NAMFISA
NAMIBIA FINANCIAL
INSTITUTIONS SUPERVISORY AUTHORITY

CONSUMER EDUCATION BULLETIN

JUNE 2018

FINANCIAL STABILITY

IN THIS ISSUE WE TALK ABOUT INVESTMENT POLICIES,
WHERE YOUR CONTRIBUTIONS GO AND MUCH MORE....

CONSUMER EDUCATION BULLETIN

JUNE '18

Mission
To effectively regulate and supervise financial institutions and to give sound advice to the Minister of Finance.

Vision
To have a safe, financially stable and fair financial system contributing to the economic development of Namibia in which consumers are protected.

Values
WE ARE COMMITTED TO TEAMWORK
- We create a conducive and enabling work environment
- We have a shared urgency to achieve our vision
- We support each other, treat each other with respect and are collectively responsible for our actions

WE ARE PASSIONATE ABOUT SERVICE
- We provide quality service
- We provide our service on time
- We are courteous, professional and respectful

WE ACT WITH INTEGRITY
- We act with honesty, fairness and transparency
- We treat information confidentially
- We act independently and consistently

WE DRIVE PERFORMANCE EXCELLENCE
- We commit to regulatory and supervisory excellence
- We commit to operational excellence
- We commit to the highest standards of performance

WE ARE ACCOUNTABLE
- We are accountable to our customers and stakeholders
- We are prudent in the management of our resources
- We take accountability for our decisions

WE ARE AGILE
- We commit to being adaptable to our changing environment
- We commit to embrace change whilst maintaining regulatory certainty
- We commit to creating innovative solutions

Editorial Team:
Victoria Muranda
Uaatjo Kaurimuje

Layout:
Ogilvy & Mather Namibia

Copywriting:
Ogilvy & Mather Namibia

Distribution:
All distribution enquiries should be directed to the NAMFISA Consumer Education Department at the contact details listed below.

Contributions:
Contributions to this bulletin are welcome.
The Editor reserves the right to edit submissions.
Send contributions to the Editor at:
info@namfisa.com.na.

Contact Details:
+264 61 290 5000
P.O. Box 21250, Windhoek
consumer@namfisa.com.na
1st Floor, Sanlam Centre
154 Independence Avenue, Windhoek

Last Issue Game
Did you successfully complete last issue's game?

Here are the answers:

Independence Day Word Scramble

pidedneneenc	independence
itlquaey	equality
domreef	freedom
biaamin	namibia
lebrcetiona	celebration
rigtsh	rights
eccusss	success
msa jamonu	sam nujoma
ovito ay oitvo	toivo ya toivo
wapso	swapo
thuos fraica	south africa
elgurstg	struggle
teenenin etynin	nineteen ninety
cracydemo	democracy

CONTENTS

16 June Day of the African Child

FROM THE CEO'S OFFICE

At NAMFISA, stakeholder engagement is an important strategic objective. We continuously strive for stakeholder satisfaction, encourage active engagement and seek to build mutually beneficial relationships based on collaboration and trust.

As author Deborah Fleischer once said, "Stakeholder engagement is a process of reaching out to a range of constituents who are interested in, or impacted by your business. It means opening up your company to feedback, and potentially criticism, from a diverse range of perspectives."

NAMFISA recently held extensive engagement sessions with the financial industry in order to further encourage a safe, stable and fair financial system that contributes to the economic development of Namibia in which you, our consumers, are protected.

In addition to the one-on-one engagement sessions with regulated entities, this consumer bulletin is an educational platform to inform our readers of their rights and responsibilities. Consumers who know their rights and responsibilities will ultimately be able to protect themselves – which is the very reason for sharing this publication.

As per its mandate, NAMFISA regulates and supervises the financial industry, and as recently publicised in the Namibia Financial Stability Report (FSR), is doing so effectively. NAMFISA and the Bank of Namibia (BON) jointly released the annual FSR on 27 April 2018. The report assesses the stability and resilience to internal and external shocks of the Namibian financial sector. Furthermore, the report highlights specific risks stemming from the external environment, domestic household and corporate debts, house price developments, the banking sector, the non-banking financial sector, and payment and settlement systems. The overall assessment of the financial stability of the country concludes that the financial system remained resilient despite recessionary economic conditions, which increased vulnerabilities in some sectors. In this regard, continuous monitoring and surveillance are of fundamental importance, especially in the area of household indebtedness. You will notice that most of the articles in this edition are focused on effectively minimising some of the practices that place an immense burden on household indebtedness, which remains a big concern in Namibia. **(www.namfisa.com.na)**

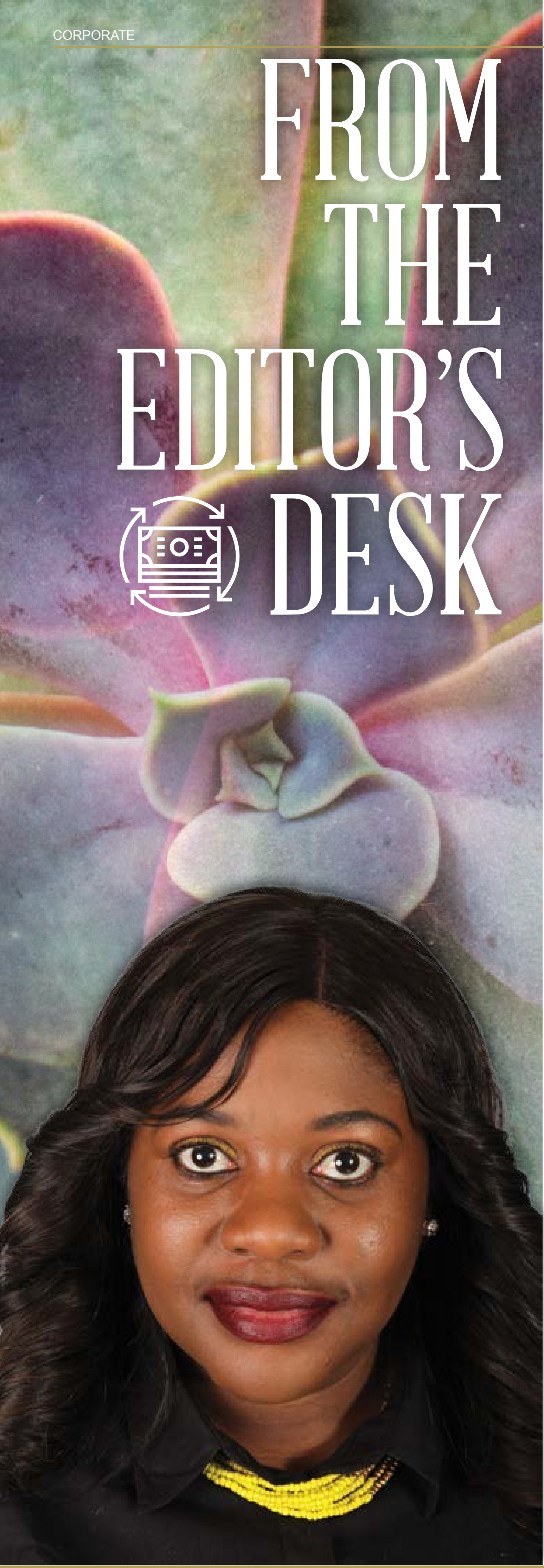
I implore you to read the articles in this publication and to widely share the information contained therein with your fellow Namibians. In addition, it is my wish that you will contact NAMFISA on our dedicated toll free number **0800 290 500** or website **www.educates.namfisa.com.na** in the event that you have any queries regarding the conduct of any regulated entities.

Finally, kindly ensure that you are dealing with a NAMFISA-registered entity before you enter into any business within the financial industry. All registered entities that are supervised by NAMFISA are listed on our website.

Pleasant reading and know your financial rights and responsibilities.

Kenneth Simataa Matomola
Chief Executive Officer

FROM THE EDITOR'S DESK



One of the reasons NAMFISA does consumer education is to ensure that consumers are treated fairly and that they are aware of their rights and responsibilities. You might ask what 'treating a customer fairly' means. To us at NAMFISA, consumer protection principles embrace the fair treatment of customers.

For this edition of the Consumer Education Bulletin, we carefully selected articles that relate to treating consumers fairly. The article on page 8 illustrates the consequences of early withdrawal by comparing two consumers who have taken out the same investment on the same date, but receive different returns due to making or not making an early withdrawal.

As a consumer of financial services, you have rights and responsibilities, including the duty to provide the required information when applying for or taking out a financial service. Therefore, the article on page 6 explains the importance of due diligence and of regulated entities knowing who their customers are – commonly referred to as 'know your customer' or KYC.

On a different note, household indebtedness remains a concern in Namibia. In the last independence edition, I shared three practical tips that highlighted the importance of a monthly budget, paying off your debt, and saving additional funds. In this edition, I would like to talk about avoiding debt. It is important to know that not all debts are bad debts. Some debts, like housing bonds, are beneficial in the long term since homes usually appreciate in value.

In other words, if you take on a debt to purchase something that will increase in value and can contribute to your overall financial health, then it is likely that this particular debt is a good one.

Nonetheless, you must always be careful not to take on too much debt, even good debt. If you are overloaded with debt, then it does not matter whether the debt is good or bad; it hurts your financial health.

Consider the following:

- It is usually a good idea to focus on paying off your bad debts first.
- Repaying debt with debt is never a good idea; it ends up taking longer to pay off the debt. Use cash to repay debts, not more debt.
- Only take on debt to purchase something that will increase in value and can contribute to your overall financial health, i.e. only take on good debt.

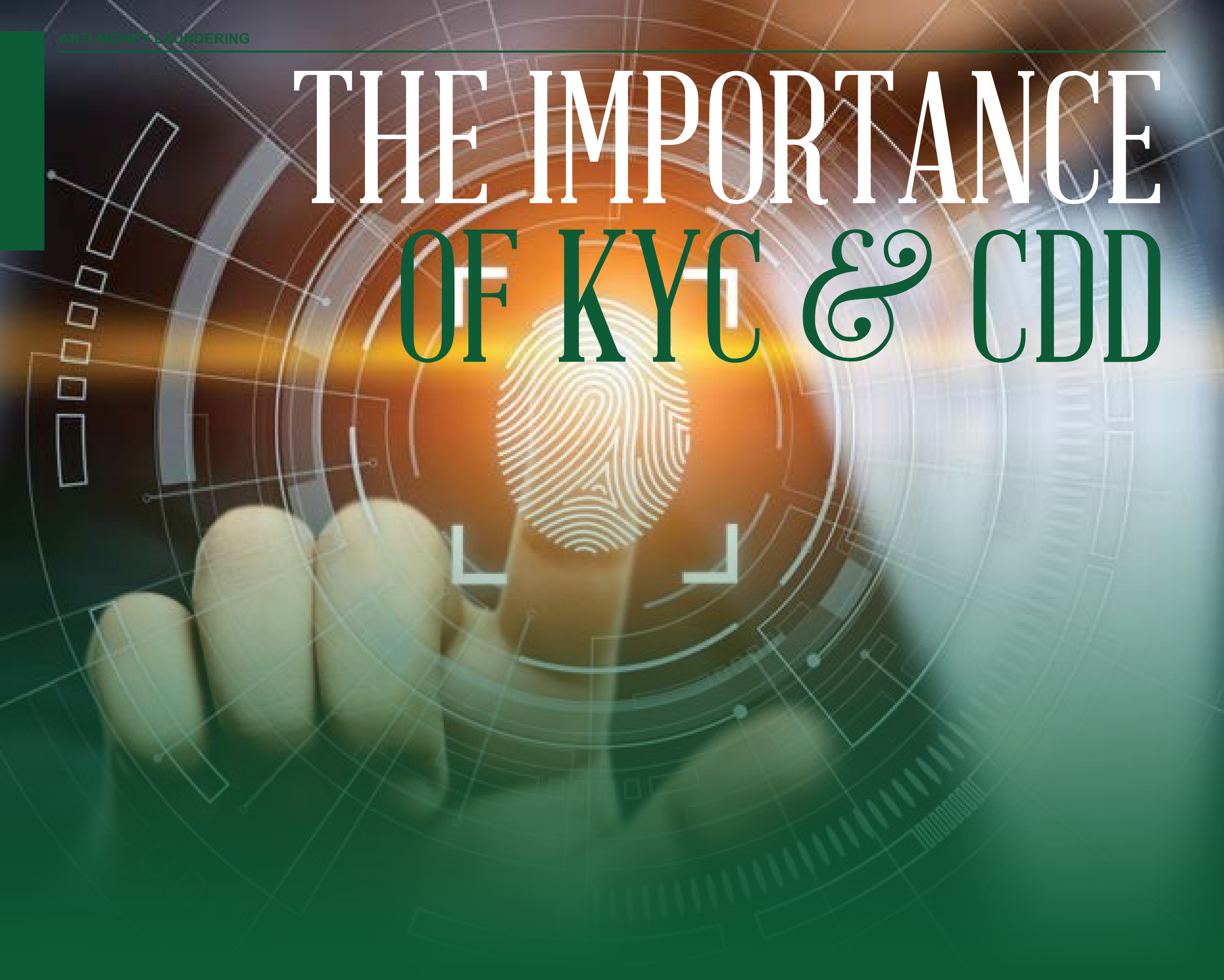
Debts do not just go away on their own. You have to make changes in the way you handle your money in order to attain freedom from debt.

You can read more about financial literacy on the Namibian Financial Literacy Initiative website **www.fli-namibia.org**. The FLI is a value partner of NAMFISA.

Happy reading!

Victoria Muranda
Editor

THE IMPORTANCE OF KYC & CDD



What Is Customer Due Diligence (CDD)?

Customer due diligence (CDD) is a process that involves performing background checks on customers to ensure that they are properly risk assessed and to enable an organisation to assess the extent to which customers expose it to a range of risks. These risks include money laundering and terrorist financing, among others. Organisations need to 'know their customers' for several reasons:

- to comply with the requirements of relevant legislation and regulation;
- to help the organisation, at the time the due diligence is carried out, to be reasonably certain that customers are who they say they are;
- to provide customers with the products or services requested;
- to guard against fraud, including impersonation and identity fraud;
- to help the organisation identify, during the course of a continuing relationship, what is unusual and to enable the unusual to be examined; and
- to enable the organisation to assist law enforcement, by providing available information on customers who are being investigated following the making of a suspicion report to the Financial Intelligence Centre (FIC).

Consequently, a prohibition on setting up anonymous accounts or relationships is the starting point of international standards.

What Is Know Your Customer (KYC)?

Know your customer (KYC) procedures are mandatory, regulatory and a legal requirement for the identification and verification of customers' details, by using independent and reliable information or documents. The elements include customer identification procedures, customer acceptance policy, monitoring of transactions and risk management.

Why Is KYC Important for You?

The objective of KYC is to identify theft and to prevent terrorist financing, money laundering and financial fraud. KYC allows institutions to understand customers better and to manage risks prudently. During the KYC process, customers' basic details are collected and verified. These details include:

- Name and authorised signature
- Legal status of the legal entity or a person
- Identity of the beneficial controllers and owners of the account

The Basic Recommendations of the Financial Action Task Force (FATF)

The FATF is an inter-governmental body that sets standards and promotes effective implementation of legal, regulatory and operational measures for combatting money laundering, terrorist financing and proliferation financing. Its standards require that CDD measures are applied on a risk-sensitive basis, depending on the type of customer, business relationship or nature of the transaction or activity. Institutions must be able to demonstrate to supervising authorities that the extent of the measures that are applied is appropriate to the risks of money laundering and terrorist financing.

The FATF standard generally outlines four instances when customer due diligence should be applied, namely (i) when entering into a business, professional or commercial relationship, (ii) in case of a single transaction concluded, (iii) when there is a suspicion of money laundering or terrorist financing, and (iv) when there are doubts about previously obtained identification data. There is a specific requirement to identify the beneficial owners of legal entities and structures and to undertake enhanced due diligence on higher-risk customers.

The Risk-based Approach to CDD

International standards require that a risk-based approach is applied to CDD.

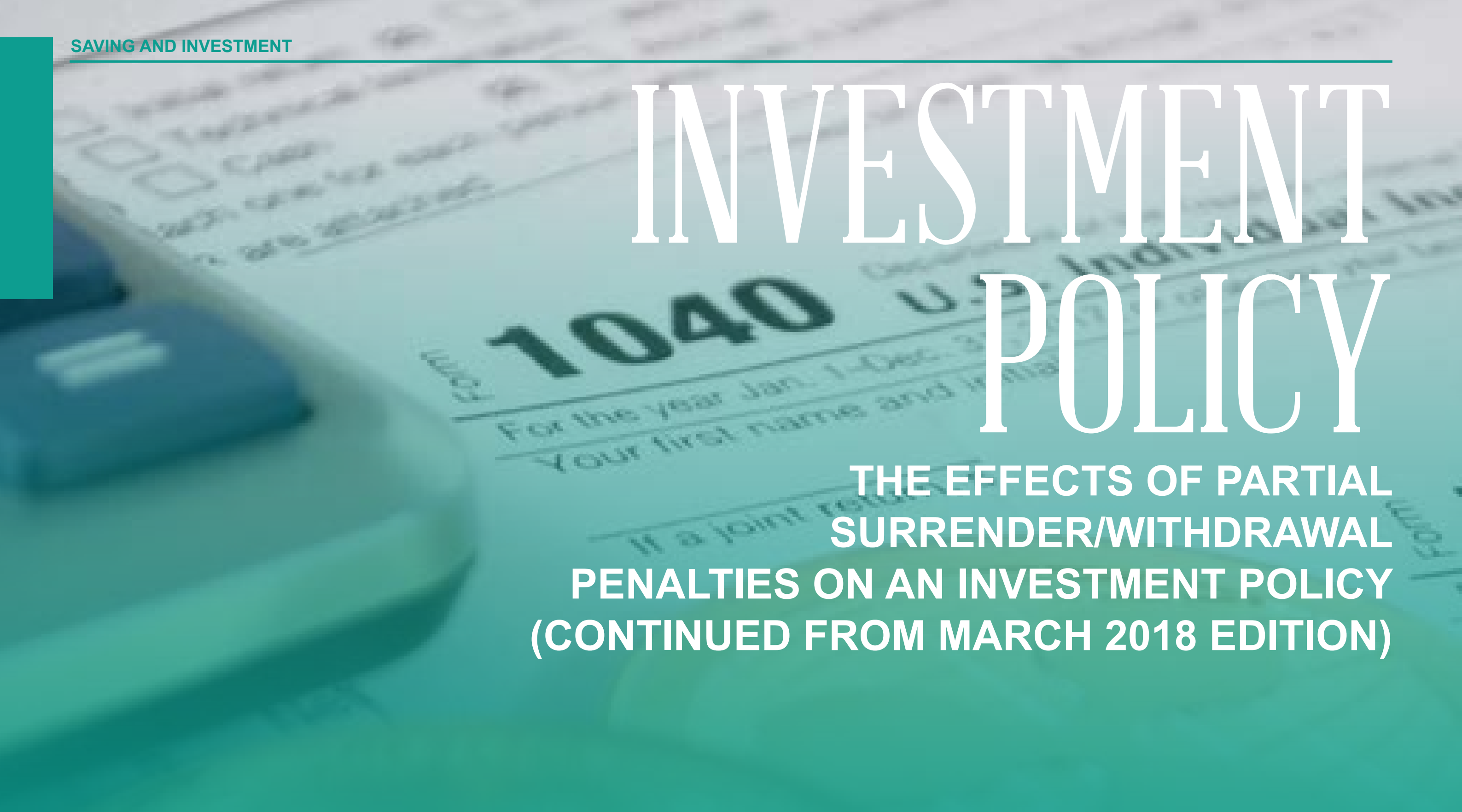
Consequently, the measures should be applied on a risk-sensitive basis depending on the type of customer, business relationship or nature of the transaction or activity. Higher risk categories should be subject to enhanced due diligence.

A risk assessment will determine how much of the information collected needs to be independently verified, as the following examples indicate:

- For standard-risk customers, i.e. those who are permanently resident in the country, with a salaried job or other transparent source of income, only the standard information provided may need to be verified.
- Enhanced due diligence should be applied to higher-risk customers/clients. Enhanced due diligence must also be applied to the beneficial owners or controllers of higher-risk companies or structures.
- Companies listed on a stock exchange and their wholly-owned subsidiaries are considered to be lower-risk, requiring only simplified due diligence.

Privately owned companies and other entities, e.g. trusts, are generally assessed as higher risk than listed companies, because they are exposed to a lower level of external scrutiny than those that are publicly owned. For such relationships, the identities of the beneficial owners and controllers must also be verified in addition to verifying the identity of the corporate entity. Beneficial owners may also be executive directors or the settlors of trusts.

Sources:
https://www.int-comp.org/careers/a-career-in-aml/what-is-cdd
https://www.arthayantra.com/blogs/what-is-kyc-know-your-customer/



INVESTMENT POLICY

THE EFFECTS OF PARTIAL SURRENDER/WITHDRAWAL PENALTIES ON AN INVESTMENT POLICY (CONTINUED FROM MARCH 2018 EDITION)

In our previous edition, we promised to provide an example of two consumers who invested money in financial products at an Insurance Company (the Insurer), where one consumer effected partial surrender on the investment, while the other did not.

Let's look at why partial surrenders are discouraged.

Partial surrender penalties are charged to discourage investors from withdrawing money from their investment policy, because withdrawing money prevents the investment policy from achieving the promised growth (based on no withdrawals being made).

Now let's look at the effects of partial surrender/ withdrawal penalties on an investment policy.

Assume you have two investors, Investor A and Investor B, who each took out an investment policy on 1 October 2007. In this scenario, it is assumed that at a premium of N$260.71 per month over a period of 10 years for each policy, each investor will, at a high inflation scenario, get a return of N$24,908.00 and, at a low inflation scenario, get a return of N$20,662.00 on the investment.

Now assume that Investor A effects partial surrenders/ withdrawals on the investment, while Investor B does not effect any partial surrenders/withdrawals on the investment. Which of these investors do you think will get the best return? To answer the question, let's look at the following two scenarios:

Scenario A

Assume Investor A effects partial surrender, totalling an amount of N$15,489.11 over the life period of the investment, and is charged an amount of N$6,638.19 as partial surrender penalties.

In addition, Investor A is charged administration fees totalling N$5,588.42. Thus, when the investment policy matures on 1 October 2017, Investor A is only paid an amount of N$4,718.00 and not the amount that was promised to Investor A at the time of investment.

Now, looking at the above scenario, we can see that the Investor contributed premiums totalling N$31,284.70 over a period of 10 years, and that the investment attained a growth of N$11,356.19 (N$6,638.19 + N$4,718.00) on top of the contributed premiums. The said return is more than the speculated inflation scenario returns. However, at maturity date, Investor A only receives an amount of N$4,718.00. Based on these numbers, it seems that the Insurer has ripped off Investor A, but in fact the Insurer has done no such thing.

Investor A's maturity value is reduced by the partial surrenders/withdrawals that were made, as well as by the partial penalties and the administration fees that were charged by the Insurer. If Investor A had not made any partial surrenders/withdrawals, the policy would have achieved a growth of N$11,356.19 on top of the premiums that were contributed. Thus, Investor A would have received a maturity value of N$37,052.47 after the Insurer deducted the administration fees of N$5,588.42 (N$31,284.70 + N$11,356.19 – N$5,588.42).

Scenario B

Assume Investor B does not make any partial surrenders/ withdrawals from the investment through the life period of the policy. Therefore, when the investment matures on 1 October 2017, it has attained a growth of N$11,356.19 on top of the premiums totalling N$31,284.70 that were contributed towards the investment over a period of 10 years. Thus, Investor A receives a maturity value of N$37,052.47 after the Insurer has deducted the administration fees of N$5,588.42 (N$31 284.70 + N$11,356.19 – N$5,588.42).

Now looking at the scenario, we can see that the investment policy has attained a maturity value of N$42,640.89 (N$31,284.70 + N$11,356.19). This is because Investor B did not make any partial surrenders/withdrawals. Therefore, the growth of the investment policy was not affected by partial surrender penalties and partial withdrawals/surrenders. However, it should be noted that even in this scenario, Investor B will not get the full maturity value of N$42,640.89, because the Insurer will deduct administration fees for the maturity value.

Thus Investor B will receive an amount of N$37,052.47, while Investor A will only receive an amount of N$4,718.00. Please remember that Investor A and Investor B took out the same products on the same day, with the same premiums and the same maturity period, but they ended up receiving two different maturity values.

What have you learned from the above scenarios?

Sometimes, due to unforeseen circumstances and life's demands, we are tempted to access the money in our investment policies – money we initially invested for a better financial future – and decide to make partial surrenders/withdrawals. However, the above scenarios clearly show that partial surrenders/withdrawals have a negative impact on the growth of our investment policy, and thus affect our future financial position. Therefore, we must refrain from effecting partial surrenders/withdrawals.

WHAT PENSION FUND MEMBERS SHOULD KNOW

REGARDING UNLISTED INVESTMENTS

All pension funds in Namibia are required by law, through Regulation 28(4) under the Pension Funds Act, 1956 (Act No. 24 of 1956), to invest a portion of their pension fund contributions in unlisted investments in Namibia. Regulation 28(4) requires pension funds to invest between 1.75% and 3.5% of the total assets of a pension fund in unlisted investments in accordance with Regulation 29 under the Pension Funds Act. Regulation 29 further sets out the procedures and limitations under which unlisted investments are to be managed and administered.

What Are Unlisted Investments?

Unlisted investments are sometimes referred to as private equity investments. In terms of Regulation 29, an unlisted investment is defined as an investment that takes the form of debt or equity capital in a company incorporated in Namibia and not listed on any stock exchange. Unlisted investments are to be held by a Special Purpose Vehicle (SPV), which should be incorporated as either a public or a private company or registered as a trust, and the SPV should be solely organised and operated for the purposes of holding unlisted investments on behalf of the pension fund investors. In addition, Unlisted Investment Managers (UIM) are incorporated as either a public or private company, whose object is to manage and administer portfolio investments on behalf of the SPV. In terms of Regulation 29, the SPVs and UIMs must be registered with NAMFISA in order to hold and manage unlisted investments in line with Regulation 29. However, Regulation 29 prohibits pension funds from investing directly or indirectly in any UIM, meaning that this investment must be made through an SPV.

Benefits to Pension Fund Members

The fact that UIMs and SPVs are required to be registered in order to operate in the market should provide comfort to pension fund members, because it means that their investments are protected. In addition, this ensures that UIMs and SPVs dealing with investors' funds are under the regulatory ambit of NAMFISA and must operate as per the legislative framework under which they are registered.

An SPV can invest in several companies and simultaneously in different industries on behalf of the pension fund. The investments made in unlisted equities enable companies, whether small, medium or large, to access additional capital so that they can expand and create jobs, and as a result, contribute to the economic development of the country, and in turn, grow the assets of the pension fund.

Moreover, unlisted investments are made through an SPV by a UIM, who ultimately carries out due diligence on a portfolio company and has the skills and expertise to select the appropriate portfolio company.

Directors and trustees of an SPV or a UIM are assessed by NAMFISA for fitness and propriety with regards to operational ability, experience, and qualifications, and for honesty in character and the ability to act in the best interest of the pension fund.

Portfolio Companies

A portfolio company is a company in which an SPV has directly invested on behalf of the pension fund. Portfolio companies can be acquired either through debt or equity capital financing.

As at 30 June 2017, unlisted investments were reported to have been invested in the following different sectors:

Regulation 29 stipulates that unlisted investments should take a long-term view in investments and not engage in speculative activities that will only gain short-term profits.

Before a UIM invests in a company, adequate due diligence and valuations of a company should be carried out.

Duties of the Unlisted Investment Manager

In carrying out its duties, the UIM must exercise good faith and act with due skill, care and diligence, in the best interest of the investors, the SPV, portfolio companies and other stakeholders. The directors or trustees of the SPV are responsible for governing the operations of the SPV and must ensure that the UIM acts in the best interest of all stakeholders.

The Role of Trustees of a Pension Fund

The trustees of a pension fund have a fiduciary duty to act in the best interest of the members and must carry their responsibilities for the benefit of the members and not for personal gain. In addition, they should ensure that the members receive the best returns on their investments. The trustees should ensure that the fund is managed in a manner that is transparent to the members and stakeholders, and the fund should adhere to the rules of the fund, which must be in line with relevant legislation.

The pension fund members are responsible for understanding what their pension fund rules stipulate, so that they can ask the right questions relating to the fund's performance and its investments during member meetings.

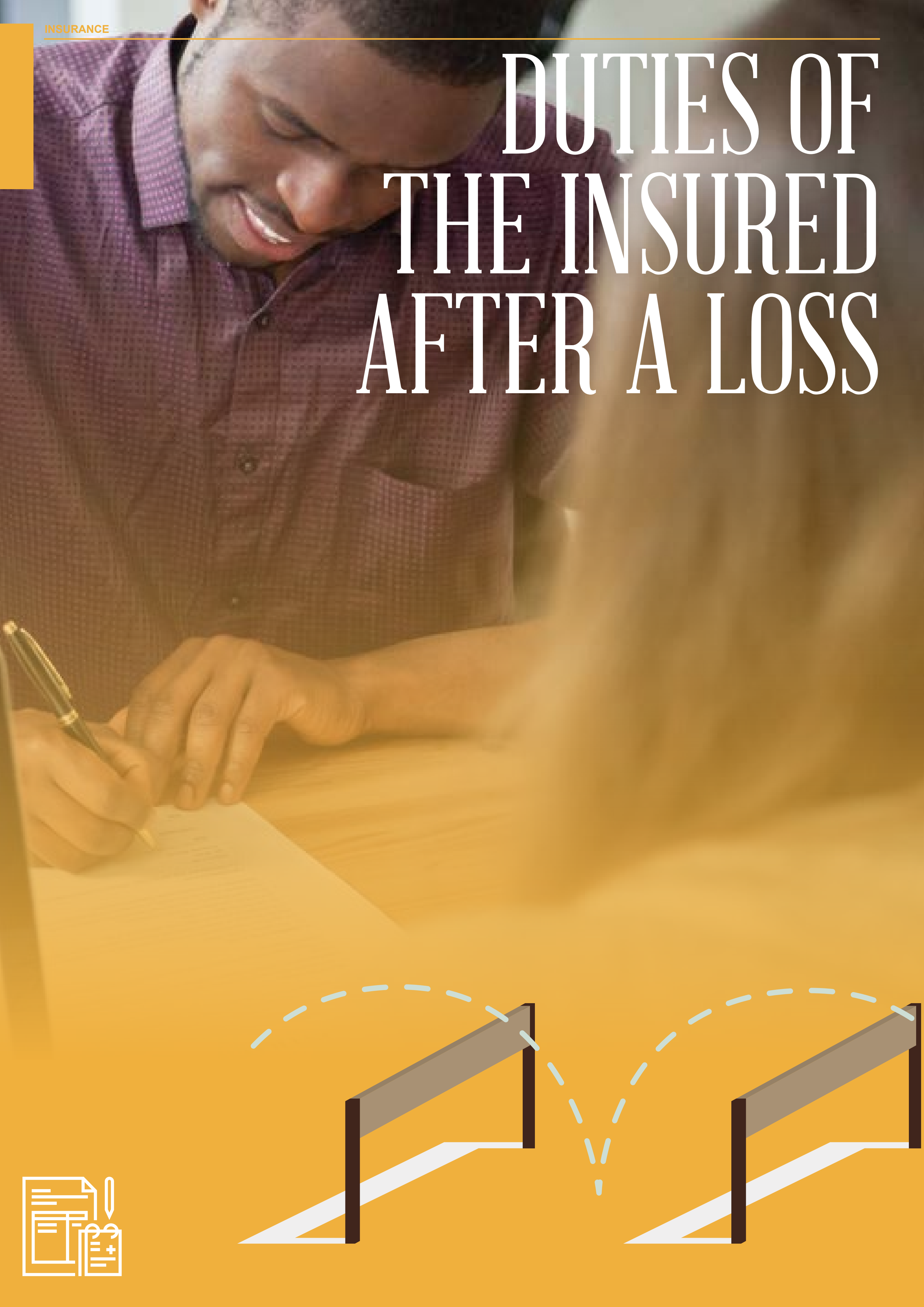
How Do I Know which UIM or SPV Is Registered with NAMFISA?

A list of all the registered UIMs and SPVs can be found on the NAMFISA website **www.namfisa.com.na**.

Sector	Percentage
Manufacturing	36%
Publishing	20%
Financial Services	8%
Health Services	8%
Mining	7%
Retail Services	5%
Renewable Energy	5%

Source: NAMFISA Statistics 2Q2017

DUTIES OF THE INSURED AFTER A LOSS



As a policyholder, you are advised to carefully read the terms and conditions of your insurance contract in order to understand exactly what insurance risks you are covered for and, most importantly, what you are not covered for (i.e. policy exclusions). It is important to have this clear understanding at the inception of the insurance contract and not at the claim stage.

Below are a few guidelines to follow in the event of a loss:

- Notify the police if a law may have been broken. Contact the nearest police station in the event that the insured event occurred as a result of an unlawful act.
- Give the insurer prompt notice of the loss. It is important to observe the period of time within which a claim must be reported. This is usually stipulated in the policy contract and serves to ensure that the insurer has sufficient time to conduct a reasonable investigation of the condition(s) of the insured item as close to the loss date as possible. This is to determine whether the stated event actually caused the loss claimed, as well as to assess the extent of the damage. The sooner the insurer is notified of a loss event, the sooner the claim process can commence. If the insurer is notified too late or long after the loss event occurred, it may jeopardise the claim process and subsequent settlement.
- Give a full description of how, when and where the loss occurred. The notice (as described under the second point above) should include detailed information of the event that resulted in the loss and the exact extent of the damages. The insurer may require this in the form of a police declaration made within 24 to 48 hours (or any other timeframe stated in the contract) of the loss event. Most insurers will want to conduct their own investigation into the matter to ensure that it corresponds with the declaration made to the police.
- Take all reasonable steps to be protected from further damage(s). You are encouraged to take all reasonable measures or steps to prevent further damage(s) to the property and/or injury/injuries to people.
- Permit the insurer to inspect the property and records proving the loss. You should cooperate with the insurer/assessor throughout the process and give the necessary support to expedite the claim process and settlement.
- Promptly send the insurer any legal papers or notices received concerning the loss. Should a third party be involved in the loss event, you are required to communicate to the insurer/assessor all correspondences as and when you receive them.

It is important to note that you need to act diligently, honestly and in good faith with the insurer throughout the process. If you deliberately withhold material information or mislead the insurer, they may refuse to honour your claim. In the event of non-disclosure on your part as a policyholder, the insurer has the right to reject the claim without reimbursing any premium(s) received on the cover.

What to Do when Treated Unfairly

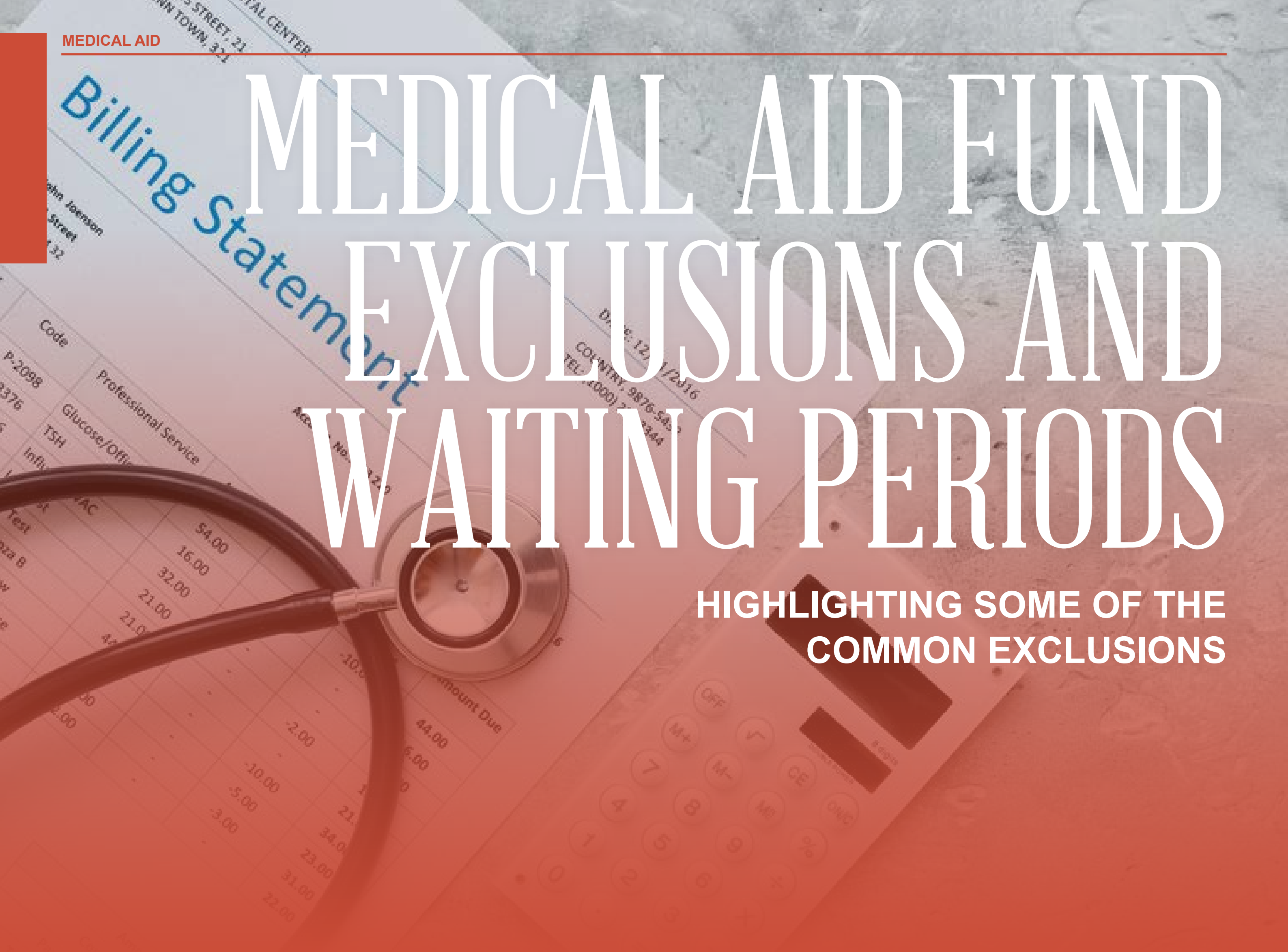
The policyholder (insured/beneficiary) should read the insurance policy contract carefully to confirm the terms and conditions of the contract and to get details of the insurer's complaints procedures.

After reading the insurance policy contract, the policyholder should lodge a complaint with the insurer in writing. The policyholder should keep all copies of any communication between him/her and the insurer. The policyholder must further take note of the officials (individuals) with whom he/she is communicating, e.g. name, contact details, and dates and times of the communications. This information will be needed should the policyholder lodge a complaint with NAMFISA in the event that the insurer does not resolve the policyholder's complaint.

Complaints can be lodged with NAMFISA by sending an email to **complaintdept@namfisa.com.na** or fax to **+264 61 290 5161**, or by calling **+264 61 290 5134**.

Complaints can also be lodged through the NAMFISA website at **www.namfisa.com.na** or by calling our toll-free number **0800 290 500** for further assistance.

NAMFISA will investigate the issue on behalf of the complainant (i.e. the policyholder/beneficiary). However, it is important to note that if the condition(s) for which the policyholder/beneficiary is seeking to petition is a condition stipulated against in the contract, NAMFISA is unlikely to be able to assist meaningfully. Therefore, the public is urged to make sure that they fully understand their insurance policy contracts before signing.



MEDICAL AID FUND EXCLUSIONS AND WAITING PERIODS

HIGHLIGHTING SOME OF THE COMMON EXCLUSIONS

The purpose of Medical Aid Funds (hereafter referred to as “Funds”) is to provide financial or other assistance to its members and their dependants in covering expenditure incurred for medical service. In general, healthcare expenditure increases annually. The increase in healthcare expenditure is largely affected by the level at which benefits are utilised, as well as annual medical price inflation rates, which are a combination of the increase in the cost of a medical treatment multiplied by the utilisation thereof. Therefore, Funds are exposed to certain risks, such as solvency risk. Solvency is described as a Fund’s ability to absorb or pay for unexpected claims with its operating reserves and is generally reflective of a Fund’s financial strength. In order to ensure the financial sustainability of a Fund and in order to keep member contributions as affordable as possible, Funds only pay for essential healthcare services. As a result, Funds have a list of medical procedures or conditions, such as cosmetic surgeries and self-inflicted injuries, for which they do not pay. These are referred to as exclusions.

The Board of Trustees of a Fund reserves the right to impose waiting periods and/or restrictions on a member for pre-existing medical conditions as from the date the member joins the Fund.

A waiting period is a period during which, although contributions are payable, a member is not entitled to or is restricted from claiming such benefits. There are two types of waiting periods, namely general waiting periods and condition-specific waiting periods. A general waiting period is a period during which a beneficiary is not entitled to claim any benefits. A condition-specific waiting period is a period that immediately follows the date of application for membership, during which a member is not entitled to claim benefits in respect of a condition for which a health service was recommended or received, prior to becoming a member of that Fund.

A condition-specific waiting period ends on a date as specified by the rules of a Fund or as specified on the member's membership records. The duration of general and condition-specific waiting periods varies between Funds and may range from 3 to 9 months for general waiting periods, and 6 to 12 months for condition-specific periods. It is the member's responsibility to inform his/her Fund should a particular benefit still not be automatically covered after the waiting period has lapsed.

In line with the provisions of Section 30(s) of the Medical Aid Funds Act, 1995 (Act No. 23 of 1995), Funds may not impose a waiting period on a member who:

- has been a member of any other registered Medical Aid Fund for a continuous period of at least two years and whose application for membership to a different Medical Aid Fund is necessitated by his/her changing employment; and
- has for a continuous period of not less than two years, been a dependant of a person who, during that period, has been a member of a Medical Aid Fund, and who applies to be a member of another Medical Aid Fund within three months after the date on which he/she ceased to be a member or dependant of a previous Medical Aid Fund.

The funding model of Funds is based on the concept of cross-subsidisation. Generally, younger and/or healthier members subsidise the healthcare expenditure of the elderly and sick through their medical aid fund contributions, because they generally do not claim for any major benefits. Over a period of time, the younger members will get older and will in turn benefit from younger and healthier members who contribute to the risk pool/funding of a Fund.

Selective abuse of benefits, where large claims are made by members shortly after joining a Fund and then cancelling membership, results in increased contributions for all members. The theory goes that the aforementioned cancellation of membership decreases the pool of people paying contribution premiums, therefore requiring an increase in the contribution premium for the remaining members.

Anti-selecting against Funds also occurs when individuals only enroll for medical aid cover after many years of not being a member of any Fund, or when they opt to upgrade to a more comprehensive plan just before undergoing major medical treatment, and incurring all the additional costs at the expense of other members.

Therefore, waiting periods are designed to mitigate the problems caused by anti-selection, by discouraging members from remaining uncovered until they need medical aid.

Where Are Fund Exclusions and Waiting Periods Documented?

Exclusions and waiting periods are listed in the governing rules of the respective Funds. Such exclusions may be amended from time to time by the Board of Trustees of the respective Funds, usually in consultation with their actuaries, and are subject to approval by the Registrar of Medical Aid Funds. It is the onus of the members to ensure that they are familiar with the benefits that are excluded from their medical aid before obtaining any medical related service, failing which, they may be solely responsible for paying the particular costs incurred.

What Are the Factors Considered in Determining Exclusions?

Funds take into account principles that are based on best practice, evidence-based healthcare, clinical protocol, cost-effectiveness (affordability) as well as any other relevant legislation, when excluding certain benefits. Members are entitled to request the Principal Officer or the Board of Trustees of their respective Fund to explain the rationale behind exclusions, directly or at Annual General Meetings.

In order to avoid waiting periods and/or restrictions, it is essential to join a Fund early in life and to continuously remain covered.

WHERE DO YOUR CONTRIBUTIONS GO

WHAT COSTS ARE YOU LIKELY TO INCUR UNDER THE FINANCIAL INSTITUTIONS AND MARKETS BILL (FIM)?

The Financial Institutions and Markets (FIM) Bill, which will become an Act once passed by Parliament, joins and harmonises the laws regulating financial institutions (e.g. pension funds and medical aid funds), financial intermediaries and financial markets in Namibia.

The Bill, still in draft form, is to be sent to the Attorney General for certification, via the Cabinet Committee on Legislation (CCL), followed by the National Assembly. Provisions in the FIM Bill relating to costs do not vary much from the current Pension Funds Act, 1956 (Act No. 24 of 1956) ("the Act") and current practice. In the Act and the FIM Bill, any person carrying out the business of a pension fund is required to be registered with NAMFISA.

The main purpose of a pension fund is to provide a platform for members to save towards retirement. In addition to retirement benefits, most pension funds offer other benefits such as (i) death, (ii) disability, (iii) funeral, and (iv) withdrawal benefits.

Death, disability and funeral benefits are offered to provide members or their beneficiaries with cover in case of certain life events. Withdrawal benefits are benefits payable when a member leaves a fund before reaching retirement age. These exits may be a result of a dismissal, retrenchment or resignation.

In order to provide you with these benefits, the fund incurs certain costs. In this article, we will discuss how your contributions to your pension fund are used to provide you with your benefits.

Risk Benefits

Death, disability and funeral benefits are generally collectively called risk benefits. Pension funds normally buy this risk cover from insurance companies. To provide these risk benefits, the fund will normally approach an insurance company and state which benefits the fund would like to offer. The insurer will then provide the fund with the cost of the cover being offered. The cost is usually a cost per member and is expressed as a percentage of each member's pensionable salary. For example, the cost of a death benefit (often called group life cover) could be offered at 0.5% of the member's salary. If the fund accepts the offer, a portion of your monthly contribution, equal to the agreed percentage of salary, will be paid as a premium to the insurer.

Pension Funds' Service Providers

Most pension funds do not have offices or employees to manage the day-to-day business of the fund. Instead, most pension funds outsource operational functions to external service providers. These functions include investment management and administrative services.

Overall, service providers to pension funds include (i) investment managers, (ii) investment consultants, (iii) advisors, (iv) risk insurers, and (v) benefit administrators. It is often more cost-effective for the pension fund to outsource these services than to hire staff to provide them in-house.

The relationship between the pension fund and its service providers is managed through a service level agreement. The service providers will agree on a fee for their services with the fund. It is the responsibility of the fund's trustees and Principal Officer (PO) to ensure that the service providers provide the best service to the fund by regularly reviewing service providers' performance and the service level agreements.

Other Costs and Reserves

Apart from the major costs discussed above, the fund incurs other minor costs, which may include:

- Trustee expenses. These could include the costs of trustee meetings and the cost of travel to meetings or conferences.
- Training expenses. In order to ensure that the trustees and PO are appropriately skilled to perform their duties on your behalf, the fund may incur training costs.
- NAMFISA levies. Each registered pension fund is required to pay an annual levy of 0.008% of the fund's total assets to NAMFISA.
- PO and trustee remuneration. Some POs and trustees are paid for the services they provide to the funds they serve.
- Actuarial fees. Each fund is required to have a valuator whose role is to report on the financial soundness of the fund and provide advice to the board.
- Auditor fees. Each fund is required to have an audit conducted on its financial statements annually in order to provide an opinion as to whether the financial statements are accurate.
- Legal fees. The fund may incur legal costs for advice from lawyers on fund rules and amendments or legal challenges.
- Reserves. Some funds maintain reserves for unexpected costs that may arise.

Retirement Savings

Pension fund members normally make monthly payments of contributions to their funds, either directly or through their employers. If contributions are made through the employer, they are divided into member and employer contributions. The member portion of the contribution is allocated directly to retirement savings. The employer portion is first allocated to the costs discussed above. Thereafter, the remaining portion of the employer contribution is allocated to retirement savings. The rules of the fund will describe exactly how the contribution is divided.

The bulk of contributions is allocated to retirement savings. The table below indicates the average contributions that were used for retirement savings from 2010 to 2016 for all registered pension funds.

Table: Proportion of contributions allocated to retirement savings

Year	2010	2011	2012	2013	2014	2015	2016
Proportion	87%	91%	92%	93%	93%	93%	92%

Conclusion

Pension fund members may obtain a copy of their fund rules from their employer, the fund PO or NAMFISA. Members can see how their pension contributions are used on their benefit statements, which the fund should provide at least once a year. Should you notice on your benefit statement that your pension fund contributions were not used as described in your fund rules, consult your PO. Should you not be satisfied with the response received from the PO, you can lodge a query with NAMFISA's complaints department.

INSURANCE POLICY CESSION

What Is Policy Cession?

Policy cession is an agreement where a policyholder cedes 'a right to a claim' to a cessionary (e.g. a lender), and contrary to a contract, the obligation to service the agreement (payment of premiums) remains with the cedent. Most debt (e.g. mortgage bonds) require collateral from a debtor as security in the event that the borrower is deceased and can no longer service his/her obligation.

Can I Get a Loan or Buy on Credit without Cession?

It is common practice within the Namibian financial sector that policy cessions are effected between a cedent (a policyholder) and a cessionary (a bondholder, e.g. a bank or a furniture retailer) in a borrower-lender transaction. Policyholders are often confronted with the predicament to either cede a right in an insurance policy contract to a third party (e.g. a bondholder) or not to.

In some transactions, policy cession is a pre-condition for approval of a loan, and in some instances it is not required, especially in a micro-lending transaction.

- Ceding your rights to a claim on a policy is beneficial to both parties, that is, you the borrower, as well as the lender, e.g. a bank. It places both parties in an advantageous position: Firstly, the borrower is able to secure the funding he/she is applying for, and secondly, the lender is accorded peace of mind because obtaining the right to a claim in a policy serves as collateral.
- Another benefit derived from a policy cession is that, if the policyholder is the sole bread winner of the family, the mortgage will be settled and the property not repossessed by the bank in the event of his/her death. Therefore, the family of the deceased will be left in a better financial position (with fully paid property or furniture that was subjected to credit agreements).

Forms of Cessions

Although policy cession is mutually beneficial, cessions take different forms, which is something that policyholders need to seriously consider. Each form of cession has varying consequences for the beneficiaries of the policyholder, when the insured event unfolds, that is, when the policyholder dies and the policy underwriter has to pay out.

Policy cessions can take an out-and-out form (also known as an outright cession), or can take the form of collateral or security cession.

- In the case of an outright cession, the bank will receive all the proceeds, settle the debt, and then pay the balance into the estate. The underlying principle here is that the beneficiary's rights fall away when the outright cession is given.
- In a security cession, the bank is only entitled to the amount of the debt and the beneficiaries are entitled to the balance. Despite the cession, the cedent still retains a 'reversionary right' (which means the cession of the policy can be reversed or revoked if necessary) in respect of the policy. Here, the policyholder remains the owner of the policy and the policy will therefore continue to be the property of the deceased's estate. The amount owed to the creditor will be paid to him/her and the remainder to the executor, which will be placed in the estate. This will in turn attract estate duty and executor's fees, to the detriment of the beneficiaries of this policy.

Policyholder's Responsibility

Although there is no general rule, the cession often specifies that all policy beneficiary nominations are cancelled as soon as the policy is ceded to the bank. To be fair to all parties, the wording should rather oblige the bank to pay the beneficiaries once it has received full payment of its debt. Obligations remain with the cedent and only the rights flowing from the policy are transferred by the cession. The obligation to pay the premiums remains with the policyholder.

In conclusion, attention should be given to the terms and conditions of the bank as a cessionary, and policyholders should understand the implications of cession agreements and ensure beneficiaries are not adversely affected. Notwithstanding, a cession ceases or is terminated when a debt is fully paid or settled.

ANOTHER START-UP FESTIVAL

Due to the tremendous success of the Namibia Start-up Festival 2017, the Financial Literacy Initiative (FLI), in collaboration with FabLab Namibia and the Namibia Business Innovation Institute (NBII), is organising another incredible festival. This year's theme focuses on eco-friendly and clean-tech start-ups.

The festival offers a platform to reinforce the link between start-ups, entrepreneurs, corporates, government and other stakeholders with the aim of strengthening and building the start-up environment in Namibia. Through the Start-up Festival, the FLI seeks to step away from the typical conference set-up to create an informal, interactive and thought-stimulating environment for participants.

The vision of the Start-up Festival is to celebrate fresh ideas and the courageous founders who realise them, to promote businesses that care and make a difference – big or small, to foster sustainable partnerships and development, and to create prosperity for a healthier planet and happier people through impact-driven and responsible business.

The event will be held in Windhoek from 28 to 30 June 2018. The three-day inspirational programme promises to be packed with numerous opportunities for learning and networking. International speakers will share their experiences, start-ups will learn from regional and local mentors, and investors will scout for new ventures to invest in. The festival offers a spectacular programme full of inspiration and new opportunities. There will be workshops, panel discussions, exhibitions and time to meet new business partners, reach new heights with start-up finances and take businesses to the next level.

For more details, follow Start-up Festival 2018 on Facebook https://www.facebook.com/startupnam2018/

N$ fli
Financial Literacy Initiative

5 THINGS YOU NEED TO KNOW ABOUT CREDIT REPORTS

Credit reports are an important tool credit grantors and service providers use when deciding if they can extend credit to you. These reports tell them about your current credit situation and indicate whether you can afford more credit repayments.

So, if you have a positive credit report, they are more likely to see you as a low risk.

Here are five important things you need know about your credit report:

1. They provide a good overview of your credit history

Your credit report includes the following information:

- Your past and current credit obligations
- Other companies you've applied to for credit
- Your credit behaviour and payment conduct

2. They provide the right information

Credit reports include information that is directly related to your credit history, such as:

- **Identifying information:** Your name, address, identity number, and employment details
- **Payment history:** Payments you've made; and if you have ever defaulted (not paid)
- **Enquiry history:** Which other companies have requested your credit report
- **Court notices and judgments:** Information on public record that is relevant to your credit behaviour

3. They don't dig into your personal life

You may worry that a credit report will provide external parties with too much personal information. Rest assured that this is not the case. It will never include things like:

- Your lifestyle, religious or political preferences
- Information about your friends, relatives or personal habits
- Your driving record
- Your medical history
- Any criminal records or divorce proceedings

4. They draw from reliable sources

Credit reports can provide an accurate view of your credit history by using sources such as:

- **Applications:** Information from credit application forms
- **Payments:** Most large organisations report their payment information to TransUnion regularly
- **Public records and court records:** If the information is relevant to your credit profile

5. They are not available for general use

Credit reports are issued under strict confidentiality terms. Anyone with a valid reason may buy a credit report from us, but this doesn't mean it is available for general use. We will always make sure we provide your credit report to the right people.

To get a copy of your own credit report, call TransUnion at **061-227142** or email **Namibia-freereport@transunion.co.za**. We can explain the information on the report and answer any questions you may have.

NAMFISA COMPLAINTS DEPARTMENT

Did you know that the NAMFISA Complaints Department considers complaints against financial service providers? If not, then you are reading the right article.

WHAT TYPES OF COMPLAINTS DOES THE NAMFISA COMPLAINTS DEPARTMENT DEAL WITH?

You might be wondering what types of complaints the NAMFISA Complaints Department deals with. The department deals with complaints that pertain to the dissatisfaction of consumers with financial services that are offered by NAMFISA-regulated financial service providers. This means that the NAMFISA Complaints Department only handles complaints that relate to the business of regulated financial service providers, as long as the complaint relates to financial services that are not banking services. Sometimes the department receives complaints that are not against a NAMFISA-regulated financial service provider. In such cases, we are nonetheless committed to helping you determine the relevant body or entity that can assist you.

WHO ARE THOSE FINANCIAL SERVICE PROVIDERS?

HERE IS A LIST OF THE ENTITIES THAT WE REGULATE BASED ON THE SECTOR OF BUSINESS:

1. Insurers
   (a) Long-term Insurers
   (b) Short-term Insurers
   (c) Insurance Agents
   (d) Insurance Brokers
2. Pension Funds
3. Medical Aid Funds
4. Friendly Societies
5. Microlenders
6. Collective Investment Schemes
   (a) Unit Trust Managers
   (b) Unlisted Investment Managers
7. Stock Exchanges
8. Investment Managers

If you want to find out if a particular entity is regulated by NAMFISA, please use our dedicated toll free number **0800 290 500** or visit our website at **www.namfisa.com.na**. Navigate to the financial sector you are interested in, select the relevant sector and click on Registered Entities to get the complete list of registered entities under the particular sector.

We hope this article was of assistance and look forward to providing you with more guidance in the next Consumer Education Bulletin.

BUDGET SHEET

TAKE CONTROL OF YOUR FINANCES

1: MONTHLY INCOME

Income is the total sum of everything your household earns. Income can come from the salary of a steady job or work you do on the side that brings in money.

You: Monthly salary (after tax) ____________________

Husband/wife: Monthly salary (after tax) ____________________

TOTAL INCOME (A) A: ____________________

2: MONTHLY EXPENSES

Expenses are everything that you spend your money on each month, such as food, water and electricity, and airtime.

Rent/mortgage/bond ____________________

Food (cooking at home) ____________________

Take-aways (KFC, Nandos) ____________________

Taxi/bus/petrol ____________________

Car loan repayment ____________________

School fees ____________________

Crèche/day care ____________________

Water and electricity ____________________

Airtime ____________________

2.1 EXPENSES YOU SHOULD HAVE

Medical aid ____________________

Life insurance ____________________

Funeral insurance ____________________

2.2 OTHER EXPENSES

____________________ ____________________

____________________ ____________________

____________________ ____________________

TOTAL EXPENSES (B) B: ____________________

3: SAVINGS

We always stress the importance of putting money aside for the future.

SAVINGS (C) C: ____________________

4: ADDING IT ALL UP

Take your Income (A) and subtract the total of your Expenses (B) and then subtract your Savings (C) to see how much money you have left over at the end of the month.

E.g. Income (A) = N\$5,000; Expenses (B) = N\$3,850; Savings (C) = N\$500

Therefore: N\$5,000 - N\$3,850 - N\$500 = N\$650 left over at month-end

GLOSSARY OF KEY UNIT TRUST SCHEME TERMS

Source: http://www.iol.co.za

Third-party Insurance
Third-party insurance refers to policies where the beneficiary of the policy is someone other than the two parties involved in the contract (e.g. the car owner and the insurance company).

Abandonment Value
Abandonment value is the equivalent cash value of a project if it is liquidated immediately after reducing all debts which need to be repaid.

Beneficiary
In life insurance, the beneficiary is the person or entity entitled to receive the claim amount and other benefits upon the death of the benefactor or on the maturity of the policy.

Balloon Payment
Balloon payment is the lump sum payment which is attached to a loan, mortgage, or commercial loan. This payment is usually made towards the end of the loan period. Balloon payment is higher than what you might be paying towards the loan on a monthly basis.

Cede or Ceding Company
A ceding company is an insurance company that transfers the insurance portfolio to a reinsurer. The insurer is however liable to pay the claims in the event of default by the reinsurer.

Contingent Beneficiary
In a life insurance policy or an annuity plan, a contingent beneficiary gets proceeds from the policy in the event of the demise of the primary beneficiary at the same time as that of the insured.

Contingent Liability
A contingent liability is defined as a liability which may arise depending on the outcome of a specific event. It is a possible obligation which may or may not arise depending on how a future event unfolds. A contingent liability is recorded when it can be estimated, or else it should be disclosed.

Deferred Acquisition Cost
The practice of deferring the outlays incurred in the acquisition of new business over the term of the insurance contract is called deferred acquisition cost.

Equity Finance
Equity finance is a method of raising fresh capital by selling shares of the company to the public, institutional investors, or financial institutions. The people who buy shares are referred to as shareholders of the company because they have received ownership interest in the company.

Fully Drawn Advance
Fully drawn advance is a financing method which gives you the freedom to take funds or a loan but only for longer durations. It is an ideal way of financing assets which have a long shelf life, such as real estate.

Indemnity
Indemnity means making compensation payments to one party by the other for the loss occurred.

Insurable Interest
Insurable interest is defined as the reasonable concern of a person to obtain insurance for any individual or property against unforeseen events such as death, losses, etc.

Lapsed Policy
The policy for which all benefits to the policyholder cease and is terminated due to non-payment of the premium amount on the due date or even after the grace period is called a lapsed policy.

Medical Underwriting
Before the issuance of a health or life insurance policy, the applicant is evaluated on the basis of his/her medical history in order to set the premium rate for the policy and to decide whether to offer coverage or not.

Mitigation
Mitigation means reducing risk of loss from the occurrence of any undesirable event. This is an important element for any insurance business so as to avoid unnecessary losses.

No-claim Bonus
No-claim bonus (NCB) is a discount in premium offered by insurance companies if a vehicle owner has not made a single claim during the term of the motor insurance policy.

Reinstatement
If an insured person fails to pay the premium due to various circumstances and as a result the insurance policy is terminated, then the insurance coverage can be renewed. This process of putting the insurance policy back after a lapse is known as reinstatement.

Retention Limit
The maximum amount of risk retained by an insurer per life is called retention. Beyond that, the insurer cedes the excess risk to a reinsurer. The point beyond which the insurer cedes the risk to the reinsurer is called retention limit.

Risk assessment
Risk assessment, also called underwriting, is the methodology used by insurers for evaluating and assessing the risks associated with an insurance policy. The same helps in the calculation of the correct premium for an insured.

Surrender Value
Surrender value is the amount the policyholder will receive from the insurance company if he/she decides to exit the policy before maturity.

Maturity
Maturity refers to the end of a duration or time period of a contractual investment.

Underwriting Risk
Underwriting risk refers to the potential loss to an insurer emanating from faulty underwriting. The same may affect the solvency and profitability of the insurer in an adverse manner.

NAMFISA
NAMIBIA FINANCIAL INSTITUTIONS SUPERVISORY AUTHORITY

CONSUMER EDUCATION BULLETIN

Brain Teasers are a great way to challenge the brain and have a little fun

Find the answers in our next edition

		9			7	1		
	4	1		5	3			6
3				6		4		9
9			7				3	
	8		4				1	
		5		8		2		7
	5				4		9	2
6	3		1			5		
		7		3			4	

CONTACT DETAILS:

+264 61 290 5000
P.O. Box 21250, Windhoek
consumer@namfisa.com.na
1st Floor, Sanlam Centre
154 Independence Avenue, Windhoek
www.namfisa.com.na

COMPLAINTS TOLL FREE NUMBER
0800 290 500