manager, covering aspects such as strategy, policy, legal, commercial, research, engineering, project management, energy management, petroleum economics and business risk management, financial and economic modelling.

He holds a BA(Economics) from the University of Namibia, a MA(Development Studies) from the University of Free State, a MSc(Energy Economics) from the University of Dundee(CEPMLP), Scotland as well as a certificate in Investment Analysis and Portfolio Management from UNISA and is currently completing a Postgraduate Diploma in Financial Planning at the University of Free State. Supported by various short courses ranging from project planning and management, monitoring and evaluation, strategic planning to data management.

CURRENT AND EMERGING CHALLENGES FACED BY THE RETIREMENT FUND INDUSTRY

The goal of the retirement fund industry is to ensure that members of retirement funds can retire with financial dignity. Anything that has the potential to inhibit this is a risk. An effective retirement industry is therefore one where all stakeholders, from the regulators to service providers, members, and trustees, play their part in managing the various risks. There are many reasons why people are not able to retire comfortably; in this piece Tuyeni Akwenye and Raine Adams, investment analysts at Allan Gray, aim to capture some of the prominent current and emerging challenges faced by retirement fund members by exploring four key issues.

1. Inadequate contributions

A commonly quoted statistic in South Africa, which first emanated from the National Treasury , suggests that just 6% of people in South Africa can afford to retire without support from the state, family members, or additional savings from working past their retirement age. While no Namibian-specific data has been published, anecdotal evidence from industry players suggests that it is no different here.

Members need to be encouraged to start saving as early as possible and to preserve their retirement savings throughout their employment years

2. Insufficient returns

The investment universe for retirement funds is determined by prevailing regulation, Regulation 13 of the Pension Funds Act. The law currently requires 45% of members' investments to be in local assets, with a 10% allowance for Namibian dual-listed instruments (those companies incorporated outside of Namibia and also listed in Namibia). In the Namibian market, the value of regulated assets, such as retirement funds and long-term insurance funds, totals around N$240 billion. Assuming that the dual-listing allocation of these regulated assets is fully utilised, this leaves around N$85 billion in assets which still need to be invested locally, in a market which is heavily skewed towards bonds.

The investable bond and equities market in Namibia is valued at around N$80 billion, with bonds representing 85% of the market share compared to the 15% held in equities. Deepening the local capital markets can aid in both increasing availability and diversity of growth assets. Assets subject to Regulation 13 typically have a higher allocation towards fixed income instruments, such as bonds and cash, in the local portfolio than what may be optimal for long-term strategic asset allocation.

Lower potential exposure to growth assets, such as equities, may result in lower real returns being earned over the long term, and subsequently poorer retirement outcomes for members in defined contribution funds or underfunded defined benefit funds.
One of the ways to partly offset this risk is by focusing the remainder of the portfolio (i.e., investments outside of Namibia) on equities.

A related emerging concern is the heightened inflation risk driven by accommodative fiscal policies of developed nations. Fixed income instruments (excluding inflation-linked bonds) generally tend to perform poorly in highly inflationary environments. Potential ways to hedge inflation risk include: 1) having minimal exposure to developed market sovereign bonds, 2) having an allocation to precious metal extractors and commodity ETFs, and 3) owning companies that have real pricing power or operate real assets.

3. Regulatory challenges

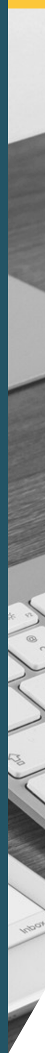
The regulatory environment plays a pivotal role in fostering a sustainable and successful retirement fund industry. Namibia is fortunate to have a well-developed and regulated industry compared to our African peers.
However, the recently enacted Financial Institutions and Markets Act legislation presents some policy uncertainty from an implementation perspective. The higher cost of compliance is likely to be borne by members, further curtailing contributions going into the savings pool.

An unintended consequence of the legislation may be to speed up the trend of industry consolidation, as more standalone funds join umbrella funds to manage higher fiduciary risks and benefit from scale advantages, such as lower administration costs.

4. Sustainability considerations

Environmental, social and governance (ESG) issues have dominated headlines for the last few years and are front of mind for many investors as they start to think more critically about the environmental and social impacts of companies in which they invest and demand more purpose-driven, sustainable, and stakeholder-centric behaviour. The intensifying focus on ESG issues introduces a growing responsibility for trustees to consider whether these are appropriately accounted for in the way retirement fund assets are managed on behalf of members.

There are many ways in which ESG, as a growing global theme, could impact future stockpicking and allocation within investment portfolios. For example, an accelerated global energy transition could increase the demand for certain metals, while single-use plastic bans could dampen demand for oil and alter demand for certain packaging materials.



In addition, the ESG theme has the potential to materially impact investment flows. For example, the Net Zero Asset Managers initiative – recently launched internationally to commit to investment portfolios aligned with net-zero greenhouse gas emissions by 2050 or sooner – could impact flows into both low- and high-carbon emitting industries.

In this debate, however, the intersection of the environmental and social pillars should be appropriately weighed up. So far, environmental considerations have been in the driving seat; however, reducing the E may have an impact on the S, and the COVID-19 pandemic has further accentuated deep inequalities in many countries, with potentially severe consequences. Overlooking the social aspect of ESG is as much of a global risk as failure to act on environmental issues.

As an investment industry, we must be honest about what we are and what we are not.

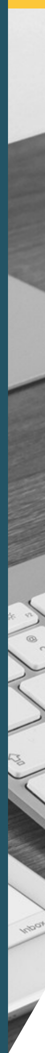
For example, we are not experienced policymakers. Many of these complex problems require coherent policy and regulatory development and enforcement, far above investor engagement, to be effectively addressed. This would also avoid unintended consequences.

An example here has been the growth in asset owners announcing divestments from fossil fuels, particularly thermal coal. As a result, many listed companies have rushed to unbundle or privatise these assets. But once sold, they remain in operation and in fact often increase production. The climate is no better off, while lesser disclosure requirements mean that society generally has less insight into the site's environmental management than before.

For this reason, we prefer engaging companies to encourage positive change rather than simply divesting from "sin stocks" and high emitters.

ESG factors are also often still lightly or inconsistently reported by issuers, particularly in less developed stock markets, making meaningful evaluation and comparability difficult. At Allan Gray, we try to address this by engaging with issuers on a case-by-case basis to improve their disclosures and by using multiple sources for ESG research: Apart from company reporting, we look at non-governmental organisations and academic, regulatory and news reports.

Finally, we pay particularly close attention to the governance pillar. This is because, as shareholders on behalf of our clients, we are not involved in the day-to-day running of companies and therefore rely on executive management and boards to act responsibly. We assess management's alignment with long-term shareholders by evaluating how they are incentivised through executive remuneration schemes. We also consider the board's expertise and independence to be able to provide effective oversight. Finally, studies show that stronger governance is generally associated with stronger company environmental and social performance.



Article By:
Tuyeni Akwenye
&
Raine Adams
Investment Analysts at Allan Gray

FEEDBACK ON STANDARDS AND REGULATIONS

With the Financial Institutions and Markets Act 2 of 2021 recently being promulgated in the Government Gazette number 7645 under General Notice No. 207 on the 30th of September 2021, the long awaited FIMA now forms part of the regulatory landscape for the financial services sector in the country.

As part of our mandate to represent the retirement fund industry, RFIN undertook a pro-active approach in obtaining valuable input from the industry in numerous sessions to work through the subordinate legislation in the form of the Standards, General Standards and even the Regulations with the view of submitting a consolidated comment document to NAMFISA.

These sessions were conducted from 20 September 2021 until 04 October 2021 and ensured that each attendee of the sessions had the opportunity to make representations or submissions on the legislative documents. Apart from this, the sessions further ensured valuable discussions and input from the industry.
The input received was then circulated to the industry as a draft and further inputs incorporated for the final submission to the Regulator on 9 November 2021. The confirmation of the submission was then shared with the industry on 11 November 2021.

At numerous engagements following the submission, NAMFISA has confirmed having received the industry comments and committed to a formal response thereto as the norm dictates.

NEW APPOINTMENTS

MANAGER-OPERATIONS & ADMINISTRATION

Mr. Sydwill Scholtz

Mr. Scholtz has a proven record of innovation and experience in the Legal industry and experienced Management roles, with more than 10 years working experience.

He holds a Post Graduate Diploma: Management Development Program from the University of Stellenbosch Business School, LLB from the University of Western Cape, and he is currently a Masters Degree student in Business Administration at the International University of Management.

He is passionate about helping others through mentorship. He served as Labour Consultant and Legal Advisor , Industrial Relations and Group Forensic Manager, Risk and Compliance and Company Secretarial functions.He also served as the Acting Executive, a Principal Officer for the Protektor Namibia Pension and Provident Funds. Equally, he served as a Business Development Manager at Old Mutual Corporate Segment.

RFIN is thrilled to add his vision and experience to its talented team.

TRAINING & MARKETING OFFICER

Ms. Uejaa Kazondunge

Ms. Kazondunge has over 20 years experience in the Media industry. She holds a Honours Degree in Communication and a Bachelor Degree in Journalism and Communication Technology from the Namibia University of Science & Technology (NUST).
Equally, Ms. Kazondunge was a Marketing, Communication, Promotions and Sponsorship Officer at Shipanga Holdings, and was also employed as a Operations Officer at Tusk Mobile & Electronics.

A Communication Specialist, she is organised and well spoken while showcasing superior customer relation skills and the ability to engage well with people.
RFIN is pleased to have Ms. Kazondunge join the team and wishes her all the best in the execution of her new role.

OUR RETIREMENT RESPONSIBILITY

TRUSTEES TRAINING REPORT-AUGUST

RFIN remained standfast to its commitment of skills development, despite the challenging times the country faced during 2021, trustee training was hosted virtually due to the COVID-19 protocols.

Topics that were covered during the August training were as follow:
11-12 August 2021 – FIMA and Pertinent Regulations and Standards
18-19 August 2021- Member Communication and Engagement under FIMA & Pension Fund Reporting under FIMA

Trainer Mr. Edmund Buys, an independent consultant with extensive understanding on FIMA conducted both trainings.

A total number of 30 delegates signed up for the trainings and feedback received was that the content was timely as Government was finalizing the gazetting of the FIMA to be made law. We therefore encourage our members to send representatives to attend these training sessions so as to ensure that the skills set within our industry is enhanced.

CHRISTMAS MESSAGE

Retirement Funds Institute of Namibia

RFIN Board and Staff would like to sincerely thank all our stakeholders for their support throughout the year 2021, in promoting the development of the retirement funds industry.
We wish you and your loved ones a festive season filled with love, joy, peace and happiness.

Merry Christmas and a Prosperous 2022!

OUR ETIREMENT ESPONSIBILITY

www.rfin.com.na | +26461301482 |info@rfin.com.na

OUR CONTACTS

No.8
Seder Street
Suiderhof
Windhoek
Namibia

www.rfin.com.na

RFIN Nam

Retirement Funds Institute of Namibia

@RFIN_nam

info@rfin.com.na | +26461301482