

# SATRAN

Southern Africa Trade Research Network

## Botswana Financial Services

Magdeline Gabaraane

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**Botswana Financial Services**

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# 1. Introduction

Botswana's financial sector is relatively small, reflecting the small size of the market and perhaps the thorough approach to licensing and supervision. The size of the sector in relation to the economy (as measured by the ratio of broad money to non-mining GDP) declined in the first half of the 1990's but picked up again from 1995 onwards, suggesting positive signs of financial sector development over this period. Botswana financial institutions have remained solvent, liquid and profitable, which to a large extent can be attributed to the central banks supervisory role as well as the overall stable macroeconomic environment. The financial sector comprises the central bank, commercial and investment banks, insurance companies, leasing finance institutions, a development bank, a savings bank, a building society, a development corporation and a number of non-bank financial intermediaries. Commercial banks are the most significant financial intermediaries in terms of their share of savings from the public.

The financial sector has expanded considerably over the past decade, which resulted in an increase in the infrastructure and the range of services offered. The number of accounts provided by banks has risen faster than the population growth, suggesting that a greater proportion of the population have access to banking services.

The Botswana Financial Services review was commissioned by the Southern African Trade Research Network (SATRN). The objective of the review was to provide a comprehensive overview of the current financial sector environment. To achieve this, an evaluation of the financial sector (banking, insurance and securities sectors) was undertaken. The evaluation centred around market access policies, particularly issues related to entry, ownership and regulatory measures. A further review of the sectors' performance as measured by prices, quality indicators and accessibility to the poor was conducted. For the purpose of future benchmarking with other SADC

countries, a similar study was carried out in other SADC countries with the use of World Bank templates for each of the banking, insurance and securities industries.

The rest of the report is organised as follows: chapter 2 briefly touches on the outline of the template of analysis used for each of the sub-sectors. Chapter 3 to 5 discuss the responses given by the regulators and operators to the World Bank Template in the banking, securities and insurance sub-sectors. Lastly, chapter 6 provides the conclusion.

## **2. Assessment of Financial Services Trade Policy and Performance**

This section discusses responses given by the regulators to the World Bank template in the banking, securities and insurance sectors. The template was used in the interviews with the three regulators from the three sectors. Given the nature of some of the questions in the template, it was also necessary to consult with individual providers in the respective sectors. The complete questionnaire responses are in Annexes 1 to 3.

The template for each sub-sector is divided into two parts: The first part deals with **policies** and market structure, and covers three broad areas; the conditions of *competition* in the sector (notably policy restrictions on entry), restrictions on *ownership* (private and foreign) and *regulation* (especially elements designed to achieve social objectives in competitive markets). The emphasis is on policies affecting international trade and investment in services, rather than more general policies affecting the service sector. The second part deals with the **performance** of the sector, and covers *prices*, *quality* indicators, and measures of access, especially for the poor. The discussion of the responses is per the individual sub-sectors.

### **3. Banking Sector**

#### ***3.1 Market Access***

The regulatory authority in the banking sector highlighted the absence of policy restrictions on the entry of banking service providers. This applies to both foreign and domestic providers. However, for firms to enter the market, they have to satisfy the requirements set out by the regulator regarding new entrants. Such requirements include, among others, the *legal establishments* permitted in the country, as well as other requirements that need to be fulfilled by new entrants. For instance, subsidiaries are the main legal form of establishments permitted. According to the Botswana Banking Act (1995), branches are only permitted after the full incorporation of a subsidiary. Representative offices are also recognised as legal entities. A representative office is, however, not permitted to accept deposits. Its main focus is on marketing its parent company's administrative issues.

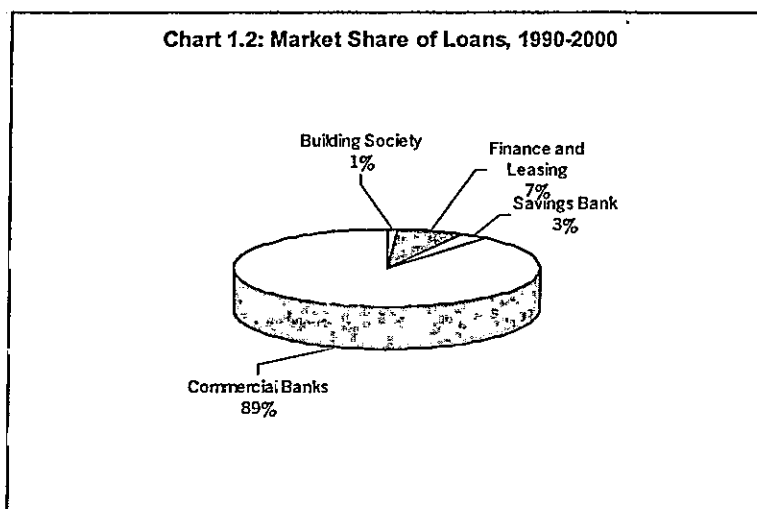
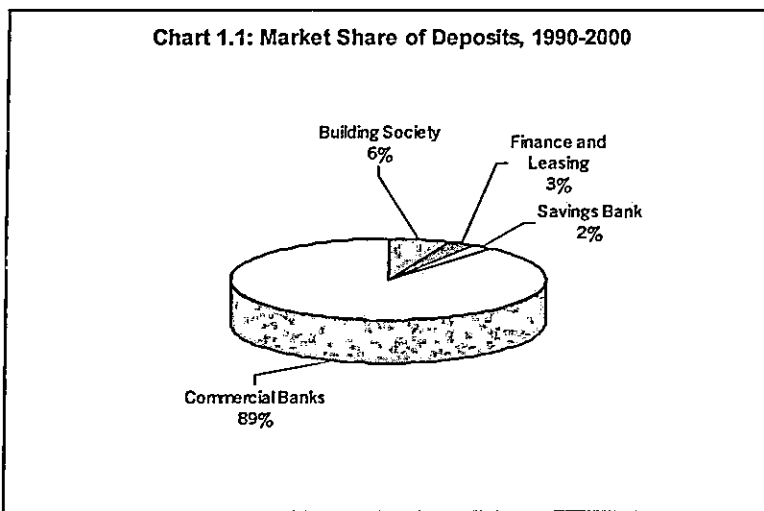
Botswana lifted most of the capital account controls in successive stages from 1994 to 1999. Following the relaxation of the few remaining capital account exchange controls in 1999, there has been free movement of capital inflows and outflows in Botswana. Thus, domestic banks, domestic corporations and domestic households are allowed to borrow (and make deposits) cross-border, with no specified limits.

#### ***3.2 Ownership***

Private and foreign *ownership* in the provision of financial services is permitted in the banking sector, with no stipulated maximum foreign equity required. For prudential reasons foreign and domestic banks are restricted to holding equity not exceeding 25 percent in non-financial firms. This restriction is even more stringent when applied to financial firms. A bank can only hold equity in another financial firm if the equity has been offered as a form of security by a debtor. Even so, the equity held should be minimal and disposed off quickly.

### 3.3 Market Structure

Botswana's financial sector currently consists of seven foreign majority-owned banks. Five of these are commercial banks, namely, Barclays Bank of Botswana, Standard Chartered Bank of Botswana, First National Bank of Botswana, Bank of Baroda and Stanbic Bank of Botswana. The remaining two, Investec Bank and African Banking Corporation Botswana are investment banks. The market for deposits and loans is dominated by commercial banks: For the period 1990 - 2000 the commercial banks accounted for an average of 89 percent of both deposits and loans of deposit taking institutions.



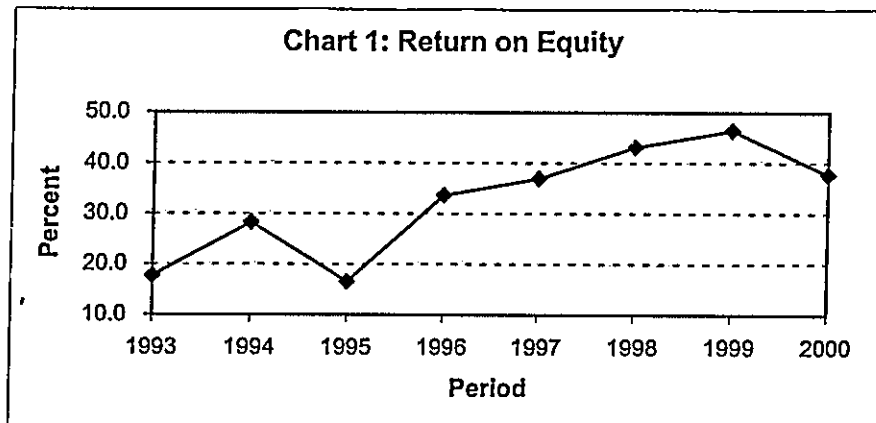
Foreign equity for commercial banks ranges between 70 to 100 percent. Stanbic Bank and Bank of Baroda are both 100 percent foreign owned. Barclays Bank and Standard Chartered Bank both have 75 percent foreign equity with First National Bank at 70 percent foreign equity. The top three banks, Barclays Bank, Standard Chartered Bank and First National Bank, account for 85 percent of the market share in total deposits. The same three banks account for 89 percent in the market share for loans. The trend is not surprising considering that Stanbic Bank has until last year concentrated on lending primarily to corporate clients and Bank of Baroda only entered the market last year. There are however, some important Non-Bank Financial Institutions such as the Botswana Savings Bank, the National Development Bank and the Botswana Building Society, which offer banking services to the public in the form of loans and even deposit taking functions. These institutions are not considered as commercial banks as they are governed by a different statute and more importantly, do not create credit in the economy.

On average, banks in Botswana record high growths in profits. The return on equity ratio (ROE)<sup>1</sup> has followed an upward trend since 1995 (chart 1) after experiencing a drop from 28 percent to 16.5 percent between 1994 and 1995. The ratio dropped again from 46.4 percent to 37.7 percent between 1999 and 2000, which was consistent with the decline in the ratio of broad money to non-mining GDP over the same period. The decline in the ROE ratio was due to the large provisions made by some banks on non-performing assets and increased overhead costs. Despite the drop, profitability remained relatively high by international standards.

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<sup>1</sup> Which relates to the after-tax profits to shareholders.





### ***3.4 Regulatory Environment***

Supervisory and regulatory functions in the financial sector are split between the Ministry of Finance and Development Planning, the Botswana Stock Exchange and the Bank of Botswana. The Bank of Botswana, which was established in 1975 is responsible for the supervision of all deposit-taking institutions. The Banking Supervision Department of the Bank of Botswana is responsible for the regulation of all banking operations. The Non-Banking Operations unit is responsible for mutual funds.

The allocation of licenses is not restricted by policy, but rather on the basis of individual banks having the required minimum capital and expertise to operate a financially sound institution. In addition, new entrants are obliged to present a detailed business plan and pass the 'fit and proper' test for their directors and senior managers: which ensures that bank management has no past criminal record, amongst other things. Compatible home country regulation is also one of the important considerations. Home country supervision of foreign banks is recognised for countries in which supervisory authorities comply with Basel core principles. New entrants are required to pay a license fee of P10,000 annually. The initial capital required for commercial and investment banks is P5 million and P2.5 million for credit institutions and discount houses, respectively. These conditions apply to both foreign and domestic banks.

The Bank of Botswana through the banking supervision department, ensures that the mechanisms for sustaining the soundness of licensed financial institutions are strengthened and that the institutions are managed in a safe and prudent manner. In this regard, the Bank enforces prudential standards with respect to capital adequacy, liquidity, loan classification, exposure limits, and foreign exchange risk exposure, amongst others. The statutory capital adequacy requirement for commercial banks is 8 percent of the bank's risk-weighted assets. However, in preparation for the full liberalization of exchange controls in 1999, the Bank of Botswana raised the minimum capital adequacy ratio to 15 percent of risk weighted assets. If a bank falls below the 15 percent threshold it is not permitted to pay out dividends and the Bank of Botswana will initiate discussions with the bank management. Overall, commercial banks are well capitalised and get high marks for conformance with prudential standards. The loan classification requirement<sup>2</sup> is up to 90 days, after which it is declared a non-performing loan.

The financial sector's liquidity ratios (ratio of assets against deposits) also remain well above the minimum statutory requirements (10 percent for commercial banks and 3 percent for credit institutions). In terms of the single exposure limits, no commercial bank may lend more than 30 percent of its audited unimpaired capital to an individual borrower, while lending to internal borrowers is limited to 25 percent of unimpaired capital.

The liberalization of exchange controls has caused the Bank of Botswana to tighten restrictions on foreign exchange exposure. Banks are now required to limit their net foreign asset position to 30 percent. The limit for the four major currencies (US dollar, South African rand, euro, and pound sterling) is 15 percent, and 5 percent for any other currency.

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<sup>2</sup> That is the number of days after which an unpaid loan is classified as a non-performing loan.

In addition to monitoring the commercial banks' compliance with reserve requirements, the Bank of Botswana ensures that commercial banks conduct their operations in a professional and transparent manner. To achieve this, the Bank of Botswana may, for the purpose of administration, call for any information regarding the banks' operations. The Bank of Botswana also provides a lender of last resort facility to the financial institutions under its supervision.

### ***3.5 Regional Integration Agreements in Banking Services***

The Bank of Botswana is a member of several international and regional committees, most of which are aimed at the harmonisation and coordination of policy rather than implementing preferential trading measures amongst members. As such, there are no preferential agreements concerning entry, establishment, ownership or regulation that favour SADC countries over other foreign countries not in the agreement. A few of the banking related committees that Bank of Botswana is a member of, offer certain benefits to their members that are not extended to non-members: ESAF, the Eastern and Southern African Banking supervisory group, which comprise of all SADC countries, (excluding DRC) Uganda, Kenya and Ethiopia, offers training programmes to their members. The group aims at aligning banking standards according to best international practice. The Committee of Central Bank Governors provides a forum where regional banks can discuss issues of mutual interest. The SADC Banking Association which comprise of all SADC countries except Tanzania, DRC and Seychelles aims at enhancing the operation of transactions between member states. The Association of African Central Banks looks into the integration of African economies with the aim of establishing an African Monetary Union.

The common goal of these committees and associations is to facilitate efficient banking operations amongst member countries. Although these committees do not discriminate against non-member countries in terms of the allocation of licences and

other activities, membership in these committees allow countries to mobilise resources as a group and undertake projects relatively cheaply.

### ***3.6 Past and Future Changes in Policy***

Botswana's banking industry is fully dominated by foreign ownership, which entered the market as early as 1950 when Barclays Bank and Standard Chartered Bank first started operating in Botswana. Financial sector reforms started in the mid-1980's. Prior to that Botswana's financial sector had a limited range of financial instruments and a high degree of direct control over commercial banks operations by the Bank of Botswana. The Bank of Botswana imposed controls on maximum lending and minimum deposit rates charged by commercial banks. Other pre-reform characteristics of the sector include exchange controls on capital transactions. It is evident from the responses that the banking sector has undergone the most regulatory changes. This is not surprising given the maturity of the industry in relation to the other two industries. In 1990, the Bank of Botswana liberalized its licensing requirements for new banks. Under the new policy, the licensing decision depends solely on whether prospective banks are sufficiently capitalised and have access to the necessary skills to ensure a sound banking operation. The objective is to facilitate the entry of new banks in order to promote competition and efficiency within the sector. The entry of banks such as First National Bank of Botswana, Stanbic Bank of Botswana and Bank of Baroda, after 1990 all benefited from the new licensing policy. Bank of Baroda further benefits from the International Financial Services Centre act which offers a lower tax (15 percent) to financial institutions eligible to operate under the act, as opposed to the 25 percent corporate tax. Further developments between 1995 to 2001 included the replacement of the Financial Institutions Act with the new banking act, which brought in more flexibility in the system of banking regulation and supervision. Under the new act prudential requirements are prescribed through the issuance of regulations from the Bank of Botswana as opposed to the revision of statute which was a cumbersome procedure practised in the past. The amendment of the Bank of Botswana Act in 1999 gave the Bank of Botswana supervisory powers over the International

Financial Services Centre entities and foreign-exchange bureau's. The Exchange control Act of 1999 abolished the remaining exchange controls. The Collective Investment Undertaking Act of 2001 gave the Bank of Botswana supervisory powers over Collective Investment Undertakings and promotes the pooling of financial resources by individuals for investment in various instruments.

In recognition of the need to improve the quality of banking services and specifically the efficiency of the payment system, plans are underway to reform the National Payments System (NPS) within the context of a five-year period. The reform will introduce an automated clearing process and improve the facilities for electronic payments systems. A new capital adequacy framework, which aims at aligning capital requirements with underlying risks is scheduled for 2006. The intention is to provide regulators with several options for the assessment of capital adequacy standards for individual financial institutions.

### ***3.7 Employment***

Total formal sector employment figures for the entire financial and business services sector stood at 19,200 in 2001, which represents 7.1 percent of the total formal sector in that period. In terms of the total formal sector employment by sub-sector, the banking industry is the largest (12 percent), followed by the insurance (4 percent) and securities (0.2 percent) sectors. Banking sector employment as a proportion of the total labour force was 0.4 percent in 2000. The remaining workforce is distributed in other business services. The average annual wage in the financial and business services sector is the highest amongst all the sectors in the economy. With an annual average of P47,208 recorded in the banking industry for 2000.

### ***3.8 Investment***

The stock<sup>3</sup> of foreign direct investment (FDI) in the financial sector stood at P619 million at the end of 2000, representing 6 percent of the total stock of foreign direct

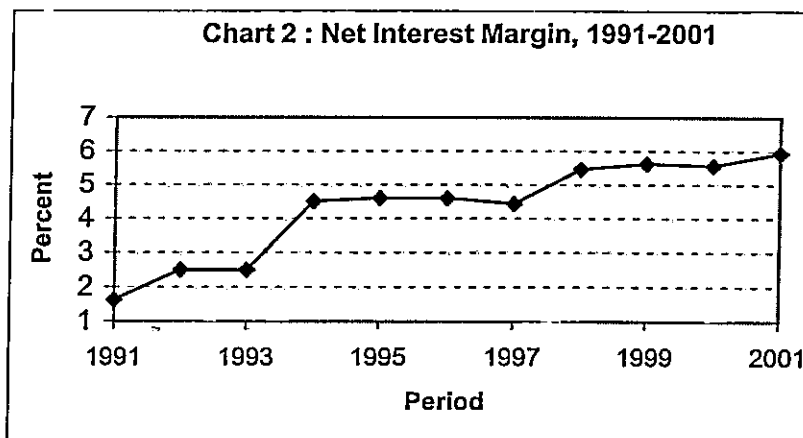
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<sup>3</sup> Defined as the capital at the start of the period in question plus capital flows plus valuation changes.

investment in that period. The financial sector is the third largest in the whole economy, in terms of its contribution to the stock of FDI, with its relative importance increasing from 3.6 percent to 6.3 percent between 1998 and 2000.

### 3.9 Price and Performance Indicators

The banking sector has maintained an impressive performance over the decade, ranging from an expansion of infrastructure to the introduction of new service facilities. The use of performance indicators, to measure solvency, liquidity, profitability and asset quality amongst others, has provided a means of assessing the performance of the sector over time. The net interest income, which is one of the main sources of income for financial institutions, has experienced an upward trend over the years, reaching 6 percent in 2001.



The ratio of non-performing loans to total bank assets, which is a major determinant of the quality of bank's assets, has declined from 3.3 percent in 1997 to 1.76 percent in 2000. This drop indicated an improvement in the quality of commercial banks assets, as a ratio of 1-2 percent is generally regarded as normal. The average monthly bank charges amount to roughly P70 - P90 for a basic check account. A recent survey on the quality of banking services in Botswana revealed that Botswana commercial banks charge fees higher than other countries like Mauritius and South

Africa. The Bank of Botswana has no direct control on the setting of bank charges and other prices related to commercial banks operations. However, as a consumer protection measure, the Bank has enforced a policy that commits commercial banks to disclose their service charges and other fees to the public prior to their introduction.

### ***3.10 Quality and Access to Banking Services***

Commercial banks have over the past decade introduced innovative financial products aimed at improving and advancing financial intermediation. Some of these facilities include, Automatic Teller Machines (ATM), credit and debit card services, on-line banking for corporate clients and point of sale machines. The introduction of ATMs in the early 1990s has had a major and beneficial impact on the overall provision of banking services in Botswana by way of increasing business points and the hours of availability. From the 59 branches and sub-branches country wide only 16 are located in major villages and rural areas, indicating a concentration in urban areas. The spreads between lending and deposit rates differ for large business firms and low-income households. Spreads for large businesses are 1.5 percent and 13 percent for low-income households, possibly due to the higher risks and administration costs associated with lending to low-income households.

The ratio of banks per 1000 of the population amounts to 0.004. Although the ratio appears low, the proportion of the population served by the banking sector has improved, from 235,100 accounts in 1990 (representing 320 accounts per 1000 adults) to 430 accounts for every 1000 adults, in 2000. In terms of the quality of service delivery, most banks quoted 24 hours as the average waiting time for a loan to be approved, whilst others went for as long as 3 days. The average waiting time for a credit card to be approved is between 4 to 7 days for the banks that offer the service. The general trend was that applications took longer during month end than mid-month. Thus, in terms of the quality of banking services there is an obvious

need for improvement as customers are still faced with long queues in banking halls, malfunctioning ATMs and poor complaints handling.

Botswana has only had 2 bank failures in the past, each of which was taken over as a going concern by an existing licensed bank. The first case was Bank of Credit and Commerce Botswana (BCCB) in 1991, which experienced problems as a result of the collapse of the parent company, BCCI. BCCB was sold as a going concern to the First National Bank of Botswana. The second bank to experience problems was the Zimbank in 1994. The bank management started deteriorating and capital ratios falling below the required minimum. The bank was also purchased by the First National Bank.

## **4. Securities**

### ***4.1 Market Access***

Market access conditions in the securities industry are similar to the banking industry, where there are no policy restrictions on the number of service providers permitted to operate for both foreign and domestic companies. Firms entering the market have to abide by the requirements stipulated in the Botswana Stock Exchange Act. Similarly, subsidiaries are the main legal form of establishments permitted in the country. Foreign commercial banks are allowed to deal in domestic securities, and are not obliged to use the services of a domestic resident financial intermediary (broker-dealer) in the various markets. Furthermore, cross-border dealings between foreign firms and domestic companies and residents in the securities sub-sector is permitted.

### ***4.2 Ownership***

There are no restrictions on foreign and private ownership in the provision of security services. There is also no stipulated maximum foreign and private equity allowed.



### ***4.3 Market Structure***

Botswana's securities market is fairly small, with only three securities firms: Botswana Stock Brokers (established in 1989), Capital Securities (2000) and Investec Botswana (established in 1998 but recently became Motswedi Pty Ltd). Out of these, Capital Securities is the only foreign owned securities company, following the recent change in the shareholdings of the other two companies to 100 percent local ownership. African Alliance Management is the largest asset management company that deals in mutual funds in Botswana, with the majority of its shares being foreign owned. The company currently has four mutual funds in their portfolio: two domestic and two global mutual funds.

### ***4.4 Regulatory Environment***

The Botswana Stock Market (BSM) was established in June 1989 and operated under a set of interim regulations until it was formally established as the Botswana Stock Exchange (BSE) in 1995. The regulation of the securities market falls under the Botswana Stock Exchange Committee in conjunction with the Ministry of Finance and Development Planning. The main governing bodies comprise the listings committee (which is composed of 5 members) and the investigations committee (with 3 members). The licensing requirements are similar to those of the banking sector (brokers are required to pay an annual fee of P1000 and P250 for dealers). As with the banking sector, the disposal or transfer of licenses is not permitted without the prior consent of the governing body. Following the favourable sovereign ratings that Botswana was first awarded in 2001 and maintained in 2002, the Government has decided to take advantage of the ratings by issuing bonds in the financial markets. The high investment grade ratings should enable parastatals and private sector investors to borrow funds from abroad at more favourable terms than before and enhance the availability of long-term financial assets.

As part of a prudential regulatory measure, the Stock Exchange requires members to disclose critical information pertaining to their performance, changes in ownership

and any other relevant information. The minimum capital requirement differs for companies and brokers. For a securities company, the minimum net assets exceeding liabilities is P150,000 and P50,000 for brokers. In terms of public consultation and transparency, service providers are consulted in advance of regulatory decisions.

The Collective Investment Undertakings (CIU) Act of 1999 aims at promoting the pooling of financial resources by individuals for investment in various instruments and as such it stipulates the types of investments mutual funds should invest in to achieve a risk/return profile that benefits the individual investors. One of the requirements is to invest only in stocks listed on the BSE. Mutual funds are not allowed to invest more than 20 percent of their stock in a single stock.

#### ***4.5 Regional Integration Agreements***

The Botswana Stock Exchange is a member of the committee of SADC Stock Exchanges (established in 1998), which aims at reducing entry barriers amongst member country's securities markets. To facilitate transactions, members of the committee adopt similar listing requirements pertaining to capital, public shareholders, profit history, future earnings amongst others. However, having said that, there are no restrictions regarding entry, establishment, ownership or regulation that favour SADC countries over other foreign countries not in the regional agreement.

#### ***4.6 Past and Future Changes in Policy***

The major development in the securities sector was the establishment of a regulatory body in 1995, as well as the liberalization of the remaining capital account exchange controls in 1999. The abolition of exchange control regulations was aimed at enhancing Botswana's investment potential and boosting the country's efforts to diversify the economy. The relaxation of exchange controls on the capital account has enabled foreign registered and listed companies to simultaneously list

on the Botswana Stock Exchange and be regarded as domestic investments. This dual listing is seen as a major attraction for foreign companies to list locally.

#### ***4.7 Employment***

The securities sector employed about 30 people in 2000, which constitutes a negligible proportion of the financial sector workforce (0.005 percent). The share of the securities workers employed by foreign securities firms amounts to 33 percent of all workers in the sector. Annual average earnings in the sector were recorded at P39,024 in 2000.

#### ***4.8 Price and Performance Indicators***

The average brokerage commissions for the domestic operators is 2 percent for trades of up to P50,000, 1.5 percent for trades of the value between P50,000 to P100,000 and 1 percent beyond that. The average brokerage and underwriting commissions for foreign operators is 1 percent of the value of the transaction. The fund manager imposes a 2 percent average initial charge on buyers of mutual funds to cover the costs of administration and marketing, as well as commissions paid to intermediaries. This initial charge is usually factored into the buying price of the mutual fund units. A 2 percent average initial charge implies that, for every P100 invested, P2 is retained by the fund manager for administration costs. The Botswana Stock Exchange does not influence the setting of prices, such as commissions charged by securities firms.

#### ***4.9 Quality and Access to Securities Services***

The Botswana stock market is relatively small by world standards. Total market capitalisation is recorded at P136 million for the week ending 13<sup>th</sup> December 2002. Total turnover was recorded at P6 million for the same period. Foreign listed companies account for 95 percent of the total stock market capitalisation. While the Botswana stock exchange has grown rapidly in size (from 5 companies in 1989 to 23 in August 2002 and later 15 in December 2002), liquidity levels still remain quite low by international standards ranging between 2 to 11 percent.

Although the country was awarded impressive ratings by Standard and Poors (A<sup>+</sup> for long-term local currency debt) and Moody's (A1 for local currency debt) rating agencies, there are currently no domestic company assets that are rated. However, the Government of Botswana is considering issuing a bond to take advantage of the favourable ratings.

The Stock Exchange currently uses the manual over the counter transaction mechanism. The absence of an electronic clearinghouse gives rise to risks of default by members and processing delays that may affect liquidity, making it less attractive to invest in the stock market. To try and address these risks, the manual clearing system is in the process of being replaced with an automated system.

## **5. Insurance**

### ***5.1 Market Access***

Similar to the previous two sectors, the allocation of licences for both foreign and domestic operators is not restricted by policy. However, operations within the insurance sector are governed by the Insurance Industry Act (CAP 46:01). The Act stipulates that all direct insurers who wish to transact insurance business in Botswana are obliged to establish a principal office in Botswana and comply with the requirements of the Insurance Industry Act, which include having a resident principal officer. Therefore, branches are only permitted once the principal office in Botswana has been established. Cross-border foreign insurance suppliers are not allowed to solicit business through advertising in the domestic country. ,

### ***5.2 Ownership***

There are no restrictions on foreign and private ownership, or the amount of equity permitted in the provision of insurance services.

### ***5.3 Market Structure***

There are currently twelve insurance companies in Botswana, nine of them, Botswana Eagle Insurance, Botswana Insurance Company, Botswana Insurance Fund Management, Botswana Life Insurance, Metropolitan Life, Mutual and Federal Insurance Company, Prefsure Botswana, Regent Insurance and Regent Life, are foreign owned. The motor vehicle insurance fund is the only state-owned insurance company. The only fully domestically owned insurance company is the Export Credit Insurance and Guarantee Company, owned by the Botswana Development Corporation. Skerry Insurance Company is the only foreign minority-owned insurance company, with Debswana owning the majority of the shares. All insurance companies in the market for life insurance have majority foreign ownership. The two largest providers, Botswana Life and Botswana Insurance Fund Management account for 81 percent of the share of total life insurance premiums. Out of the 7 providers (Botswana Insurance Company, Botswana Eagle Insurance Company, Mutual and Federal Insurance Company, Regent Insurance Company, Prefsure, Botswana Export Credit Insurance and Guarantee Company and Skerry) of non-life insurance, 6 (with the exception of Skerry Pty Ltd) are fully foreign owned (predominantly from South Africa). The one provider (Botswana Export Credit Insurance and Guarantee Company) with 100 percent domestically owned equity accounts for less than 1 percentage share in total non-life insurance premiums. Although the Act refers to underwriting associations, there are currently no such associations registered in the country. There are also no locally registered re-insurers in Botswana, despite the regulator's efforts to attract foreign reinsurance companies. Commercial banks need to register corporate agencies before they can act as insurance distributors.

### ***5.4 Regulatory Environment***

The Insurance sector is regulated by the Registrar of Insurance (established in 1979) in the Ministry of Finance and Development Planning. There are currently 5

professional regulatory staff in the department. Licenses are allocated as per the requirements of the Insurance Industry Act. These include, amongst others, payment of a P9,000 license fee, paid up share capital of P2 million for insurers and P30,000 for brokers, and minimum qualifications and experience for the principal officer. The licensing authority uses its discretion to decide on the number of insurance providers in the market. License holders are not permitted to sell or dispose their licenses. There are currently no government controls on insurance prices.

Prudential requirements differ in some aspects for life and non-life insurers. For instance, the solvency margin for non-life insurers is that assets should exceed all liabilities by P1 million or 20 percent of the net premium of the previous year, whichever is greater. For life-insurers, assets should simply equal all liabilities. The minimum capital requirement is P2 million for all insurance companies, irrespective of ownership. The liquidity reserve requirement for non-life is that 10 percent of gross profit before dividend should be transferred to a statutory reserve solvency account until the balance is 25 percent of the gross premium of the previous year. Insurers are to transfer not less than 25 percent (for long-term business) or 15 percent (for short-term business) of their net profits to a Capital Reserve Account. Similar to the Banking and Securities sectors, audited financial statements are required annually. However, critical information pertaining to the performance and any changes in ownership can be requested at any time with any frequency. For instance, insurers and insurance brokers are required to file statutory returns within 4 months after the close of their financial year.

### ***5.5 Regional Integration Agreements***

The Botswana regulator is a member of the SADC Committee for Insurance, Securities and Non-Banking Financial Authorities, which is mainly concerned with information sharing. There are no known preferential measures restricting the entry,

establishment, ownership or regulation of insurance companies originating from countries that are not SADC members.

### ***5.6 Past and Future Changes in Policy***

Similar to the banking industry, the insurance industry is dominated by foreign owned companies, which entered the market as early as 1975. The Insurance Industry Act came into force in January 1992 and was subsequently amended in 2000. The amendments touched on the required qualifications of agents, increase in registration fees to a maximum of P9,000 (with a P5,000 annual renewal fee) and an increase in the minimum paid-up share capital to P30,000 . The Act itself is currently under review. There is an anticipated change in policy (in 2002) regarding company management that restricts the same person from managing more than one insurance entity.

### ***5.7 Employment***

The insurance industry is the second largest after the banking industry in terms of employment creation. Employment in the insurance sub-sector has been rising steadily over the years and stood at 753 in 2000. Approximately 90 percent of insurance workers are employed by foreign providers and 1 percent by the state-owned insurance provider. The annual average earnings in the sector were recorded at P53,376 in 2000.

### ***5.8 Investment***

Total investment in insurance services increased by 33 percent between 1999 and 2000, which was a slight drop from the 35 percent increase experienced between 1998 and 1999. The share of insurance and pension funds in total FDI experienced a decline from 23.3 percent to 19.1 percent between 1997 and 1999.

### ***5.9 Prices and Performance Indicators***

The average monthly premium on a 10-year life insurance policy is quoted at around P150, for foreign owned life insurance providers (there are no state owned

or locally owned life insurance providers). For the same providers, the average monthly health insurance premium is around P165. The ratio of losses incurred to premiums earned differs for life and non-life insurance providers. It's currently 16 percent for life and 65 percent for non-life insurers. The retention ratio (ratio of net premiums to gross premiums) is 14 percent for life and 31 percent for non-life providers. These figures apply to all three types of insurance providers, that is, the state owned, local private owned and foreign owned insurance providers.

### ***5.10 Quality and Access to Insurance Services***

Foreign operators in the insurance sector provide private health and pension insurance. Most medium and large sized firms in Botswana establish pension funds for their employees. Despite the increased foreign participation in the insurance sector, foreign insurance companies do not participate in insuring the poor and rural households. With regards to the quality of services, claims processing takes about 2 days for life and health insurance providers and about 5 days for property and automobile insurance.

## **6. Conclusion**

In essence, the three sub-sectors within the financial sector have similar market access requirements. There are no policy restrictions on the entry of both local and foreign service providers in the banking, insurance and security industries. The entry of firms into the respective markets is determined by their ability to satisfy requirements set out by the regulator regarding new entrants. In all the three sub-sectors subsidiaries are the main legal form of establishments permitted, branches are only allowed after the establishment of the principle office. Furthermore, license holders are restricted from transferring their licenses without the prior consent of their respective regulators.

There are no foreign equity restrictions in the financial sector. However, certain prudential requirements are imposed, particularly in the banking sector, to ensure



that banks do not have too much control in other banks. The financial sector is significantly dominated by foreign service providers, to the extent that firms that are domestically owned (particularly in the insurance sector) account for a negligible share of the market. The banking sector, with 100 percent foreign-majority owned institutions, is dominated by commercial banks. The top three banks, Barclays Bank, Standard Chartered Bank and First National Bank account for 85 and 89 percent of the market for deposits and loans, respectively. The same three banks have been the main players in the banking industry for over a decade. The establishment of the International Financial Services Centre has witnessed the arrival of new banks, such as the Bank of Baroda, African Banking Corporation and Kingdom Bank. These banks together with those that have applied under the International Financial Services Centre Act will extend services offered by the existing banks and provide some competition to the existing banks. The securities sector experienced some transformation in the ownership structure, when two of the securities companies changed from being foreign majority owned to becoming 100 percent domestically owned in 2002.

Both the banking and insurance sectors do not have depositor insurance and insolvency guarantee schemes, respectively. The strict regulatory and supervisory regimes, as well as the strength of the banks (and insurance companies') parent companies have to date guarded the safety of depositors' funds. However, this does not mean an insurance fund, particularly for small depositors, should not be considered in the long run. The regulators have to date maintained strict supervisory ethics that have protected depositors during periods of bank failures. Regulatory reforms aimed at improving the efficiency of the sector continue to take place in the financial sector. One of the major challenges facing the financial sector, is extending the services offered in the sector to the rural areas in a cost effective way. Currently most of the services and banking facilities are concentrated in urban areas. Commercial banks need to explore other peri-urban areas where they can establish offices and reach out to a larger proportion of the population.

## Annex 1: Financial Services - Banking

All information is given for the latest year available.

### A. Market Access

#### Macroeconomic policies

1. Are there restrictions on capital flows?		
Capital inflows Short term	Capital outflows Short term	If yes, what type of restrictions? Is the authority allowed to impose temporary restrictions?
<input checked="" type="checkbox"/> No <input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No <input type="checkbox"/> Yes	
Long term	Long term	
<input checked="" type="checkbox"/> No <input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No <input type="checkbox"/> Yes	

#### Commercial presence

2. Are there policy restrictions on new entry of banks?			
Entry by any bank	If yes, total number of banks allowed	Entry by foreign banks	If yes, total number of foreign banks allowed
<input checked="" type="checkbox"/> No <input type="checkbox"/> Yes	N/A	<input checked="" type="checkbox"/> No <input type="checkbox"/> Yes	N/A
3. If entry is restricted, what are the reasons provided by the government?			
<input type="checkbox"/> To give state-owned or national banks time to prepare for competition <input type="checkbox"/> To increase government revenue from privatization or license fees <input type="checkbox"/> Exclusive rights to allow the provision of universal service <input type="checkbox"/> To reduce potential systemic risk believed to arise from over-banking <input type="checkbox"/> Inadequate regulatory and supervisory capacity <input type="checkbox"/> No perceived economic need for new banks <input type="checkbox"/> Other:			
4. Which of the following legal forms of establishment are allowed for foreign banks?			
<input checked="" type="checkbox"/> Subsidiaries <input type="checkbox"/> Branches <input checked="" type="checkbox"/> Representative Office <input type="checkbox"/> All * International branch banking is not permitted. The foreign subsidiary should be incorporated in Botswana first before it can open its own branches in the country. Representative office's do not accept deposits.			
5. Are there restrictions on the number of foreign bank branches? <input checked="" type="checkbox"/> No <input type="checkbox"/> Yes			
That is, once the foreign bank has been incorporated locally.			
6. Are there restrictions on the number of foreign bank ATMs? <input checked="" type="checkbox"/> No <input type="checkbox"/> Yes			
If yes, what is the maximum number of foreign bank ATMs permitted? _____			
* This refers to foreign-owned banks domiciled in Botswana			
7. Are foreign banks allowed to raise capital domestically? <input type="checkbox"/> No <input checked="" type="checkbox"/> Yes			

8. Which of the following services are commercial banks permitted to provide domestically?				
	Foreign banks		Domestic banks	
Real estate lending	<input type="checkbox"/> No	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No	<input checked="" type="checkbox"/> Yes
Insurance services	<input checked="" type="checkbox"/> No	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No	<input type="checkbox"/> Yes
Securities services	<input checked="" type="checkbox"/> No	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No	<input type="checkbox"/> Yes
Foreign currency lending	<input type="checkbox"/> No	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No	<input checked="" type="checkbox"/> Yes
Foreign exchange services	<input type="checkbox"/> No	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No	<input checked="" type="checkbox"/> Yes
Credit card services	<input type="checkbox"/> No	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No	<input checked="" type="checkbox"/> Yes
Leasing services	<input type="checkbox"/> No	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No	<input checked="" type="checkbox"/> Yes
Other (specify) _____	<input type="checkbox"/> No	<input type="checkbox"/> Yes	<input type="checkbox"/> No	<input type="checkbox"/> Yes

***Cross-border banking trade***

9. Are the following allowed to borrow cross-border from foreign banks?	
Domestic banks	<input type="checkbox"/> No <input checked="" type="checkbox"/> Yes
Domestic corporations	<input type="checkbox"/> No <input checked="" type="checkbox"/> Yes
Domestic households	<input type="checkbox"/> No <input checked="" type="checkbox"/> Yes
If applicable, please specify borrowing limits: Prudential limits e.g. No bank shall make loans, advances, performance bonds etc. to non-resident persons or entities which in aggregate exceeds 800% of the bank's unimpaired capital.	
10. Are banks subject to any qualifications in order to be able to access foreign capital?	
<input checked="" type="checkbox"/> No <input type="checkbox"/> Yes	
If yes, please specify _____	
11. Are the following allowed to make cross-border deposits with foreign banks?	
Domestic banks	<input type="checkbox"/> No <input checked="" type="checkbox"/> Yes
Domestic corporations	<input type="checkbox"/> No <input checked="" type="checkbox"/> Yes
Domestic households	<input type="checkbox"/> No <input checked="" type="checkbox"/> Yes
If applicable, please specify deposit limits: No bank shall grant to a non-resident person and/or entity (directly or indirectly) a loan in excess of 25 % of the banks unimpaired capital.	

**B. Ownership**

12. Is private ownership in the provision of services allowed?					
Existing banks		Maximum private equity permitted (%)	New banks		Maximum private equity permitted (%)
<input type="checkbox"/> No	<input checked="" type="checkbox"/> Yes	No Limits	<input type="checkbox"/> No	<input checked="" type="checkbox"/> Yes	No Limits
13. Is foreign ownership in the provision of services allowed?					

Existing banks	Maximum foreign equity permitted (%)		New entrants	Maximum foreign equity permitted (%)	
<input type="checkbox"/> No <input checked="" type="checkbox"/> Yes	No Limit		<input type="checkbox"/> No <input checked="" type="checkbox"/> Yes	No Limit	
14. Are banks allowed to hold equity in the following firms?					
	Non-financial firms			Financial firms	
Domestic banks	<input type="checkbox"/> No	<input checked="" type="checkbox"/> Yes		<input checked="" type="checkbox"/> No	<input checked="" type="checkbox"/> Yes
Foreign banks	<input type="checkbox"/> No	<input checked="" type="checkbox"/> Yes		<input checked="" type="checkbox"/> No	<input checked="" type="checkbox"/> Yes
*Subject to Bank of Botswana's approval.					
If yes, please indicate maximum stake permitted in each case.					
For non-financial: Limited to not more than 25% of a bank's equity (restricted for prudential reasons)					
For financial firms: Applies only if debtor offers security in the form of shares, but should be minimal and disposed of quickly. This is to avoid the banks having too much control.					

### C. Market Structure

15. Please list the characteristics of the 6 largest banks in the market for deposits:  
Figures as at 31 December 2001

Name of bank	Year of establishment		Domestically owned equity (%)	Foreign equity (%)	Market share in total deposits (%)	Return over equity (%)
	I	II				
Barclays	1950	1975	25.1	74.86	37	64.82
Standard Chartered	1950	1975	25	75	28	49.88
FNBB	1991	1991	30	70	20	38
Stanbic	1992	1992	0	100	10	35.9
Investec	2000	2000	25	75	3	8.2
Bank of Baroda	2001	2001	0	100	2	5.2

Note: Column I refers to the year banks started operations in Botswana and column II refers to the year of local incorporation.

16. Please list the characteristics of the 6 largest banks in the market for loans:  
Figures as at 31 December 2001

Name of bank	Year of establishment		Domestically owned equity (%)	Foreign equity (%)	Market share in total loans <sup>4</sup> (%)	Return over equity (%)
	I	II				
Barclays	1950	1975	25.14	74.86	41	56.7
FNBB	1991	1991	25	75	27	40
Standard Chartered	1950	1897	30	70	21	56
Stanbic	1992	1992	0	100	8	35.9
African Banking Corporation	2000	2000	13.4	86.6	2	16.4
Investec Bank	2000	2000	25	75	1	8.2

17. Please provide the following information on the actual number of banks:

<sup>4</sup> Include consumer and business loans.

Number of fully state-owned banks: 0  
 Number of privatized banks: 0  
 Number of fully domestically owned<sup>5</sup> private banks: 0  
 Number of foreign minority-owned<sup>6</sup> banks: 0  
 Number of foreign majority-owned<sup>7</sup> banks: 7 (5 commercial and 2 Merchant banks)

#### D. Regulation

##### 18. Characteristics of regulator:

Name of regulator Bank of Botswana

Year of establishment 1975

##### % of Regulator's finances from:

License and other fees: (Negligible)

Budgetary allocation: They are not allocated funds by the government, the bulk of the finances come from reserve management.

Other (specify):

Is the regulator independent of the ministry of finance/economy or other regulatory bodies?

No  Yes However, the minister of Finance and Development Planning appoints board members.

Number of professional regulatory and supervisory staff: 41

##### 19. How are banking licenses allocated?

a) If the number of providers is not restricted by policy, specify the main conditions new entrants must fulfil.

Payment of license fee (P10,000 annually)

Presentation of detailed business plan

Minimum capital (see minimum capital requirement list below)

Compatible home country regulation

Other: Fit and Proper Management

##### Minimum Capital requirement:

Commercial and Investment Banks - P5 Million or 8 percent of risk-weighted assets, whichever is greater.

Discount Houses and credit institutions - P2.5 Million or 8 percent of risk-weighted assets, whichever is greater.

b) If the number of providers is limited by policy, through what mechanism are licenses allocated?

First come, first served basis

Competitive bidding

Discretionary decision by the licensing authority

Other: N/A

<sup>5</sup> Banks that are not state owned where the paid-up share capital is entirely held by domestic residents.

<sup>6</sup> Banks where foreigners hold under 50% of the paid-up share capital of the bank.

<sup>7</sup> Banks where 50% or more of the paid-up share capital of the bank is held by foreigners.

- c) Once the licenses have been allocated, are there restrictions on banks ability to sell or dispose of these licenses?

No     Yes

If yes, please specify: No license issued by the Central Bank shall be transferable without prior written approval of the Central bank.

- d) Are foreign banks subject to different licensing requirements from domestic banks ?

No     Yes

If yes, please specify what additional requirements have to be met by foreign banks.

- e) Are separate licenses required to establish branches in each state/province?

No     Yes

20. Please provide information on the following indicators of prudential regulation for 2001.

Category	Capital adequacy requirement <sup>8</sup>	Loan Classification Requirement <sup>9</sup>	Liquidity ratio <sup>10</sup>	Single exposure Limit <sup>11</sup>	Foreign exchange risk exposure limit <sup>12</sup>	Required to join deposit insurance scheme?	Lender of last Resort facility Available?	Required frequency of publication of financial statements <sup>13</sup>
Foreign owned:	8% statutory	60-90 days-Standard	10% commercial banks	< 30% of audited unimpaired capital	< 30% of bank's unimpaired capital, with 5% and 15% of audited unimpaired capital for minor and major indiv currencies respectively.	Deposit insurance not available	<input type="checkbox"/> No <input checked="" type="checkbox"/> Yes	Annually
Branches (and/or) Subsidiaries	15% prescribed by policy	120-180 days doubtful 210 days-loss	3% credit institutions					

<sup>8</sup> Capital Adequacy ratios for a bank are usually measured by the ratio of capital to risk-weighted assets.

<sup>9</sup> Refers to the number of days after which an unpaid loan has to be classified as a non-performing loan.

<sup>10</sup> Refers to the percentage of assets to be held against deposits for liquidity purposes.

<sup>11</sup> Refers to percentage limits on lending to an individual company.

<sup>12</sup> Refers to the percentage of foreign exchange assets to be held as a proportion of deposits

<sup>13</sup> Please indicate whether financial statements have to be published annually or quarterly.

21. Are banks required to disclose critical information?

Related to performance                       No       Yes  
 Related to changes in ownership             No       Yes  
 Other     No       Yes

\*The Central Bank may, for the purpose of administration, call for any information which it may require, from any bank., concerning its operations and any other business.

22. Is home country supervision of foreign banks recognized?       No       Yes

If yes, please list the countries whose bank supervisory systems are recognized.  
 All supervisory authorities that comply with the Basel core principles.

23. Public consultation and transparency

a) Which of the following are consulted in advance of regulatory decisions?

Service providers  
 Consumer groups  
 User industries  
 Other: \_\_\_\_\_

b) How are laws and regulatory decisions made public?

Published on the regulator's website  
 Published in an official gazette  
 Other: \_\_\_\_\_

**E. Regional Integration Agreements in Banking Services**

24. Please indicate if there are any preferential arrangements affecting banking services, and list the preferential<sup>14</sup> measures. None, however the central bank is a member of several international and regional groupings which aim at the harmonisation and coordination of policy amongst members.

Name of agreement	Partner country(s) in agreement	Date of entry into force	Preferential measures
Eastern and Southern African Banking supervisory group (ESAF)	All SADC countries excl. DRC. Also including Uganda, Kenya and Ethiopia	1993	The group aims at aligning banking standards according to international practice and achieves this through offering training to members of the group which is not offered to non-member countries
Committee of Central Bank Governors (CCBG) -Banking organ of SADC	SADC countries	1995/96	The committee provides a forum where BoB and other regional central banks discuss issues of mutual interest. Membership to the group

<sup>14</sup> Please specify how the treatment of banks of member countries of the agreement differs from the treatment of banks of non-member countries.



			enables member countries to mobilise resources and undertake projects, which would otherwise have been expensive if undertaken by individual countries. For instance, the National Payments System.
Association of African Central Banks (AACB)	All African countries	1990's	The association looks into the integration of African economies, with the ultimate aim of establishing an African Monetary Union. Membership to the group makes it easier for countries to penetrate the international market and be represented as a group than a single entity.
SADC Banking Association	All 14 SADC countries except Tanzania, DRC and Seychelles	July 1998	Association aims at addressing common interests of member countries. One of the objectives of the association is to enhance the operation of transactions between member states.

#### F. Past and Future Changes in Policy

25. Please indicate major changes in market access policies, ownership rules, and regulation since 1990 (e.g., privatization of state-owned banks, introduction of competition, entry of foreign banks, creation of an independent regulatory agency, liberalization of capital account, etc.).

Area of policy change (market access, ownership or regulation)	Year of policy change	Description of policy change
New licensing policy	1990	Liberalisation of commercial bank licensing requirements.
New Banking Act, replacing the 1986 FIA	1995	New act brought in more flexibility in the system of banking regulation and supervision. For instance, prudential requirements were prescribed through the issuance of regulations than revision of statute.
Bank of Botswana Amendment Act	1999	Gives the Bank supervisory powers over International Financial Services Centre entities and foreign exchange bureaux.
Exchange Control Act & Regulation	1999	Abolished the remaining exchange controls.
Income Tax (Amendment) Act	1999	Principal legislation establishing the International

		Financial Services Centre. Companies under the act are entitled to a 15 % tax rate (instead of 25%) until 2020.
Collective Investment Undertaking Act	2001	Gives Bank Supervisory powers over Collective Investment Undertakings. Also promotes the pooling of financial resources by individuals for investment in various instruments.

26. Please indicate announced or anticipated changes in the same, or other areas.

Area of policy change (market access, ownership or regulation)	Anticipated date	Description of policy change
National Clearing and Settlement Systems Act	2002	Formalise the role of BoB as the supervisor of the clearing and settlements system and provide a legal framework for the procedures that will be followed in the event of settlement failures.
Capital Adequacy Framework	2006	A more risk sensitive capital adequacy standard, intended to align regulatory capital requirements more closely with underlying risks and provide banks and their supervisors with several options for the assessment of capital adequacy.

27. Administered allocation of resources

a)

Category	Controls on deposit rates?	Ceilings on lending rates?	Subject to directed lending?	List of sectors benefiting from directed lending
State owned banks	<input type="checkbox"/> No <input type="checkbox"/> Yes	<input type="checkbox"/> No <input type="checkbox"/> Yes	<input type="checkbox"/> No <input type="checkbox"/> Yes	
Private nationally owned banks	<input type="checkbox"/> No <input type="checkbox"/> Yes	<input type="checkbox"/> No <input type="checkbox"/> Yes	<input type="checkbox"/> No <input type="checkbox"/> Yes	
Foreign banks	<input checked="" type="checkbox"/> No <input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No <input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No <input type="checkbox"/> Yes	N/A

b) Does the government subsidize nationally owned banks?

N/A

No  Yes

\* There are no nationally owned banks in Botswana. There are however some "Statutory Banks" or Non-Bank Financial Institutions some of which are 100 % government owned.

### G. Employment

28. Main employment indicators: as at 2000
How many people are employed in the banking sector? 2247 (see time series data)
What share of the total labor force is employed in this sector? Approx. 0.4%
What share of banking labor force is employed by state-owned banks? N/A
What share of banking labor force is employed by foreign banks? 100%

What is the annual average wage in the banking sector? (see time series data)

Time series data attached separately.

### H. Investment

#### 29. Investment indicators (Data for 1997, 1998, 1999)

What is the total amount of investment in banking services? P829,762,000 (as measured by shareholders funds)

What is the total amount of foreign direct investment in this sector?

What is the total stock of foreign direct investment in this sector? (see data below)

If time-series data from 1990 to 2000 is not available, please collect indicators for the years 1990, 1995 and 2000. FDI data available for 1997, 1998 and 1999

1997	1998	1999
P77,223,000	P181,387,000	P391,728,000

### I. Prices and Performance Indicators:

30. Please provide information on the following price indicators for the latest year available. For a comprehensive assessment of banking sector performance, it would be extremely useful to have historical data on these prices measures. If time series data are available, please attach them separately (preferably electronically).

Category	Average monthly bank charges for a basic checking account	Average monthly ex -- post spread <sup>15</sup> as a % of bank assets	Non-performing Loans as a % of total bank assets	Ratio of no. of employees to operating income
Foreign owned:				
Branches	P70.00	6%	1.8%	Retail: 6 applications per employee/day. 5 employees in the dept. Corporate: 6 applications per employee/day. 12 employees in dept.
Subsidiaries				

### J. Quality and Access to Banking Services

31. Which of the following services have been introduced by foreign banks in the last 10 years?

<sup>15</sup> The Ex-Post Spread of a bank is defined as the accounting value of the difference of the realized interest revenue and total interest cost of that bank and is also referred to as the Net Interest Margin.

<p>✓ Credit cards   ✓ Debit cards   ✓ Online banking   ✓ ATM network   ✓ other (Point of sale machines)</p> <p>*Online banking for corporate clients.</p>
<p>32. Do foreign banks participate in rural lending?   <input type="checkbox"/> No   <input checked="" type="checkbox"/> Yes</p> <p>If yes, what is the share of foreign banks in total rural loans? Approx. 10%</p>
<p>33. Please indicate if the following banks make education loans to the poor:</p> <p>Domestic banks:   <input checked="" type="checkbox"/> No   <input type="checkbox"/> Yes</p> <p>Foreign banks:   <input checked="" type="checkbox"/> No   <input type="checkbox"/> Yes</p> <p>*The government of Botswana provides education loans at very low interest.</p> <p>*Bank of Baroda plans to introduce education loans for people under the age of 18.</p>
<p>34. Do spreads between lending and deposit rates differ between large business firms and low-income households?   <input type="checkbox"/> No   <input checked="" type="checkbox"/> Yes</p> <p>If yes, please give sample spreads for a large business firm and a poor household below.</p> <p>Spread for large business: 1.5 %      Spread for low-income household: 13 %</p>
<p>35. Indicate the following:</p> <p>Number of banks per 1000 of the population: 0.004</p> <p>Average wait time for loan approval: 24 hrs for most banks and up to 3 days for others</p> <p>Average wait time for credit card approval: between 4 to 7 days</p> <p>No. of bank failures during 1990-2000: 2 (However, these were taken over as a going concern by existing banks).</p>

Please, provide the name and contact information of the respondent of this questionnaire, or of a specialist from whom we can obtain clarifications if necessary.

Name: Mr. M.D. Pelaelo, Mrs. D.M. Ncube, Ms. L.R. Manthe  
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## Annex 2: Financial Services - Securities

All information is given for the latest year available.

### A. Market Access

#### Commercial presence

1. Are there policy restrictions on new entry of securities services providers in the following segments?				
	Entry by any providers	If yes, total number of providers allowed	Entry by foreign providers	If yes, number of foreign providers allowed
Investment banking	<input checked="" type="checkbox"/> No <input type="checkbox"/> Yes		<input checked="" type="checkbox"/> No <input type="checkbox"/> Yes	
Stock brokerage	<input checked="" type="checkbox"/> No <input type="checkbox"/> Yes		<input checked="" type="checkbox"/> No <input type="checkbox"/> Yes	
Mutual funds	<input checked="" type="checkbox"/> No <input type="checkbox"/> Yes		<input checked="" type="checkbox"/> No <input type="checkbox"/> Yes	
* Mutual funds are under the administration of the Non-Banking Operations unit - BoB				
2. If entry is restricted, what are the reasons provided by the government?				
<input type="checkbox"/> To give incumbents time to prepare for competition				
<input type="checkbox"/> To increase government revenue from privatization or license fees				
<input type="checkbox"/> Excessive entry is believed to threaten financial stability				
<input type="checkbox"/> Perception of no economic need for new securities firms				
<input type="checkbox"/> Other:				
3. Which of the following legal forms of establishment are allowed for foreign securities firms?				
<input checked="" type="checkbox"/> Subsidiaries <input type="checkbox"/> Branches <input type="checkbox"/> Representative Office <input type="checkbox"/> All				
A Securities company must be incorporated in Botswana.				
4. Which of the following services are securities firms permitted to provide?				
	Domestic securities firms		Foreign securities firms	
Underwriting new issues	<input type="checkbox"/> No	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No	<input checked="" type="checkbox"/> Yes
Securities dealing	<input type="checkbox"/> No	<input checked="" type="checkbox"/> Yes	<input checked="" type="checkbox"/> No	<input type="checkbox"/> Yes
Stock brokerage services	<input type="checkbox"/> No	<input checked="" type="checkbox"/> Yes	<input checked="" type="checkbox"/> No	<input type="checkbox"/> Yes
Risk management	<input type="checkbox"/> No	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No	<input checked="" type="checkbox"/> Yes
Mergers and acquisition advisory services	<input type="checkbox"/> No	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No	<input checked="" type="checkbox"/> Yes
Mutual funds (or unit trusts)	<input type="checkbox"/> No	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No	<input checked="" type="checkbox"/> Yes
Information services <sup>16</sup>	<input type="checkbox"/> No	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No	<input checked="" type="checkbox"/> Yes
Other	<input type="checkbox"/> No	<input type="checkbox"/> Yes	<input type="checkbox"/> No	<input type="checkbox"/> Yes
5. Are foreign commercial or universal banks allowed to deal in domestic securities?				
Foreign commercial banks		<input type="checkbox"/> No	<input checked="" type="checkbox"/> Yes	
Foreign universal banks <sup>17</sup>		<input type="checkbox"/> No	<input type="checkbox"/> Yes	
6. Are foreign owned securities firms obliged to use the services of a domestic resident financial intermediary (broker-dealer) in the following segments:				
Inter-bank market		<input checked="" type="checkbox"/> No	<input type="checkbox"/> Yes	

<sup>16</sup> Financial information services include the provision of trading information and credit rating services.

<sup>17</sup> Universal banks are banks which provide insurance and securities services in addition to traditional deposit taking and lending.

Foreign exchange market	<input checked="" type="checkbox"/> No	<input type="checkbox"/> Yes
Stock market	<input checked="" type="checkbox"/> No	<input type="checkbox"/> Yes
Derivatives market	<input type="checkbox"/> No	<input type="checkbox"/> Yes

No derivatives trading in the Botswana Stock Market

***Cross-border securities services trade***

7. Are the following activities permitted?	
Purchase by domestic residents of securities issued abroad	<input type="checkbox"/> No <input checked="" type="checkbox"/> Yes
Domestic companies raising capital abroad	<input type="checkbox"/> No <input checked="" type="checkbox"/> Yes
If yes, please specify the restrictions.	
8. Are foreign securities firms permitted to provide the following services cross-border to domestic companies and residents:	
Securities dealing in the domestic market	<input type="checkbox"/> No <input checked="" type="checkbox"/> Yes
Mergers and acquisitions advisory services	<input type="checkbox"/> No <input checked="" type="checkbox"/> Yes
Investment advisory services	<input type="checkbox"/> No <input checked="" type="checkbox"/> Yes
Credit rating services	<input type="checkbox"/> No <input checked="" type="checkbox"/> Yes
9. a) Are settlement and clearance utilities available? <input type="checkbox"/> No <input checked="" type="checkbox"/> Yes	
* Settlement facilities only.	
b) If yes to the above, are cross-border foreign securities dealers permitted to use domestic settlement and clearance utilities without using the services of a domestic financial intermediary?	
<input checked="" type="checkbox"/> No <input type="checkbox"/> Yes	
* Required to transact through broking firm.	

**B. Ownership**

10. Is private ownership in the provision of the following securities services allowed?						
	Existing operators	Maximum private equity permitted (%)		New entrants	Maximum private equity permitted (%)	
Investment banking	<input type="checkbox"/> No <input checked="" type="checkbox"/> Yes	No Restriction		<input type="checkbox"/> No <input checked="" type="checkbox"/> Yes	No Restriction	
Stock brokerage	<input type="checkbox"/> No <input checked="" type="checkbox"/> Yes	No Restriction		<input type="checkbox"/> No <input checked="" type="checkbox"/> Yes	No Restriction	
Mutual funds	<input type="checkbox"/> No <input checked="" type="checkbox"/> Yes	No Restriction		<input type="checkbox"/> No <input checked="" type="checkbox"/> Yes	No Restriction	
11. Is foreign ownership in the provision of services allowed?						
	Existing operators	Maximum foreign equity permitted (%)		New entrants	Maximum foreign equity permitted (%)	
Investment banking	<input type="checkbox"/> No <input checked="" type="checkbox"/> Yes	No Restriction		<input type="checkbox"/> No <input checked="" type="checkbox"/> Yes	No Restriction	
Stock brokerage	<input type="checkbox"/> No <input checked="" type="checkbox"/> Yes	No Restriction		<input type="checkbox"/> No <input checked="" type="checkbox"/> Yes	No Restriction	
Mutual funds	<input type="checkbox"/> No <input checked="" type="checkbox"/> Yes	No Restriction		<input type="checkbox"/> No <input checked="" type="checkbox"/> Yes	No Restriction	

**C. Market Structure**

12. Please list the characteristics of the 6 largest mutual funds or investment trust funds (in terms of value) in the market.<sup>18</sup>

Name of fund	Year of establishment	Domestically owned equity (%)	Foreign equity (%)	Value of fund as a % of total stock market capitalization
African Alliance Management Co.	1996	Minority	Majority shareholders are: Brait Merchant Bank (RSA) and African Alliance Isle of Man Ltd (UK).	$\frac{P1194m}{P185,984.29m} * 100 = 0.64\%$

Total number of mutual :1

13. Please list the characteristics of the 6 largest securities firms in the market for new equity issues.

Name	Year of establishment	Domestically owned equity (%)	Foreign equity (%)	Share in annual value of new issues underwritten
Stockbrokers Botswana	1989	100	0	-
Investec Securities (Has recently become Motswedi Securities (Pty) Ltd, as of May 2002	1998	100	0	-
Capital Securities	2000	0	100	-

Total number of securities firms in the market for new equity issues: 3

14. Please list the characteristics of the 6 largest securities firms in the derivatives market: N/A

Name	Year of establishment	Domestically owned equity (%)	Foreign equity (%)	Share in annual value of derivatives traded

Total number of securities firms in the derivatives market: N/A

15. Please provide the following information on the actual number of operators:

- Number of government-owned mutual funds: 0
- Number of domestically owned<sup>19</sup> private mutual funds: 0
- Number of foreign owned mutual funds: 1
- Number of fully domestically owned<sup>20</sup> private investment banks: 0
- Number of foreign minority-owned<sup>21</sup> investment banks: 0
- Number of foreign majority-owned<sup>22</sup> investment banks/merchant banks: 2

#### D. Regulation

<sup>18</sup> Investment trust funds are usually closed ended (have a limited size or number of units) and although they invest in a diversified portfolio of equities and other assets as mutual funds do, they are more like a regular company with a set number of shares in issue and their shares are usually listed on the stock exchange.

<sup>19</sup> Investment Banks where the paid-up share capital is entirely held by domestic residents.

<sup>20</sup> Investment Banks that are not state owned where the paid-up share capital is entirely held by domestic residents.

<sup>21</sup> Investment Banks where foreigners hold under 50% of the paid-up share capital of the bank.

<sup>22</sup> Investment Banks where 50% or more of the paid-up share capital of the bank is held by foreigners.

16. Characteristics of regulator	
Name of securities regulator	Botswana Stock Exchange
Year of establishment	1989
% of Regulator's finances from:	
License and other fees	99%
Budgetary allocation	-
Other ( commissions)	1%
Is the regulator independent of the ministry of finance or other regulatory bodies?	<input type="checkbox"/> No <input checked="" type="checkbox"/> Yes  However, there are 7 government appointees in the BSE board.
Number of professional regulatory and supervisory staff	BSE consists of the Chief Executive. The administrative staff is outsourced from Ernst and Young. The main governing bodies comprise; the listings committee (5 members) and the investigations committee (3 members).
17. How are licenses to securities firms allocated?	
<p>a) If number of providers is not restricted by policy, specify the main conditions new entrants must fulfill.</p> <p>    <input checked="" type="checkbox"/> Payment of license fee          <input checked="" type="checkbox"/> Presentation of a detailed business plan          <input checked="" type="checkbox"/> Minimum capital          <input type="checkbox"/> Compatible home country regulation          <input type="checkbox"/> Other New entrants should be a registered Stockbroker (for the company) and should employ at least one qualified Stockbroker.</p> <p>Firms pay a joining fee; P1000 annually for brokers and P250 annually for dealers.</p> <p>b) If the number of providers is limited by policy, through what mechanism are licenses allocated? N/A</p> <p>    <input type="checkbox"/> First come, first served basis          <input type="checkbox"/> Competitive bidding          <input type="checkbox"/> Discretionary decision by the licensing authority          <input type="checkbox"/> Other: _____</p> <p>c) Once the licenses have been allocated, are there restrictions on the ability of securities firms to sell or dispose of these licenses?</p> <p>    <input type="checkbox"/> No    <input checked="" type="checkbox"/> Yes</p> <p>    If yes, please specify: No member is allowed to transfer or dispose of their licence without the prior consent of the regulator.</p> <p>d) Are foreign securities firms subject to different licensing requirements from domestic securities firms?</p> <p>    <input checked="" type="checkbox"/> No    <input type="checkbox"/> Yes      If yes, please specify what additional requirements have to be met by foreign securities firms:</p>	



18. Credit rating

a) Is private credit rating permitted?

No  Yes

b) Is private credit rating subject to regulation or approval by an other public or private body?

No  Yes

\*The regulatory body.

19. Please list the following indicators of prudential regulation based on the latest information available.

Category	Minimum capital requirement	Capital adequacy ratio <sup>23</sup> (%)	Required frequency of publication of financial statements <sup>24</sup>
Foreign owned mutual funds	P500,000 or 3 months expenditure, whichever is higher.		Half yearly financial and annual audited accounts of a firm shall be submitted to the regulatory authority. Statement on net asset values of all funds submitted monthly
Foreign Investment banks	P5 million	8 % statutory 15 % recommended since 2000	Annually
Securities Companies	Company: Net assets exceeding liabilities for the value of P150,000 Stockbroker: P50,000 Plus a professional indemnity of P1,000,000	none	Monthly accounts

20. Are securities firms required to disclose critical information?

- Related to performance  No  Yes  
 Related to changes in ownership  No  Yes  
 Other  No  Yes

21. Are the following mutual funds required to invest in shares of publicly held companies?

<sup>23</sup> Capital Adequacy ratios are usually measured by the ratio of capital to risk-weighted assets.  
<sup>24</sup> Please indicate whether financial statements have to be published annually or quarterly.

Government owned mutual funds  No  Yes If yes, % of fund equity required to be invested in public company shares? \_\_\_\_\_  
 Domestic privately owned mutual funds  No  Yes If yes, % of fund equity required to be invested in public company shares? \_\_\_\_\_  
 Foreign owned mutual funds  No  Yes If yes, % of fund equity required to be invested in public company shares? \_\_\_\_\_  
 The CIU Act, 1999 stipulates the types of investment CIU should invest in. One of the requirements is to invest only in stocks listed on the BSE. \_\_\_\_\_  
 Unfortunately due to the limited instruments in the Botswana market, such as rated stocks the regulator has had to be flexible. CIU are not to invest more than 20% in a single stock. \_\_\_\_\_

22. Are mutual funds subject to other restrictions on their investments abroad? \_\_\_\_\_  
 No  Yes If yes, % of fund allowed to be invested abroad? \_\_\_\_\_  
 If yes, type of financial instruments in which those investments can be made? \_\_\_\_\_

23. Public consultation and transparency \_\_\_\_\_

- a) Which of the following are consulted in advance of regulatory decisions?  
 Service providers  
 Consumer groups  
 User industries  
 Other: \_\_\_\_\_
- b) How are laws and regulatory decisions made public?  
 Published on the regulator's website  
 Published in an official gazette  
 Other: The BSE is self-regulated. In the event of policy amendments, brokers and other participants are consulted via email. However, if regulations/laws are changed by the Government, then normal Government procedures are followed.

### E. Regional Integration Agreements in Financial Services

24. Please indicate if there are any preferential arrangements affecting securities services, and list the preferential<sup>25</sup> measures.

Name of agreement	Partner country(s) in agreement	Date of entry into force	Preferential measures
Committee of SADC Stock Exchanges	SADC member countries	1997/98	The committee aims at reducing entry barriers amongst member country's securities markets. To facilitate transactions amongst members the committee ensures similar listing requirements and trading systems.

### F. Past and Future Changes in Policy

25. Please indicate major changes in market access policies, ownership rules, and regulation since 1990 (e.g., introduction of competition, entry of foreign mutual funds and investment banks, creation of an independent regulatory agency, changes in prudential regulation).

Area of policy change (market access, ownership or regulation)	Year of policy change	Description of policy change
Botswana Stock Exchange Act	1994	Introduced the functions of the new regulator, the Botswana Stock Exchange in 1995
Abolition of Exchange Controls	1999	Abolished the existence of exchange controls.
Collective Investment Undertakings Regulations	2001	An attempt to capture the recent development of the International Financial Services Centre and the likely new products in the market.

26. Please indicate announced or anticipated changes in the same, or other areas.

Not aware of any anticipated policy changes

Area of policy change (market access, ownership or regulation)	Year of policy change	Description of policy change
National Clearing and Settlement Systems Act	On-going	Formalise role of BoB as a supervisor of the clearing and settlement system.

### G. Employment

27. Main employment indicators (for 2000)

How many people are employed in the securities sector? About 30  
 What share of the total labor force is employed in this sector? Negligible, see time series  
 What share of securities workers is employed by foreign securities firms? .33%  
 What is the annual average wage in this sector? \_P39,024\_

Time series data attached separately.

<sup>25</sup> Please, specify how the treatment of securities firms of member countries of the agreement differs from the treatment of securities firms of non-member countries.

There is currently only one foreign securities firm in Botswana.

## H. Investment

28. Investment indicators (for the years 1990-2000)

What is the total amount of investment in securities services?

What is the total amount of foreign direct investment in this sector? \_\_\_\_\_

What is the total stock of foreign direct investment in this sector? \_\_\_\_\_

If time-series data from 1990 to 2000 is not available, please collect indicators for the years 1990, 1995 and 2000

## I. Prices and Performance Indicators

29. Please list the following price and performance indicators for the latest year available. For a comprehensive assessment of securities services performance, it would be extremely useful to have historical data on these measures. If time series data are available, please attach them separately (preferably electronically).

Category	Average brokerage Commissions (%)	Average underwriting Commissions (%)	Securities Dealing fees	Average initial charge <sup>26</sup> on a mutual fund	Subject to price fixing by regulator?
Domestic operators	2 % on trades of P50,000 1.5 % on trades P50,000 - P100,000) 1 % beyond that			2%	<input checked="" type="checkbox"/> No <input type="checkbox"/> Yes
Foreign operators	1 %	1 %			<input checked="" type="checkbox"/> No <input type="checkbox"/> Yes

## J. Quality and Access to Securities Services

30. Which of the following services have been introduced in the last 10 years?

- Over the counter (OTC) markets
- Computerized stock exchange trading
- Online Investing
- Electronic settlement and clearance systems
- Derivatives trading
- Other:

31. Indicate the following:

Number of stock exchanges in the country: 1  
 Total stock market capitalization: P188,996.59  
 Number of listed companies in the stock exchange: 23  
 Number of foreign listed companies in the stock exchange: 7

<sup>26</sup> Refers to the percentage charge imposed on buyers of the fund by the manager to cover the costs of administration and marketing plus commissions paid to intermediaries. The initial charge is usually factored into the buying price of the mutual fund units. If the initial charge is 5%, then out of every \$100 invested, \$5 is retained by the management of the mutual fund to cover the costs listed above.

Share of foreign listed companies in total stock market capitalization: 94.9%  
Number of domestic companies whose assets are rated: 0  
Growth in the value of stocks traded in OTC markets: 41% (June 2000 - June 2001)  
Number of penalized insider-trading cases in the last 5 years: 0

Please, provide the name and contact information of the respondent of this questionnaire, or of a specialist from whom we can obtain clarifications if necessary.

Name: Mr. Mothusi Mophuthing  
Telephone: (267) 374078  
Fax: (267) 374079  
E-mail address: bse@info.bw

### Annex 3: Financial Services - Insurance

All information is given for the latest year available.

#### A. Market Access

##### *Commercial presence*

1. Are there policy restrictions on new entry of insurance providers in the following segments?				
	Entry by any insurance providers	If yes, total number of firms allowed	Entry by foreign insurance providers	If yes, total number of foreign firms allowed
Direct life insurance	<input checked="" type="checkbox"/> No <input type="checkbox"/> Yes		<input checked="" type="checkbox"/> No <input type="checkbox"/> Yes	
Direct non-life insurance	<input checked="" type="checkbox"/> No <input type="checkbox"/> Yes		<input checked="" type="checkbox"/> No <input type="checkbox"/> Yes	
Re-insurance	<input checked="" type="checkbox"/> No <input type="checkbox"/> Yes		<input checked="" type="checkbox"/> No <input type="checkbox"/> Yes	
2. If entry is restricted, what are the reasons provided by the government?				
<input type="checkbox"/> To give incumbents time to prepare for competition <input type="checkbox"/> To increase government revenue from privatization or license fees <input type="checkbox"/> Exclusive rights to allow the provision of universal service <input type="checkbox"/> Excessive entry is believed to threaten financial stability <input type="checkbox"/> Perception of no economic need for new insurance companies <input type="checkbox"/> Other: Not Applicable				
3. Which of the following legal forms of establishment are allowed for foreign insurance companies?				
<input checked="" type="checkbox"/> Subsidiaries <input type="checkbox"/> Branches <input type="checkbox"/> Representative Office <input type="checkbox"/> All * All direct insurers, who wish to transact insurance business in Botswana, are obliged to establish a principal office in Botswana and to comply with the requirements of the Insurance Industry Act, including the requirement of having a resident Principal officer. Therefore branches are only permitted if they are branches of the principal office.				
4. Which of the following services are insurance companies permitted to provide domestically?				
	Domestic insurance companies		Foreign insurance companies	
Re-insurance	<input type="checkbox"/> No <input checked="" type="checkbox"/> Yes		<input type="checkbox"/> No <input checked="" type="checkbox"/> Yes	
Life insurance	<input type="checkbox"/> No <input checked="" type="checkbox"/> Yes		<input type="checkbox"/> No <input checked="" type="checkbox"/> Yes	
Property insurance	<input type="checkbox"/> No <input checked="" type="checkbox"/> Yes		<input type="checkbox"/> No <input checked="" type="checkbox"/> Yes	
Cargo insurance	<input type="checkbox"/> No <input checked="" type="checkbox"/> Yes		<input type="checkbox"/> No <input checked="" type="checkbox"/> Yes	
Medical insurance	<input type="checkbox"/> No <input checked="" type="checkbox"/> Yes		<input type="checkbox"/> No <input checked="" type="checkbox"/> Yes	
Automobile insurance	<input type="checkbox"/> No <input checked="" type="checkbox"/> Yes		<input type="checkbox"/> No <input checked="" type="checkbox"/> Yes	
Export credit insurance	<input type="checkbox"/> No <input checked="" type="checkbox"/> Yes		<input type="checkbox"/> No <input checked="" type="checkbox"/> Yes	
Pension insurance	<input type="checkbox"/> No <input checked="" type="checkbox"/> Yes		<input type="checkbox"/> No <input checked="" type="checkbox"/> Yes	
Investment services	<input type="checkbox"/> No <input checked="" type="checkbox"/> Yes		<input type="checkbox"/> No <input checked="" type="checkbox"/> Yes	
Other (specify) _____	<input type="checkbox"/> No <input type="checkbox"/> Yes		<input type="checkbox"/> No <input type="checkbox"/> Yes	

\*Domestic Insurance Companies - Wholly or more than 50% owned by locals.  
 \*Foreign Insurance Companies - Majority share holding by entity or shareholders outside Botswana. Both types must be registered by the Botswana Registrar of companies.

5. Do the assets of foreign insurance companies established in the domestic country have to be held locally?  No  Yes

If applicable, please indicate the share of assets required to be held locally: \_\_\_\_\_

6. Underwriting associations

a) Do domestic underwriting associations<sup>27</sup> exist?  No  Yes

b) If yes to a), are foreign insurance companies established in the domestic country given memberships in domestic underwriting associations?  No  Yes

*Cross-border insurance trade*

7. Can domestic residents purchase the following kinds of insurance cross-border from a foreign insurance company?

Life insurance	<input type="checkbox"/> No	<input type="checkbox"/> Only through resident intermediary	<input checked="" type="checkbox"/> Yes
Medical insurance	<input type="checkbox"/> No	<input type="checkbox"/> Only through resident intermediary	<input checked="" type="checkbox"/> Yes
Property insurance	<input type="checkbox"/> No	<input type="checkbox"/> Only through resident intermediary	<input checked="" type="checkbox"/> Yes
Cargo insurance	<input type="checkbox"/> No	<input type="checkbox"/> Only through resident intermediary	<input checked="" type="checkbox"/> Yes

Are any of these purchases subject to limits?

Life insurance	<input checked="" type="checkbox"/> No	<input type="checkbox"/> Yes	What type? _____
Medical insurance	<input checked="" type="checkbox"/> No	<input type="checkbox"/> Yes	What type? _____
Property insurance	<input checked="" type="checkbox"/> No	<input type="checkbox"/> Yes	What type? _____
Cargo insurance	<input checked="" type="checkbox"/> No	<input type="checkbox"/> Yes	What type? _____

\* Insurance companies are required to disclose their off-shore activities to the registrar of Insurance for approval.

8. Are cross-border foreign insurance suppliers allowed to solicit business through advertising in the domestic country?  No  Yes

Are there any limits on this type of advertisement?  No  Yes

9. Are insurers operating in the domestic country required to offer re-insurance business to nationally owned re-insurers before re-insuring abroad?  No  Yes

\* There are no locally registered re-insurers in Botswana.

**B. Ownership**

10. Is private ownership in the provision of insurance services allowed?

<sup>27</sup> Some countries have underwriting associations whereby a large proportion of insurance contracts in one or more classes of insurance is placed with members of these associations.



	Existing providers	Maximum private equity permitted (%)	New entrants	Maximum private equity permitted (%)
Life insurance	<input type="checkbox"/> No <input checked="" type="checkbox"/> Yes	None	<input type="checkbox"/> No <input checked="" type="checkbox"/> Yes	None
Property insurance	<input type="checkbox"/> No <input checked="" type="checkbox"/> Yes	None	<input type="checkbox"/> No <input checked="" type="checkbox"/> Yes	None
Health/medical Insurance	<input type="checkbox"/> No <input checked="" type="checkbox"/> Yes	None	<input type="checkbox"/> No <input checked="" type="checkbox"/> Yes	None
Re-insurance	<input type="checkbox"/> No <input checked="" type="checkbox"/> Yes	None	<input type="checkbox"/> No <input checked="" type="checkbox"/> Yes	None
11. Is foreign ownership in the provision of services allowed?				
	Existing operators	Maximum foreign equity permitted (%)	New entrants	Maximum foreign equity permitted (%)
Life insurance	<input type="checkbox"/> No <input checked="" type="checkbox"/> Yes	None	<input type="checkbox"/> No <input checked="" type="checkbox"/> Yes	None
Property insurance	<input type="checkbox"/> No <input checked="" type="checkbox"/> Yes	None	<input type="checkbox"/> No <input checked="" type="checkbox"/> Yes	None
Health/medical insurance	<input type="checkbox"/> No <input checked="" type="checkbox"/> Yes	None	<input type="checkbox"/> No <input checked="" type="checkbox"/> Yes	None
Re-insurance	<input type="checkbox"/> No <input checked="" type="checkbox"/> Yes	None	<input type="checkbox"/> No <input checked="" type="checkbox"/> Yes	None

### C. Market Structure

12. Please list the characteristics of the 6 largest insurance companies in the market for life insurance:

Name	Year of establishment	Domestically owned equity (%)	Foreign equity (%)	Share in total life insurance premiums (%)
Botswana Life	1991	44	56	50
BIFM	1991	44	56	31
Metropolitan	1996	25	75	18
Regent Life	1997	0	100	1
General Insurance Botswana	2002	100	0	-

Total number of life insurance providers: 5

\*Data as at December 2000, (except for 2002 General Insurance Botswana)

13. Please list the characteristics of the 6 largest insurance companies in the market for non-life insurance:

Name	Year of establishment	Domestically owned equity (%)	Foreign equity (%)	Share in total non-life insurance premiums (%)
Botswana Insurance	1975	0	100	45
Botswana Eagle	1977	0	100	22
Mutual and Federal	1994	0	100	15

Regent Insurance	1997	0	100	14
BECE	1996	100	0	Very small < 1%
Prefsure	1996	0	100	4

**Total number of non-life insurance providers: 7**

\*Data as at December 2000

14. Please list the characteristics of the insurance distribution/intermediary network.

Distributor	Whether present?	Number of distributors
Tied Agents <sup>28</sup>	<input type="checkbox"/> No <input checked="" type="checkbox"/> Yes	63
Independent Agents	<input checked="" type="checkbox"/> No <input type="checkbox"/> Yes	
Brokers	<input type="checkbox"/> No <input checked="" type="checkbox"/> Yes	19
Banks	<input checked="" type="checkbox"/> No <input type="checkbox"/> Yes	* However, First National Bank Botswana owns two insurance agencies

- Whether an agent is an individual or a corporate entity, the Insurance Industry Act of Botswana does not allow an agent to have more than 1 principle.
- Banks need to register corporate agencies before they act as distributors.

15. Please provide the following information on the actual number of insurance companies:

Number of fully state-owned insurance companies: 1  
 Number of privatized insurance companies: 0  
 Number of fully domestically owned<sup>29</sup> private insurance companies: 1  
 Number of foreign minority-owned<sup>30</sup> insurance companies: 1  
 Number of foreign majority-owned<sup>31</sup> insurance companies: 9

#### D. Regulation

16. Characteristics of regulator	
Name of insurance regulator	Registrar of Insurance
Year of establishment	1979
% of Regulator's finances from: License and other fees Budgetary allocation Other (specify)	NOT SEPARATED FROM THE MINISTRY'S ACCOUNT
Is the insurance regulator independent of the concerned ministry or other regulatory bodies?	<input checked="" type="checkbox"/> No <input type="checkbox"/> Yes
Number of professional regulatory and supervisory staff	5

<sup>28</sup> Agents that sell insurance exclusively for one company. It is claimed that the predominance of tied agents and lack of independent agents and brokers in Japan and some European countries constitute a major structural barrier to entry.

<sup>29</sup> Insurance companies that are not state owned where the paid-up share capital is entirely held by domestic residents.

<sup>30</sup> Insurance companies where foreigners hold under 50% of the paid-up share capital of the company.

<sup>31</sup> Insurance companies where 50% or more of the paid-up share capital of the company is held by foreigners.

17. How are insurance licenses allocated?

- a) If the number of providers is not restricted by policy, specify the main conditions new entrants must fulfill:

✓ Payment of license fee ( P9000 for insurance companies and P2000 for brokers)  
 ✓ Presentation of a detailed business plan-incl. cv's of senior personnel and reinsurance

arrangements

✓ Minimum capital - Paid-up share capital P2million for insurers and P30,000 for brokers

Compatible home country regulation

✓ Other: Minimum qualifications and experience of principal officer

- b) If the number of providers is limited by policy, through what mechanism are licenses allocated?

First come, first served basis

Competitive bidding

✓ Discretionary decision by the licensing authority

Other: \_\_\_\_\_

- c) Once the licenses have been allocated, are there restrictions on the ability of insurance firms to sell or dispose of these licenses?

No ✓ Yes

If yes, please specify. Insurers cannot sell or transfer their licenses

- d) Are foreign companies subject to different licensing requirements from domestic insurance companies? ✓ No  Yes

If yes, please specify what additional requirements have to be met by foreign insurance companies:

- e) Are separate licenses required to establish branches in each state/province?

✓ No  Yes

\* The same license requirements are applicable to different Districts, Towns etc.

18. Administered allocation of resources

Category	Government controls on insurance prices?	Re-insurance that must be ceded to the state-owned re-insurers (as a % of gross premiums) <sup>32</sup>	Value of government insurance contracted
----------	--	---	--

<sup>32</sup> Some countries mandate that companies must compulsorily re-insure either all or part of their portfolio with a state run insurance company. The requirement can also be imposed the other way, namely by

State owned insurance companies	<input checked="" type="checkbox"/> No <input type="checkbox"/> Yes		
Private nationally owned insurance companies	<input checked="" type="checkbox"/> No <input type="checkbox"/> Yes	NONE	NOT AVAILABLE
Foreign insurance companies	<input checked="" type="checkbox"/> No <input type="checkbox"/> Yes		

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requiring that only a certain percentage of gross premiums can be re-insured with private or foreign re-insurers

19. Please list the following indicators of prudential regulation based on the latest information available.

Category	Minimum capital requirement	Capital adequacy requirement <sup>33</sup>	Liquidity reserve requirements	Covered by insolvency guarantee Scheme <sup>34</sup> ?	Required frequency of publication of financial statements <sup>35</sup>
State-owned insurance companies	P2 million	Solvency Margin <u>Life Insurance:</u> Assets equal to all liabilities <u>Non-Life Insurance:</u> Assets exceed all liabilities by P1m or 20% net premium of previous year.	<u>Non-life:</u> 10% of gross profit before dividend, to be transferred to a statutory reserve solvency account until the balance is 25% gross premium of previous year.	<input checked="" type="checkbox"/> No <input type="checkbox"/> Yes	Audited financial statements are required annually. But statements can be requested at anytime with any frequency. For instance, insurers and insurance brokers are required to file statutory returns within 4 months after the close of their financial year. The above item applies
Private nationally Owned insurance companies	P2 million			<input checked="" type="checkbox"/> No <input type="checkbox"/> Yes	
Foreign owned Branches				<input type="checkbox"/> No <input type="checkbox"/> Yes	

<sup>33</sup> Capital Adequacy ratios for an insurance company are usually measured by the ratio of capital to risk-weighted assets. Sometimes, it is also posed as a solvency margin requirement. Solvency margins may be specified in absolute amounts or as a percentage of premiums.

<sup>34</sup> The insurance sector's equivalent of bank deposit insurance.

<sup>35</sup> Please indicate whether financial statements have to be published annually or quarterly.

Subsidiaries	P2 million			<input type="checkbox"/> No <input type="checkbox"/> Yes	
--------------	------------	--	--	--	--

20. Are the following life-insurance providers subject to restrictions on the type of instruments in which they can invest?

Domestic life insurance providers  No  Yes

Foreign life insurance providers  No  Yes

If yes, % of fund allowed to be invested abroad?

If yes, please list the type of financial instruments in which those investments can be made. Providers are not restricted but encouraged to report their investments to the registrar who reserves the right to request them to stop the transactions.

21. Are insurance companies required to disclose critical information?

Related to performance  No  Yes

Related to changes in ownership  No  Yes

Other: \_\_\_\_\_  No  Yes

22. Public consultation and transparency

a) Which of the following are consulted in advance of regulatory decisions?

Service providers

Consumer groups

User industries

Other: \_\_\_\_\_

b) How are laws and regulatory decisions made public?

Published on the regulator's website

Published in an official gazette

Other: \_\_\_\_\_

### E. Regional Integration Agreements in Insurance Services

23. Please indicate if there are any preferential arrangements affecting insurance services, and list the preferential<sup>36</sup> measures. NONE

Name of agreement	Partner country(s) in agreement	Date of entry into force	Preferential measures

### F. Past and Future Changes in Policy

24. Please indicate major changes in market access policies, ownership rules, and regulation since 1990 (e.g., privatization of state-owned insurance companies, introduction of

<sup>36</sup> Please, specify how the treatment of insurance providers of member countries of the agreement differs from the treatment of insurance providers of non-member countries.

**BOTSWANA FINANCIAL SERVICES**

competition, entry of foreign insurance, creation of an independent regulatory agency, changes in prudential regulation).

Area of policy change (market access, ownership or regulation)	Year of change	Description of change
Composite Insurers (Section VII Insurance Industry Act)	1992	Composite Insurers disallowed. Insurers may only offer long term or short term cover.
Amended Regulations to the Insurance Industry Act	2000	<ul style="list-style-type: none"> <li>- Agents must have minimum professional qualification.</li> <li>- New application forms required for the annual renewal of registration by insurers and insurance brokers.</li> <li>- Increase in fees payable for registration and annual renewal of registration.</li> </ul>

25. Please indicate announced or anticipated changes in the same, or other areas.

Area of policy change (market access, ownership or regulation)	Year of change	Description of change
Amendment of Insurance Industry Act - Management of company	2002	Same person not to manage more than 1 insurance entity.

**G. Employment**

26. Main employment indicators

How many people are employed in the insurance sector? approx. 753

What share of the total labor force is employed in this sector? 0.1%

What share of insurance workers is employed by state-owned insurance providers? approx. 1%

What share of insurance workers is employed by foreign insurance providers? approx. 90%

What is the annual average wage in the insurance sector? \_\_\_\_\_

If time series data on these employment indicators are available, please attach them separately.

**H. Investment**

27. Investment indicators (for the years 1997-2000)

What is the total amount of investment in insurance services?

1997	1998	1999	2000
P779,314,000	P1,367,242,000	P1,848,347,000	P2,457,740,000

What is the total amount of foreign direct investment in this sector? (see figures below)

What is the total stock of foreign direct investment in this sector? \_\_\_\_\_

If time-series data from 1990 to 2000 is not available, please collect indicators for the years 1990, 1995 and 2000. FDI data available for 1997, 1998 and 1999 (for insurance and pension funds)

1997	1998	1999
P53,237,000	P72,557,000	P99,711,000



**I. Prices and Performance Indicators**

28. Please list the following price and performance indicators for the latest year available. For a comprehensive assessment of insurance sector performance, it would be extremely useful to have historical data on these measures. If time series data are available, please attach them separately (preferably electronically).

Category	Average monthly Premium on a 10 year life insurance policy	Average monthly health insurance premium	Loss ratio <sup>37</sup>	Retention ratio <sup>38</sup>
State owned insurance providers				
National Private Owned insurance providers			Life: 16% Non-life: 65%	Life: 14% Non-life: 31%
Foreign Owned insurance providers	150	165		

**J. Quality and Access to Insurance Services**

29. Which of the following new services have been introduced by foreign insurance companies in the last 10 years?

Private health insurance     Automobile insurance     Private pension insurance

30. Please indicate the following:

a) Share of adult population or households covered by life insurance contracts: \_\_\_\_\_  
 Share of household savings channeled through life insurance: \_\_\_\_\_  
 Total Premiums as a percentage of GDP: 4.9%

b) If available, indicate average time (in days) for claims processing in the following segments:

Life insurance: 2 days  
 Property insurance: about 5 days  
 Automobile insurance: about 5 days  
 Health insurance: 2 days

c) In which of the following segments is insurance mandated by law?

Life insurance: \_\_\_\_\_  
 Property insurance: \_\_\_\_\_  
 Automobile insurance: \_\_\_\_\_  
 Health insurance: \_\_\_\_\_

\*Only workers compensation.

d) Do foreign insurance companies participate in insuring poor and rural households?

<sup>37</sup> The Loss Ratio of an insurance company is defined as the ratio of losses incurred to premiums earned.

<sup>38</sup> Defined as the ratio of net premiums to gross premiums.

BOTSWANA FINANCIAL SERVICES

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<input type="checkbox"/> No <input checked="" type="checkbox"/> Yes	If yes, what is the percentage of foreign insurance companies in the value of total rural insurance contracts? _____
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Please, provide the name and contact information of the respondent of this questionnaire, or of a specialist from whom we can obtain clarifications if necessary.

Name: Elaina Gonsalves (Chief Finance Administrator-Insurance)

Telephone: (267) 350338

Fax: (267) 351051

E-mail address: egonsalves@gov.bw

**Appendix 1: Time Series Data**

**Employment Figures- Financial Sector 1998:2000**

**Table 1: Number of Paid Employees**

Proportion of Labour Force

	1998	1999	2000	1998	1999	2000
Banking	2223	2224	2247	0.398	0.385	0.376
Insurance and Pension funds	443	694	753	0.079	0.120	0.126
Other (e.g. Stockbroking)	25	34	30	0.004	0.006	0.005
<b>Total labour force</b>	<b>557,977</b>	<b>577,063</b>	<b>596,926</b>			

Source: CSO Banking employment data only includes the 7 commercial and investment banks

**Table 2: Annual Average Earnings (P)**

	1998	1999	2000
Banking	46032	42312	47208
Insurance and Pension funds	40968	59580	53376
Other (e.g. Stockbroking)	84384	60924	39024

**Price and Performance Indicators**

**Table 3: Average monthly ex-post spread as a percentage of bank assets (Net Interest Margin)**

Year	Net Interest Margin (%)
1991	1.62
1992	2.50
1993	2.50
1994	4.50
1995	4.60
1996	4.60
1997	4.44
1998	5.46
1999	5.62
2000	5.57
2001	5.94

**Market Structure**

**Table 4: Return on Equity: Commercial Banks**

Year	Return on Equity
1993	17.7
1994	28.2
1995	16.5
1996	33.6
1997	36.9
1998	43.1
1999	46.4
2000	37.7
<b>Average</b>	<b>32.5</b>

*Appendix 2: List of Interviewees*

**Contacts**

NAME	INSTITUTION	CONTACT DETAILS
Mr. M. Pelaelo	Bank of Botswana- Banking Supervision Department	(267) 3606368
Mrs. D. Ncube	Bank of Botswana- Banking Supervision Department	(267) 3606350
Ms. L. Manthe	Bank of Botswana- Banking Supervision Department	(267) 3606569
Mr. Matale	Bank of Botswana - Non-Banking Operations	(267) 3606017
Mr. M. Mophuting	Botswana Stock Exchange	(267) 374078
Mrs. E. Gonsalves	Ministry of Finance and Development Planning (Insurance Division)	(267) 350338
Mr. Jackson Chibuye	First National Bank	(267) 311669
Mr. C. Gwere	Stanbic Bank Botswana Limited	(267) 301600
Ms Neo Tshitswana	Barclays Bank Botswana	(267) 581740
Mr. Gadgil Mohan	Bank of Baroda	(267) 588878
Mr. J. N. Main	Botswana Eagle Insurance	(267) 588976
Mrs. Fitt	Mutual and Federal Insurance Co.	(267) 303333
C.K. Kirstein	Botswana Life Insurance	(267) 351791
Mr. R. Mccammon	Capital Securities	(267) 588886
Mr. M. Seboni	Stock Brokers Botswana	(267) 357900

