Appendix A

KEY OUTCOMES FROM CONSULTATIONS ON FIMA OUTSOURCING STANDARDS (GEN.S.10.10)

This annexure forms part of the attached response letter to NAMFISA based on the key outcomes from the meeting held with Regulator on 18 December 2024. It consolidates feedback from NaSIA members following internal consultations on the identified key issues. The issues outlined in the letter are highlighted below with detailed recommendations aimed at addressing each area of concern raised.

1. **Outsourcing and In-sourcing**
   The current definition of "Outsourcing" includes "in-sourcing arrangements" whereby business functions are outsourced to a related service provider such as a subsidiary, affiliate or associate. Industry members seek clarity on whether it is the Authority's intention to prohibit outsourcing to group subsidiaries or affiliates within the borders of Namibia or if the focus was on offshoring arrangements.

   It is our understanding that NAMFISA is amenable to outsourcing within group companies inside the Namibian borders, which is consistent with the policy objective of increasing capacity and resilience of the local industry.

Proposal on Outsourcing and In-sourcing

If NAMFISA affirms our understanding as above, we propose an amendment to Clause 3 of the Standard.

Given the broad scope with which the outsourcing of principal business is interpreted, we propose that section 2(a) be re-drafted as follows: "A financial institution or financial intermediary may not outsource its principal business", ***unless it in-sources its principal business to a related service provider such as a subsidiary, affiliate or associate, provided that such service provider is located within the borders of Namibia.***

2. **CIS MANCO Functions and Accountability**
   There is a need to clarify the nature of a CIS scheme and the primary functions of a Manager of Collective Investment Schemes (MCIS), particularly with reference to fund administration services.

   It is our understanding that NAMFISA wishes to align with global best practice whilst reinforcing oversight of accountable institutions and thus undertook to consider a workable proposal regarding to the roles and principal business of CIS vehicle and MCIS.

CIS MANCO Functions and Accountability: Proposal 1

We recommend that CIS fund administration functions be removed from Schedule 2 and reclassified as material business functions. In addition, Principal business functions have been proposed in Schedule 2 to give effect to the mutual understanding of the role of a CIS.

NaSIA is of the view that sufficient provisions exist in the Standard to enforce the ultimate responsibility of the board and senior management of a CIS for ensuring ongoing compliance with the standard, even when outsourcing material business functions. Consequently, ultimate accountability for regulatory compliance remains with the Manager and not the outsourced service provider.

The Standard's requirement to designate employees to oversee risk identification, reporting, and mitigation related to outsourcing and obtain NAMFISA approval for such arrangements further mitigates any risks associated with outsourcing without diminishing NAMFISA's regulatory oversight, as set out in the Standard.

Proposal 2:

To further strengthen accountability and reinforce this obligation amongst board and senior management, we propose that their role be expanded as follows: propose that Section 3(1) be re-drafted to read as follows: The board and senior management of a financial institution or financial intermediary is ultimately responsible for ensuring compliance with this Standard and ***remains ultimately responsible for both principal business and material business, even if outsourced.***

3. **Transition Periods and Regulatory Implementation**
   NaSIA members requested a 36-month transition period to enable a responsible, phased, systematic approach to compliance without compromising operational stability, trust in the financial services industry or client outcomes.

   NAMFISA believes that a 12-month transition period is sufficient. NAMFISA however recognizes the potential risks of a blanket implementation timeline and is amicable to industry participants approaching the Regulator individually to request a dispensation on a case-by-case basis, based on their unique positions.

   NaSIA welcomes this approach and the Authority's acknowledgement of the significant risk of adverse consequences, which would be inconsistent with the principles of Treating Customers Fairly and ensuring sector stability during this major transition.

Proposal for a Phased Implementation Approach

Having understood the need to get the implementation of FIMA and applicable Standards underway as soon as possible, we are requesting NAMFISA to consider at the very least a phased implementation process. NaSIA recommends that NAMFISA adopt a phased approach by categorizing implementation activities under Schedule 2 for Financial Institutions and Financial Intermediaries as follows:

- Activities that could be considered for immediate compliance within 12-month period;
- Activities requiring gradual implementation beyond 12 months but within 24-month period;
- Full compliance within 36-months for activities that are quite involved and have capacity-intensive requirements.

Anything longer than the identified category timelines can be addressed through direct individual engagements with the Regular on case-by-case basis.

The proposed phased transition ensures that the industry commits to agreed implementation timelines while allowing individual members to systematically assess and restructure their functions to meet industry-wide compliance deadlines, compromising operational stability and or client service levels.

Should the NAMFISA be amenable to this proposal and this suggested approach, NaSIA will undertake to provide the Authority with realistic industry-wide implementation timeline for the key activities as per the above referred Schedules within an agreed period.

NaSIA's Proposed Amendments to Schedule 2

SCHEDULE 2

(to Standard GEN.S.10.10)

PRINCIPAL BUSINESS THAT MAY NOT BE OUTSOURCED

Chapter	Financial Institution	Principal business function or activity
4	Collective Investment Scheme	(i) Establishing collective investment schemes; and (ii) Establishing portfolios.~~; and~~ ~~Fund administration (includes pricing of participatory interests and reporting).~~

Chapter	Financial Intermediary	Principal business function or activity
4	Manager of Collective Investment Scheme	**OPTION 1** (i) Governing and Operating~~, controlling and managing~~ a Collective Investment Scheme; ~~(ii) Oversight of Rreceiving, paying or investing money or other assets including income accruals;~~ ~~(iii) Oversight of Sselling, repurchasing, issuing or cancelling of a participatory interest, giving financial advice or disclosing information on any matters to investors or potential investors; and~~ ~~(iv) Oversight of Bbuying and selling of assets or the handing over of the assets to a trustee or custodian for safe custody.~~ (ii) Portfolio mandate design; and (iii) Appointing, authorising and overseeing an investment manager; and (iv) Appointing, authorising and overseeing portfolio administration service providers. **OPTION 2** (i) Oversight of ~~O~~operating, controlling and managing Collective Investment Scheme; (ii) Oversight of ~~R~~receiving, paying or investing money or other assets including income accruals; (iii) Oversight of ~~S~~selling, repurchasing, issuing or cancelling of a participatory interest, giving financial advice or disclosing information on any matters to investors or potential investors; and (iv) Oversight of ~~B~~buying and selling of assets or the handing over of the assets to a trustee or custodian for safe custody.

APPENDIX B

NASIA CONSULTATIONS ON FIMA OUTSOURCING STANDARDS (GEN.S.10.10)

Key Challenges and Potential Impact of the Draft Outsourcing Standards.

This annexure forms part of the attached response letter to NAMFISA on the FIMA Outsourcing Standards. It highlights some key challenges and potential impact of the proposed changes on the local financial sector. While NaSIA is supportive of various initiatives by the Regulators to transform the industry by enhancing regulatory oversight and strengthening local capacity, we are concern about the effects of some provisions in the draft Outsourcing Standards on the industry. Specifically, the lack of clarity around Outsourcing and In-sourcing and the expanded definition of "Principal Business" that includes some key support and administrative functions, could lead unintended consequences.

Below are some areas where the effects of proposed Standards are likely to be felt, should these be implemented in the current form.

1. **Impact on sector growth and competitiveness**

   The current draft Standards requiring certain functions to be maintained in-house as part the "Principal Business" definition severely limits the flexibility of industry players to consider alternative outsourcing arrangements to achieve operational efficiencies. Such restrictions effectively result in a prescriptive cost structure for the industry. In highly competitive financial sector industry access to highly specialised technical skills and technology offered through specialist third-part service providers offers a distinct comparative advantage.

   When industry players are unable to leverage group structures or independent service providers for access to certain skills, technology and specialized services the operational cost for individual entities increases. The situation invariably not only leads to operational inefficiencies for individual entities but ultimately impact on the country's globally competitiveness as result of the increased cost structure. In the worst case, the loss of global competitiveness due to increased operational costs could render local services economically unviable. In such a scenario some institutions may be forced to reduce the scope of service offerings or exit the Namibian market entirely if they cannot leverage expertise within their group or from other jurisdictions. Over time the industry could lose its investment competitiveness and attractiveness resulting in reduced growth for the industry.

2. **Impact on global coverage**

   To maintain competitiveness modern investment management demands global operations for cross-border payments, multi-currency processing, and 24/7 trade matching and settlements. Some of these capabilities are best provided through specialized global fund administrators and specialist investment professionals.

   To ensure that we achieve similar efficiencies and remain competitive, Namibian firms must leverage multi-national group resources and outsourcing to scaled service providers — particularly for fund administration functions. Mandating local-only solutions is impractical in this context and risks compromising the services and competitive costs available to Namibian investors.

3. **Barriers of entry for new and emerging industry players**

   The draft Outsourcing Standards further creates significant barriers of entry for new market entrants through the prohibitive cost structure resulting from the requirement to provide the full range of "principal business" functions in-house.

An illustrative practical example in this regard would be a new smaller entrant, who is unable to leverage economies of scale or provide the range of specialized services required to meaningfully conduct the principal business for which the entity has been licensed. Such a scenario is likely to impact new market entrants with no established or large-scale local operation disproportionately due to the lack of requisite scale.

Furthermore, classifying CIS fund administration as a principal business activity disincentivizes pooling of investor assets in efficient, highly regulated structures and instead encourages less regulated investments or proliferation of sub-scale segregated mandates. This is inconsistent with the both the localization and local capacity development objectives of the Financial Sector Transformation Strategy.

4. **Impact on industry risk management**

   Outsourcing arrangements through specialist service providers such as fund administration helps mitigate operational risks such as valuation errors, transaction inaccuracies, and fraud, thus enhancing the overall security and system integrity. For industry players to be required to provide all such functions internally or through single entities not only creates further operational burdens but increase risks for entities. Consideraing the current shortage of key skills locally coupled with the proposed relative short transition period could result in increase risk levels across the industry.

5. **Increased key-person risk**

   In a small local market with widespread skill shortages the burden of specialized roles often rests on only one or two individuals, making local entities vulnerable to disruptions in their operations. Local entities operating without the flexibility to outsource critical functions therefore are likely to face heightened key-person dependency risks as result.

Conclusion

NaSIA remains committed the localization, development of local skills and capacity, as well as the broader objectives of Financial Sector Transformation Strategy. However, we recognize that there are material potential risks of unintended consequences flowing from the implementation of the proposed Outsourcing Standards. To mitigate some of the unintended outcomes from the scenarios as noted above, we have shared some suggestions enclosed as part of this letter.

We welcome the opportunity to share our perspective and appreciate NAMFISA's consideration of our various suggestions on the Outsourcing Standards.