



Financial Surveillance Report

2019

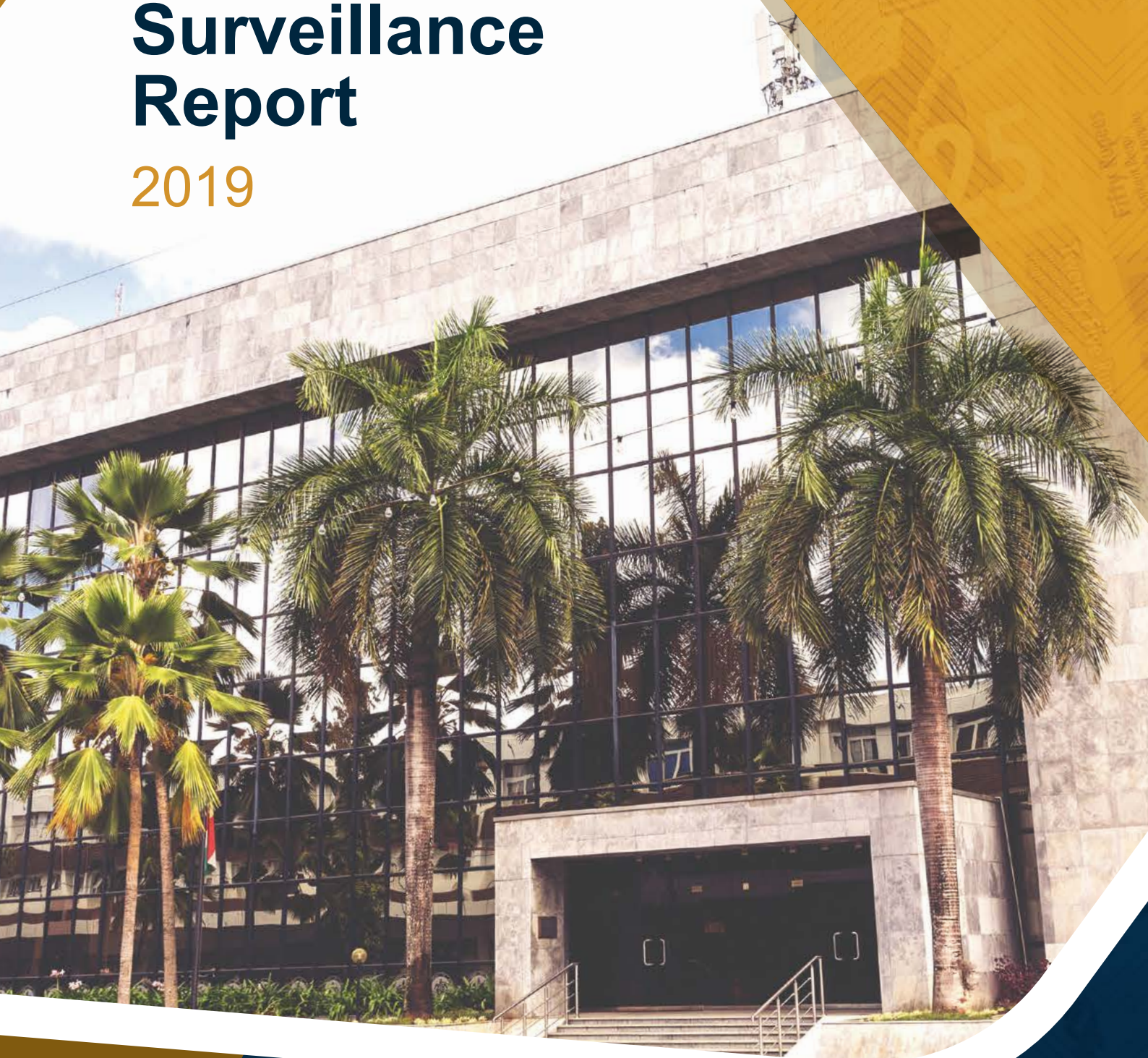




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PURPOSE OF THE REPORT

The Financial Surveillance Division (FSD) of the Central Bank of Seychelles (hereinafter, the Bank) publishes, annually, a report which highlights the regulation, supervision, performance and financial position of the financial sector of Seychelles. As per section 48(2) of the Central Bank of Seychelles Act, 2004 as amended (CBSA), the Bank may publish regular reports on issues related to monetary, financial stability or any other matter within its competence ... on its activities in the preceding year and on its objectives set out in section 4.

This is primarily directed towards the financial sector and other individuals to provide them with an insight into the endeavours undertaken by the Bank to promote a financial system that is sound as well as inclusive and equitable towards all participants.



VISION



**A model
Central Bank
delivering price
stability and
financial system
soundness.**

MISSION

To contribute towards inclusive growth and development of Seychelles.



OBJECTIVES

The primary objective of the Bank is to promote domestic price stability.

The other objectives of the Bank are:

1. to advise the Government on banking, monetary and financial matters, including the monetary implications of proposed fiscal, credit policies or operations of the Government; and
2. to promote a sound financial system.

OUR PHILOSOPHY

Financial Surveillance Division

Our underlying philosophy revolves around the concept that market principles inform all our activities and decisions. In this regard, we are constantly motivated to perform our duties and responsibilities in a professional, credible, and impartial manner. Moreover, we set strict supervisory rules for our supervised entities to effectively and efficiently protect depositors, creditors and the financial system as a whole. We achieve this through constant two-way communication between an Analyst and his/her respective financial institution(s). In so doing, this assists in adding value to the financial system through the provision of constant feedback, to ensure compliance with relevant laws and guidelines, thereby fostering safety and soundness in the financial system. Besides, emphasis is placed on staff empowerment so as to guarantee excellent service delivery and that all interactions – with internal and external parties – are done professionally with high ethical behaviour. As such, it is essential that a relationship of mutual trust between FSD and its key partners is maintained. Ultimately, we contribute to the creation of the foundation for sustainable economic growth through our endeavours to foster a stable banking sector.

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Governor's Statement

The Seychelles macroeconomic environment was relatively stable during 2019, with various macroeconomic indicators being positive, despite the subdued global economic growth. As a small and open island nation, Seychelles' economy remains susceptible to external shocks, predominantly due to the country's substantial reliance on the tourism sector and imports. Notwithstanding trade tensions and other geopolitical uncertainties globally, which eroded investor confidence, the domestic economy expanded by an estimated 3.9 per cent in 2019 relative to 3.8 per cent in the preceding year. As is the case annually, the services sector was the main contributor to the growth given that it constitutes an estimated two-thirds of the country's economic activity.

To mark the culmination of its 40th anniversary, the Bank published a commemorative book in 2019. The commemorative book highlights key milestones achieved throughout the Bank's four decades of existence along with details of its history. The Bank has made several strides since the establishment of a formal central banking institution in 1978, and looks forward to the attainment of many more milestones in the years to come as it welcomes a new central banking era, one particularly focused on digital transformation.

With continuous development and expansion of the banking sector, the Bank ensures that robust monitoring mechanisms are in place, effective supervision is conducted, and relevant policies and legislative frameworks are adopted. This is done to safeguard financial stability and promote sustainable and inclusive growth. As the regulatory and supervisory authority of the banking sector, the Bank continues to enhance its supervisory role of entities under its purview, especially through the issuance of new regulatory and supervisory frameworks, and amendments to existing frameworks. These frameworks target both the micro and macro environments, are consistent with international



standards and adapted to the local context. Such efforts adopted by the Bank aim at strengthening and fostering financial system resilience through the minimisation and avoidance of systemic risks. It is in this respect that the banking sector remained highly resilient during the period under review with positive performance noted.

The Bank continued to pursue matters related to Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) throughout the year under review. This area remains of considerable significance to the Bank given the space it occupies in the global and domestic sphere. Following recommendations of the National Risk Assessment (NRA) conducted in 2016 and the Mutual Evaluation Report (MER) of 2018, 2019 witnessed the formation and establishment of the National AML/CFT Committee (NAC) of which I sit on as the Vice-Chairperson. Additionally, a sub-committee to act as the operational arm of the NAC, the Technical AML/CFT Committee (TAC), was created with the primary objective of engaging in tasks focused on the implementation of initiatives approved by the NAC.



The domestic economy thrives when the financial services sector is safe and sound, thereby providing the necessary conditions for smooth monetary policy transmission and financial intermediation. Hence, the Bank is increasingly conscious of the opportunities and threats brought about by emerging financial technologies (Fintechs) to the financial services sector. These considerations prompted the Bank to organise a workshop under the theme *Building a Fintech Platform for Seychelles: Opportunities and Challenges* in 2019, in collaboration with local and external stakeholders. Fintech has transformed the financial sector into a more dynamic and vibrant environment, thus, resulting in the entry and expansion of new financial players, creating innovative business models and making traditional banking obsolete. The workshop afforded participants with the opportunity to better comprehend the Fintech ecosystem and ultimately, support the formulation of a National Fintech Strategy for Seychelles.

Financial education remains key on the Bank's agenda, particularly in achieving the action points in the National Financial Education Strategy 2017-2020. In June 2019, the Bank participated in the *Inner Islands Business and Financial Education Fair* hosted on La Digue and spearheaded the financial education aspect of the event. Organised as part of the various activities to commemorate Seychelles' National Day Celebrations, the fair provided the financial sector players with the opportunity to impart financial knowledge to the inhabitants of the inner islands with the ultimate aim of empowering them to make informed financial decisions. The Bank will maintain its financial education initiatives

throughout 2020, as it firmly believes that financial education is a catalyst for the attainment of financial inclusion and reinforces financial stability.

As part of proposals put forth in the Financial Sector Development Implementation Plan (FSDIP) 2014, Islamic Banking and Finance was identified as a potential niche market that the country could tap into. Consequent to a feasibility study completed in 2016, the Cabinet of Ministers endorsed the National Policy and Strategy for Islamic Banking and Finance in 2018. Since then, the Bank has taken the necessary steps to equip its staff with the required knowledge and skills for the development of the relevant legislative frameworks and provision of support services to Islamic Banking and Finance Institutions in Seychelles. The Bank contracted the services of Islamic Banking and Finance Institution Malaysia (IBFIM) in 2019 to deliver a workshop to its staff which proved to be effective, with the achievement of an 83% pass rate for the Associate Qualification in Islamic Finance (AQIF) examination.

The Bank will continue to support the economy with the implementation of relevant policies and strategies going forward. This is with the aim of enhancing economic growth and development, raising public confidence in the banking sector and ensuring that the financial sector as a whole remains resilient, competitive, integrated, innovative and stable. Furthermore, the Bank will strengthen its regulatory and supervisory role, promote domestic price stability, foster consumer protection and advance financial inclusion whilst preserving the soundness of the financial system.

Ms Caroline Abel
Governor



Foreword by the Head of Financial Surveillance Division

The banking sector has grown by leaps and bounds since the establishment of the very first commercial bank in Seychelles in 1959. The sector facilitates economic growth through the intermediation of credit, owing to the channelling of resources from sectors with surpluses, to those with deficits. This permits businesses and households to manage their consumption and investment needs, and ultimately improve standards of living. Likewise, credit facilities are made available for economic development and growth, and are used by all major sectors of the economy, including tourism and fisheries. Nevertheless, this transformative power of leverage subjects the banking sector and the economy to inherent risks.

The number of branches of financial institutions inclusive of the number of people they serve has expanded significantly over the years. The utilisation of digital financial services like Automated Teller Machines (ATMs), payment cards, mobile apps and others, have enhanced banking and consumer experience. Essentially, the banking sector has become an indispensable facilitator of the real sector and is crucial to the health of the Seychelles economy. Therefore, the criticality of banking and its interconnectedness to the economic health and stability of the country warrants the need for robust regulatory oversight of the banking sector and financial system as a whole.

As the banking sector evolves, through the adoption and implementation of the use of technology, the sector is exposed to cyber risks. In that regard, the



Bank has been working closely with the commercial banks and other relevant stakeholders in promoting cyber resiliency. In the same vein, the Bank issued the Cyber Security Guidelines in April 2019 to all deposit-taking institutions, to ensure effective cyber risk management practices. In addition, in November, the Bank in conjunction with the Seychelles Bankers Association (SBA), participated in the International Fraud Awareness Week – the first observance of this annual international event, in Seychelles, which aimed to enhance anti-fraud awareness and education amongst the population. Moreover, the Bank dedicated its annual symposium on cybersecurity under the theme *Navigating Cybersecurity Risks in the Digital Revolution*.

Consequent to a request for closure from Habib Bank Limited (HBL) in 2018, the Bank officially revoked the licence of HBL in 2019. HBL was one of the oldest commercial banks in Seychelles, with its Seychelles branch opening in 1976. Notwithstanding HBL's closure, SBM Bank (Seychelles) Limited (SBM) formally began its operations after being licenced in 2016 and meeting the necessary requirements of the Bank to start operating. As a result, the total number of commercial banks operational in Seychelles stood at nine as at the end of 2019, compared to eight in 2018.



The banking sector remained resilient with capital and liquidity well above regulatory requirements throughout 2019. The resilience of the sector was supported by favourable and strong macroeconomic performance against the backdrop of accommodative monetary policies implemented by the Bank. The banking sector's growth in terms of total assets and deposits improved relative to 2018 figures. Some indicators of financial sector performance for 2019 compared to 2018 are briefly highlighted below:

- Total assets grew by R2,897 million to stand at R24,565 million;
- Total liabilities experienced a year-on-year growth of 14 per cent to settle at R22,132 million;
- Equity capital observed an increase of R235 million totalling to R2,434 million;
- The Capital Adequacy Ratio (CAR) and Core Capital Ratio remained on a downward trajectory with the CAR declining from 21 per cent to 20 per cent and the Core Capital Ratio decreasing from 19 per cent to 16 per cent; and
- Net profit before tax fell by 6 per cent to R589 million whereas net profit after tax recorded a R5 million increase, summing up to R375 million.

The area of AML/CFT remains prominent on the Bank's agenda particularly as a result of the implications of same on the reputation of the local jurisdiction. In that respect, and in the

country's endeavour to ensure effective design and implementation of risk-based supervisory frameworks, the Bank, in conjunction with the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG), hosted a workshop on *Risk-Based Supervision for Digital Financial Services, Money or Value Transfer Services, Money Remittances and Bureau De Change Sectors*. This initiative ties in with recommendations put forth in Seychelles' second MER adopted in 2018.

Going forward, the Bank endeavours to devise and implement policies and legislative frameworks aimed at mitigating micro and macro level risk build-ups and threats in the financial system. This is to improve the resilience of the financial system to both internal and external shocks. Similarly, the Bank will enhance its vigilance in the identification and assessment of prominent risks to the banking sector and financial system. This is to be done through heightened supervision – via the implementation of a risk-based supervisory framework – and co-ordinated and collaborative efforts with internal and external stakeholders, such as regulatory authorities. In addition, the Bank will intensify its participation in regional and international fora with the objective of harmonising supervisory practices and standards, especially having taken over the Chairmanship of the Southern African Development Committee (SADC) Subcommittee of Banking Supervision in 2019.

Mr Naadir Hassan
Head of Financial Surveillance Division



Key Figures for 2019

Banking Stability

Total Assets	Total Liabilities	Equity Capital	Capital Adequacy Ratio
R24,565 million	R22,132 million	R2,434 million	20%
Core Capital Ratio	Ten Largest Depositors	Licensed Commercial Banks	Licensed Bureaux de Change
16%	R2,398 million	9	24
Licensed Payment Service Providers	Net Profit After Tax - Banking Sector	Return on Equity	Return on Assets
14	R375 million	24%	2.5%

Non-Bank Performance

Total Assets - DBS, SCU & HFCL	Net Profit - DBS, SCU & HFCL	Total Assets - Bureaux de Change
R2,260 million	R27 million	R297 million
Total Liabilities - Bureaux de Change	Net Profit After Tax - Bureaux de Change	
R160 million	R3.8 million	

Payment System

Total № of Payment Transactions	Total Value of Payment Transactions	Total № Electronic Fund Transfers	Total Value of Electronic Fund Transfers
8.7 million	R77,290 million	409,046	R28,664 million
Total № of Debit Cards	Total № of Credit Cards	Total № of Card Transactions	Total Value of Card Transactions
80,634	6,406	5.8 million	R1,093 million
Total № of ATMS	Total № of POS Terminals		
67	3,530		

Macroeconomic Developments

Estimated Real GDP	Consumer Price Index	Average Lending Rate	Average Savings Rate
3.9%	1.8%	12.36%	2.88%
Interest Rate Spread	Total Outstanding Domestic Credit	Current Account	Gross International Reserves
9.49%	R12,303 million	-US\$275 million	US\$580 million
Net International Reserves	Public Debt (% of GDP)		
US\$430 million	57%		



Chapter 1

Overview

1.0 Introduction

After a decade of post-crisis regulation, the Bank has been focusing on ensuring that the current regulatory and supervisory environment is more efficient, transparent, innovative, resilient and safe. This is done in tandem with ensuring that the compliance cost on regulated entities is minimised without compromising on their safety and soundness. Throughout 2019, the Bank further rooted its efforts in maintaining financial system soundness and stability, by undertaking work on the introduction of new regulatory and supervisory frameworks, amending existing frameworks to align with international standards and best practices, and conducting both offsite and onsite examinations of supervised entities, amongst others.



1.1 Structure of the Financial Sector

The Bank's Board of Directors approved for the establishment of a new section within FSD in 2018 - subsequently set up in 2019 - with the responsibility for the supervision of AML/CFT matters. The setting-up of this specialised section is in line with the sectoral approach approved by the Cabinet of Ministers in 2018 for Seychelles' AML/CFT regime. Moreover, the year under review witnessed the final revocation of HBL's licence, after having been in operation in the country since 1976. On the other hand, the Bank welcomed the operationalisation of SBM following the granting of a banking licence in 2016. Accordingly, this brought the total number of commercial banks in operation to nine as at December 2019. As regards bureaux de changes (BDCs), the Bank did not grant any new licenses, despite two applications received during the review period. Thus, by December-end, the total number of BDCs in operation stood at 24, out of which 13 were Class A and 11 Class B. Moreover, as the case in 2018, the Bank did not grant any licences to non-banks during 2019.

1.2 Macroeconomic Conditions

The International Monetary Fund (IMF) forecasted global growth to be at 2.9 per cent for the year 2019, thereby reflecting a contraction in economic activity in contrast to the estimated 3.6 per cent growth in 2018. In the Seychelles context, economic indicators show a positive overall level of economic activity with an estimated real Gross Domestic Product (GDP) growth of 3.9 per cent for 2019 - a 0.1 per cent increment compared to 2018. The increase was driven by positive performance in the services sector, particularly in tourism. Tourist arrivals sustained an upward trajectory during 2019, with a total of 384,204 visitors, signifying a 6.2 per cent increase compared to 2018 figures. As per the National Bureau of Statistics (NBS), a year-on-year growth of 1.7 per cent in the average prices of goods and services was observed for the year 2019. Moreover, 2019 remained on a positive trajectory, with the attainment of a primary surplus of 2.6% of GDP due to savings recorded on the expenditure front. In this respect, by the end of the year, the total stock of public debt stood at 57% of GDP.

1.3 Financial Inclusion and Market Conduct

Throughout 2019, the Bank pursued with its efforts and initiatives to support the advancement of financial inclusion in Seychelles, to ensure responsible access to quality and affordable financial services, inclusive of the development and implementation of strategies related to the modernisation of financial services like Fintech. As regards market conduct supervision and consumer protection, the Bank continually monitored the market, for the manner by which players in the banking sector design their products and services and how they manage customer relationships.

1.4 National Payment System

The payment systems of Seychelles continued to evolve in 2019 as a result of both local and global developments. The Bank pursued its initiative to enhance its oversight powers through undertaking policy work to amend the enabling framework for payment systems as well as work on new regulatory frameworks such as the E-money Regulations. During the review period, the number of payment transactions amounted to 8.7 million for a total value of R77,290 million. Payment cards were the preferred mode of payment with a sum of R6,824 million for debit card transactions and R261 million for credit card transactions.

1.5 Financial Sector Performance

The financial sector remained resilient and was well capitalised and liquid during the period under review, against the backdrop of a relatively stable macroeconomic environment. The banking sector witnessed enhancements in earnings performance, increasing asset base and satisfactory asset quality. Total assets grew to R24,565 million, total liabilities to R22,132 million and equity capital to R2,434 million. Compared to 2018, the banking sector recorded a lower net profit before tax at R589 million whilst net profit after tax expanded to R375 million in 2019. With regards to the non-banks under the Bank's supervisory purview, the BDC sector experienced a growth in both transactions for purchases and sales settling at R2,768 million and R2,623 million, respectively. In the context of Seychelles Credit Union (SCU), same noted a higher net profit for 2019 at R13 million in contrast to R9.8 million in 2018; Development Bank of Seychelles (DBS) observed a lower net profit for 2019 standing at R5.1 million; and Housing Finance Company Limited (HFCL) recorded a 41 per cent decline in its net profit to stand at R15 million in 2019.



1.6 Developments in the Supervisory Framework

The developments in the supervisory space for the year under review focused mainly on ongoing projects as highlighted in the Financial Surveillance Report 2018. These were mainly for the amendments related to the legislation which governs the operations of financial institutions regulated by the Bank, specifically, the Financial Institutions Act, 2004 as amended (FIA).

1.7 Regional & International Developments and Initiatives

Throughout 2019, the Bank pursued with its participation, engagement and contribution in a number of regional and global initiatives aimed at enhancing the Bank's frameworks, capacity and capability in ensuring and maintaining a sound financial system. As the case in previous years, the regional and international developments and initiatives were mostly focused on areas that contribute towards the Bank's regulatory and supervisory mandate, namely, Fintech, AML/CFT, cybersecurity, payment system and Basel standards implementation.

1.8 Issues and Challenges

The Seychelles banking sector had its fair share of issues and challenges in 2019, particularly, reputational risk, consumer protection, cybersecurity, human resources capacity, central bank communication and others. As a result, the Bank and relevant stakeholders have had to step up their vigilance, knowledge, skills and expertise as well as work on necessary frameworks to circumvent the issues and challenges identified.

1.9 Outlook

The financial services sector will likely face waves of disruptions which are deemed to be more forceful and pervasive than what has been experienced in the past decades. These disruptions – particularly as a result of the emergence of Fintechs, reputational risks in relation to correspondent banking relationships (CBRs) and the unprecedented COVID-19 pandemic – are anticipated to bring about both opportunities and threats. Such disruptions could have serious implications for the local banking sector and stability of the financial system, and may lead to changes in how banking is conducted, by being, for instance, more digitally based, tailored, transparent and secure.



Chapter 2

Structure of the Financial Sector

2.0 Introduction

The Bank is entrusted with carrying out the duties of regulating and supervising financial institutions, credit unions, financial leasing businesses and overseeing the national payment systems by virtue of the CBSA, FIA, Credit Union Act, 2009 as amended (CUA), Financial Leasing Act, 2013 (FLA) and National Payment System Act, 2014 (NPSA). In order to discharge its duties, the Bank has put in place various policies and legislative frameworks in consideration of the local banking sector as well as international best practices and standards. The Bank also supervises the entities¹ under its purview based on existing legal frameworks, internal manuals, guidelines, circulars and international guiding policies/standards, such as those issued by the Basel Committee on Banking Supervision (BCBS). Such duties are undertaken by FSD. Furthermore, the Bank aims to become more proactive in applying supervisory methods that are forward-looking through its onsite and offsite surveillance going forward.

¹ Commercial banks, credit unions (CUs), non-bank credit granting institutions (NBCGIs), financial market infrastructures (FMIs), payment service providers (PSPs), financial leasing businesses and BDCs.

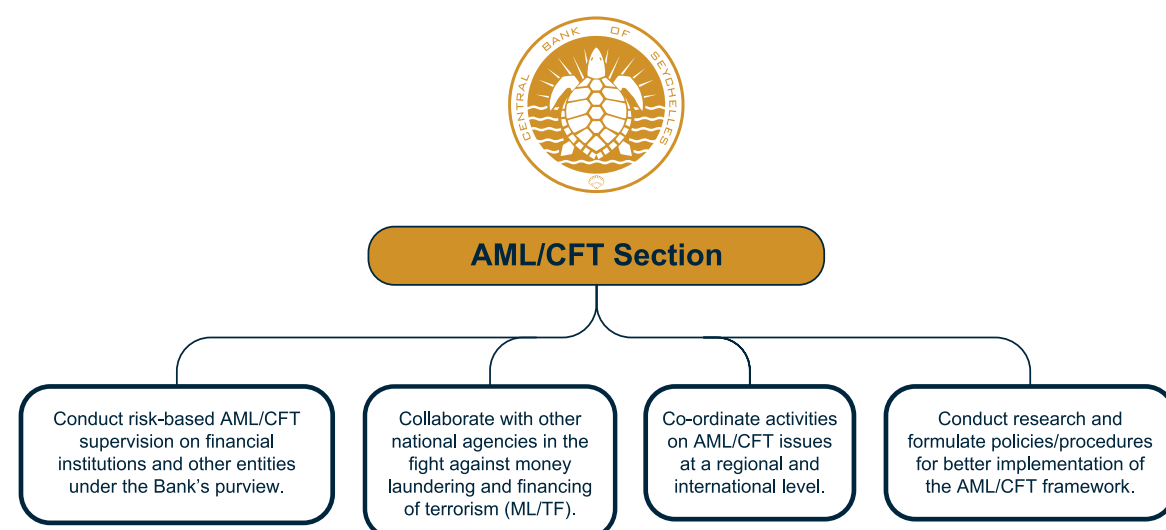


2.1 Financial Surveillance Division

FSD's mandate is articulated under section 4(2)(b) of the CBSA which is to promote a sound financial system. Pursuant to section 3(1) of the NPSA, the Bank has the powers to regulate and oversee the national payment system so as to ensure its safe, secure, efficient and effective operation. FSD is responsible for the effective regulatory supervision and oversight of entities under the Bank's purview at both micro and macro levels.

In November 2018, the Bank's Board of Directors approved for the establishment of a new section within FSD to be responsible for the supervision of AML/CFT matters for entities under the Bank's purview. This move is in line with the policy decision taken by the Cabinet of Ministers in October 2018 for a sectoral supervision approach under the country's revamped AML/CFT regime. The AML/CFT section became part of the Bank's structure in 2019. Aside from routine offsite monitoring and the conducting of onsite examinations, the section also undertakes research and policy work such as issuance of relevant laws and guidelines that pertain to supervision as part of its membership in the TAC. Chart 2.0 highlights the main functions of the section.

Chart 2.0: AML/CFT Section Functions



2.1.2 National AML/CFT Committee and Technical AML/CFT Committee

On February 4, 2019, the NAC was created and given the mandate to:

- Provide recommendations to the Government on legislative and regulatory policy matters specific to Anti-Corruption, AML/CFT and Countering Proliferation Financing (CPF);
- Foster co-ordination, co-operation and exchange of information between law enforcement agencies and relevant competent authorities locally;
- Promote international co-operation and collaboration on matters relative to AML/CFT, Anti-Corruption and CPF;
- Perform an oversight role on the implementation of the National AML/CFT and CPF Strategy, the Communications Strategy on all matters related to AML/CFT, CPF and Anti-Corruption and activities and deliverables of any sub-committees or working groups established in accordance with its mandate;
- Encourage capacity building; and
- Remain informed and engaged with developments in new technologies on both the local and international fronts and the risks they pose for AML/CFT.



A sub-committee to the NAC, the TAC, was created on February 18, 2019, following a review of the mandate and membership of the NAC, and serves as the operational arm of the NAC. The primary objective of TAC involves engagement in matters relative to the implementation and effectiveness of initiatives approved by the NAC whilst ensuring that a conducive and efficient business environment is maintained. The functions of TAC are as follows:

- Formulate policies to address operational issues relative to the implementation and effectiveness of initiatives by the NAC;
- Provide members with a forum for discussion on matters of Anti-Corruption, AML/CFT/CPF;
- Provide support in creating a financial environment hostile to ML/TF/PF;
- Advise the NAC on current and emerging ML/TF/PF and Corruption risks and trends;
- Foster co-operation amongst agencies, between public and private sectors in the development of relevant policies and legislations;
- Encourage and facilitate good practices in the development, dissemination and implementation of AML/CFT measures;
- Provide a forum for discussing and examining any arising operational or policy issues that have implications on the implementation, effectiveness and efficiency of the national AML/CFT framework and make recommendations to the NAC;
- Ensure effective implementation of policies and best practices in order to combat ML/TF activities and corrupt practices;
- Perform an oversight role on matters that are within its terms of reference and others that are ancillary or relevant thereto; and
- Ensure the implementation of regulations which are as per best international norms while maintaining the Anti-Corruption and AML/CFT regime to ensure appropriate, efficient and effective means of achieving national objectives whilst promoting the national effort to maintain effective AML/CFT framework.

The Bank is present on both committees, with the Governor as the Vice-Chairperson of the NAC and FSD sitting on the TAC. This portrays the Bank's continuous engagement and commitment towards the fight against ML/TF/PF and corruption.

2.2 The Financial Sector

By December 2019, the Bank had a total of 37 regulated entities under its purview, consisting of nine commercial banks, 13 Class A BDCs², 11 Class B BDCs³, one CU, two NBCGs⁴ and 14 PSPs⁵.

2.2.1 The Banking and Non-Banking Sectors

Throughout the review period, the Bank did not grant any new banking licences. Nevertheless, 2019 saw the final revocation of HBL licence in March. This was consequent to the Bank's approval for the commercial bank to cease its operations in Seychelles in 2018. Additionally, SBM – which was licensed in 2016 – officially initiated its operations in August 2019. The time lag between the approval of licence and commencement of business was as a result of delays encountered by SBM in setting up its operations. Ultimately, the number of licensed commercial banks in operation as at end December 2019 was nine.

2.2.1.1 Ownership and Control

The commercial banks in Seychelles can be broadly categorised into two groups on the basis of ownership and control, namely, state-owned and foreign-owned commercial banks. As at the end of December 2019, out of the nine commercial banks licensed and in operation, only two were majority-owned by the Government of Seychelles whilst the remaining seven were majority foreign-owned. This is illustrated on Chart 2.1, and as can be observed, out of the seven foreign-owned commercial banks, two had a minority of their shareholders domiciled in Seychelles.

² A Class A BDC is licensed to buy and sell foreign currency in the form of notes, coins, traveller's cheques and also engage in money transmission.

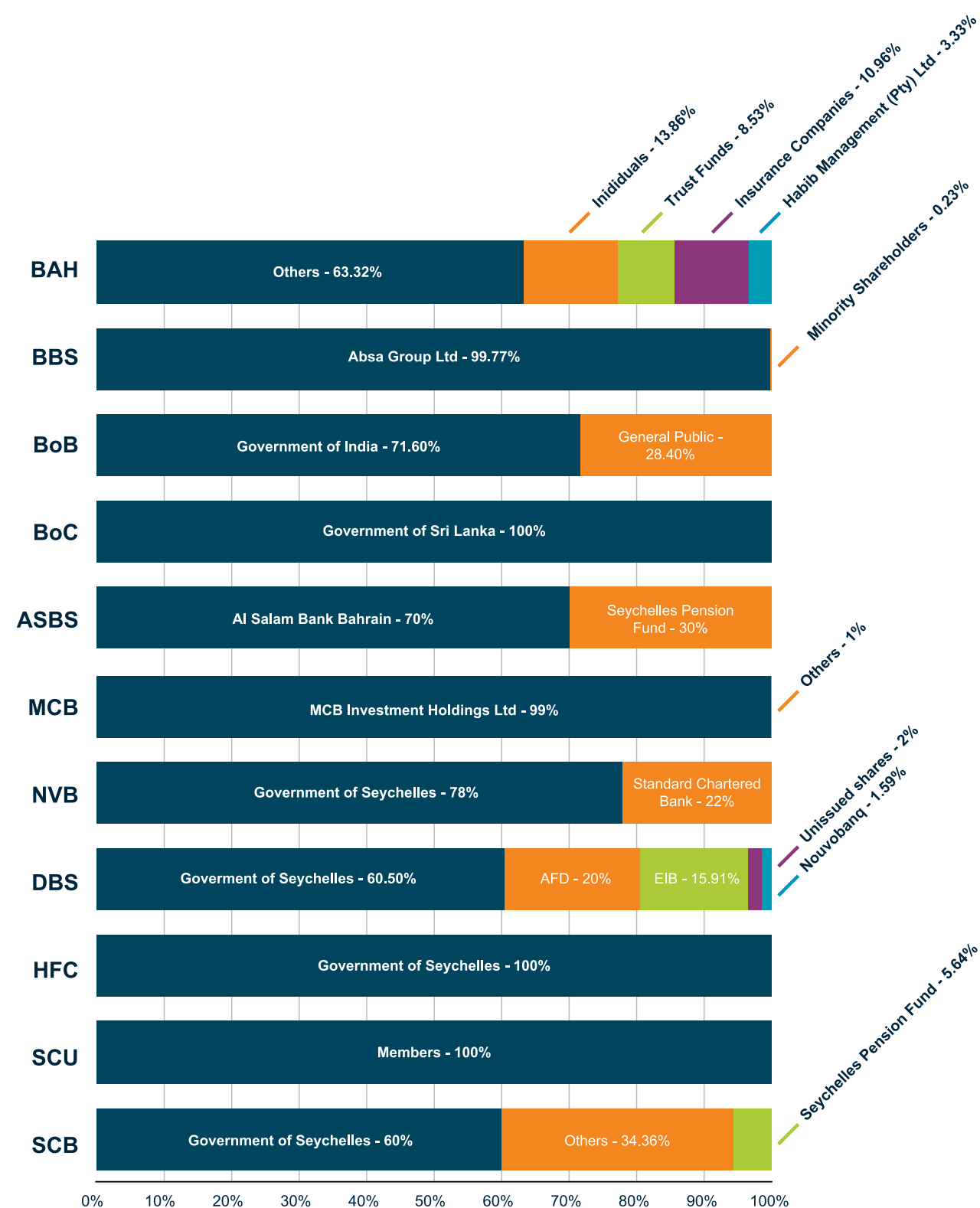
³ A Class B BDC is licensed to buy and sell foreign currency in the form of notes, coins and traveller's cheques only.

⁴ DBS and HFCL.

⁵ 13 Class A BDCs and one e-money service provider – Airtel Mobile Commerce (Seychelles) Ltd.



Chart 2.1: Ownership Structures as at the end of December 2019



2.2.1.2 Branch Networks

The distribution of the banking and non-banking institutions' (HFCL, DBS and SCU) network across the Seychelles Islands are illustrated in Table 2.0. As at December 2019, the total number of branches in Seychelles increased to 39, relative to 38 in 2018. This is as a result of SBM starting its operations in August 2019 with its office located along the Francis Rachel Street. During the year under review, Barclays Bank (Seychelles) Ltd⁶ relocated its main office based along the Independence Avenue to the Victoria House building along the State House Avenue. Moreover, HBL has been removed from the list following the official surrender of its banking licence in March 2019.

Table 2.0: Branch Networks

Institution Name	Mahé	Praslin	La Digue	Total
Al Salam Bank Seychelles Limited (ASBS)	1	0	0	1
Bank Al Habib (BAH)	1	0	0	1
Bank of Baroda (BoB)	1	0	0	1
Bank of Ceylon (BoC)	1	0	0	1
Barclays Bank (Seychelles) Ltd (BBS)	6	2	1	9
Mauritius Commercial Bank (Seychelles) Ltd (MCB)	4	2	1	7
Nouvobanq (NVB)	3	1	1	5
Seychelles Commercial Bank (SCB)	4	2	1	7
SBM Bank (Seychelles) Limited (SBM)	1	0	0	1
Housing Finance Company Limited (HFCL)	1	1	0	2
Development Bank of Seychelles (DBS)	1	0	0	1
Seychelles Credit Union (SCU)	1	1	1	3
Total	25	9	5	39

2.2.2 Bureaux de Change

As the case with the commercial banks, the Bank did not grant any new BDC licences in 2019. It should be noted that one BDC had its licence revoked and another had its PSP licence revoked, although both BDCs had their licences reinstated later during the year after evidence was provided for issues identified having been rectified accordingly. As at the end of December 2019, the number of licensed BDCs in operation was 24.

2.3 Market Entry and Licensing

Throughout 2019, the Bank received a total of 27 licence application information requests. This signifies an increase of 93 per cent relative to 2018. Out of the 27 licence application information requests, 17 were for BDC licence, nine for banking licence and one for authorisation to operate a payment, clearing or settlement system. Despite the high number of information requests, only five resulted in the submission of formal licence/authorisation applications – two for banking licence, two for BDC licence and one for authorisation to operate a payment, clearing or settlement system.

2.3.1 Bureaux de Change Licence

Throughout 2019, the Bank received only two BDC licence applications. One of the licence applications was returned as the applicant failed to meet stated deadlines by the Bank to furnish required information for processing of the application. The other application was not approved in line with section 6(3) of the FIA as the applicant failed to provide the Bank with substantial information and to satisfy the criteria listed under section 6(1) of the FIA.

⁶ Barclays Bank (Seychelles) Ltd changed its name to Absa Bank (Seychelles) Ltd in February 2020.



2.3.2 Banking Licence

During the year under review, the Bank processed only one banking licence application. Consequent to the substantive analysis conducted on the application, the Board of the Bank did not approve the application in line with section 6(3) of the FIA as the applicant failed to meet several criteria of section 6(1) of the FIA. Of note, the other banking licence application received in 2019 was returned to the applicant in view that the application was deemed to be incomplete and the applicant failed to submit the required documentation within the stipulated deadline.

2.3.3 Payment Service Operator Licence

In 2019, the Bank received one application for authorisation to operate a payment, clearing or settlement system by virtue of the NPSA and National Payment System (Licensing and Authorisation) Regulations, 2014 (NPSR). By year-end, the application was still being processed, with a completion date for a decision to be taken in early 2020.

2.4 Employment Trend

Table 2.1 below illustrates the employment trend in the banking and non-banking sectors in Seychelles, which is based on the branch network across Mahé, Praslin and La Digue. The total number of employees within the mentioned sectors stood at 974 by year-end 2019 compared to 932 for 2018.

Table 2.1: Employment Trend (2018-2019)

	2018		2019	
	Local	Expatriates	Local	Expatriates
Banking Sector				
BBS	258	5	277	5
MCB	183	6	194	5
NVB	137	5	142	5
SCB	115	1	120	1
ASBS	22	3	25	3
BoB	15	3	15	3
HBL	10	2	-	-
BoC	11	4	10	4
BAH	0	3	0	3
SBM	-	-	3	2
Total	751	32	786	31
Non-Banking Sector				
DBS	57	0	64	0
HFCL	51	0	53	0
SCU	41	0	40	0
Total	149	0	157	0
Grand Total	900	32	943	31
	932		974	



As can be seen from Table 2.1 above, the composition of the banking sector workforce is made up of 96.2% Seychellois and 3.8% expatriates for 2019. As for the non-banking sector, the workforce is made up of entirely Seychellois. Overall, the workforce for both the banking and non-banking sector increased by 4.5 per cent from 2018 to 2019.

2.5 Corporate Governance

As at the end of December 2019, the Bank approved an aggregate of 11 requests for appointment of administrators⁷ to the Board of commercial banks, DBS, HFCL, SCU and BDCs. These are detailed in the following subsections.

2.5.1 Commercial Banks

Of the 11 applications approved, six were for commercial banks, resulting in a total of 55 administrators on the Board of commercial banks as at end 2019. As regards gender-disaggregated data, the percentage of male and female administrators stood at 87% and 13%, respectively.

2.5.2 Non-Banks

The Bank approved three applications for appointment of administrators for DBS, HFCL and SCU. In sum, there were 21 administrators on the Board of the mentioned non-banks, out of which 71% were male and 29% female.

2.5.3 Bureaux de Change

By 2019 end, the Bank approved the appointment of two administrators for BDCs. This resulted in a sum of 53 administrators, out of which 70% were male and 30% female.

2.6 Sustainable Development Goals

2.6.1 Goal 3: Good Health & Well-Being

A key indicator for sustainable development is access to health, which is also a fundamental human right. A poor health system is deemed to impede children's right to education, augments poverty and restricts economic opportunities for both men and women. Furthermore, health has been found to correlate with poverty and other aspects of sustainable development, like economic growth, climate change, water and sanitation. Given the developments vis-à-vis economic integration and mobility, novel health challenges and risks are emerging, such as, obesity and drug abuse. In this direction, there is an increasing need for stakeholders to develop solutions in order to mitigate these challenges and risks.

In light of the above, the Seychelles' financial services sector has stepped up its efforts by engaging in numerous initiatives which support the promotion of health and well-being, namely:

1. Sponsorship of sporting equipment for schools;
2. Hosting of national sporting competitions;
3. Sponsorship for inter-school and national sports tournaments;
4. Donations toward the Seychelles' Autism Centre;
5. Contributions to the elderly for well-being;
6. Sponsorship for awareness and education on pollution; and
7. Sponsorship for environment degradation awareness and clean-up campaigns.

⁷ In relation to a financial institution, means any person who is a director or managing director of such institution, or in the case of a branch of a foreign financial institution, the person designated as managing agent pursuant to section 313(1) of the Companies Act.



Aside from the above, some institutions also offer medical loan facilities at affordable rates for medical procedures. These loan facilities are anticipated to provide members of the public with avenues to acquire funds to pay for hefty medical costs and does not necessarily require collateral. Consequently, these initiatives contribute towards achieving five of the targets under Goal 3, namely:

1. By 2030, reduce the global maternal mortality ratio to less than 70 per 100,000 live births;
2. Strengthen prevention and treatment of substance abuse, including narcotic drug abuse and harmful use of alcohol;
3. By 2030, substantially reduce the number of deaths and illnesses from hazardous chemicals and air, water and soil pollution and contamination;
4. By 2030, reduce by one third premature mortality from non-communicable diseases through prevention and treatment and promote mental health and well-being; and
5. Substantially increase health financing and the recruitment, development, training and retention of the health workforce in developing countries, especially in least developed countries and small island developing states.

2.6.2 Goal 4: Quality Education

Education is key to the attainment of sustainable development. Whilst education needs remain paramount, the financial services sector can leverage on their core competencies and resources in assisting the government in ensuring education for all. The financial services sector can assist in the unlocking of required investments so as to ensure quality learning opportunities for all children and adults. It is in this direction that the Bank continued with offering two scholarships annually under the Guy Morel High Achievement Scholarship Programme. For 2019, the two awardees applied to pursue an undergraduate programme in Business Management with specialisation in Financial Management and postgraduate programme in Forensic Accounting, respectively.

Moreover, players in the financial services sector organised, sponsored and donated to various local programmes aimed at advancing skills development in the mentioned sector. Some of these initiatives include:

1. Sponsorship of musical instruments and sporting equipment to schools;
2. Sponsorship of work programmes so as to equip students with the required skills for the world of work and the opportunity to earn extra qualifications;
3. Organisation of events to raise funds so as to fund specialisation programmes aimed at developing students' skills, especially in the area of emerging financial technology;
4. Partnership programmes to promote emerging talents in the field of arts by providing the platform to allow youths and adults to showcase their artistic talents; and
5. Partnering with the UN Youth Seychelles for the Global Money Week (GMW) awareness campaign in order to educate students on various aspects of the financial services sector.

Furthermore, some of the institutions in the financial services sector offer attractive education loan facilities for students and their staff to pursue their educational aspirations. These loan facilities assist in reducing the financial burden on families by avoiding them from tapping into their savings or assist those who lack the necessary financing and support. This is because the facilities can cover expenses like tuition, travel, study materials and so forth. Ultimately, these initiatives aim to attain three of the targets of Goal 4, namely:

1. By 2030, ensure equal access for all women and men to affordable quality technical, vocational and tertiary education, including university;
2. By 2030, substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship; and
3. By 2030, ensure that all youth and a substantial proportion of adults, both women and men, achieve literacy and numeracy.



2.6.3 Goal 5: Gender Equality

Women empowerment and the promotion of gender equality is vital towards achieving sustainable development. However, in order to attain gender equality, a concerted effort from all stakeholders is required. As regards the local financial services sector, in August 2019, the Cabinet of Ministers endorsed the Bank's Maya Declaration to collect sex-disaggregated data by December 2020. The information collected will be used to quantify the gender gap in Seychelles vis-à-vis financial inclusion as well as the identification of barriers to financial inclusion for women and the youth. Thereafter, an action plan shall be developed for the most value-added Fintech innovations designed to meet the needs of women and the youth based on the economic activities in which they are more active. In that regard, in 2020, the Bank will work in developing a specific return for the collection of sex-disaggregated data by December.

Additionally, there has been an increasing trend by the local financial services sector in the promotion of special loan conditions for 100% women-owned businesses and businesses majority owned by women. For instance, one institution approved a total of 44% of loans for women entrepreneurs throughout 2019. In addition, there has been a growing move towards having more women in leading roles in the financial services sector. For example, by December 2019, one institution's Board of Directors comprised of one third women, its Senior Management constituted of 67% women, whilst its Middle Management contained 77% women. As such, these initiatives contribute towards two of the targets of Goal 5, namely:

1. End all forms of discrimination against women and girls everywhere; and
2. Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life.

2.7 Abandoned Property

Table 2.2 shows the movements in abandoned property balances as at the end of December 2019. As can be seen, all four currencies experienced an expansion in their closing balance for the year 2019, depicting a higher number of funds transferred to the Bank in comparison to funds refunded to commercial banks.

Table 2.2: Abandoned Property as at December 2019

	SCR	USD	EUR	GBP
Opening Balance in 2019	22,709,819.61	358,689.92	29,170.02	11,297.01
Transferred to the Bank in 2019	1,119,665.77	547,009.05	9,027.70	11,210.29
Refunded to Commercial Banks in 2019	156,368.77	9,102.88	255.30	-
Closing Balance	23,673,116.61	896,591.09	37,942.42	22,507.30



2.8 Training

Throughout 2019, the commercial banks pursued with the initiative of broadening staff knowledge, skills and expertise to ensure that staff discharge their duties effectively and efficiently. Table 2.3 lists certain types of training provided by commercial banks throughout 2019.

Table 2.3: Types of Training Provided in 2019

Types of Training Provided in 2019
Compliance Training – Anti-bribery & anti-corruption Politically Exposed Person (PEP) & transaction monitoring
AML
Risk management
Financial crime
Leadership and management programme
Project management
Performance management/Business performance improvement
Business continuity management
Recovery and remedial management
Cash management and general banking
Internal audit
Islamic bank instrument
Cyber security awareness and credit card fraud
Data protection encryption
Operational risk management
Customer service and sales

As per Table 2.4, a total of 2,658 staff participated in training throughout 2019. This represents an increase of 87 per cent, compared to 2018. The training sessions were conducted both locally and overseas, with some commercial banks outsourcing international experts to train a wider group of their staff locally. Whilst some trainings were done through in-class sessions, commercial banks also ventured into offering online courses to their staff.

Table 2.4: Number of Training Participants (2017-2019)

Year	Nº of Participants
2017	3,843
2018	1,418
2019	2,658





Chapter 3

Macroeconomic Conditions

3.0 Introduction

The IMF World Economic Outlook (WEO) of January 2020, estimates global growth to be at 2.9 per cent for the year 2019. This reflects a slowdown in economic activity in comparison to the estimated 3.6 per cent growth in 2018. As a consequence, the probability of the Seychelles economy being adversely impacted by a slowdown in global output remains high. Despite this, economic indicators show a positive overall level of economic activity for the Seychelles economy with an estimated real GDP at 3.9 per cent for 2019. This represents a slight increment of 0.1 per cent in comparison to 3.8 per cent recorded for 2018. Nevertheless, early indicators for 2020 suggests that economic activity will slow down significantly, with a high probability that growth in real GDP being in the negative.



3.1 External Developments

The IMF has reduced the estimated global growth for 2019 to 2.9 per cent, 2020 to 3.3 per cent, and 2021 to 3.4 per cent. These revisions are lower in comparison to the estimations in the October 2019 WEO which were at 3.0 per cent, 3.4 per cent and 3.6 per cent, correspondingly. The IMF asserts that these downward revisions correspond to the negative economic shocks and increased social unrest that have surfaced in some emerging market economies. For instance, downside risks remain prevalent due to:

1. Escalation of geopolitical tensions between the United States (US) and Iran;
2. Intensification of social unrest;
3. Deterioration of trade between the US and its partners; and
4. Expansion of economic hostilities amongst other countries.

Ultimately, should these downside risks materialise, there is likely to be a rapid deterioration of sentiments, and hence result in a fall in the estimated global growth.

On a more positive front, the IMF reports that positive market sentiments are being observed as a result of:

1. Provisional indications of bottoming-out of manufacturing and global trade;
2. A collective move towards monetary policies that are more accommodative;
3. Reduced fears vis-à-vis Brexit; and
4. Alternating but positive updates on the trade negotiations between US and China.

Despite these positive signs, limited to no macroeconomic data are readily available to show a positive turning point for increased global growth.

3.2 Domestic Economic Developments

Table 3.0 depicts selected economic indicators for Seychelles for the year 2019 relative to 2018. These indicators are briefly explained below.

1. Real GDP

Indicative estimates suggest that real GDP grew by an estimated 0.1 per cent from 3.8 per cent in 2018 to settle at 3.9 per cent in 2019. As the case annually, preliminary indicators show that the services sector – particularly the tourism industry – was the key driver for the growth. Tourist arrivals sustained an upward trajectory during 2019, with a total of 384,204 visitors. This represents a 6.2 per cent increase compared to 2018 figures. As a consequence of increased tourist arrivals and enhanced marketing strategies adopted by the Seychelles Tourism Board, earnings from the tourism industry settled at a new record high of US\$590 million, depicting a 5.5 per cent increment for the year under review.

2. Inflation

Statistics from the NBS reveal a year-on-year growth of 1.7 per cent in the average prices of goods and services for the year 2019. Analysis of the 12-month average shows that the inflation rate reduced from 3.7 per cent in 2018 to stand at 1.7 per cent for 2019.

3. Domestic Credit

As at end December 2019, the Bank recorded a growth of 14 per cent in the total stock of outstanding domestic credit compared to 2018, at R12,303 million. This was mainly as a result of R1,482 million in claims on private sector which represents an increase of 22 per cent. In addition, the effective lending rate stood at 12.36 per cent for the year under review relative to the 12.58 per cent recorded in the previous year. Average return on deposits on the other hand, remained relatively static at 2.88 per cent as at year-end 2019. Thus, the interest rate spread stood at 9.49 per cent, dropping by 22 basis points in comparison to 2018 figures.



4. Fiscal Outcomes

2019 remained on a positive trajectory with the attainment of a primary surplus of 2.6 per cent of GDP due to savings recorded on the expenditure front. This was slightly higher than the targeted 2.5 per cent of GDP, thus showing the Government of Seychelles' commitment towards fiscal discipline and reducing the public debt below 50 per cent of GDP by 2021. In this respect, by the end of 2019, the total stock of public debt stood at 57 per cent of GDP.

5. Balance of Payments

Provisional data reveals a positive improvement in the country's current account deficit which decreased from US\$283 million in 2018 to US\$275 million in 2019. This is equivalent to 17 per cent of GDP, which was as a result of increments in the value of net inflows from foreign transactions and a reduction in payments of primary income to non-residents.

6. Exchange Rate Movements

Generally, the Seychelles rupee remained stable against the US dollar throughout 2019 despite depreciating by 0.9 per cent (12 cents) vis-à-vis the US dollar as a result of demand and supply dynamics in the local market. Contrariwise, the Seychelles rupee appreciated by 4.3 per cent (71 cents) against the Euro and 3.4 per cent (63 cents) relative to the Great British Pound. These were due to external factors.

7. Reserves Management

As the case in the previous year, the Bank continued to accumulate the country's reserves so as to further enhance Seychelles' external position during 2019. This was done through the opportunistic purchases of foreign exchange from the domestic market. Consequently, as at end 2019, the Gross International Reserves was equivalent to 3.8 months of imports at US\$580 million. Evidently, this caused the Net International Reserves to surpass its target by US\$27 million to settle at US\$430 million.

Table 3.0: Selected Economic Indicators (2018-2019)

		2018	2019
Real Sector	Real GDP growth (%)	3.8	3.9
	Consumer Price Index (CPI) (year-on-year, %)	3.4	1.7
	CPI (annual average, %)	3.7	1.8
Monetary and Financial Sector	Stock of outstanding domestic credit (R million)	10,750	12,303
	Average savings rate (%)	2.87	2.88
	Average lending rate (%)	12.58	12.36
	91-day Treasury bill rate (%)	5.31	5.22
	182-day Treasury bill rate (%)	5.48	5.63
	365-day Treasury bill rate (%)	5.89	6.29
Government Finance	Primary balance (% of GDP)	3.5	2.6
	Public debt (% of GDP)	55	57
External Sector	Balance of Payments		
	Current account (US\$ million)	(283)	(275)
	Current account (% of GDP)	(18)	(17)
	SCR per USD	13.9115	14.0335
	SCR per EUR	16.4671	15.7539
	SCR per GBP	18.5043	17.8705
	Gross International Reserves (GIR, in US\$ million)	549	580
	Net International Reserves (NIR, in US\$ million)	406	430
	NIR target (in US\$ million)	375	403
	Months of imports	3.8	3.8

Note: Further details on the performance of specific sectors of the economy and a more detailed analysis of the 2019 developments can be found in the Bank's Annual Report for 2019, accessible via the following link:
<https://www.cbs.sc/Downloads/publications/Annual%20Report%202019.pdf>



Chapter 4

Financial Inclusion & Market Conduct

4.0 Introduction

Consequent to the 2007/8 global financial crisis, regulatory authorities deemed it paramount to reform their roles and mandate in the regulatory and supervisory space. Such reform saw the commitments and move towards achieving greater transparency, safety and efficiency, financial stability and consumer protection. With the rapid expansion of the scope of regulatory activities of the financial sector, the Financial Inclusion and Market Conduct Division was created with a dedicated focus to develop and implement strategies for enhancing financial inclusion, market conduct and consumer protection in Seychelles.

In 2019, ongoing work focused on supporting the advancement of financial inclusion so as to ensure responsible access to quality and affordable financial services. This includes devising and implementing strategies for the modernisation of financial services such as Fintech and the implementation of the National Financial Education Strategy, amongst others. In the area of market conduct supervision and consumer protection, the Bank continued to monitor the market and the manner in which financial service providers design their financial services or products and how they manage the relationship with their consumers and other key players in the financial services space.



4.1 Financial Inclusion and Policy Developments

4.1.1 Credit Information System

Since the introduction of the Credit Information System (CIS) in 2012, the Bank has put forth various recommendations in order to enhance the effectiveness of the system. Particularly, it has been noted that there is an impending need to re-look at the current legal framework for the CIS so as to have a safer, more efficient and reliable system in place, inclusive of broadening the scope for collection and dissemination of credit information. It is within this context that the Bank initiated work on a policy paper for the formulation and introduction of a CIS Act. Throughout 2019, the Bank along with the Department of Information Technology (DICT) and World Bank pursued their efforts to enhance the CIS system and its legal framework. Work is expected to continue in 2020 with anticipation for completion by 2021.

4.1.2 Financial Consumer Protection

Work on the Financial Consumer Protection legislation continued during 2019 with collaborative efforts between the Bank, Attorney General's (AG) Office and Financial Services Authority (FSA) in the finalisation of the Financial Consumer Protection Bill. By the end of the review period, the draft Bill had gone through numerous versions, with its anticipated completion in the first quarter of 2020. Thereafter, the Bill will undergo the White Paper stage for targeted enactment before the end of quarter one of 2021.

4.1.3 National Fintech Strategy

The Bank co-hosted a workshop themed *Building a Fintech Platform for Seychelles: Opportunities and Challenges* with the Ministry of Finance, Trade, Investment and Economic Planning (MoFTIEP), Alliance for Financial Inclusion (AFI) and World Bank in May 2019. The workshop's objective was to convene all key stakeholder – local and international – to identify possible ways by which Seychelles can leverage on Fintech in order to improve access and facilitate digital transformation. The debates, discussions and lessons learnt from the workshop have been noted for the formulation of a National Fintech Strategy. Accordingly, the Bank set up an internal working group – Innovative Digital Financial Services Working Group – to formulate the strategy and take into consideration the ever-changing Fintech landscape, especially in regards to risks and opportunities. The Working Group oversees the development of national and international innovative technologies and their impact on the local banking sector. This process is anticipated to continue in 2020.

4.1.4 Financial Institutions (Bank Charges and Fees) Regulations, 2013

In light of the evolving landscape in the banking sector, the Bank has witnessed the introduction of novel products and services by the commercial banks. In this regard, the Bank has deemed it appropriate and necessary to review the existing fees and charges implemented by the commercial banks. Of note, the Bank publishes on its website⁸, quarterly updates on the charges and fees implemented by the commercial banks for use by the public for comparative purposes. In its continuous effort to ensure effective consumer protection and financial education, the Bank has now included other elements in the list of quarterly updates such as SMS alerts and details on the different types of cards issued by the commercial banks to their customers. The review process of the bank charges and fees will be completed in the second quarter of 2020.

4.2 National Financial Education Strategy

During the year under review, the Bank, jointly with its stakeholders and partners, intensified the efforts being done to enhance financial education and literacy in Seychelles. The Bank participated in national events, key of which was the *Inner Island Business and Financial Education Fair* hosted on La Digue to mark the National Day celebrations in June. This was done as a means to provide the general public and business owners – especially those on La Digue and Praslin – with the opportunity to engage with financial sector representatives on the various products and services on offer, as well as to increase their knowledge on topics such as financial stability and monetary policy.

⁸ <https://www.cbs.sc/Publications/ComparativeBankCharges.html>



4.2.1 Financial Education Programmes and Initiatives

In an effort to bring financial education efforts closer to the community, the Bank implemented a number of tailored financial education programmes and initiatives throughout 2019. These are in line with the National Financial Education Strategy 2017-2020 and are highlighted below. Such initiatives and programmes will continue throughout 2020.

4.2.1.1 Financial Education Advertisements

In order to broaden the scope of financial education initiatives and awareness, on February 28, 2019, the Bank launched its very first financial education advertisement on the Seychelles Public Transport Corporation (SPTC) buses on Mahé. The advertisement focuses on savings, budgeting and investing opportunities amongst other aspects of financial education. This initiative was also launched on Praslin on June 10, 2019. Furthermore, on July 1, the Bank engaged with SPTC to have the advertisement featured on the SPTC stored value card used by their customers. Ultimately, this initiative aimed at expanding the reach of the Bank to the public in ensuring the effective implementation of financial education programmes. Additionally, same is to ensure that the public are constantly reminded of the need to become more financially aware and educated.

4.2.1.2 Global Money Week

In 2018, UN Youth Seychelles⁹ officially launched the first edition of the GMW. GMW is aimed at instilling entrepreneurship, money management skills and sustainable livelihoods amongst the youth and children. Accordingly, in 2019, the Bank participated in Seychelles' second edition of the GMW, themed *Learn, Save, Earn* with the aim of increasing its engagement with the youth. The launching ceremony for the second edition kicked off with welcoming remarks by the Governor of the Bank who stressed that the youth should make use of every opportunity put at their disposition. Thereafter, presentations on personal finance and financial matters were delivered by different stakeholder representatives. The second edition of the GMW concluded with a financial tour whereby school students had the chance to visit the Bank, Seychelles Pension Fund, insurance companies and commercial banks. During the tour, the students learnt about the different functions within the institutions and gained an insight into probable career opportunities.

4.2.1.3 Financial Education Talks

A group of Primary Six students from Beau Vallon School were provided with an insight into how staff of the Bank make use of Mathematics in their everyday duties. This activity was done as a means to educate students on the benefits of learning Mathematics and how same can be applied in everyday work. The event was organised on June 19, 2019 and conducted in Creole language to ensure that the message being delivered was clear and understood by all.

Furthermore, on July 18, 2019, at the request of the Seychelles Petroleum Company (SEYPEC) Management, the Bank conducted an awareness session to the staff of SEYPEC. The request came as a result of the company wishing to impart the financial education programmes and initiatives being implemented by the Bank to its staff. The Bank welcomed SEYPEC's initiative and delivered an array of topics to staff present. Topics covered included the functioning of the economy, management of personal finances, savings, budgeting and investment opportunities in Treasury Bills and Bonds. During the session, SEYPEC staff also had the chance to engage with the Bank's staff present.

⁹ A non-profit organisation aimed at easing the representation of Seychellois youths at the United Nations Youth Assembly whilst simultaneously promoting volunteerism, leadership skills and the SDGs.



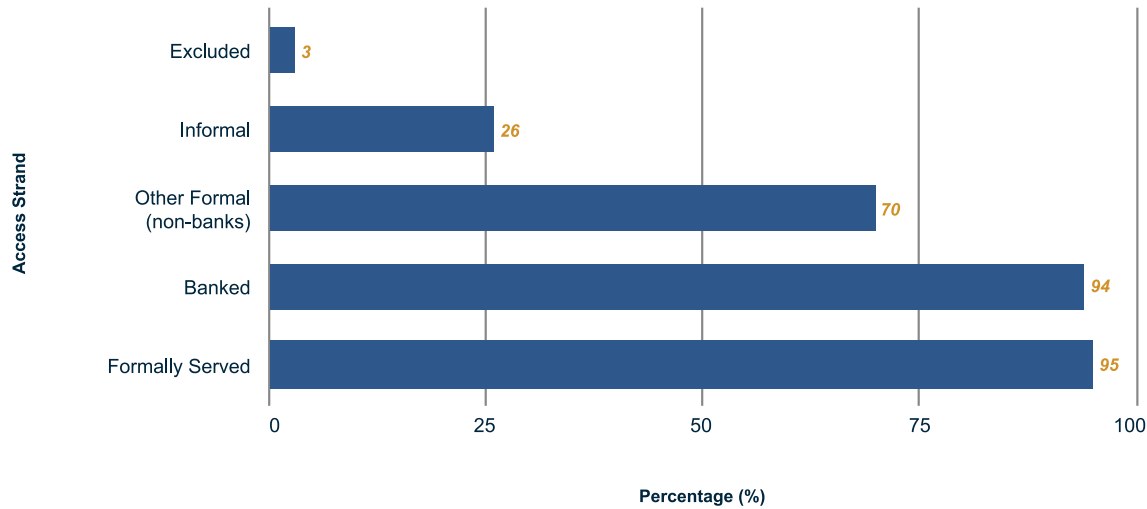
4.2.1.4 Fraud Awareness Week

The year under review witnessed the participation of the Bank in the International Fraud Awareness Week which was held on November 17 – 23. Locally, the event was organised by the Bank and SBA under the theme *Fraud: Know it, Detect it, Prevent it!* One key activity organised by the Bank was a forum for Post-Secondary students on November 20, revolving around the central theme of fraud awareness. The Bank also aired a number of video awareness on both television (SBC and TéléSesel) and social media platforms (Facebook and YouTube) throughout the International Fraud Awareness Week. Moreover, the Bank and stakeholders took the opportunity to distribute various educational leaflets and giveaways at a roadshow event – organised on November 23 – as a means to enhance public knowledge on ways to detect and prevent fraud. This also included interactions with the public.

4.3 Access Indicators

Concerns vis-à-vis access to financial products and services remain high on the agenda of regulatory authorities and governments across the world. In terms of the local context, a study commissioned by the Bank and FSA which was conducted in 2016 indicated that Seychelles has a banked population of 94% which has further driven the high levels of financial inclusion rate as depicted on Chart 4.0¹⁰. Of note, Seychelles has the highest levels of financial inclusion rate in the SADC region.

Chart 4.0: Access Strand (as at 2016)



The Bank conducted a year-on-year comparative analysis between 2018 and 2019, and observed slight improvements across a number of access indicators as highlighted in Table 4.0. This demonstrates the continued growth of the financial sector.

¹⁰ <https://www.cbs.sc/Downloads/publications/psd/National%20Financial%20Education%20Strategy.pdf>



Table 4.0: Access Indicators (2018-2019)

Dimension	Institution Type	Indicator	December 2018	December 2019
Access	Commercial Bank	Total number of licenced commercial banks	10	9
		Total number of branches	32	33
		Total number of access points (POS) per 10,000 adults at a national level	416	448
		Total number of branches per 10,000 adults at a national level	4.2	4.3
		Total number of ATMs per 10,000 adults at a national level	8.4	8.3
		Interoperability of ATMs	100%	100%
		Interoperability of POS Terminals	100%	100%
		Number of no frills accounts in '000s (basic savings account)	61	62
	Electronic Money	Total number of accounts	2,160	2,177
		Total number of merchants	45	45
		Total number of agents	108	108
		Total number of mobile money agents per 10,000 adults at a national level	13	14
	Financial Services	Percentage of residential districts with at least one financial service access point	100%	100%
		Percentage of total population living in residential districts with at least one financial service access point	100%	100%



4.4 Selected Commercial Bank Average Charges

The Bank continued to monitor selected banking sector average charges throughout the year under review. Table 4.1 provides a comparative analysis of the mentioned charges between 2018 and 2019. As per the Table, it can be noted that there has been a number of reduction in the fees and charges for the year 2019.

Table 4.1: Selected Commercial Bank Average Charges (2018-2019)

	Access Indicators			
	Fees and Charges	2018	2019	Growth Rate (%)
	ATM Charges			
	ATM Usage	No Charge	No Charge	0%
	Issue of first Debit Cards	No Charge	No Charge	0%
	Issue of replacement Debit Cards	R117	R125	6.8%
	Internet/Mobile Banking Charges			
	Monthly Subscription Personal	No Charge	No Charge	0%
	Monthly Subscription Business	R67	R58	(13%)
	Internal Transfer	R5	R5	0%
	Transfer of funds to other local banks personal/retail	R24	R24	0%
	Transfer of funds to other local banks business	R24	R21	(13%)
	Savings Account			
	Minimum Balance to open account	R743	R1,025	40%
	Minimum Balance to earn interest	R1,517	R1,600	5.5%
	Charges for Balances below specified amount	R1,440	R840	(42%)
	Current Account			
	Minimum Balance to open account (Personal)	R3,583	R2,938	(18%)
	Minimum Balance to open account (Business)	R6,643	R5,857	(12%)
	Fees for balances below specified amount (Personal)	R67	R64	(4.5%)
	Fees for balances below specified amount (Business)	R83	R76	(8.4%)
	Foreign Currency Account			
	Minimum Balance to open account (Personal)	US\$1,707	US\$950	(44%)
	Minimum Balance to open account (Business)	US\$2,707	US\$3,106	15%
	Payment and Clearing Charges			
	Bank Cheque (standard 100 pages) (Personal)	R180	R171	(5.0%)
	Bank Cheque (standard 100 pages) (Business)	R227	R223	(1.8%)
	Fee for stopping payment of cheque	R130	R120	(7.7%)

4.5 Deposit Rate

The tightened monetary policy stance adopted by the Bank in December 2018, resulted in an increase in the interest rates for deposits at the beginning of 2019. Consequently, with the loosened monetary policy stance adopted in quarter 4 of 2019, this caused the deposit rate to decline towards the end of the year. This is evident in Table 4.2 whereby the average return on fixed-term deposits recorded a growth of 0.38 per cent to settle at 3.94% in December 2019 compared to 3.56% during the same period in the previous year. In addition, analyses conducted vis-à-vis this movement revealed that the yields for most maturities were higher for 2019. The main increments were observed in the maturity brackets less than 7 days and above 3 months and up to 6 months which grew by 0.78 per cent and 0.68 per cent, respectively. Notwithstanding these increments, the yield for the maturity bracket of more than 12 months dropped by 0.19 per cent.

Table 4.2: Deposit Rate (2015-2019)

Deposit Rate	2015	2016	2017	2018	2019
Fixed Term Deposit Rate	4.08	3.55	3.34	3.56	3.94
≤ 7 days	1.18	1.11	1.05	1.38	2.16
> 7 days ≤ 3 months	3.12	3.54	3.46	3.53	3.81
> 3 months ≤ 6 months	4.73	3.17	2.94	3.30	3.98
> 6 months ≤ 12 months	5.80	4.82	3.82	4.25	4.59
> 12 months	5.54	5.08	5.45	5.35	5.16

4.6 Lending Rate

Similar to the deposit rate, the lending rate fluctuated throughout 2019 as a result of the different monetary policy stances adopted by the Bank. This caused the average lending rate to decrease by 0.22 per cent to settle at 12.36% in 2019 compared to 12.58% in 2018.

Table 4.3: Lending Rate (2015-2019)

Lending Rate	2015	2016	2017	2018	2019
Average Lending Rate	12.57	12.42	12.05	12.58	12.36

4.7 Complaints Handling

4.7.1 Complaints Lodged at Commercial Banks

As has been the case in previous years, complaints lodged at commercial banks continued to increase, with an increment of 42 per cent from 2018 to 2019 (see Table 4.4 and Chart 4.1). This represents a greater percentage increase in comparison to the years 2017 to 2018 which was as at 22 per cent. The persistent increases in complaints lodged at the commercial banks are deemed to be as a result of novel financial products and services being introduced, which includes an increase in payment cards issued by the commercial banks. Complaints in regards to credit cards increased by 100 per cent, debit cards by 34 per cent and Branch/ATM by 37 per cent. These complaints have been largely as a result of payment cards being blocked due to fraudulent activities and unauthorised transactions. Accordingly, it can be discerned that the majority of complaints were in relation to payment services as the case annually.



Table 4.4: Complaints Lodged at Commercial Banks (2017 – 2019)

Current Account	119	76	97
Deposits/Savings	61	118	196
Credit Card	23	33	66
Debit Card	583	560	751
Mortgages	4	15	4
Other lending	53	72	131
Foreign Currency Transaction	0	8	4
Issue and Administering Means of Payment	3	1	0
Safekeeping and Administration of Valuables	2	0	0
Credit Reference Services	190	0	2
Statements	9	5	29
Money Transmission Services	64	429	277
Branch/ATM	123	173	237
Others	64	98	466
Totals	1,298	1,588	2,260

Chart 4.1: Complaints Lodged at Commercial Banks (2017-2019)

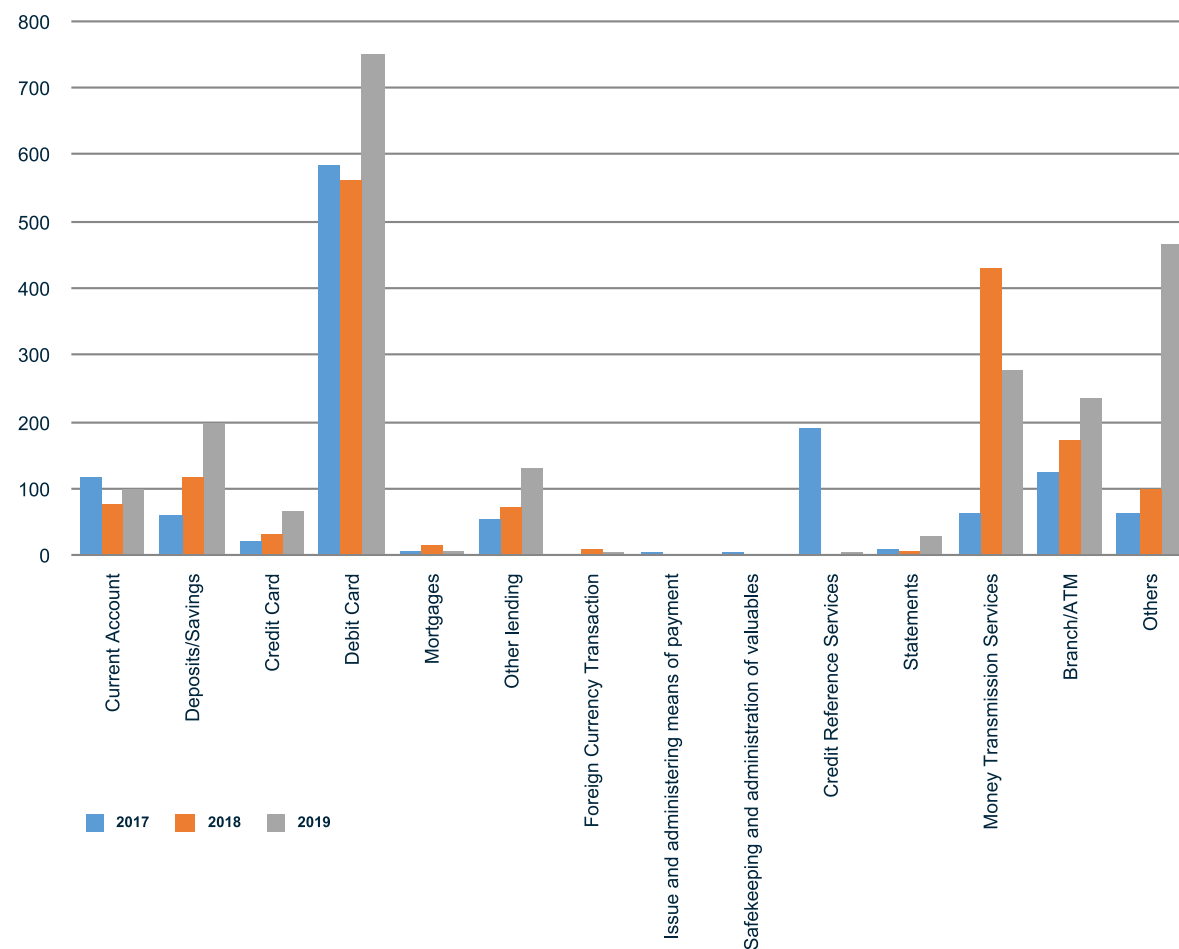
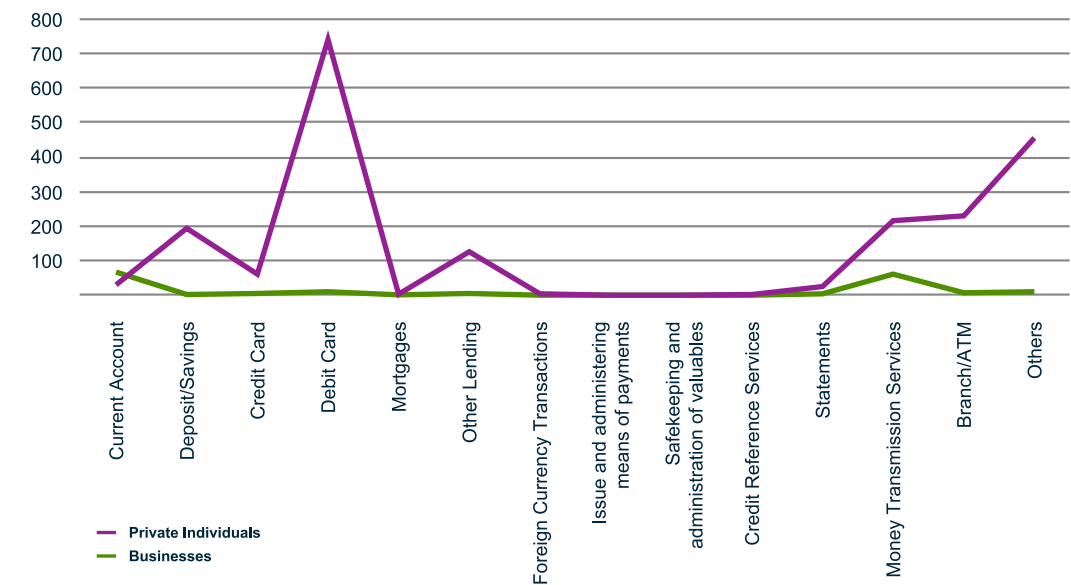


Chart 4.2 illustrates the distinction between complaints received by commercial banks from private individuals and businesses. It is observed that complaints lodged by individuals made up 92.4 per cent of the complaints reported.



Chart 4.2: Complaints Lodged at Commercial Banks by Individuals and Businesses in 2019



4.7.2 Complaints Lodged at Bureaux de Change

For the year 2019, a total of 72 complaints were recorded by BDCs of which most were in relation to delays in money transmission services. In comparison to the previous year, this represents a decrease of 84 per cent. The large reduction noted was due to misreporting by the BDCs in terms of what constitutes a complaint in 2018. In 2019, the Bank had to step in and advise the BDCs on what exactly constitutes a complaint based on the Financial Institution (Complaint Handling) Regulations, 2008.

4.7.3 Complaints Lodged at the Bank

As observed in Table 4.5, the Bank recorded a 8.0 per cent decrease in complaints lodged between 2018 and 2019. Out of the 35 complaints lodged in 2019, 32 were resolved by year-end with the remaining cases still in progress.

Table 4.5: Complaints Lodged at the Bank (2017 - 2019)

Nature of Complaints	2017	2018	2019
Cheques	3	3	2
Loan Complaints	8	11	5
ATM/POS	1	2	2
Unauthorised fund withdrawals/deductions from account	9	0	6
Authorised Signatories	0	1	0
Internet Banking	0	2	1
Abandoned Property	0	2	0
Dormant Account	0	3	0
Account Opening/Closure	6	3	1
Debit Cards/ATMs	0	2	2
Transfer of funds/Standing Orders	0	1	5
Fixed Deposit	0	3	1
Customer Service	2	1	0
Foreign Exchange	0	4	1
Others	8	0	9
Total	37	38	35



4.8 Credit Information System Enquiries

The Bank is mandated to collect credit information of debtors and disseminate same to credit providers through an enquiry service by virtue of the Central Bank of Seychelles (Credit Information System) Regulations, 2012 as amended. This provides credit facilitators with value-added tools to make well-informed decision prior to providing credit facilities, and thus promotes mitigation of credit risks. For the review period, credit providers in Seychelles, namely commercial banks, SCU, HFCL and DBS made a total of 18,670 enquiries on CIS as per Tables 4.6 and 4.7. This represents a 12 per cent decrease in comparison to 2018 where a total of 21,354 enquiries were recorded. This stems from greater emphasis being placed on the rights for credit facilitators to access CIS. It was noted during 2019, following queries from data subjects, that some credit facilitators were accessing CIS for reasons other than granting or amending credit facilities. Therefore, based on provisions under section 5 of the above-mentioned regulations, on rights for credit facilitators to access CIS, the concerned institutions were approached to ensure that the above regulation is respected.

Table 4.6: CIS Enquiries (2015-2019)

Year Ending	Enquiries
2015	26,970
2016	32,666
2017	27,443
2018	21,354
2019	18,670

Table 4.7: CIS Enquiries for 2019

	Enquiry on customers without credit facilities	Enquiry on customers with credit facilities
No of Individuals	2,648	12,191
No of Firms	2,838	993
Total	5,486	13,184

4.9 Maya Declaration¹¹

The Bank officially joined the AFI network in 2014. Since then, the Bank has benefited greatly from the AFI network's experiences, expertise and knowledge in various fields, including financial inclusion and digital financial services. In this direction, the Bank expanded its engagement with the AFI network, particularly by participating in numerous initiatives focused on financial inclusion through innovation. Such an initiative is essential in reducing and subsequently, closing the financial inclusion gaps through the expansion of the reach and scope of financial services. Besides that, throughout the year under review, the AFI network placed greater emphasis on the need to alter policy and regulatory approaches due to the growing complexity and pace of technological developments and innovation in the financial sector. Ultimately, the Bank will utilise the experiences, expertise and knowledge acquired from the AFI network to further develop the Seychelles financial sector as well as ensuring that there is a balance between the regulatory architecture, innovation, and consumer protection.

In light of the above, in 2019, the Bank reiterated its commitments towards the Maya Declaration by making further pledges, especially those targeted towards Gender Inclusive Finance and Disaggregated Data. Table 4.8 below provides a summary and the status of the commitments made by the Bank since 2017.

¹¹ Represents the world's first commitment platform which enables AFI member institutions to make concrete financial inclusion targets, implement in-country policy changes, and regularly share progress updates. The Maya Declaration was launched in 2011 at the Global Policy Forum (GPF) in Riviera Maya, Mexico <https://www.afi-global.org/maya-declaration>



Table 4.8: Maya Declaration

Policy Area of Maya Commitments	Target	Status
National Strategy on Financial Education	Formulate a national strategy on financial education by December 2017.	Completed in December 2017.
Financial Consumer Protection	Enact a consumer protection law for financial services and supporting Regulations by December 2017.	Ongoing and expected to be enacted by end of quarter one of 2021.
Digital Financial Services	Issue regulations relating to mobile financial services and promote cross-border remittances through mobile payments by December 2018.	The Regulations are expected to be gazetted by the end of the first half of 2020.
Financial Education	To empower youth through ongoing work on financial education for youth in schools as well as financial education and entrepreneurial skills aimed at young entrepreneurs and submit annual progress report.	Ongoing exercise within the ambit of the National Strategy on Financial Education.
Gender Inclusive Finance/ Disaggregated Data	To collect sex-disaggregated data by December 2020 to quantify the gender gap and identify barriers to financial inclusion for women and youth, and formulate an action plan on the most value-added Fintech innovations to meet their needs based on the economic activities that they are more active in.	Ongoing exercise: The enhanced financial inclusion return would feed into the overall statistical framework of the Bank.



Chapter 5

National Payment System

5.0 Introduction

The payment systems of Seychelles continued to evolve in 2019 as a result of both local and global developments. The Bank, by virtue of section 3(1) of the NPSA, is mandated to regulate and oversee the national payment system. Pursuant to section 3(2) of the NPSA, this role entails:

1. Formulating and adopting a national payment system policy for Seychelles;
2. Licensing of PSPs and authorisation of payment, clearing and settlement systems;
3. Determining general or individual conditions, standards, rules and procedures in accordance with the NPSA and any further implementation measures regarding any authorised entity and their activities, and ensuring that such conditions, standards, rules and procedures are duly applied;
4. Acting as a forum for the consideration of matters of policy and mutual interest concerning the national payment system; and
5. Performing such other functions relating to payment, clearing and settlement systems or the issuance of payment instruments, permitting the accomplishment of its functions.

The oversight function of the Bank aims at ensuring that the national payment system, along with the FMIs are resilient, safe and robust in accordance with the Principles of Financial Market Infrastructures (PFMIs). Accordingly, this will ensure the system's ability to withstand financial shocks. In this direction, the Bank is continually monitoring developments that arise in the payment system sphere and where deemed appropriate, implement novel ideas and policies with the intent of enhancing Seychelles' national payment system.



5.1 Payment System Legal Framework

5.1.1 National Payment System Act and National Payment System (Licensing & Authorisation) Regulations

In 2018, the Bank commenced a holistic review on the NPSA and its accompanying regulation in order to align them with the SADC Payment Systems Model Law, new developments in the payment systems space and address deficiencies observed in implementing the frameworks. This is being done as a means of improving the Bank's oversight role over the national payment system. Since then, including in 2019, the Bank has drafted several research papers catering for the required amendments to the legislative frameworks. The process is being done in tandem with the FIA amendments due to the interconnectedness of the legislative frameworks. Work with respect to same is expected to continue in 2020.

5.1.2 Electronic Money (E-money) Regulations

Consequent to the approval of the Board of Directors of the Bank for the E-money Regulations policy paper, the said paper was submitted to various stakeholders - including commercial banks, PSPs and regulatory authorities - for their comments, as well as international partners, such as AFI, for peer review. This process was completed in quarter four of 2019 whereby the comments put forth were compiled to further enhance the policy paper, where applicable. The drafting instructions for the E-money Regulations are anticipated to be submitted to the AG's Office in 2020.

5.2 Principles of Financial Market Infrastructure Assessment

Following the PFMI assessment initiated in 2018 by an outsourced consultant, the Bank completed the project in May 2019. The completed assessment resulted in two reports, as follows:

1. Assessment of the country's FMIs against the PFMIs – This report encompasses the assessment prepared by the operators of the system and assessment prepared by the overseer and/or supervisor of the market authority. Accordingly, the report provides a detailed view of the observance of the FMIs with the PFMIs. Moreover, the report puts forth recommendations for consideration by the Bank in enhancing the observance of some principles, so as to have a more robust and resilient payment system; and
2. Methodology for the Assessment of FMIs in Seychelles against the PFMIs – This report details the methodology that the Bank can use as a guide for conducting future assessments of the FMIs.

In light of the recommendations of the PFMI assessment, the Bank initiated the development of an action plan for the required tasks to be done to improve compliance with the PFMIs. Work in this regard is expected to continue throughout 2020.

5.3 Modernisation of the National Payment Systems

The Bank continues to strive in its efforts to engage with relevant stakeholders in order to implement payment infrastructures that will respond to the needs and challenges of the country. In the medium-term, the Bank aims to enhance its core banking system which is of significance for the modernisation of the technological infrastructure and ultimately, the expansion of both retail and wholesale payments.

In the short-term, the Bank will intensify its efforts to increase the utilisation of electronic payments whilst dis-incentivising the usage of cheques and cash. Accordingly, an action plan will be drafted which is aimed at supporting and allowing market players to develop and promote the use of digital channels further. Ultimately, this will address the issue of convenience, reliability and affordability.



5.4 Contactless Cards

Contactless payment has picked up pace in transaction technology globally, and it is anticipated that in 2020, Seychelles will join the many countries that have adopted this form of transacting. Contactless payment is an expedited process whereby customers can utilise their payment cards to transact without the need for PIN authentication. This is applicable for certain transactions amount depending on the transaction limit set by the card issuer. Locally, as at end December 2019, very few commercial banks had officially launched their contactless cards¹². Given the varying levels of readiness in regards to contactless cards in the banking sector, all relevant parties consented that the commercial banks and SCU would proceed with offering such a product as per agreement with network transaction processing providers such as VISA. Furthermore, it was observed that there was lack of education on such a product, hence it was agreed that all commercial banks and SCU would adopt the same limits for local transactions as detail in Table 5.0 below.

Table 5.0: Contactless Card Limits

Transaction Type	Limit
Maximum Ticket Value	R200
Daily Amount Limit	R400
Number of Contactless Taps	2

5.5 Survey on Merchant Acceptance of Payment Cards

During the review period, the Bank carried out a survey to better comprehend the payments landscape, particularly in relation to payment cards and Point of Sale (POS) terminals. The exercise targeted retail merchants in the local districts with consideration to a few merchants in other sectors, like taxi operators, travel agencies, auto parts businesses, the food industry, and electronics and furniture merchants. The survey aimed to assess the current landscape, inclusive of the difficulties being encountered by the merchants, vis-à-vis payment cards and POS terminals. Accordingly, the Bank surveyed a total of 71 merchants across the islands of Mahé, Praslin and La Digue. Below are some observations from the survey:

1. 75% of the respondents had a POS terminal;
2. 52% of the respondents stated that they have a minimum purchase limit for POS transactions due to same being an industry practice, coupled with the rigorous reconciliation process, particularly for low value transactions;
3. Network issues have been identified as the key challenge with POS terminal usage, leading to loss of sales and complaints from consumers, for example, due to transaction duplication;
4. Perceived high charges were identified to be the main cause behind merchants cancelling their POS contracts with commercial banks, followed by losses being borne due to refund processing;
5. Merchants claim that commercial banks take too long to process POS applications with the majority stating one-month duration whilst others stated one week; and
6. Merchants applying for POS claimed that same was as a result of consumer demand.

Consequent to the above, the Bank has put forth numerous recommendations as a means to address issues identified. These recommendations will be grouped according to their level of significance for implementation, that is, short, medium or long-term. Below are some of the recommendations:

1. Financial education initiatives targeted towards merchants and consumers;
2. Diagnostic study of the payments network to identify the source of network issues; and
3. Implementation of a national payment system modernisation plan to create an incentive and enabling environment for all players in the payment value chain to promote the use of electronic payments.

The Survey on Merchant Acceptance of Payment Cards is the initial step towards understanding the perspective of the merchants on the matter. Throughout 2020, the Bank will continue on the same trajectory by working with the banking sector to understand their challenges. Ultimately, the outcome of these initiatives will assist the Bank in designing and establishing a roadmap in order to bridge the identified gaps between the merchants and banking sector in the payments value chain.

¹² In accordance with international standards such as the VISA Rules.



5.6 Performance of the Payment System Streams

As part of its continuous oversight function, the Bank collects payment system data from PSPs and Payment System Operator, aimed to:

1. monitor occurrences or trends in the industry so as to develop full awareness of the weaknesses and developmental needs of the systems; and
2. signal trends and events that may, in the event that no action is taken, cause systemic risk or a problem for financial stability.

The following sections provide an overview of payment system statistics based on data collected in 2019, in comparison to 2018¹³.

5.6.1 Total Payment Transactions¹⁴

In 2019, the total number of payment transactions amounted to 8.7 million with a total value of R77,290 million, translating to an average of R8,922 per transaction compared to R8,761 per transaction in 2018. Compared to the year 2018, this represents an increase of 405,389 transactions resulting in a corresponding increase of R4,949 million in payments effected in 2019. The higher volume of payment transactions was driven by transactions conducted through POS terminals, Seychelles Electronic Fund Transfer (SEFT) and Central Bank of Seychelles Immediate Transfer Service (CBSITS). As for the higher value of payment transactions, these were attributed to transactions effected through SEFT, CBSITS and cheques.

Analyses show that the preferential mode of payment was through payment cards, followed by cheques, SEFT and lastly CBSITS. Charts 5.0 and 5.1 illustrate the total volume and total value of payment activities in 2019 relative to 2018.

Chart 5.0: Total Volume of Payment Activities

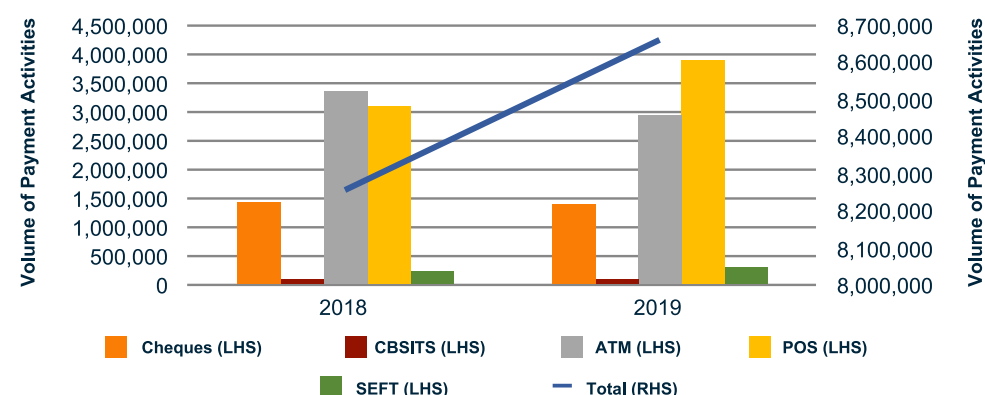
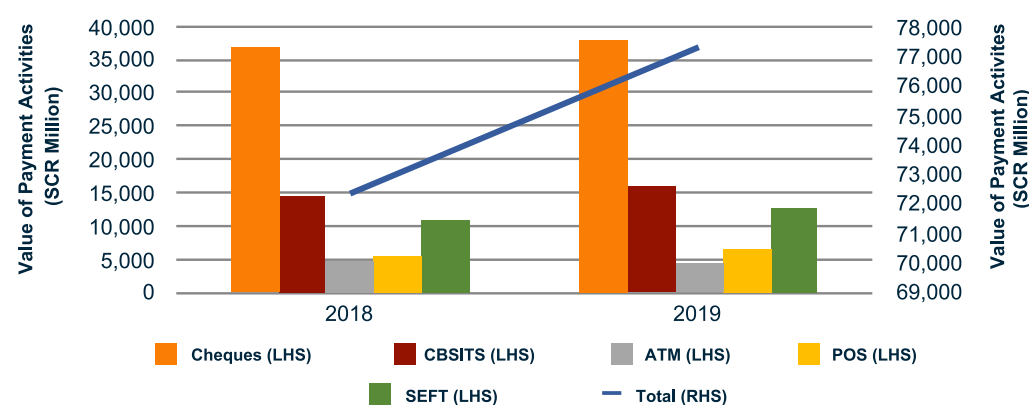


Chart 5.1: Total Value of Payment Activities



¹³ Based on figures in the Financial Surveillance Report 2018.

¹⁴ Includes CBSITS, SEFT, Cheques, ATM and POS transactions; excludes cash transactions.

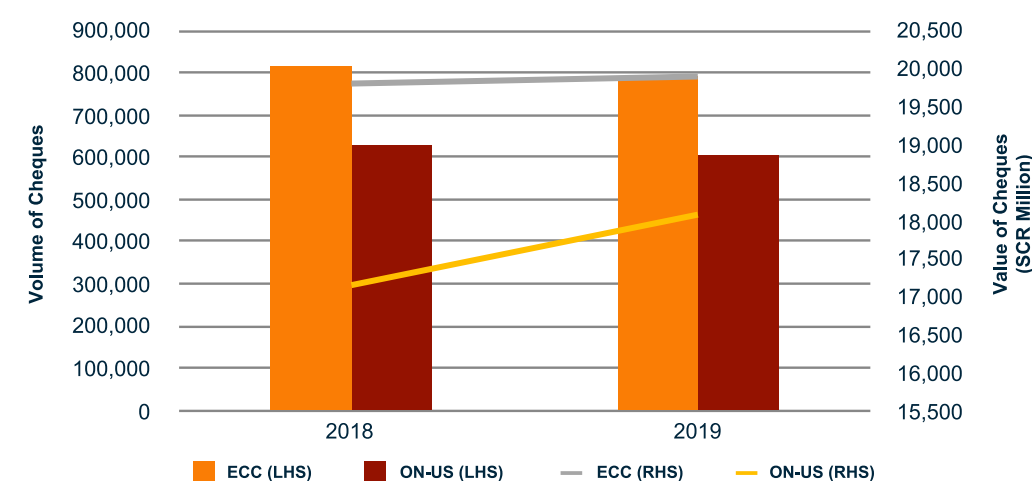


5.6.2 Total Cheques Presented¹⁵

A total of 1.4 million cheques were presented in 2019, signifying a reduction of 44,661 cheques presented compared to 2018 – with a decrease of 23,511 recorded in Electronic Cheque Clearing (ECC) and 21,150 On-Us cheques. In terms of composition, cheques presented through ECC and On-us cheques, as a percentage of total cheques, remained similar to that in 2018; i.e 57 per cent and 43 per cent, respectively.

As for the value of total cheques presented by customers, a year-on-year increase of R1,021 million was recorded, amounting to R37,973 million for the year 2019. Similar to last year, most cheques were presented through ECC (52% of the total value) compared to On-us cheques. This translates to an average of R27,191 per cheque compared to R25,640 per cheque in 2018.

Chart 5.2: Total Volume and Value of Cheques Presented



5.6.3 Total Electronic Fund Transfers

Electronic fund transfers continued to be conducted through SEFT and CBSITS in 2019, with a total of 409,046 such transfers effected in contrast to 330,293 in 2018 (see Chart 5.3). To note, the majority of the payments were directed through SEFT, amounting to 304,179 compared to 104,867 payments sent through CBSITS in 2019. This translates to 74% and 26% of electronic funds transfers processed through SEFT and CBSITS, respectively¹⁶.

The higher total number of electronic fund transfers in 2019 was reflected in the total value of related transactions. Total electronic fund transfers amounted to R28,664 million, representing a growth of R3,596 million compared to 2018. Despite the lower number of electronic transfers through CBSITS, the value of transactions effected through same was higher than that of SEFT transactions. Proportion-wise, the value of CBSITS transactions accounted for 55% of the total value of electronic fund transfers compared to 57% in 2018.

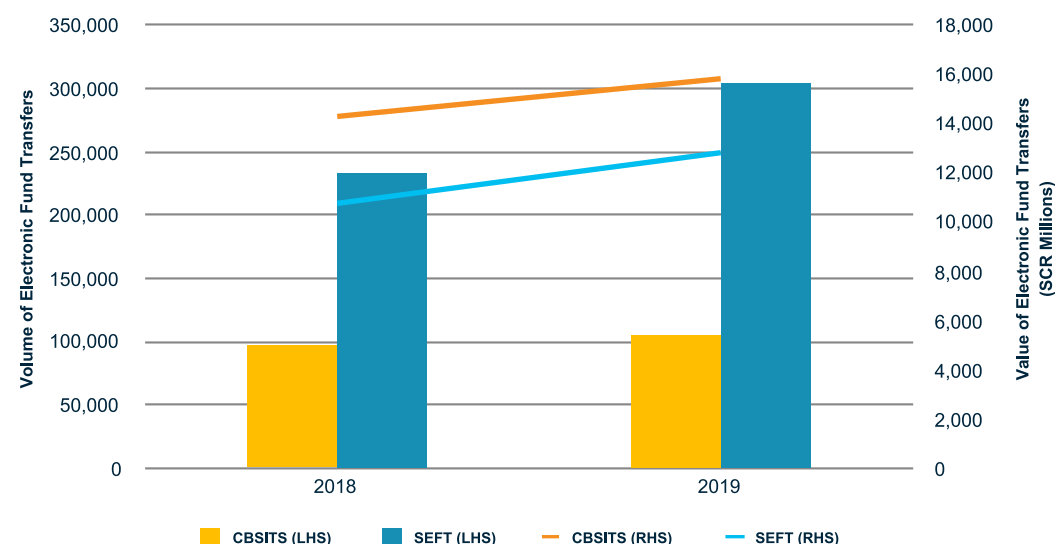
This signifies an average of R151,016 per CBSITS transaction and R42,171 per SEFT transaction for the year 2019. In comparison to 2018, the former stood at R147,725 whilst the latter was R46,111.

¹⁵ Figures are inclusive of ECC and On-us cheques.

¹⁶ 71 per cent and 29 per cent respectively in 2018.



Chart 5.3: Total Electronic Fund Transfers



5.6.4 Payment Cards in Circulation and Card Transactions

On the retail payment side, the number of payment cards issued by commercial banks during the review period increased compared to 2018. By the end of 2019, a total of 87,040 cards were in circulation, of which 80,634 were debit cards and 6,406 credit cards. On a year-on-year basis, this signifies an increase of 7,567 cards in circulation. Similar to 2018, debit cards accounted for 93 per cent of cards in circulation.

For the year 2019, the number of card transactions amounted to 5.8 million in contrast to 4.3 million for the previous year. The majority of card transactions were executed via debit cards, amounting to 5.6 million transactions. Consistently, the total value of card transactions was higher in 2019. In essence, the market recorded a total of R6,824 million for debit card transactions and R261 million for credit card transactions. This indicates a total transaction of R1,093 million more than that recorded for 2018.

Consistent with the previous year, the average value per credit card was higher than that of debit card, summing to R1,550 per credit card relative to R1,218 per debit card. Nonetheless, both the average transactions per debit and credit card recorded in 2019 were lower than that of the previous year.

Chart 5.4: Total Volume and Value of Debit Card Transactions

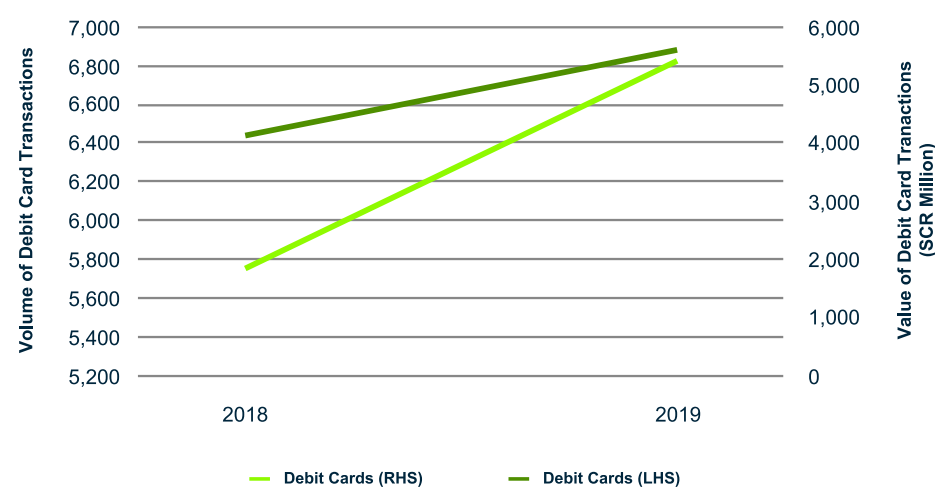
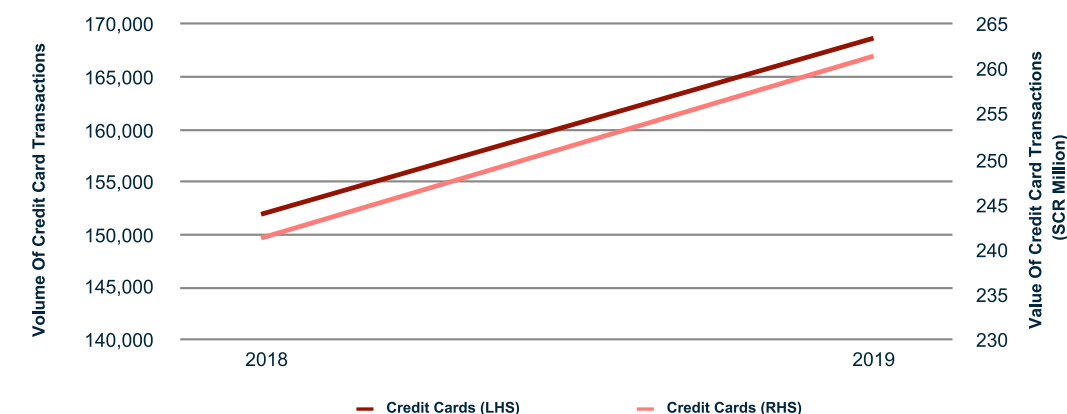


Chart 5.5: Total Volume and Value of Credit Card Transactions



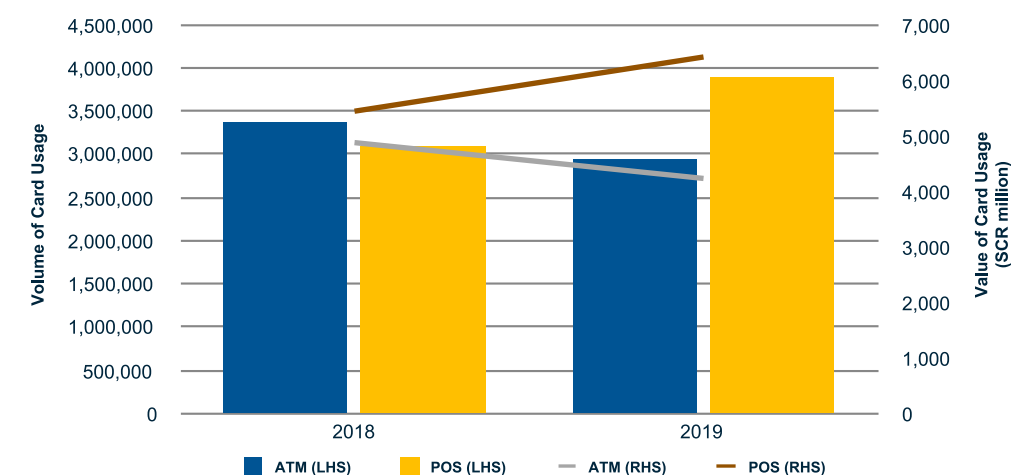
5.6.5 Card Acquiring Infrastructure

During 2019, five additional ATMs were installed by commercial banks across the country, bringing the total to 67 by year-end. Moreover, the number of POS terminals increased by 456 to stand at 3,530 at the end of the year. To note, POS terminals were predominant in the retail (2,367) and tourism (1,053) sectors compared to the low level in the government/parastatal sector (110).

As regards the usage of payment cards, a total of 6.9 million transactions were recorded on ATMs and POS terminals during the year 2019. Of note, this represents more transactions conducted through these payment channels than that in 2018. The number of transactions effected through POS terminals were higher in 2019 by 793,709 whilst transactions recorded from ATMs were lower than that in 2018 (by 422,412). In view of the increase in POS terminals from 2018 to 2019, this may have to some extent resulted in more coverage, hence the higher transactions effected through POS terminals. Furthermore, during the year under review, the Bank intensified its awareness campaign on usage of cards, to sensitise the public on related issues such as risks and costs associated with same. This may also have prompted more commercial banks' clients to opt for payments through POS terminal. Contrary to the previous year, this shows that customers preferred to use POS terminals in 2019 as opposed to ATMs. Just to note, total volume of ATM transactions conducted in 2019 came in the form of cash withdrawal, followed by general enquiry, bill payment and cash deposit.

In terms of value, a total of R10,653 million transactions were conducted through POS terminals and ATMs in 2019; out of this total, R6,420 million were done via POS terminals compared to R4,233 million at ATMs. Albeit the general increase in total value for POS and ATM transactions, both payment channels recorded lower averages per transactions in 2019; R1,646 per POS transactions and R1,431 per ATM transactions¹⁷.

Chart 5.6: Total Volume and Amount of Card Transactions on Terminals



¹⁷ An average of R1,753 per POS transactions and R1,443 per ATM transactions was recorded in 2018.



Chapter 6

Financial Sector Performance

6.0 Introduction

In tandem with the relatively stable macroeconomic environment of Seychelles during 2019, the banking sector recorded satisfactory conditions and performances. The sector remained resilient and was well capitalised and liquid, sustained improvements in earnings performance, an expanding asset base and satisfactory asset quality. Likewise, the banking sector observed a R5 million increment in net profit after tax, totalling to R375 million as at end 2019.

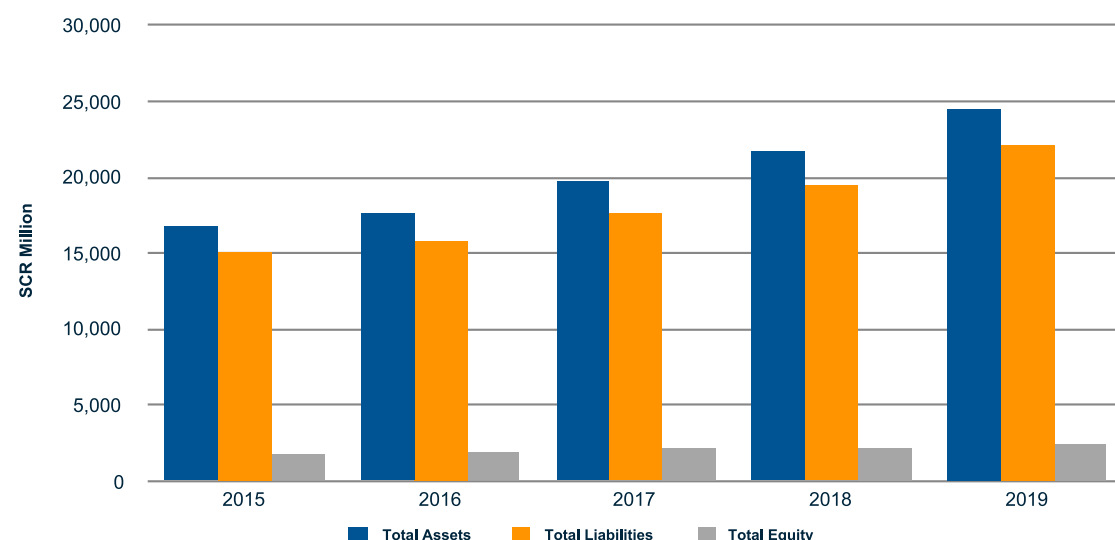


6.1 The Banking Sector

6.1.1 Assets, Liabilities and Equity Capital¹⁸

For the period under review, the banking sector recorded significant growth in total assets, amounting to R2,897 million, attributed to increments in loans and advances. The increase in total assets was funded by a rise of R2,662 million in total liabilities (mainly deposit liabilities of R2,482 million) and R235 million in equity capital, respectively. To note, the rise observed in equity capital was as a result of a marginal increase in the sector's net profit after tax. Consequently, as at the end of December 2019, the sector's total assets, total liabilities and equity capital stood at R24,565 million, R22,132 million and R2,434 million, respectively. These are illustrated in Chart 6.0.

Chart 6.0: Total Assets, Total Liabilities and Equity Capital



6.1.1.1 Total Assets¹⁹

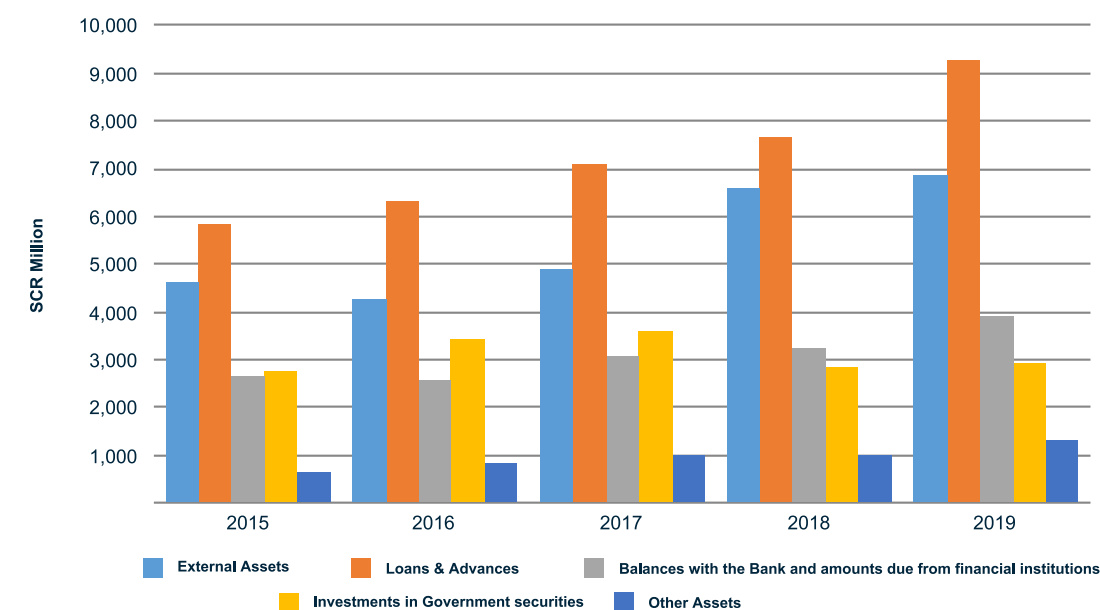
The banking sector observed a substantial expansion in its total assets in 2019, increasing by 13 per cent compared to 10 per cent in the preceding year, to stand at R24,565 million. It is worth noting that the upward trend in year-on-year growth in total assets was the highest recorded during the past five years. This was on account of an increase in loans and advances. With regards to the components of total assets, all recorded increments, with the most significant increase in loans and advances at 21 per cent (the largest portion of assets), amounting to R1,622 million. This was followed by balances with the Bank and amounts due from financial institutions, external assets and other assets, which rose by R677 million, R286 million and R191 million, respectively. The trend and composition of the banking sector's total assets are shown in Chart 6.1.

¹⁸ Figures are based on audited figures.

¹⁹ Figures are based on audited figures.



Chart 6.1: Composition and Trend of Total Assets

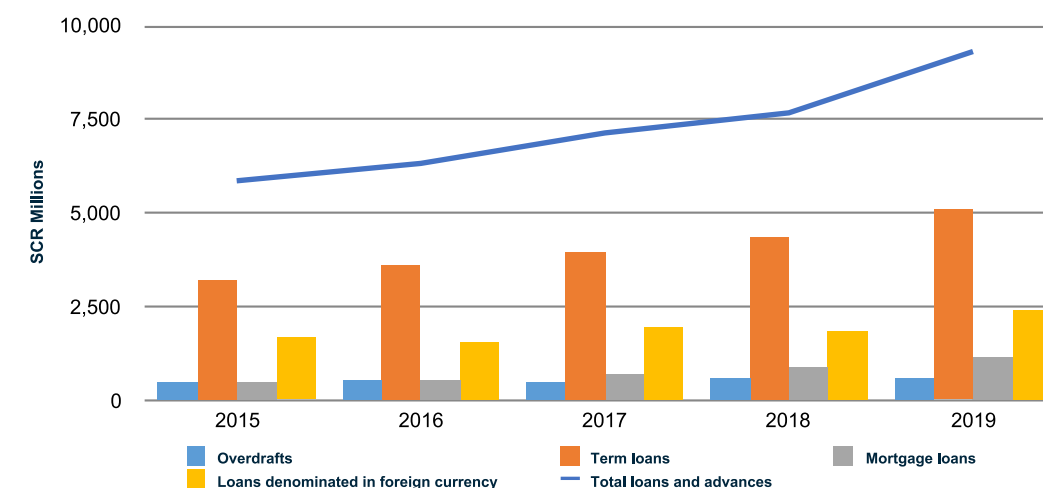


6.1.1.1.1 Loans and Advances²⁰

Loans and advances constituted 38% of the banking sector's total assets as at the end of 2019. This item increased from R7,672 million to R9,294 million, portraying a year-on-year growth of 21 per cent compared to the previous year's growth rate of 8.0 per cent. In light of the Bank's decision to slightly tighten the monetary policy during the first three quarters of 2019, the volume of loans and advances fluctuated during the mentioned quarters. However, in the fourth quarter of 2019, the Bank loosened its monetary policy thereby causing the loans and advances volume to slightly expand.

As portrayed in Chart 6.2, all loan categories observed increases during the year under review. Similar to previous years, term loans accounted for the largest proportion of the loans and advances portfolio at 55% – a slightly lower rate compared to 57% recorded in 2018 – with a growth of R746 million. The second highest component of the portfolio was 'Loans denominated in foreign currency' which grew by 31 per cent – increased from R1,856 million (equivalent to USD133 million²¹) in 2018 to R2,430 million (equivalent to USD174 million²²) in 2019. As regards mortgage loans, which made up the third largest share of the loan portfolio, same recorded an increment of R280 million from 2018 to stand at R1,158 million in 2019, signifying a 12 per cent increase. Likewise, overdrafts increased by R37 million from 2018 to settle at R618 million in 2019, accounting for 7.0% of the banking sector's loan and advances portfolio.

Chart 6.2: Components of Loans and Advances



²⁰ Figures are based on audited figures.

²¹ USD1= R14.0021 as at December 31, 2018

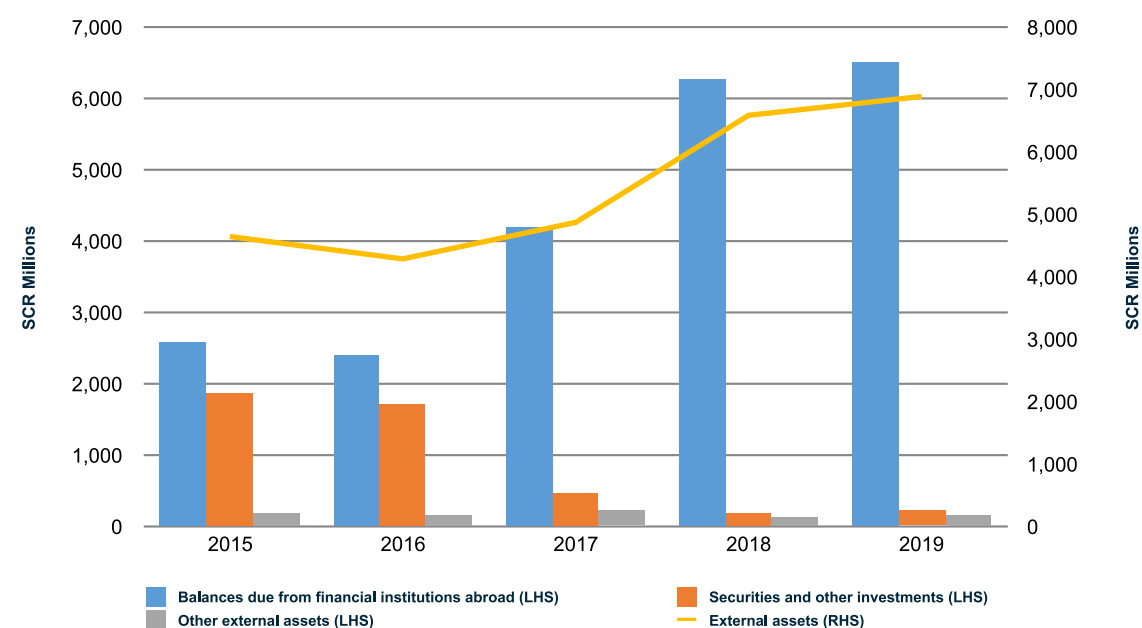
²² USD1= R13.9871 as at December 31, 2019.



6.1.1.1.2 External Assets²³

As has been the case in the past, external assets remained the second largest component of the banking sector's total assets in the year ending 2019, at R6,901 million. Whilst growth was recorded in this component from 2016 to 2019, the increase was only R302 million (4.6 per cent) in 2019, compared to 2018 (35 per cent). Balances due from financial institutions abroad was the key attribute to the rise observed in external assets, which expanded by R239 million (3.8 per cent) to stand at R6,509 million. This was due to an increase in investments abroad by the banking sector²⁴. The other components of external assets, namely securities and other investments, and other external assets, recorded an increase of 16 per cent and 24 per cent to settle at R225 million and R168 million respectively. This was contrary to 2018 where declines were recorded. To note, total deposit liabilities, being the main component used to finance investments, also recorded an increase of 13 per cent, in comparison to the previous year.

Chart 6.3: Components of External Assets



6.1.1.1.3 Balances with the Bank and Amounts due from Financial Institutions in Seychelles

In 2019, Balances with the Bank and Amounts due from Financial Institutions in Seychelles grew by R760 million to stand at R4,006 million, representing 18% of the banking sector's total assets. As per Chart 6.4, the most notable rise was observed in Balances with the Bank which expanded by R715 million to settle at R3,836 million. The increase was primarily driven by a rise in statutory reserve with the Bank which expanded by R730 million over the review period. Likewise, with increments in deposits, and based on unaudited figures, the Minimum Reserve Requirement (MRR) denominated in Seychelles Rupees (SCR) recorded a growth of R620 million to settle at R1,836 million. A similar trend was observed in the MRR denominated in Euro (EUR) which observed a rise of EUR7 million to stand at EUR29 million. On the other hand, US Dollar (USD) declined by R900 thousand settling at USD44 million. Investment in Deposit Auction Arrangement (DAA) was another portion of Balances with the Bank which surged, and same was by R200 million.

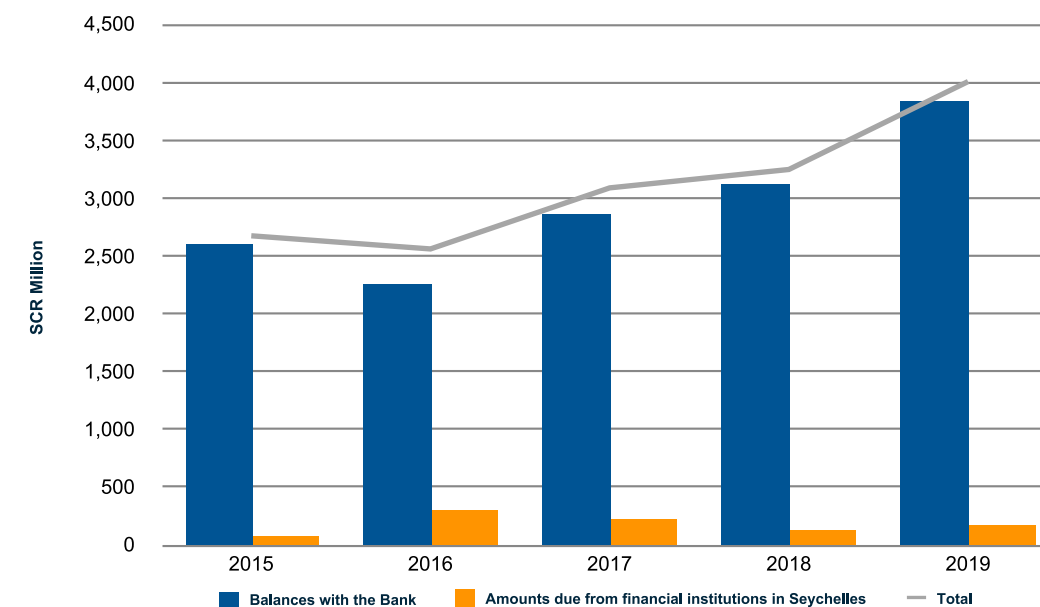
With regards to Amounts due from Financial Institutions in Seychelles, an upsurge of R45 million was logged, totalling R170 million. This differed from the previous year whereby a decline of R104 million was recorded.

²³ Figures are based on audited figures.

²⁴ In term of foreign currencies, balances due from financial Institutions abroad amounted to US\$448 million (mid-rate 14.0021) and US\$463 million (mid-rate 14.0726) in the year ending 2018 and 2019 respectively, indicating a growth of USD\$15 million only.



Chart 6.4: Balances with the Bank and Amounts due from Financial Institutions in Seychelles

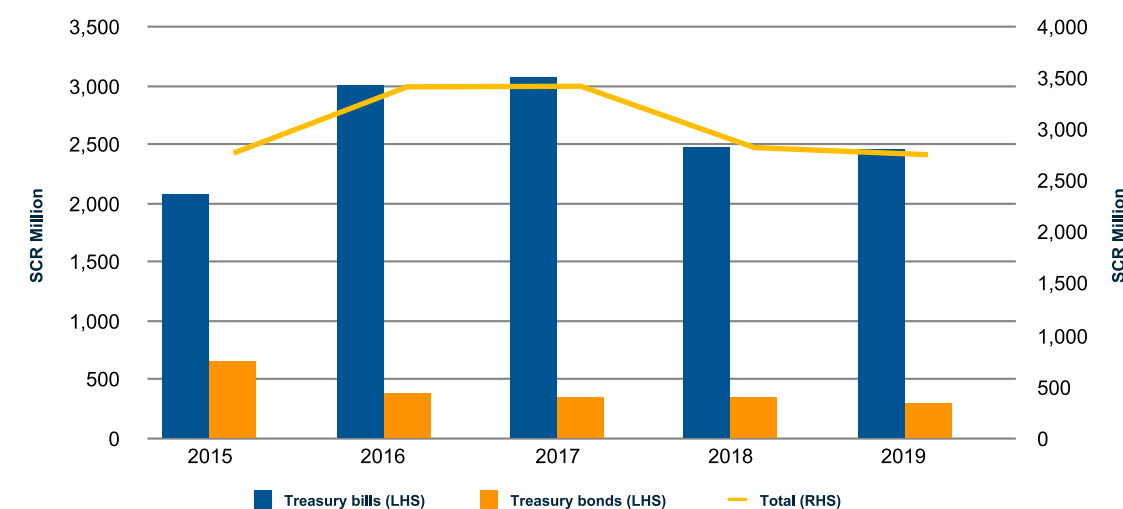


6.1.1.1.4 Investment in Government Securities²⁵

Investment in government securities registered an overall decline of R70 million, summing to R2,762 million by the end of 2019, constituting 12.4% of the sector's total assets. In 2019, a continuous drop was observed in investments in T-bills which declined by R11 million from 2018. Although there was a rise in the issuance of T-bills, the lack of investments in same was deemed to be as a result of maturities of T-bills in 2019. Consequently, as at the end of the review period, investment in T-bills stood at R2,464 million.

To commemorate 250 years since the first settlement in Seychelles, the government issued the 1770 bond in August 2019 for a value of R200 million. Despite this, a decline of R59 million was noted in the investment in T-bonds during the year under review. This stemmed from the fact that there were maturities of the outstanding balance of a 5-year (5.5 per cent) T-bond during the year.

Chart 6.5: Breakdown in Government Securities



²⁵ This comprise of investment in Treasury Bills (T-bills) and Treasury Bonds (T-bonds).

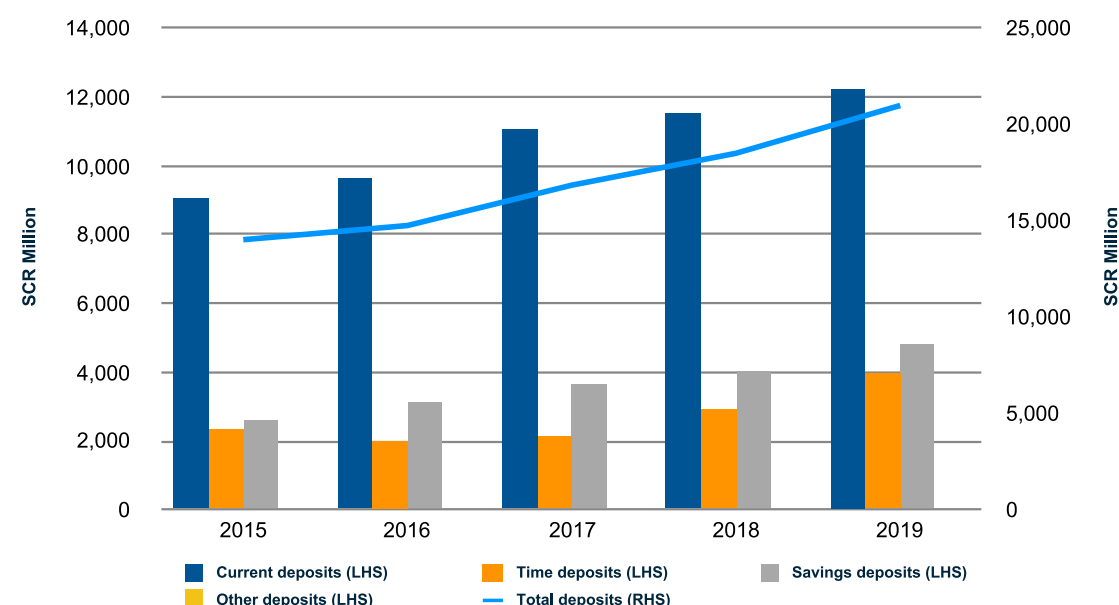


6.1.1.2 Total Liabilities

The sector's total liabilities stood at R22,132 million at the end of 2019, following a year-on-year increment of R2,662 million or 14 per cent from 2018. The rise in commercial banks' liabilities mostly reflected an increase of R2,482 million in deposit liabilities, driven in turn by an increase of R1,006 million in time deposits. At the end of the year 2019, total liabilities accounted for 90% of the sector's total assets, with the increase in deposit liabilities being the main factor for the growth in total assets.

With regards to the distribution of deposit liabilities, current deposits made up the largest proportion of the sector's deposit liabilities at 58.19%. Savings and time deposits accounted for 22.99% and 18.79%, respectively, and only a minority percentage (0.03%) consisted of 'other deposits'.

Chart 6.6: Banking Sector Total Liabilities



6.1.1.3 Equity Capital²⁶

The banking sector's equity capital²⁷ stood at R2,434 million during the review period, accounting for an 11 per cent increment in contrast to the preceding year. The sector's profit after tax was higher by R4.9 million (1.3 per cent) than the year 2018, standing at R375 million. This contributed to a notable rise in retained earnings by R149 million, to stand at R1,528 million²⁸ in comparison to the year 2018 (5.7 per cent). Moreover, the banking sector's paid-up/assigned capital also observed an increase of R80 million to accumulate at R481 million. The rise in this item was attributed to the injection of capital in the banking sector as a consequence of a new commercial bank starting its operations in 2019. A further increase of R13 million was noted in other reserves (R210 million), whilst the increase in equity components was offset by a decline of R6.7 million in statutory reserves²⁹. This item settled at R214 million compared to R221 million in the year 2018, mainly due to the closure of one commercial bank.

²⁶ Figures are based on audited figures.

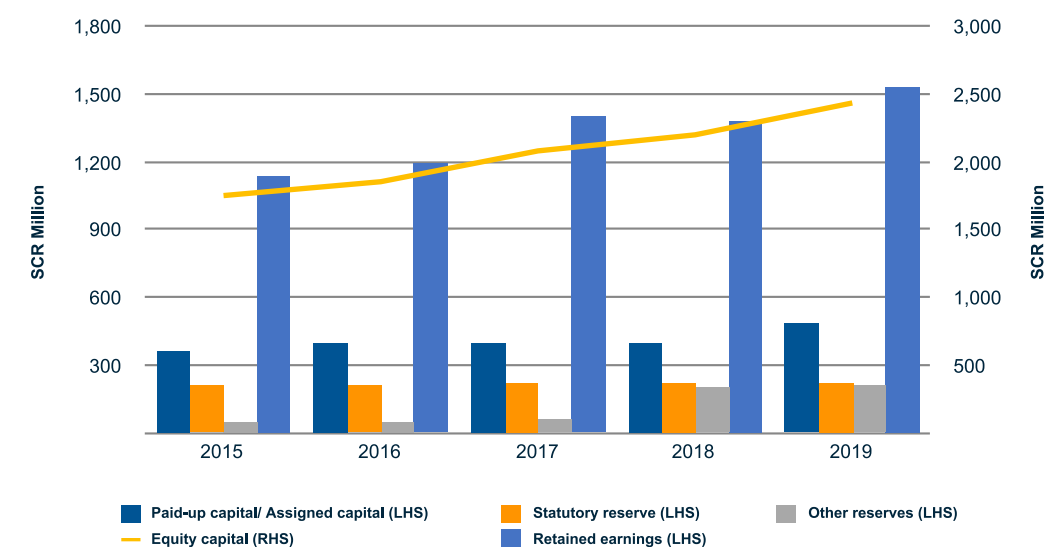
²⁷ Equity capital is made up of paid-up capital/assigned capital, statutory reserve, other reserves and retained earnings.

²⁸ Of note, the Bank issued a directive on June 8, 2020, to restrict the banking sector from making payment of dividends for the financial years ending December 31, 2019 and 2020. As a result, the banking sector's profit was transferred to retained earnings, taking into consideration the economic uncertainties arising from the COVID-19 pandemic.

²⁹ Statutory reserve is a requirement under section 24(1) the FIA.



Chart 6.7: Components of Equity

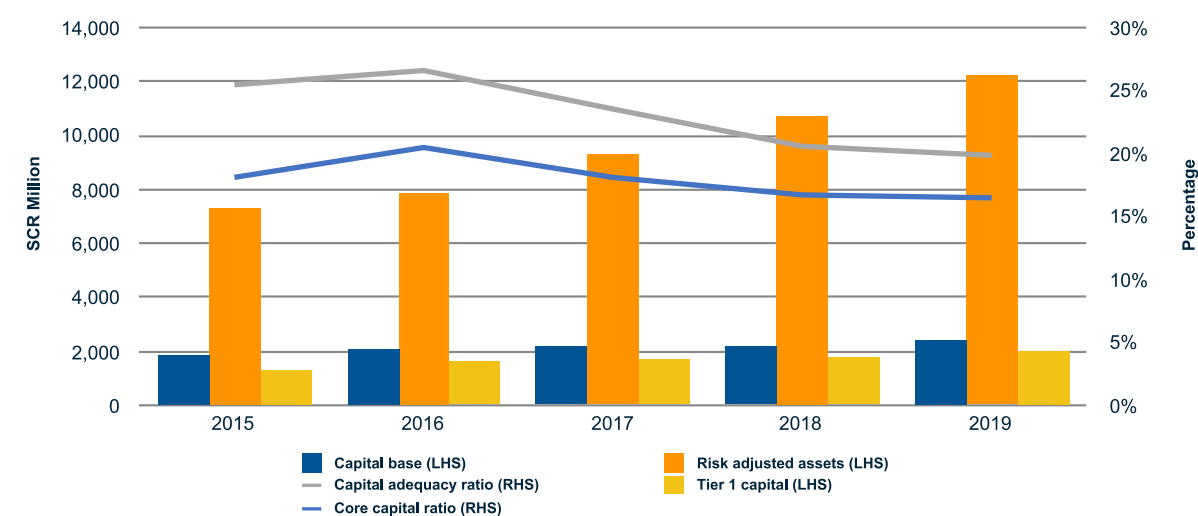


6.1.2 Capital Adequacy³⁰

Consistent with the past two years, the banking sector's CAR and Core Capital Ratio remained on a downward trajectory in 2019 (see Chart 6.8). The CAR decreased from 21 per cent in 2018 to stand at 20 per cent in 2019. On the other hand, the Core Capital Ratio fell by 0.3 percentage points to settle at 16 per cent at the end of 2019. The decrease observed for both ratios was mainly attributed to a growth of 14 per cent in the total risk-adjusted assets for commercial banks, which in turn was driven by an increase in loans and advances. Despite the observed trend, the CAR and Core Capital Ratio maintained by the commercial banks during the review period remained above the minimum regulatory requirement of 12% and 6.0% respectively, as prescribed by the Financial Institutions (Capital Adequacy) Regulations, 2010.

A marginal increase was observed in the banking sector's net tangible capitalisation ratio³¹ in 2019, as the ratio rose by 0.3 percentage points to settle at 10 per cent, resulting from an increase in the sector's equity. Although an augmentation of 16 per cent was recorded in equity, a 13 per cent rise was noted in the ratio's denominator, leading to the minor growth.

Chart 6.8: Capital Adequacy Indicators



³⁰ Figures for this section are based on unaudited figures for the year under review.

³¹ Equity Capital/(Total assets-Interest in suspense-Provisions).



6.1.2.1 Capital Base³²

The banking sector's regulatory capital totalled R2,421 million at the end of 2019 (an increase of R224 million or 10 per cent from 2018). Tier 1 capital remained the main component of the sector's regulatory capital, accounting for around 83 per cent of the total regulatory capital for 2019. An expansion of R225 million was recorded in the sector's Tier 1 capital, resulting from commercial banks retaining a higher proportion of their profits (2018 profits), as less dividends were paid out in 2019 in contrast to the previous year. The higher proportion of Tier 1 capital indicates greater permanence in the capital base.

Tier 2 capital, representing 17% of regulatory capital, declined by R1.3 million, standing at R411 million at end 2019. This was attributed to a decrease in 'year-to-date net profit after tax', with the latter accounting for the largest portion of Tier 2 capital.

Table 6.1: Components of CAR

Figures are in R'000	2015	2016	2017	2018	2019
Tier 1 Capital	1,328,030	1,616,524	1,688,448	1,784,129	2,009,362
Tier 2 Capital	539,536	481,584	506,428	412,497	411,237
Total regulatory capital (capital base) (A)	1,867,566	2,094,108	2,194,876	2,196,627	2,420,599
Total risk-adjusted assets (B)	7,335,935	7,875,753	9,327,957	10,678,443	12,194,495
Risk-weighted assets on-balance sheet assets	5,963,503	6,398,415	7,653,299	8,674,178	9,917,043
Risk-weighted assets off-balance sheet assets	142,075	158,914	237,281	426,337	621,922
Risk-weighted assets for operational risk	1,230,357	1,318,424	1,437,378	1,577,928	1,655,530
Capital adequacy ratio (A/B)	25%	27%	24%	21%	20%

³² Also known as regulatory capital.



6.1.2.2 Total Risk-Adjusted Assets

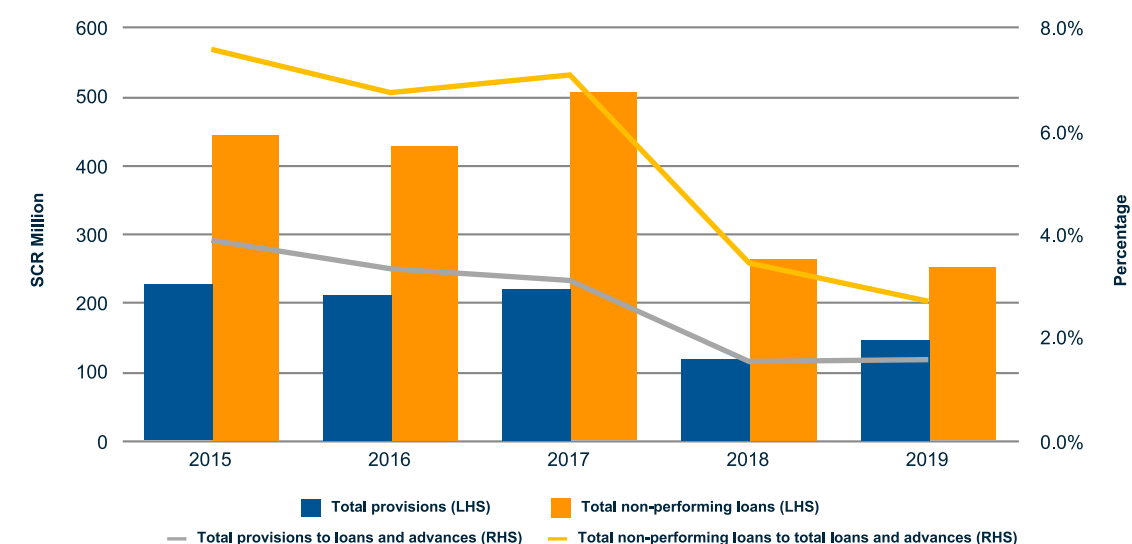
Similar with the previous year, 2019 recorded a 14 per cent increase in the total risk-adjusted assets, which rose by R1,516 million to stand at R12,194 million at year-end. Increases in the item were primarily reflected in the risk-weighted assets for credit risk (on- and off-balance sheet risk-weighted assets) by R1,438 million, as well as a growth of R78 million recorded in the risk-weighted assets for operational risk. The augmentation noted in risk-weighted assets for credit risk was driven by total on-balance sheet risk-weighted assets, which grew by R1,243 million in 2019. This upsurge was in turn observed in the assets classified in the 100 per cent risk 'bucket', consisting primarily of loans and advances, which increased by R984 million. Assets held in the 20 per cent and 50 per cent risk 'buckets' grew by R135 million and R133 million, respectively, from 2018 to 2019. With regards to the total off-balance sheet risk-weighted assets, a rise of R196 million was experienced in the year under review, depicting a growth of 46 per cent from 2018 (compared to an 80 per cent growth from 2017 to 2018).

6.1.3 Asset Quality³³

As observed on Chart 6.9, a continuous drop was noted in the banking sector's non-performing loans (NPLs), as the case in previous years. The item fell by R13 million resulting in a total of R252 million in 2019, indicating a 4.7 per cent reduction. This reduction was primarily due to customers settling their arrears for their loan facilities, and also due to full loan repayment of certain credit facilities. Likewise, loans and advances recorded continuous growth as previously highlighted. Resultantly, the sector's NPLs to loans and advances ratio decreased to 2.7%. Accordingly, total loans and advances in NPLs consisted of 51 per cent in substandard, 19 per cent in doubtful and 30 per cent in loss categories.

The banking sector's total provisions rose by R29 million totalling to R147 million in 2019. This denotes an increase of 24 per cent, and was as a result of provisions made by two large commercial banks. It is worth noting that the largest portion of the increase in the total provisions, derive from general provisions as a result of an increase of loans in the pass category. The said growth indicates that the sector is adequately provisioned although the NPLs has declined.

Chart 6.9: Asset Quality Indicators



The decrease in NPLs was predominantly driven by a drop in various sectors, notably real estate, fishing, cottage industry, residential development, trade and mortgage. The decline in these sectors aggregated to R37 million for 2019. Nevertheless, overall reduction in NPLs was lessened by increases recorded in the private household sector by R11 million, followed by the building and construction sector, government sector³⁴ and agriculture & horticulture sector by R7.8 million, R3.7 million and R2.3 million, respectively as illustrated in Table 6.2.

³³ Figures for this section are based on unaudited figures.

³⁴ This consists of departments, branches, agencies, foundations, institutes, nonmarket, Non-Profit Institutions (NPIs), and other publicly controlled organisations engaging in non-market activities.



Table 6.2: Sectoral Distribution of NPLs

Figures are in SCR'000	2018	2019	Change (2018 to 2019)	Percentage change
Agriculture & horticulture	13,217	15,468	2,251	17%
Art & Entertainment	11,207	11,868	661	5.9%
Building and Construction	9,381	17,144	7,763	83%
Commercial Development	13,601	12,478	(1,123)	(8.3)%
Cottage industries	6,577	990	(5,587)	(85)%
Education	24	52	28	117%
Financial institutions	-	-	-	0.0%
Fishing	11,712	1,035	(10,677)	(91)%
Government	66,688	70,389	3,701	5.5%
Health	-	-	-	0.0%
Manufacturing	2,890	2,176	(714)	(25)%
Mortgage loans	6,845	4,163	(2,682)	(39)%
Non-Profit Institutions	-	-	-	0.0%
Others	2,757	1,607	(1,150)	(42)%
Private household	43,185	54,004	10,819	25%
Professional, Scientific & Technical Services	582	1,151	569	98%
Real estate	17,539	4,607	(12,932)	(74)%
Residential Development	14,846	12,037	(2,809)	(19)%
Telecommunications, Computer & Information	91	76	(15)	(17)%
Tourism	15,764	17,066	1,302	8%
Trade	19,740	17,056	(2,684)	(14)%
Transport	8,307	9,022	715	9%
Total NPLs	264,953	252,389	(12,564)	

Similar to the preceding year, the private households and tourism sectors held the largest share of the banking sector's credit portfolio from a sectoral distribution viewpoint. The mortgage loan sector, trade sector and real estate sector made up the third, fourth and fifth largest portion as depicted in Table 6.3.



Table 6.3: Sectoral Distribution of Loans

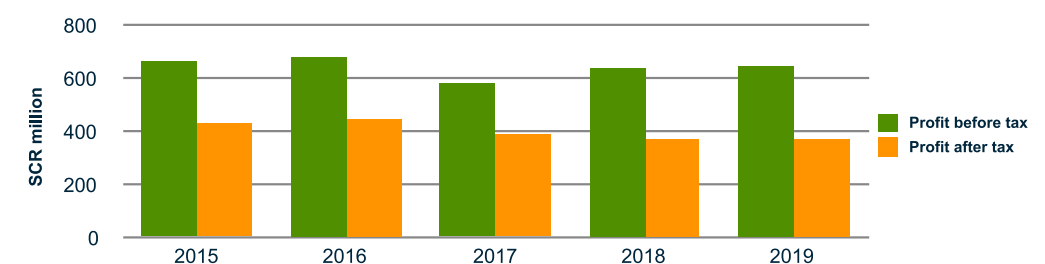
Figures are in SCR'000	2018	2019
Agriculture & horticulture	107,684	115,902
Art & Entertainment	51,039	62,660
Building and Construction	630,992	689,049
Commercial Development	172,961	235,101
Cottage industries	47,604	63,645
Education	26,893	27,182
Financial institutions	365,614	281,713
Fishing	67,588	82,573
Government	577,982	571,952
Health	2,882	5,236
Manufacturing	113,947	96,960
Mortgage loans	992,711	1,255,974
Non-Profit Institutions	4,578	297
Others	238,767	485,949
Private household	1,278,988	1,481,018
Professional, Scientific & Technical Services	20,774	18,613
Real estate	546,751	793,754
Residential Development	100,714	120,493
Telecommunications, Computer & Information	121,049	229,745
Tourism	1,079,969	1,420,676
Trade	798,137	867,946
Transport	333,580	411,354

6.1.4 Earnings

6.1.4.1 Levels and Trends of Profitability

In contrast to 2018, the banking sector recorded a lower net profit before tax of R589 million in 2019, representing a 6.0 per cent reduction. Conversely, net profit after tax increased by R5.0 million to stand at R375 million in 2019, as opposed to a drop of R15 million in 2018.

Chart 6.10: Trend in Profit





6.1.4.2 Composition of Income and Expenses

Total income for the review period was higher than 2018 by R176 million, recording a total of R1,792 million. This was mainly due to an increase of R181 million in interest income, more precisely in income on loans and advances, and investment in government securities. Based on unaudited financial statements³⁵, the rise in interest income on loans and advances was driven by higher income earned on term loans compared to 2018, as a result of an increase in the volume of loans and advances disbursed during the year under review. As regards interest income from local investments, the higher return observed in 2019 was attributed to an increase in interest rates on T-bills for 182 days (from 5.31 per cent in 2018 to 5.63 per cent in 2019) and 365 days (5.89 per cent in 2018 to 6.29 per cent in 2019), and notably in the total amount of T-bills issued in 2019 compared to 2018.

Unlike interest income, the sector's non-interest income observed a fall from R594 million in 2018 to settle at R589 million in 2019, driven by the lower income from fees, commission and charges for the period under review.

Total expenses was higher during the year under review by R163 million in contrast to R119 million recorded for 2018, primarily due to an increase in interest expense by R82 million from 2018, to settle at R266 million at the end 2019. As per the unaudited statements, interest paid on time deposits and savings deposits were higher compared to 2018. On the other hand, operating expenses was the largest component of non-interest expense, which was higher than that of 2018 by R61 million.

Table 6.4: Breakdown in Profitability

Figures are in R'000	2017	2018	2019	% Growth or Decline	% Growth or Decline
				2018	2019
Interest Income	916,105	1,022,621	1,203,978	12%	18%
Interest Expense	166,015	183,756	265,577	11%	45%
Net Interest Income	750,090	838,865	938,401	12%	12%
Non-Interest Income	538,359	593,807	588,518	10%	(0.9)%
Non-Interest Expense	691,777	793,278	874,114	15%	10%
Total Income	1,454,464	1,616,428	1,792,497	12%	11%
Total Expense	857,792	977,034	1,139,691	14%	17%
Net Profit Before Tax	579,151	626,815	589,406	8.2%	(6.0)%
Net Profit After Tax	384,492	369,886	374,852	(3.8)%	1.3%

In relation to the previous year, the sector's Return on Assets (ROA) and Return on Equity (ROE) declined by 0.5 per cent and 5.0 per cent, respectively. The drop recorded in both items were mainly due to lower net profit before tax logged. Average yields on T-bills and the Bank's instruments observed slight reductions of 0.7 percentage points and 1.2 percentage points respectively, as a consequence of a decline in the 91-day T-bills rate and the Monetary Policy Rate (MPR)³⁶. Despite this, yield on the 182-day and 365-day T-bills increased in the same year. Table 6.5 below shows the banking sector's earnings ratio from 2017 to 2019.

³⁵ This part of the report uses the unaudited statements in view that the audited statements do not capture granular data.

³⁶ Stemming from the loosed monetary policy stance adopted in quarter four of 2019.



Table 6.5: Earnings Ratio³⁷

	2017	2018	2019
Return on assets (ROA)	3.2%	3.0%	2.5%
Return on equity (ROE)	29%	29%	24%
Average yield on loans	9.1%	9.6%	9.2%
Average cost of deposits	1.0%	1.0%	1.2%
Average yield on treasury bills	6.1%	6.1%	5.4%
Average yield on the bank instruments	4.3%	4.4%	5.6%

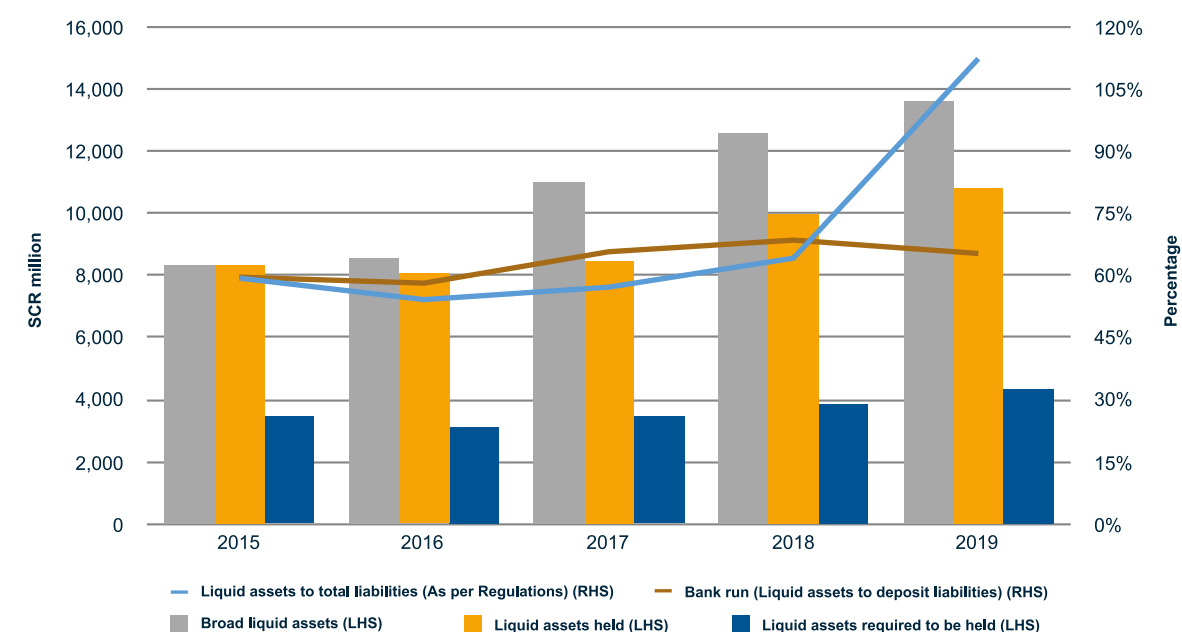
6.1.5 Liquidity³⁸

6.1.5.1 Composition of Liquid Assets and Liquidity Ratios

As demonstrated in Chart 6.11, during 2019, the majority of the banking sector's liquidity indicators followed an upward trend, except for the bank run ratio, which declined. The below highlights the trends observed:

1. Core liquid assets³⁹ and broad liquid assets⁴⁰ increased by R1,092 million and R1,027 million to stand at R10,883 million and R13,638 million, respectively. The growth in these items were driven by balances held with the Bank which increased by R711 million to settle at R3,833 million;
2. Total liquid assets grew by R830 million, representing an 8.3 per cent increase. Liquid assets held by commercial banks stood at R10,825 million, which is significantly above the liquid assets of R4,330 million that commercial banks were required to hold;
3. The prudential liquid assets⁴¹ to total liabilities ratio observed a notable increment of 61 per cent to reach 112%⁴². This was driven by a new entrant in the market. Of note, the said ratio indicates that the sector's liquid assets could match 112% of its total liabilities; and
4. The bank run ratio decreased by 3.2 per cent to stand at 65%. This was as a result of a growth of R2,484 million in the banking sector's total deposits.

Chart 6.11: Trend in Liquidity Assets and Liquidity Indicators



³⁷ Figures are based on unaudited figures.

³⁸ Figures in this section are based on unaudited figures.

³⁹ Includes cash on hand, balances held with the Bank and deposits with other commercial banks.

⁴⁰ Includes cash on hand, balances held with the Bank excluding MRR, deposits with other commercial banks and government securities.

⁴¹ Liquid assets used for the statutory ratio includes a component that is not part of broad liquid assets, namely securities and other investments.

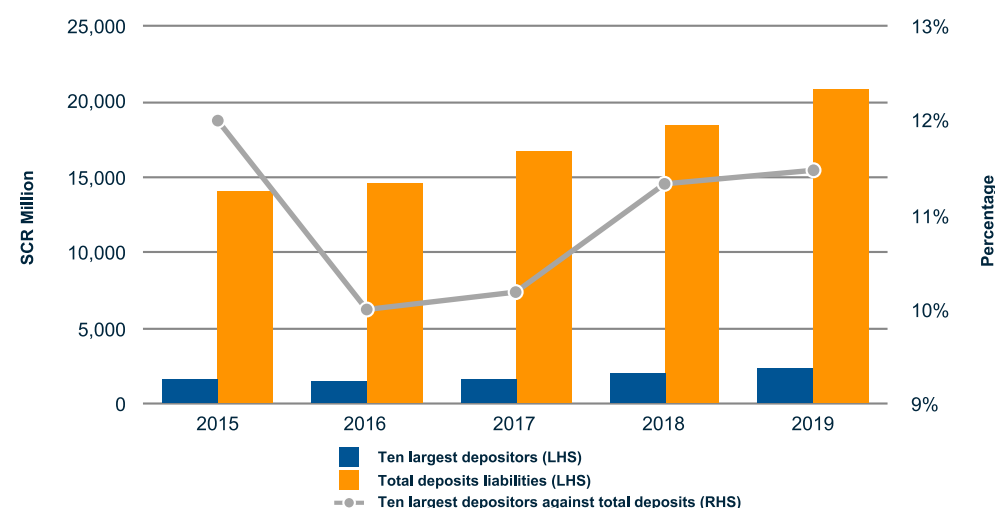
⁴² An average of the commercial bank's liquid assets to total liabilities (As per the Liquidity Risk Management Regulations).



6.1.5.2 Concentration of Ten Largest Depositors

The banking sector's ten largest depositors, total deposits liabilities and ratio of the ten largest depositors as a percentage of total deposits is illustrated on Chart 6.12. Accordingly, a marginal growth of 14 basis points was recorded in the mentioned ratio, which was driven by an increase of R312 million in the commercial banks' ten largest depositors which summed up to R2,398 million at the end of the review period.

Chart 6.12: Concentration of Largest Depositors

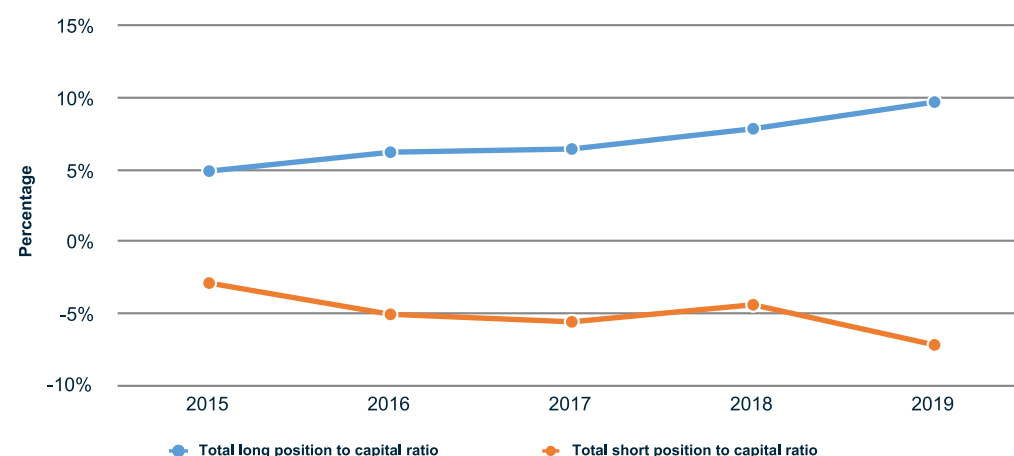


6.1.6 Sensitivity to Market risk⁴³

All commercial banks are required to adhere to the requirements of the Financial Institutions (Foreign Currency Exposure) Regulations, 2009 as amended. Throughout 2019, the majority of the commercial banks were within the prescribed limit of 30% for total long and total short positions to capital ratio, correspondingly. Only HBL was in breach of the Regulations due to its impending closure which was finalised in March. Nonetheless, during the second half of the year, two commercial banks were in contravention of the said Regulations. Accordingly, one commercial bank rectified its position whilst the other was provided with a deadline to correct its position by May 30, 2020.

Compared to the previous years, the banking sector's total long position and total short position to capital ratio recorded an increase, standing at 9.7% and 7.2% respectively. This corresponds to an increase of 1.9 and 2.8 percentage points in the total long position and total short position to capital ratio relative to the year 2018, as depicted in Chart 6.13.

Chart 6.13: Total Long Position and Total Short Position to Capital Ratio



⁴³ Figures in this section are based on unaudited figures.



6.2 Non-Bank Financial Institutions

Collectively, the total assets for SCU, DBS and HFCL amounted to R2,260 million at the end of 2019, compared to R2,207 million at the end of 2018. This increase was noted in the asset base of HFCL and SCU and was driven predominantly by the growth in the institutions' loan portfolio. The three institutions remained profitable throughout the review period, although aggregately, a lower net profit was recorded compared to 2018. The item dropped from R51 million in 2018 to stand at R27 million in 2019, mainly due to higher provisions for credit losses being made.

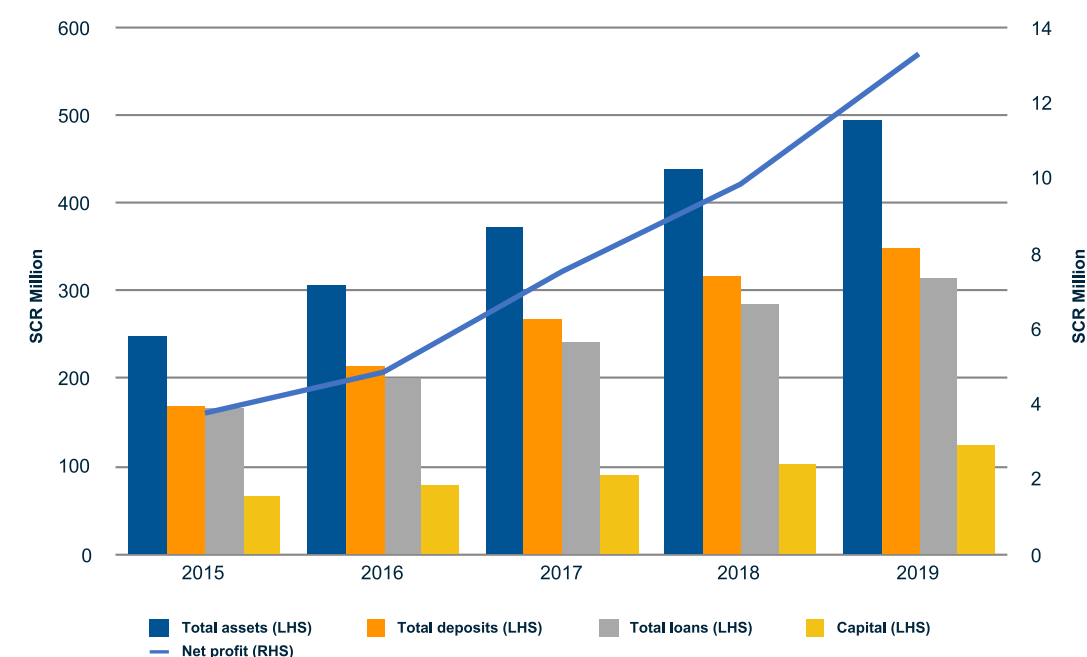
In respect of the performance of BDCs, a decline was registered in total assets with same settling at R297 million at the end of 2019. Furthermore, an improvement was recorded in the institutions' profitability with an increase in net profit noted during the year.

6.2.1 Seychelles Credit Union⁴⁴

SCU's total assets increased from 2018 to 2019, albeit at a lower extent than from the 2017 to 2018 period. On a year-on-year basis, a growth of R55 million was recorded in SCU's total assets (relative to R66 million in the previous year) to settle at R494 million by the end of 2019. In terms of assets, increases were recorded primarily in loans (by R30 million), commercial bank balances (by R21 million) and short-term investments (by R12 million) during the review period. Similar to 2018, loans remained the main component of SCU's total asset, accounting for 64% of the institution's asset base. As for SCU's main source of funding, this came from total deposits – increments were noted in the said liability whereby it grew by R33 million to settle at R349 million by the end of 2019.

In terms of capital, an increase of R21 million was recorded to stand at R125 million by the end of 2019 – an increase of R12 million in ownership shares was the main contributing factor. Moreover, SCU's general reserve expanded by R4.9 million and its total profits for the year by R4.4 million, thereby adding further to the rise in capital. To note, a higher net profit was recorded in 2019, contributing to the growth in total profits. The item stood at R13 million compared to R9.8 million in 2018. This was due to higher total interest income for the year 2019, which came mainly from interest income on loans followed by same on short-term investments. Chart 6.14 shows SCU's indicators over the review period.

Chart 6.14: SCU's Indicators



⁴⁴ Figures used for this section are based on unaudited figures.



6.2.2 Development Bank of Seychelles

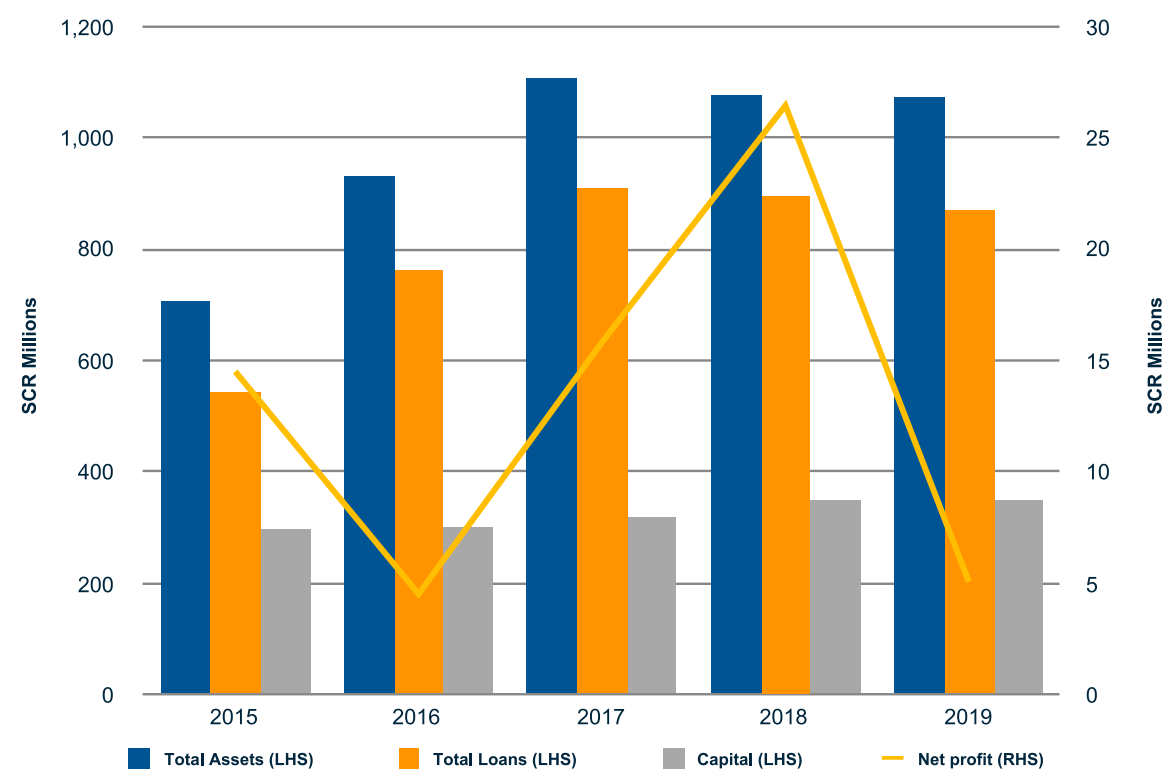
Similar to the year 2018, DBS' asset base recorded a decline in the year under review. The institution's total assets fell by R4.8 million or 0.4 per cent year-on-year to R1,071 million at the end of December 2019, due to a decrease in loans and advances. DBS' loan portfolio represented 81% of the institution's total assets and amounted to R870 million at the end of the review period. This signified a decrease of R25 million from the previous year and was attributable to several lump-sum repayments and payoffs being made by DBS' clients. Sector-wise, loans granted under the SME loan scheme remained the predominant sector of the institution's loans and advances, accounting for 55% of the item as at December 2019.

DBS did not contract any new loans with any local or foreign financial institutions in the year under review. Consequently, the institution's borrowings observed a notable decline of R68 million from December 2018 to December 2019. On the other hand, R100 million worth of DBS bonds was issued in 2019, with R50 million also redeemed in the same year. At the end of December 2019, the balance for DBS bonds' stood at R302 million.

In respect to the institution's capital, this stood at R349 million at the end of December 2019, a minor increment of R2.9 million from December 2018. The increase in capital resulted from the profit generated by the institution during the year. However, this was lessened by dividend payment of R2.1 million effected for the year 2019.

DBS continued to be profitable during the review period, although a significantly lower net profit was recorded. The latter stood at R5.1 million in 2019 compared R26 million in 2018. The reduced profit was due to a high amount of provisions being booked through the income statement. In addition, the income earned on loans declined by R8.1 million from 2018 to 2019, further adding to the decline in profitability.

Chart 6.15: DBS' Indicators



6.2.3 Housing Finance Company Limited

Total assets of HFCL recorded a growth of R2.7 million over the review period. This was from R693 million in 2018 to R695 million in 2019, a slower growth level compared to 2018, where the institution's assets grew by R42 million or 6.5 per cent. Compared to the previous year, the main contributor to the growth in total assets was the institution's cash and bank balances, which grew by R9.7 million in 2019. The increase in the abovementioned item was as a result of a decrease in loan disbursement during the year under review.

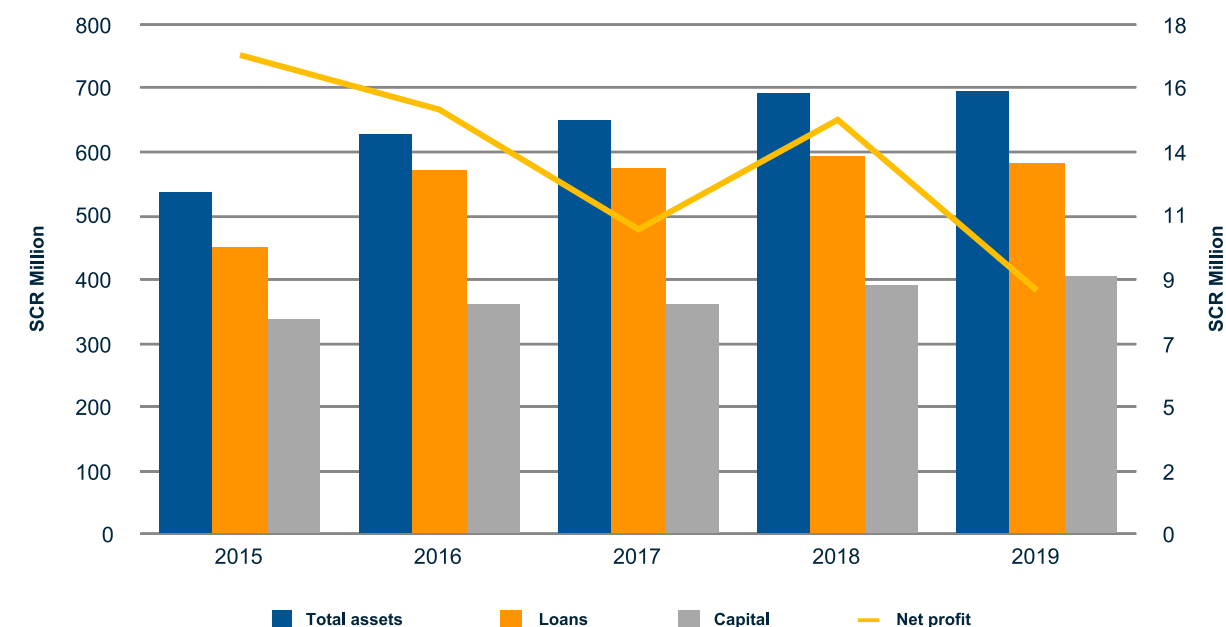
Loans and advances, being the principal business activity of the institution, observed a decline from R593 million in 2018 to R585 million in 2019 - a 1.4 per cent drop. The decrease in loan portfolio was attributed to the reduction in the number of new loans being disbursed by HFCL and continuous repayment of existing loans by clients during the year under review.

As regards HFCL's borrowings, the item declined by R19 million to settle at R95 million at the end of December 2019, following repayments of loans effected during the year.

The institution's capital recorded a growth of R14 million to stand at R407 million at the end of 2019. This growth was mostly attributed to retained earnings of R85 million compared to R77 million recorded in 2018.

The institution's net profit recorded a 41 per cent decrease from R15 million in 2018 to R8.6 million in 2019. The lower profits were mainly attributed to an increase in the expected credit loss in 2019. Furthermore, given the lower disbursement of loans effected during the year, this caused the total income to decrease over the review period.

Chart 6.16: HFCL's indicators



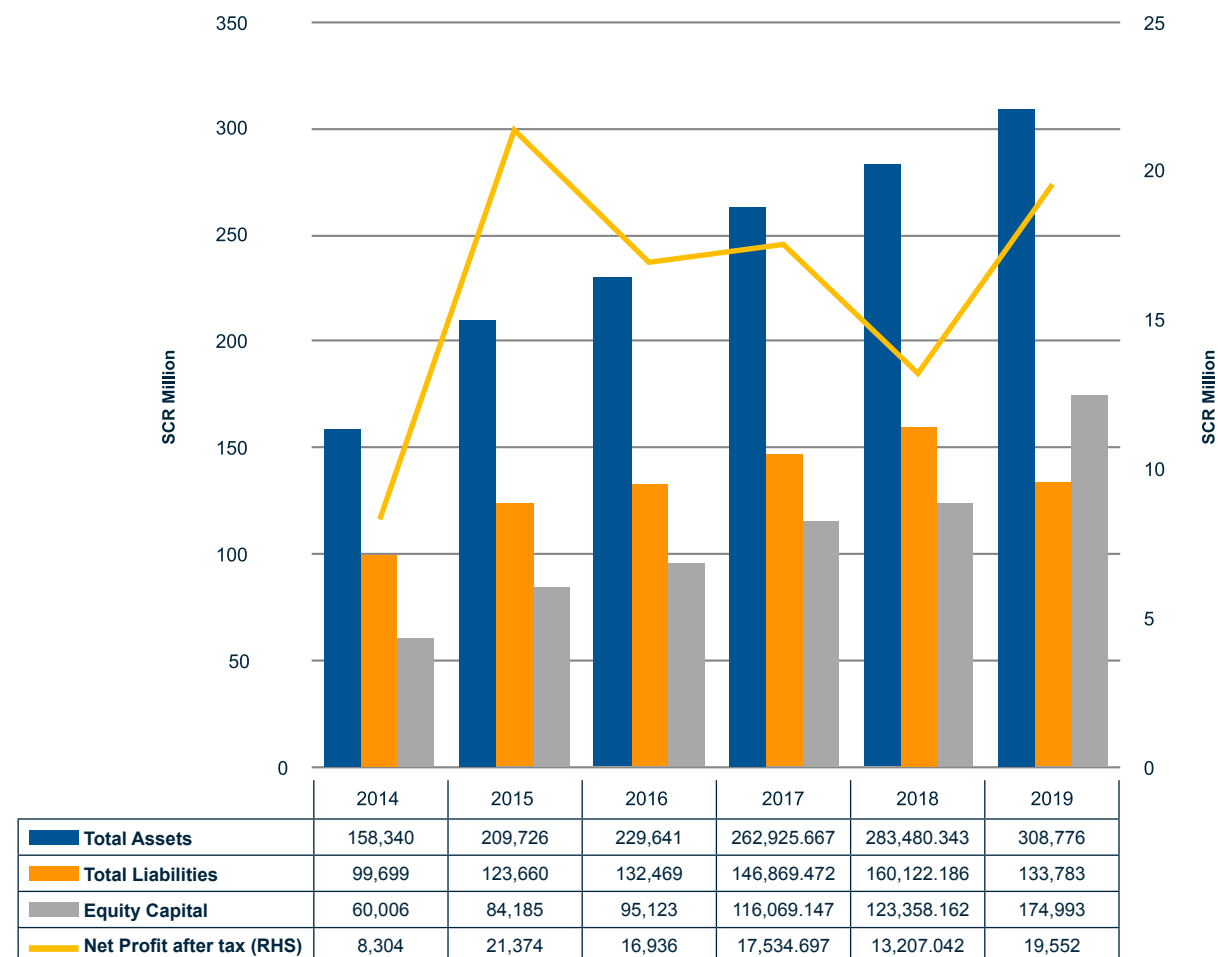


6.2.4 Bureaux de Change

During 2019, the sector's total assets decreased by R10 million compared to 2018 to settle at R297 million. This was mainly due to a significant reduction in liquid assets and receivables, more specifically, cash in foreign currency and cash at bank. Similarly, total liabilities decreased by R10 million, attributed to a decrease in payables and medium to long-term debt to stand at R160 million for the year under review.

In terms of equity capital, this item increased slightly by 0.1 per cent during 2019. As for net profit after tax, same increased by R3.8 million as a result of an increase in non-interest income during the year. The BDC's indicator over the review period is illustrated in Chart 6.17.

Chat 6.17: BDC Indicators



Analyses conducted on transaction for the year 2019 show that the value of transactions for purchases and sales augmented by 5.5 per cent and 2.8 per cent, respectively. In terms of total value, in 2019, this was R2,768 million for purchases and R2,835 million for sales compared to R2,623 million for purchases and R2,758 million for sales recorded in 2018.



6.3 Examination and Enforcement

In line with section 42 of the FIA, the Bank conducted three onsite examinations during the year 2019. The examinations were conducted on one BDC (limited scope) and two commercial banks (full scope) with the aim of assessing the entities' compliance with the Bank's legal and regulatory frameworks.

Table 6.6: Onsite Examination conducted as from 2015 to 2019

Examination type	2015	2016	2017	2018	2019
Limited Scope	4 - AML/CFT	1 - Fraud	0	7 – Three AML/CFT and four examinations to assess commercial banks' compliance to the guidelines on ATM, POS and acquiring and issuing of payment cards	1 - AML/CFT
Full Scope	0	4	3	1	2

6.4 Penalties Imposed on Financial Institutions

In comparison to 2018, the Bank observed a decline in administrative and monetary penalties imposed on financial institutions during the year under review. This is illustrated in Table 6.7.

Table 6.7: Penalties on Financial Institutions in 2019

Non-Compliance	Number of Cases	Administrative Sanction (SCR)
Section 40 of the FIA – Late submission of prudential returns	1	40,000.00
Section 10(1) and 10(4) of the FIA – Failure to pay annual licence fee within deadline	2	4,500.00

In addition, the Bank issued warning letters to financial institutions, in line with section 53 of the FIA as per below:

- Breach of Section 40 of the FIA – Late Submission of prudential returns to the Bank; and
- Breach of Regulation 5(1) of the Financial Institutions (Bureau de Change) Regulations 2008 – Failure to maintain unimpaired paid-up capital not less than R500,000.



Chapter 7

Developments in the Supervisory Framework

7.0 Introduction

The developments in the supervisory space for the year under review focused mainly on ongoing projects as highlighted in the Financial Surveillance Report 2018. These were particularly for the amendments related to the legislation which governs the operations of financial institutions regulated by the Bank, specifically, the FIA. Likewise, the Bank drafts and reviews legislation which are aimed at supplementing and improving current frameworks in place. This is done as a means to ensure continued effective regulation and supervision, compliance with international standards (such as Basel, PFMI and World Council of Credit Unions (WoCCU) standards) and aims to approximate with contemporary standards globally. Since financial institutions licenced and supervised by the Bank are directly impacted by the works of the Bank, these institutions played a significant role in the process of legislative amendments and implementation. This is done through stakeholder consultations whereby the relevant stakeholders provide their comments and suggestions on these regulatory changes.



7.1 Key Reforms in 2019

During the review period, the Bank made changes to one of its guidelines and issued a new one as highlighted on Table 7.0 below.

Table 7.0: Key Reforms in 2019

Month	Description
January	<p>In 2011, the Bank issued the Single Licensing Guidelines through an amendment in the FIA in December. The Guidelines was issued to provide for a single licensing regime in the banking sector by eliminating the requirement for two separate licences to conduct either onshore or offshore banking business. Following amendments to the Business Tax Act, 2012 in December 2018, the Bank revised the Guidelines so as to account for the changes in the new tax regime implemented. Therefore, the new condition makes it a requirement for all banking activities arising from sourced income to be taxed as follows:</p> <ol style="list-style-type: none">1. 25% on the first SCR1 million of taxable income; and2. 33% on the remainder. <p>The revised Guidelines came into force as of January 1, 2019.</p>
April	<p>In order to promote and enhance cybersecurity management practices in the financial sector, the Bank issued its Cyber Security Guidelines in April 2019. The Guidelines are applicable to all deposit-taking institutions like commercial banks and credit unions. Moreover, all deposit-taking institutions are required to adopt the Guidelines and simultaneously implement cyber defences that are appropriate to their risk profile and activities.</p>

The Bank tailors its regulatory and supervisory frameworks to account for the size, complexity, risk profile and significance of its regulated entities. Hence, the initiatives undertaken throughout 2019 were aimed at improving the stability and resilience of the financial sector.

7.1.1 International Financial Reporting Standard (IFRS) 9 – Financial Instruments

With the adoption of the IFRS 9, every financial institution must now adopt and conform to this new internationally-accepted standard of reporting. This standard has replaced the International Accounting Standards (IAS) 39 on recognition and measurement of financial instruments with effective date January 1, 2018. As a result of the impending urgency to conform to IFRS 9, the Bank made amendments to the Financial Institutions (Credit Classification and Provisioning) Regulations, 2010 as amended in April 2019. Moreover, the Bank conducted ongoing consultations with the commercial banks, DBS, HFCL and SCU to monitor the implementation of IFRS 9.

7.2 Ongoing Developments within the Supervisory Framework

7.2.1 Credit Union Rules

The Bank continued with its efforts to strengthen the legislative provisions that govern the regulation and supervision of credit unions throughout 2019. This entailed the drafting of relevant policy papers for credit union rules as well as consultations with the AG’s Office on proposed rules to be adopted and implemented. Work on the proposed new rules will continue during 2020 with expected completion in the same year.



7.2.2 Enhancing Compliance with AML/CFT Requirements

The second round of Mutual Evaluation (ME) in 2018 highlighted a number of deficiencies, including but not limited to, current legislations governing ML/TF. In light of this, Seychelles witnessed enhanced domestic co-operation and a comprehensive review of relevant legislations pertaining to AML/CFT. Following the reviews and recommendations put forth from the ME and NRA, it was deemed pertinent to have in place a new AML Act along with a Beneficial Ownership Act. As such, in 2019, work continued on AML/CFT matters with the Cabinet of Ministers approving the AML/CFT and Beneficial Ownership Bills in December 2019. Of note, the policy papers for the AML/CFT and Beneficial Ownership legislative frameworks were approved by the Cabinet of Ministers in October 2018 and December 2019, respectively. The two Bills are expected to be tabled before the National Assembly and thereafter assented within the first quarter of 2020.

7.2.3 Financial Institutions Act

Pursuant to the works done in 2017 and 2018 in regards to the FIA amendments, the Bank intensified its efforts to complete the relevant works in respect of same. As is, 2019 saw the completion of additional policy papers on amendments to specific parts of the FIA. The outstanding policy papers are anticipated to be completed in 2020 and thereafter all policy papers will undergo peer review by relevant stakeholders.

7.2.4 Islamic Banking & Finance

Consequent to the endorsement of the National Policy and Strategy for Islamic Banking and Finance by the Cabinet of Ministers in 2018, the Bank pursued its engagement with the World Bank in 2019 for the formulation of a regulatory and supervisory framework for Islamic Banking and Finance. Moreover, in order to further enhance staff knowledge on Islamic Banking and Finance, the Bank contracted the services of IBFIM through a request for proposal in April 2019. The aim of this initiative was to deepen staff knowledge and understanding of Islamic Banking and Finance, particularly for staff working directly on the project and whose daily tasks will be impacted by the introduction of same in the country. Ultimately, the regulatory and supervisory framework for Islamic Banking and Finance is anticipated to be completed in 2020 and tied in with the FIA amendments.

7.2.5 Investment Banking

Engagements with key stakeholders were executed in 2019 which resulted in the project being put on hold. This was due to more pertinent projects being developed and implemented by the stakeholders. As such, the Investment Banking project will be re-initiated once the other projects are completed.

7.2.6 Private Banking

In October 2019, the World Bank conducted a mission in Seychelles to assist with the development of an appropriate framework for the regulation and supervision of private banking activities. Accordingly, the World Bank put forth recommendations to the Bank for consideration in terms of policy decisions, in deciding the way forward on the subject matter. Work on the project will continue throughout 2020.

7.2.7 Basel Standards

The Bank pursued with the sourced consultancy services for the implementation of the risk-based supervision (RBS) framework throughout 2019. This encompassed the works being done in the implementation of Basel II Pillar II as well as onsite capacity building on the RBS framework for relevant staff. Moreover, the Bank adopted the Basel Capital Framework with the legislations guiding the implementation of Basel II Pillar I being finalised and approved by the Bank’s Board of Directors in the last quarter in 2019. Besides that, 2019 saw the continued contemplation of the adoption of Basel III Capital Definition as well as Basel II Pillar III disclosure requirements. The Bank will intensify its works on the adoption of the Basel standards in 2020.



7.2.8 Resolution Framework

The approved policy paper for the resolution framework by the Cabinet of Ministers in December 2018 underwent a review by the IMF in 2019. Consequent to the review, further research and amendments were made to the policy paper in ensuring that the proposed resolution framework is at par with international standards, best practices and fit for purpose for the local context.

7.2.9 Foreign Exchange Act

Consequent to the work done in 2018, the Bank initiated discussions with the AG's Office on the amendments to be made to the Foreign Exchange Act (FEA) in the year under review. This was particularly in reference to the definition of 'authorised dealer'. The discussions ensued in further research work on the amendments to be done to the FEA. In this direction, work on the drafting and seeking the necessary endorsement of the Cabinet of Ministers for the relevant amendments, will continue throughout 2020.

7.2.10 Non-Bank Credit Granting Institutions Act

Work on the draft policy paper for the legislative framework for NBCGIs continued in 2019. This was done through continued consultation with the World Bank for the finalisation of the policy paper for the new legislative framework for NBCGIs. Work in that regard will carry on in 2020 with anticipation of the policy paper to be approved by the Board of Directors of the Bank in the same year.

7.2.11 Self-Assessment of the Basel Core Principles

Throughout the review period, the Bank continued with relevant work to assess the compliance of its legislative frameworks against the Basel Core Principles. This encompassed the drafting of internal memoranda for each of the Principles being assessed during 2019. These memoranda make recommendations for the enhancement of the frameworks for the areas that are observed to be non-compliant. Accordingly, this project is expected to continue over the coming years.

7.2.12 Outsourcing Framework

During 2019, work progressed in developing the Outsourcing Framework for financial institutions through the Bank's internal review process. Consequently, further amendments and enhancement of the proposed framework was done throughout 2019. Moreover, the framework being developed will tie in with amendments being made to the FIA. The policy paper for the Outsourcing Framework is anticipated to be presented to the Board of Directors of the Bank for approval in 2020 before its issuance in the same year.

7.2.13 Application Packs and Forms

The Bank pursued with its efforts to amend and improve application packs and forms used for the licensing of financial institutions, appointment of auditors and processes to request approval for acquisition of a substantial interest in a financial institution. The tasks being completed in that regard are tied with amendments being made to the FIA, given implications the amendments will have on the application packs and forms. Ultimately, the improvements to the application packs and forms will ensure that deficiencies observed over the years are rectified. Likewise, it will make certain that the application processes run smoother with particular emphasis to be placed on the ease of filling up the forms by the applicants.





Chapter 8

Regional & International Developments and Initiatives

8.0 Introduction

Throughout 2019, the Bank participated, engaged and contributed in a number of regional and global initiatives, aimed at enhancing the Bank's frameworks, capacity and capability to ensure and maintain a sound financial system. Participation in these initiatives increases the Bank's exposure to the evolving regional and international regulatory and supervisory standards as well as other issues that can be considered and adapted to the local context. As the case in previous years, the regional and international developments and initiatives were particularly focused on areas that contribute towards the Bank's regulatory and supervisory mandate, including:

- Fintech;
- AML/CFT;
- Cybersecurity;
- Payment Systems; and
- Basel Standards Implementation.



8.1 Regional and International Initiatives

8.1.1 Southern African Development Community

8.1.1.1 Subcommittee of Banking Supervisors (SBS)

Held in South Africa on August 1 – 2, 2019, the delegates discussed the progress made with regards to the implementation of the Committee of Central Bank Governors' (CCBG) Strategic Focus Area (SFA 3). This pertains to promoting financial stability, the crisis management and resolution simulation exercise, and progress made on other projects such as the SADC Banking Model Law and cross-border banking supervision. Notably, the Bank assumed the role of Chairperson of the SBS with the Bank of Zambia and South African Reserve Bank as Deputy Chairperson. The Bank's Chairmanship of the SBS took effect as of September 2019 for a 2-year period.

8.1.2 14th Basel Committee on Banking Supervision – Financial Stability Institute (FSI) High-Level Meeting for Africa

South African Reserve Bank (SARB) hosted the annual BCBS-FSI high-level meeting for Africa on January 31 – February 1, 2019, of which the Bank was in attendance. The high-level meeting – the 14th edition – focused on the general theme of *Strengthening financial sector supervision and current regulatory priorities*. As the case in previous years, the meeting was attended by senior officials from central banks, supervisory authorities, BCBS and FSI. The high-level meeting delved into numerous discussions with particular reference to the key changes since the global financial crisis, implications of technological developments on banking regulation and supervision, financial inclusion and innovation. The 2-day meeting concluded with the officials debating on various topics which included:

- Developments of the financial supervisory architecture;
- Implementation of key post-crisis regulatory reforms like Basel III; and
- Proportionality in banking regulation.

8.1.3 Financial Stability Institute 20th Anniversary Conference

The FSI's 20th anniversary was commemorated in Switzerland from March 12 – 13, 2019 by representatives from central banks, and senior officials from the public and private sectors from across the world. The commemoration was marked by a 2-day conference which saw six panel discussions and addresses by two keynote speakers around the theme “*A cross-sectoral reflection on the past, and looking ahead to the future*”. Over the course of the conference, the attendees reviewed regulatory and financial developments with emphasis on corporate governance, Fintech, crisis management and resolution, and the impact of climate change on the financial system. These topics prompted various debates amongst those present following panel sessions on same by experts in the respective fields.

8.1.4 Alliance for Financial Inclusion

8.1.4.1 7th Annual Roundtable of the Leaders of the African Financial Inclusion Policy Initiatives (AfPI)

The 7th Annual Roundtable of the Leaders of the AfPI convened in Cote d'Ivoire, on February 27 – 28, 2019, and was co-hosted by the Ministry of Economy and Finance of Cote d'Ivoire, Central Bank of West African States (BCEAO) and AFI. Throughout the meeting, the attendees broadened their insights on the practical means by which they can implement two policy frameworks which were adopted in September 2018 in Sochi, Russia during the AFI GPF, namely:

1. Policy Framework for Innovative Cross-Border Remittances in Africa; and
2. Policy Framework for Digital Financial Services Interoperability in Africa.

The meeting was preceded by a public-private dialogue training on *Approaches to Enhancing Financial Inclusion through Digital Financial Services*, from February 26 – 27.



8.1.4.2 Consumer Empowerment and Market Conduct (CEMC) Working Group and Digital Financial Services (DFS) Working Group Meetings

Co-hosted by the Central Bank of Bahamas and AFI, the CEMC Working Group and DFS Working Group meetings were held in Bahamas, from March 26 – 29, 2019. The meetings saw the participation of officials from 52 countries from across the globe. Each of the working group meetings provided the attendees with the opportunity to discuss and share their knowledge and expertise on topical areas, including data protection and digital credit standards. In addition, the meetings were used as a platform to share ideas and insight on the use of RegTech and technological tools in developing effective mechanisms for consumer protection.

8.1.4.3 11th Annual Policymakers' Roundtable on Financial Inclusion

On April 10, 2019, the G-24 and AFI jointly hosted the 11th Annual Policymakers' Roundtable on Financial Inclusion in Washington D.C during the 2019 Spring Meetings at the IMF Headquarters. The event focused on how DFS and Fintech can be used to catalyse the financial inclusion of women, with discussions on the implementation of the Denarau Action Plan⁴⁵, created by AFI member institutions in 2016.

8.1.4.4 5th Pacific Islands Regional Initiative (PIRI) High-Level Forum

Participants from Small Island Developing States (SIDS) and leaders in the Pacific Region convened in the Solomon Islands from June 3 – 6, 2019 for the 5th PIRI High-Level Forum. Jointly hosted by the Central Bank of Solomon Islands and AFI, the 4-day forum centred on the overarching theme of *Advancing Green Finance through Youth Inclusion*. As such, the forum allowed those present to contemplate policy solutions and interventions in promoting green finance through its linkage with the youth. The forum was also used as a platform to deliberate on the following:

- Regional Regulatory Sandbox for the Pacific Island countries;
- De-risking Action Plan;
- Gender Inclusive Finance;
- Inclusive Green Finance; and
- Inclusion of the Bank as a member of PIRI.

8.1.4.5 AFI Global Policy Forum

As part of the Denarau Action Plan of 2016, AFI member institutions pledged to reduce the gender gap by half by 2021 in their own countries. As such, the 2019 AFI GPF was used as the platform to assess the progresses made by the members on gender gap reduction. The GPF was held in Rwanda from September 11 – 13, 2019 and hosted by the National Bank of Rwanda together with AFI. Moreover, the attendees shared and discussed on the development and implementation of youth-targeted financial inclusion policies. This also encompassed discussions on having a global policy leadership alliance to assist in expanding access of financial products and services to the youth.

8.1.4.6 Empowering Consumers through Financial Education

Bank Negara Malaysia and AFI organised a joint learning program on *Empowering Consumers through Financial Education* from October 7 – 11, 2019 in Malaysia. This 5-day program provided the participants with insights on the Malaysian experience in building consumer empowerment within the limits of regulation. Likewise, the program afforded the participants the opportunity to share ideas on strategies that ensure fair market practices, inclusive of developing more effective interventions for consumer empowerment and enhancing regulatory and supervisory framework.

⁴⁵ The AFI network's commitment to gender and women's financial inclusion
<https://www.afi-global.org/sites/default/files/publications/2016-09/Denarau%20Action%20Plan.pdf>.



8.1.4.7 Supervisory Framework for Digital Credit

Officials from the Bank attended a 3-day workshop in Kenya, which was hosted collaboratively by AFI and the Central Bank of Kenya on *Supervisory Framework for Digital Credit*. With the aim of enhancing the knowledge of the participants present, the workshop delved into the different criteria which a regulatory and/or supervisory authority can consider when adopting and implementing a supervisory framework for digital credit. Attended by various officials from AFI member institutions, the workshop was an opportune time for the participants to network and share their country experiences on the adoption and implementation of digital credit.

8.1.5 Africa Training Institute (ATI)

8.1.5.1 Financial Sector Surveillance

Staff from the Bank attended the *Financial Sector Surveillance* seminar held in Mauritius from March 25 – April 5, 2019, along with other jurisdictions' officials engaged in financial sector surveillance and macro-prudential oversight. The seminar aimed to broaden the knowledge and capability of the participants to identify and assess the strengths of and vulnerabilities in a financial sector. Discussions focused on how unwarranted macro-financial imbalances can be promptly identified as well as how to analyse the transmission of financial distress when it transverses markets, institutions and economic sectors. Aside from discussions and lectures, the attendees partook in hands-on workshops, allowing them to apply essential risk assessment techniques.

8.1.5.2 Macroeconomic Diagnostics

On July 1 – 12, 2019, representatives from the Bank joined other central bank and government officials for a seminar on *Macroeconomic Diagnostics*. The seminar was conducted by IMF's Institute for Capacity Development at ATI in Mauritius. With a focus on strengthening capacity, the seminar covered topical areas such as the assessment of a country's macroeconomic situation with emphasis on how to assess the current state of an economy. Additional areas covered included fiscal and monetary stances, financial stability, exchange rate misalignment and medium-term outlook amongst others. Moreover, the seminar emphasised on practical tools used in the day-to-day macroeconomic analyses through relevant case studies.

8.1.6 Regional Technical Assistance Center for Southern Africa (AFRITAC South)

8.1.6.1 Emerging Financial Technologies: Balancing Innovation and Regulation

Held in South Africa from March 18 – 20, 2019, the seminar gathered officials from central banks and supervisory authorities in the region to discuss the impact of Fintech innovations on monetary and financial stability and the regulatory responses to these developments. Representatives deliberated on a number of Fintech-related issues such as the regulatory approach to Fintech, implications for risk-based supervision and the potential to realise financial inclusion gains from technology. Participants also benefited from sharing country experiences with one another with the overall underlying objective to promote a sound understanding and approach to the use of Fintech.

8.1.6.2 Risk-focused Supervision of Cross-Border Transactions

A 5-day training was organised by AFRITAC South and SARB on *Risk-focused Supervision of Cross-Border Transactions*, from July 8 – 12, 2019 in South Africa. The training covered the risks involved in undertaking cross-border transactions and how to supervise the risks under a risk-based approach. Moreover, the training allowed participants to deliberate on the various challenges arising from cross-border transactions being faced by supervisors, including:

- Full information access for consolidated supervision;
- Commercial bank secrecy legislations causing restrictions on cross-border onsite examinations;
- Consolidated supervision influencing risk management of the banking groups and subsidiaries; and
- Blurred legal distinctions between commercial bank branches and subsidiaries.



8.1.6.3 IFRS 9 – Implementation Issues

Representatives from central banks convened in Mauritius from August 18 – 23, 2019 for a seminar on *IFRS 9 – Implementation Issues*. The seminar focused on enhancing the participants' ability to understand topical issues with the implementation challenges of IFRS with particular emphasis on IFRS 7 (Financial Instruments: Disclosures) and IFRS 13 (Fair Value Measurement of Financial Instruments). In addition, participants were equipped with the different tools and techniques in conducting supervision of financial institutions under the new IFRS framework in the most effective way. This also included an awareness of the inter-linkages amongst the aforementioned standards and implementation challenges.

8.1.6.4 Regulatory, Supervisory and Oversight Responsibilities towards Compliance with the CPML-IOSCO Principles for Financial Market Infrastructures

The AFRITAC South jointly with the AFRITAC East and in conjunction with the Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI) organised a 5-day seminar on December 9 – 13, 2019 in Mauritius. Themed *Regulatory, Supervisory and Oversight Responsibilities towards Compliance with the CPSS-IOSCO Principles for Financial Market Infrastructures*, the seminar was attended by various professionals responsible for the operation, regulation and oversight of the payment, clearing and settlement systems. During the course of the seminar, the attendees had the opportunity to better understand the need for strengthened legal, governance and risk management frameworks (Principles 1 – 3), and to fulfil the regulatory, supervisory and oversight responsibilities (Responsibilities A – E) of the PFMI.

Aside from the above, the professionals also had the chance to engage with one another on their respective country's experiences and progresses made in adopting the PFMI. The seminar was also used as a forum for the participants to discuss the evolution of the policy and regulatory environments of the payment systems to address key risks, opportunities and regulatory challenges vis-à-vis the use of emerging Fintechs.

8.1.7 ESAAMLG

8.1.7.1 37th Meeting of the ESAAMLG Task Force of Senior Officials

Officials from the Bank along with those from the Government of Seychelles, convened in Tanzania from April 7 – 12, 2019 for the 37th Meeting of the ESAAMLG Task Force of Senior Officials. During the meeting, the Seychelles officials presented the country's first progress report on the relevant steps taken in addressing the deficiencies noted in Seychelles' second MER that was adopted in September 2018. Additionally, throughout the 7-day meeting, the delegates actively participated in various working group forums and plenary discussions.

8.1.7.2 Assessors' Training Workshop

ESAAMLG member countries convened in Tanzania on April 14 – 18, 2019 for the Assessors' Training Workshop. The workshop aimed at training assessors in order to participate in the MEs conducted by ESAAMLG on its member countries. It provided a general overview of the Mutual Evaluation Process and an understanding of how risk and context, the FATF recommendations and methodology fit within the framework of a ME. Moreover, the training provided an understanding of the purpose and scope for assessing both the technical compliance and the effectiveness, as well as recognising the roles of the assessors and the secretariat in the Mutual Evaluation. Furthermore, it consisted of a mock assessment which provided participants with hands-on experience in understanding the risk and context, and assessing Technical Compliance in a team setting.



8.1.7.3 19th ESAAMLG Council of Ministers and the 38th Task Force of Senior Officials Meetings

The ESAAMLG held its 38th Task Force of Senior Officials and 19th Council of Ministers Meetings in the Kingdom of Eswatini, on September 1 – 6, 2019. The meetings were attended by various delegates from the ESAAMLG member countries as well as officials from the Cooperating and Supporting Nations and Organisations. As the case annually, the meetings facilitated discussions amongst the delegates on a number of issues in relation to AML/CFT matters. The Plenaries also afforded the participants with the opportunity to address pertinent issues that require a concerted and harmonised approach in the effective implementation of AML/CFT measures. During the meetings, the Second Round MER of the Republic of Malawi was considered along with the Progress/Follow Up Reports of 12 member countries.

8.1.7.4 Risk-Based Supervision for Digital Financial Services, Money or Value Transfer Services, Money Remittances and Bureau De Change Sectors

The Bank, in collaboration with the ESAAMLG, hosted a regional workshop on *Risk-Based Supervision for Digital Financial Services, Money or Value Transfer Services, Money Remittances and Bureau De Change Sectors*, in May 2019. The workshop was conducted in line with the recommendations highlighted in Seychelles' second MER adopted in 2018. Moreover, the workshop was attended by delegated from ESAAMLG member-countries and staff from the Bank responsible from AML/CFT matters. The workshop provided supervisors with the knowledge and expertise required for design and implementation of risk-based supervisory frameworks in the context of digital financial services, money value transfer services, money remittances and bureau de change.

8.1.8 Banking Supervisors Training Programme

From June 23 – 28, 2019, the Monetary Authority of Singapore (MAS) held its 28th Banking Supervisors Training Programme. The 6-day programme allowed participants to have a broad overview on the regulatory and supervisory frameworks and practices of MAS, including matters related to Fintech, AML/CFT, Corporate Governance and RBS. The participants also had the opportunity to share their country experiences, particularly challenges being faced and solutions being implemented to curb these challenges. Some of the challenges noted – which resonate with the Bank – are as follows:

- Lack of human resource capability to undertake RBS;
- Lack of comprehensive banking supervision tools and techniques;
- Lack of regulatory powers to impose penalties;
- Adoption of IFRS 9;
- Transition to RBS; and
- Information technology risks.

8.1.9 G7 2019 Cybersecurity Conference

Under the French G7 Presidency, the Banque de France and French Ministry for Economy and Finance held a high-level conference on the theme *Cybersecurity: Coordinating efforts to protect the financial sector in the global economy* on May 10, 2019. Held in France, the conference saw the participation of a variety of stakeholders including regulatory and supervisory authorities and national security agencies, with the aim to discuss challenges and areas for improvement to effectively tackle cybersecurity threats in the face of its global dimension. The conference consisted of four panel discussions around the following themes:

- The state of cyber threats weighing on the financial sector today;
- Challenges for the financial sector in adapting to cyber threats;
- Improving the resilience of the financial sector through crisis management exercises; and
- Ways to strengthen internal co-operation for cybersecurity.



8.1.10 World Bank Group's 16th Overview Course of Financial Sector Issues: Financial Systems in the Era of Data and Technology

The World Bank Group hosted its annual *Overview Course of Financial Sector Issues, with a focus on Financial Systems in the Era of Data and Technology*. The course took place from June 24 – 28, 2019 in Washington D.C. and targeted officials from central banks, ministries of finance, financial regulatory agencies in developing countries and the private sector, amongst others. Participants had the opportunity to hear the views of leading financial experts on the traditional role of the financial sector and how the big data and emerging Fintech are reshaping finance across the globe. The diversity in the background of the participants provided for a rich exchange of opinions on topics like Fintech, consumer protection and money laundering, based on the central theme of the course.

8.1.11 IMF Technical Assistance (TA)

8.1.11.1 IFRS 9

During October 7 – 11, 2019, the Bank received TA from IMF representatives on the *Implementation of IFRS 9: Financial Instruments*. The TA was a continuation of previous assistance provided by the IMF on IFRS 9 in previous years. As such, the TA in 2019 focused on reviewing the progress made by the Bank in implementing IFRS 9. Additionally, an assessment of the advancements made by the Bank in integrating and aligning its regulatory structure and supervisory processes with the standard's requirements was conducted. Ultimately, these resulted in relevant recommendations to better address the issues and challenges being faced with IFRS 9 implementation. Furthermore, staff from FSD had the opportunity to attend short seminars and workshops delivered by the IMF representatives on various aspects on IFRS 9 and IFRS 13 (Fair Value Measurement), particularly the Expected Credit Loss model development and validation, and methods of fair value measurement.

8.1.12 Fintech Workshop

As a result of the growing significance of Fintech both locally and globally, the Bank in collaboration with the FSA, MoFTIEP, World Bank Group and AFI, organised a two-and-a-half-day workshop on the theme *Building a Fintech Platform for Seychelles: Opportunities and Challenges*. The event was held at the Avani Barbarons Resort, Seychelles Resort and Spa, from May 8 – 10, 2019, saw the participation of various local and international stakeholders. The main aim of the workshop was to set the stage for greater understanding of the role of Fintech in Seychelles, and initiated dialogue on the development of a National Fintech Strategy for the country. Moreover, the workshop saw various panel discussions from both local and international professionals, and covered topics such as:

- Building Partnerships and Developing Fintech Ecosystems;
- Harnessing Fintech for Financial Inclusion;
- Innovative Regulatory Approaches for Fintech Supervision and Oversight;
- Financial Innovation and AML/CFT Opportunities and Challenges; and
- Crypto and Decentralised Systems.



8.1.13 Islamic Banking and Finance Workshop

In order to enhance the capacity of its staff, the Bank issued a request for proposal for training on Islamic Banking and Finance in April 2019. This was as a result of the work being undertaken by the Bank in developing a comprehensive framework for the regulation and supervision of Islamic Banking and Finance in Seychelles. The workshop was conducted by IBFIM – an institution which specialises in industry technical certifications – for two weeks during the month of September 2019. The workshop was attended by staff from various divisions/units within the Bank, and covered an array of topics, including:

- Philosophy and Fundamentals of Shariah for Islamic Finance;
- Application of Shariah in Islamic Finance;
- Ethics in Islamic Finance;
- Legal Aspects and Governance in Islamic Finance; and
- Islamic Finance Architecture.

Aside from the above, the participants had the opportunity to sit for the AQIF examination following the completion of the workshop. This was done as a means to test the level of understanding and takeaways by staff from the workshop. Accordingly, the workshop proved to be fruitful, with the attainment of an 83% pass rate for the AQIF examination.

8.1.14 Digital Government Study Tour

Through an invitation by the World Bank Group, officials from the Government of Seychelles and the Bank took part in a study tour in Estonia from July 1 – 5, 2019. The study tour was organised with the aim of exploring how information communication technology can be used for better state governance. Essentially, the program covered digital initiatives for government and public services such as digital identification document (ID) management, e-police, e-justice and e-health. The takeaways from the study tour is expected to contribute towards the development of the country's National Fintech Strategy as well as moving the country towards a more digital economy.

8.1.15 Basel II and III Implementation Challenges

The SARB in conjunction with the Toronto Center co-hosted a 5-day seminar on *Basel II and III Implementation Challenges*, from July 15 – 19, 2019, in South Africa. The seminar was attended by delegates from various central banks, of which staff from the Bank was in attendance. During the seminar, participants were informed on the practical aspects for consideration when implementing Basel II and III standards in their respective jurisdictions. Topics covered during the seminar revolved around supervisory approaches, staff resourcing, the proportionality concept, application of the standards to international banking groups, amongst others. The seminar was delivered by experts in the field of Basel implementation from the Toronto Center and included high levels of interaction between the facilitators, panel of experts and participants.

8.1.16 World Bank Group, IMF and Board of Governors of the Federal Reserve System

Co-hosted by the World Bank Group, IMF and Board of Governors of the Federal Reserve System on June 5 – 7, 2019, the 19th Annual International Conference on Policy Challenges for the Financial Sector was held in Washington D.C. The event was attended by various central bank Governors, Deputy Governors, Head of Supervision and other senior officials in the financial sector from around the globe, whereby they shared their knowledge and experiences around the central theme *Safe, But Safe Enough?* The topics covered under this theme included issues related to the new regulatory architecture and its adequacy to prevent another global financial crisis, technology risk and opportunities, the level of the Basel III requirements, developments in supervisory practices, integrity and safety, and the independence of the supervisory authorities.



8.1.17 Innovation Officer Academy

On October 20 – 24, 2019, GIZ conducted the Innovation Office Academy workshop in Abu Dhabi. The workshop was geared towards relevant stakeholders, particularly those in the Middle Eastern and Northern African region. Discussions during the workshop focused on key innovations emerging in the financial landscape which may have implications on financial regulators. In that regard, topics covered during the workshop included:

- Global Fintech landscape and taxonomies which are evolving;
- Selected Fintech innovations (like alternative credit scoring and open banking); and
- Fintech opportunities and challenges for policy objectives.

The workshop also coincided with the Abu Dhabi Fintech Summit, and therefore, provided an ideal platform for the workshop attendees to interact with a multitude of Fintech ventures present. Moreover, the attendees had the opportunity to meet with representatives of the Dubai International Center and FinTech Hive.



Chapter 9

Issues & Challenges

9.0 Introduction

The financial sector has undergone, and continues to experience, significant changes as a consequence of globalisation, deregulation and technological advancements. These have been largely as a result of the global financial crisis of 2007/8 which has compelled financial regulators to adopt sharp adjustments over the years. Likewise, the frameworks for regulating the financial system has witnessed alterations, and the financial crisis issued numerous standards and proposals for change in ensuring a sound and safe [global] financial system. Additionally, technological advancements – particularly as a result of the emergence of Fintech –, compliance requirements, new business models, international standards, amongst others, have brought about a number of issues and challenges for regulators, including the Bank. Despite novel issues and challenges being faced, past issues and challenges, like cybersecurity, still persist; hence, requiring close monitoring and the adoption and implementation of either new measures or amendments to existing measures.



9.1 Reputational Risk

Despite several measures undertaken by the Government of Seychelles and relevant authorities to improve the reputation of the jurisdiction, the country continues to be perceived as a high-risk jurisdiction internationally. This is particularly as a result of Seychelles' reputation as an offshore haven, with repercussions on the banking sector through higher levels of scrutiny from standard setting bodies such as Organisation for Economic Co-operation and Development (OECD) and Financial Action Task Force (FATF), as well as correspondent banks. For instance, in December 2019, the French Government added Seychelles to its list of jurisdictions that are considered to be uncooperative on tax matters. This is following Seychelles' inability to share tax and ownership information on certain locally-registered French offshore entities. Moreover, reputational risks are observed from the misrepresentation of Seychelles by entities at a global level. This was evident from an issue with an offshore entity, namely BITMEX, whereby allegations were raised in regards to entities engaging in bribery in Seychelles. Ultimately, these reputational risks are of great concern to the country as implications of such can be damaging for Seychelles. For example, reputational damages may impact the CBRs of the commercial banks in the country, thereby resulting in the possibility of higher corresponding fees which the commercial banks may pass onto their customers due to the added costs, and also in the termination of their CBRs. In this regard, the Government of Seychelles, along with relevant stakeholders – including the Bank – have stepped up their efforts to mitigate such issues through the adoption of more robust regulatory and supervisory frameworks (such as the impending introduction of a new AML/CFT and Beneficial Ownership laws), to ensure compliance with international standards. Such efforts can also encompass high-level engagements with relevant foreign counterparts on the measures being implemented by Seychelles to curb reputational issues.

9.2 Stakeholder Engagements

The Bank is required to be proactive in stakeholder management to ensure sound stakeholder relations. Effective stakeholder management suggests that the Bank should strategically manage its relationships with various internal and external stakeholder groups. To note, the Bank engages with a multitude of stakeholders at the micro-, meso- and macro-levels; therefore, stakeholder co-ordination and management procedures are key to the pursuit of the Bank's objectives and mandate. As such, this can only be achieved through stakeholders working together harmoniously with the same purpose. Nonetheless, over the years, it has been observed that stakeholder engagements are not to the expectations and/or standards required so as to effectively adopt and implement relevant policies, initiatives and frameworks. Thus, the Bank has stepped up its efforts in effectively managing stakeholder engagements through the incorporation of same in its Strategic Plan 2018-2023 under Strategic Pillar IV, which focuses on Managing Stakeholder Expectations. This Strategic Pillar includes ensuring close collaboration with stakeholders. Eventually, having an effective co-ordination structure for stakeholder management ensures that the adoption and implementation of both the banking sector and national policies, initiatives and frameworks, are effective.

9.3 Consumer Protection

One of the fundamental requirements in the financial system is the protection of depositors/consumers. At present, all consumer protection matters are catered for under the Consumer Protection Act, 2010 which is administered by the Fair Trading Commission. However, the Bank makes use of the Financial Institutions (Complaints Handling) Regulations, 2008 to assist depositors/consumers with unresolved complaints raised at the commercial banks. Given that depositors/consumers have the right to make complaints or raise concerns vis-à-vis services rendered to them by the commercial banks, then, the aforementioned Regulations provides them with the powers to do so. This is only after the depositors/customers has had the opportunity to take up their complaints with their respective commercial bank. Generally, a lack of an appropriate feedback mechanism to channel complaints can result in the interests of depositors/consumers being overlooked. In addition, unresolved complaints that are improperly handled may result in dissatisfaction, mistrust and erode confidence in the financial system. Notwithstanding such mechanisms being in place, commercial banks continue to record high levels of complaints from depositors/consumers. Of note, complaints lodged at the Bank has, however, reduced by 7.9 per cent from 2018 to 2019. Consequently, as a result of the continuing issues being faced vis-à-vis consumer protection, the Bank remains committed to enforce its role in ensuring that depositors/consumers are effectively protected from unfair and/or discriminating practices in the financial system. Particularly, the Bank, in collaboration with the FSA, are finalising work on the enactment of a Financial Consumer Protection Act which is set to be gazetted in the first quarter of 2021.



9.4 Cybersecurity

As the world evolves in the area of technological advancements, Seychelles has also embarked on a journey to digitalise its economy. Regardless of the various benefits that can be garnered in moving towards a digital economy, the relevant stakeholders remain mindful of the ever-emerging threats and risks associated with technology. Data breaches, identity thefts, frauds and scams, to name a few, are some of the risks that can have implications on the Seychelles economy as the jurisdiction journeys to a digital landscape. As such, cybersecurity attempts remain an important threat in the local and global financial system. In the local context, cyber threats remain high on the Bank's agenda, with the Risk Assessment Matrix highlighting potential threats from malware and cyberattacks, amongst others, being high. In light of the high risks involved with the use and introduction of new technology, the Bank along with other local stakeholders have undertaken relevant measures to mitigate current and future cybersecurity threats. This includes the development of a Cybersecurity Act, National Cybersecurity Policy and Strategy (approved by the Cabinet of Ministers in April 2019), issuance of Cyber Security Guidelines for deposit-taking institutions, enhanced capacity building and continued work by the Bank's Cybersecurity Working Group. Furthermore, in November 2019, the Bank in collaboration with the SBA joined the global efforts undertaken to promote awareness and education against fraud through their participation in the International Fraud Awareness Week. In particular, an Anti-Fraud Expo was organised where members of the public had the opportunity to interact with officials from the Bank, commercial banks and Financial Intelligence Unit (FIU) on the various types of fraud and scams. Aside from the interactions, members of the public were also informed on the numerous initiatives being undertaken to help in fraud detection. Ultimately, the Bank will pursue its initiatives and efforts to curb cybersecurity threats and risks in the years to come and ensure that the financial system remains sound and robust.

9.5 Human Resources Capacity: Fintech

Central banking has been given a fresh impetus by virtue of a number of recent developments, predominantly with the emergence of new technologies and business models. Consequently, Central Banks have had to instigate change in order to accommodate such developments and to remain abreast with same. Locally, there has been growing interest in the area of Fintech, with investors knocking on the Bank's doors with anticipation to enter into and develop this market. However, given the fast pace of technological developments and same being an emerging issue, the Bank takes cognisance of its human resources capacity constraints in tackling the developments in regards to Fintech. Whilst the Bank has been investing in its human resources in order to grasp and comprehend (in terms of knowledge and skills) the concept of Fintech, much remains to be done in order to fully comprehend this ever-changing and ever-evolving technological landscape. A key investment made by the Bank and the Government of Seychelles in this area was the organisation of a workshop themed *Building a Fintech Platform for Seychelles: Opportunities and Challenges* in May 2019. This workshop afforded local stakeholders with the opportunity to broaden their knowledge in the area of Fintech through panel discussions with experts in the field.

9.6 Adoption and Implementation of Basel Standards

Contemporary regulatory and supervisory practices of developing countries in today's globalised financial system have to keep pace with the decisions of international ramifications. Following the global financial crisis of 2007/8, significant regulatory reforms have been undertaken to date, particularly in regards to the Basel standards. Whilst the Basel standards are obligatory to member countries for adoption and implementation, these standards are widely acknowledged, even amongst non-member countries as being 'best practice' regulatory standards. Nonetheless, for developing countries, the Basel standards are adopted and implemented in a selective and proportionate manner to cater for the needs and challenges of the local context – this is especially the case for Seychelles. Given the complexities of the Basel standards, it remains a challenge for the Bank to remain abreast, in terms of human resources, due to the technicality of the standards and determining the approach to be adopted. As such, the adoption and implementation of the Basel standards exacerbate regulatory resource constraints that are already deemed to be significant for the Bank, due to numerous projects being worked on.



Furthermore, with the impending implementation of the RBS Framework by the Bank, issues and challenges have arisen. For instance, commercial banks are being requested to submit information/data that they were not previously reporting, thus causing delays in the implementation as such information/data needs to be gathered. Likewise, the staff of the Bank are constrained by the numerous technical projects being undertaken. To note, the implementation of an RBS framework requires a paradigm shift which has implications not only on how the supervisory resources are utilised but also the calibre of staff and operations of the banking sector. Accordingly, it is necessary to formalise the implementation steps and define the methodology in order for the supervisor, as well as the supervised institutions, to internalise the framework. The Bank will step up its efforts in this area in 2020 to ensure the successful and effective adoption and implementation of relevant standards.

9.7 Payment Systems Oversight

The Bank has intensified its efforts over the years to better comprehend the governance and regulatory issues pertinent for the implementation and development of its oversight activities of the national payment system. The main underlying challenge for the Bank has been the importance of building human resource capacities as well as investing in appropriate resources to oversee and develop the national payment system. Additionally, there exist dual regulatory powers between the Bank and FSA in the regulation of securities clearing entities, which thus requires enhanced effective co-operation and co-ordination between the two entities on the matter. Besides that, the implementation of the NPSA over the years since its enactment, has revealed certain deficiencies – this was further affirmed by the results of the PFMI assessment completed in 2019. Consequently, the Bank is undertaking relevant work to amend the NPSA to address the deficiencies observed in the discharge of its oversight mandate. Additionally, a National Payment and Settlement Systems Oversight and Supervision Policy Framework has been drafted by the Bank for approval by its Board, which will address further deficiencies observed in the Bank's oversight function.

9.8 Central Bank Communication

The Bank publishes a wealth of information to the public every year. These publications include, amongst others, economic projections, statistics, and assessments of the financial system. This is done through the use of the Bank's website, local newspapers, social media platforms, radio and television broadcasting. Executed through formal and informal channels, these publications are targeted towards the mass audience as a means to not only convey information but also impart understanding. For example, since the launch of the National Financial Education Strategy in 2017, the Bank in partnership with the FSA has undertaken numerous [mass] financial education initiatives to educate the public on various topics, particularly on financial products and services. The Bank publishes its monetary policy decisions in both English and Creole languages to ensure that the public understands what such communication entails and their implications on the economy, as same has been deemed to be of concern in regards to central bank communication. On the global front, communication strategies and central banks' ability to communicate effectively is deemed to have been influenced greatly by the repercussions of the financial crisis, social media and emerging technologies. Furthermore, as a result of the complexities of the mandate related to central banking, increased audience, and immediacy and saturation of news coverage, the Bank has had to intensify its communication efforts and delivery. This is because of the social and economic impact that communication has, especially in regards to pronouncements and tone used for delivery to the public. Thus, communication remains critical to the Bank's success, as it supports the Bank's policy objectives of maintaining price and financial stability, and protecting the value of money.



9.9 Central Bank and Government Relationship

Theoretically, there exists a clear line of division in responsibilities and accountabilities between the Government of Seychelles (through MoFTIEP) and the Bank. By virtue of the CBSA, the Bank is an independent institution from the government. Central Bank independence ensures that the Bank is free from political pressures in delivering on its mandate of price stability and financial system soundness. All the same, significant aspects like co-operation, information sharing and co-ordination between the two entities is often noted as a key challenge. For instance, despite the Bank's objective in advising the government on certain matters – by virtue of section 4(2)(a) of the CBSA. Likewise, the government is not obliged to take on board the advice of the Bank. In that regard, the Bank's credibility with the public remains a significant factor in shaping the Bank's relationship and work with the government. In addition, co-operation and consultations with the government must be conducted and accomplished in ways that do not undermine the effectiveness of monetary and fiscal policies.

Besides, it is of importance that dialogue between the Bank and the government is open and frank, especially in relation to the adoption and implementation of policies that impact the country, without any public disputes. Furthermore, with the adoption of the FSDIP in 2014, it is deemed paramount that there exists more strategic alignment and involvement between the Bank and MoFTIEP, to ensure the adoption and implementation of action points highlighted in the FDSIP; this is as a result of the delays being encountered in implementing the action points. It is in this direction, that the Bank continues to build its relationship with the government by maintaining effective two-way communication in all matters that implicate the economy of Seychelles.



Chapter 10

Outlook

10.0 Introduction

The financial services sector will likely face waves of disruptions which are deemed to be more forceful and pervasive than what has been experienced in the past decades. These disruptions – particularly as a result of the emergence of Fintechs and the unprecedented COVID-19 pandemic – are anticipated to bring about both opportunities and threats. As such, they can have serious implications for the local banking sector and stability of the financial system. For instance, in how banking business is conducted, by being, more digitally based, tailored, transparent and secure.



10.1 Banking Sector: Seychelles Bankers Association Perspective

As per official figures, real GDP growth in Seychelles stood at an estimated 3.9% in 2019. This is in line with the revised figure published by the IMF in its December update⁴⁶. Economic activity was underpinned by a strong performance in the tourism sector, and positive outcomes observed in respect of production of manufactured goods, construction, and Information and Communications Technology. At another level, as per NBS, inflationary pressures remained mild, with consumer price inflation being on average 1.8 per cent higher than in December 2018, reflecting the lower-than-expected actual inflation for the first eight months, due to increased competition in the retail sector and smaller-than-projected size of utility tariff adjustments in July. The banking sector continued to support growth with double-digit increase in 2019 in private sector credit, with the bulk of commercial bank financing going to the tourism and private household sectors. To note, the households' access to credit has been fuelled by the rise of disposable income with general improvements in remuneration conditions in both the public and private sectors, as well as subdued inflation.

Outlook for 2020

From a risk perspective, commercial banks have been bracing themselves for challenges to their operations and financial results. The year ahead is likely to present significant tests on commercial banks' risk management functions as well as their resilience in the context of a significant deterioration in the economic climate. Indeed, the first quarter of 2020 was marked by two major events; Seychelles being placed on the European Union (EU) list of non-cooperative jurisdictions for tax purposes, due to delays in the adoption of fiscal reforms, and the COVID-19 pandemic which is set to significantly impact the backbone of the economy, that is, the tourism sector.

The SBA publicly expressed its support to the Government of Seychelles in the urgent implementation of measures to adhere to the requirements of the EU, address reputational risks and improve the standing of Seychelles on the international front, in a bid to preserve the CBRs of commercial banks, which is a critical part of connecting the Seychelles economy to the rest of the world. The SBA thus welcomes the revamped AML/CFT Act which was complemented by the introduction of the Beneficial Ownership Act. For their part, commercial banks shall be continuously engaged with their correspondent banks towards providing the necessary assurances on their risk-based management frameworks and avoiding any disruptions in their international funds transfer services. The risk of such disruptions can sometimes be out of the control of the commercial banks, as policy decisions guided by a lower risk appetite are taken by certain international banks. The SBA must therefore continue to explore back-up international payment solutions in collaboration with the Bank over the coming months.

Assessing the risk of inflationary pressures as low, for the first quarter of 2020, the Bank decided to maintain a loosened monetary policy stance. This decision has been helpful to keep the cost of credit to the economy at a reasonable level and allow individuals and firms to be in a better position to absorb the strong shock to the tourism sector from the COVID-19 pandemic. While each commercial bank will be assessing the potential extent of damage to the hotel operators, collateral impacts are expected in nearly all sectors of the economy and policy makers will need to act in a concerted manner to cushion the more vulnerable players, in particular the MSMEs, from the deterioration of their tourism-dependent cash flows. Commercial banks will also be involved in providing solutions to the impacted sectors given that this support is critical in accelerating their recovery from the crisis. The SBA is in favour of a dynamic and priority-based approach to tackle the economic crisis. Moreover, the authorities need to adopt early measures to address, inter alia, the key aspects of credit impairment, dwindling foreign exchange supply and potential loss of income from unemployment.

⁴⁶ <https://www.imf.org/en/Publications/CR/Issues/2019/12/23/Seychelles-Fourth-Review-Under-the-Policy-Coordination-Instrument-and-Request-for-48911>



10.2 Financial Stability: Central Bank of Seychelles Perspective

Financial stability has become an integral component in the assessment of the overall health of the financial sector. As such, greater emphasis is now placed on macroprudential policies as part of efforts to ensure that the financial system remains resilient and stable. Accordingly, throughout 2019, the Bank pursued its efforts in ensuring financial stability through continued macroprudential surveillance. Such surveillance assists in the identification of areas deemed pertinent and/or of concern to financial system soundness, thereby resulting in relevant research and analyses pertaining to same being undertaken, so as to mitigate financial system risks.

Assessment of Global Financial Stability

Financial conditions eased somewhat on account of generally accommodative monetary policy stance adopted worldwide, which assisted in spurring economic growth during 2019. According to the Global Financial Stability Report of October 2019⁴⁷, the eased financial environment encouraged increased financial risk-taking and further build-up of financial vulnerabilities. This is especially the case for institutional investors (for example, insurance companies and pension funds) with nominal return targets, forcing them to search for better yields by investing in riskier and less liquid asset classes, thereby resulting in a rise in the global risk appetite. As a consequence, there was a need for policymakers to focus even more on evolving financial stability risks in the global financial markets, while remaining conscious of potential changes in the global financial markets which could draw funds away from emerging markets. Additionally, geopolitical and trade tensions globally, particularly in the Middle East and between the US and China, have weakened overall business confidence, giving rise to concerns over increased downside risks. Such unpredictable environments have increased volatility in the commodities markets and discouraged investments, especially in the emerging markets.

Assessment of Domestic Financial Stability

De-risking and its impact on correspondent banking relationships remained a prominent threat to the stability of the domestic financial system throughout 2019, arising primarily from the overall reputational risk of the jurisdiction. The extent of this threat has exacerbated as a result of the country being added to the French authorities' list of jurisdictions that are considered to be uncooperative on tax matters in November 2019. To note, prior to being added to this list, work was progressing domestically in undertaking the necessary legislative reforms to address deficiencies identified in relation to AML/CFT matters.

In addition, cybercrime continued to be a significant risk to financial stability. Accordingly, the Bank issued a set of Cyber Security Guidelines for deposit-taking institutions with the overall aim of promoting and enhancing cyber-risk management practices in the financial system. The Bank has been engaging with these institutions through a dedicated forum whereby information on cyber threats are disseminated and countering measures are deliberated on. Furthermore, albeit with some delay, work is ongoing on the formulation of a Cybercrime Bill to counter this threat. This project is being spearheaded by the DICT, and a number of stakeholder consultations were conducted during the year under review to ensure maximum buy-in in the formulation of the Bill.

Furthermore, 2019 witnessed deliberations on the issue of increased pressures which some State-Owned Enterprises (SOEs) are having on the Government's budget. Consequently, the risk-scoping exercise conducted by the Bank has been extended, to better capture risks emanating from SOEs. As such, the Public Enterprise Monitoring Commission (PEMC), which oversees more than 30 Public Enterprises as well as their subsidiaries, was engaged in order to better capture risks that these entities could be exposed to. Such assessments assist in having a more comprehensive view of the risk landscape within the broader financial sector through interlinkages, as well as mitigation measures and their effectiveness.

⁴⁷ https://www.elibrary.imf.org/doc/IMF082/26206-9781498324021/26206-9781498324021/Other_formats/Source_PDF/26206-9781513515946.pdf



Outlook for 2020

The onset of the COVID-19 pandemic poses unprecedented health, economic and financial stability challenges. The rapid spread of the virus globally, and the necessary containment measures adopted to limit its propagation, is causing a dramatic decline in economic activity. The hitherto positive growth forecasted for 2020 has shifted into one of the worst global economic contraction on record. The ultimate impact of the crisis on the global economy, as well as the timing of a recovery, is highly uncertain. Given the threat that the crisis poses to financial stability, it is vital that concerted policy actions are adopted both nationally and globally to mitigate the economic impact of the pandemic and support public health measures put in place in order to save lives. Although the national focus and most of the resources have been geared towards combating COVID-19, it is important that relevant stakeholders do not lose sight of other pressing threats to domestic financial stability. In the aftermath of the country's 'blacklisting' by the French Authorities and the heightened reputational risks that ensued, loss of CBRs by local commercial banks remain a real threat. Likewise, cybercrime is another area which needs to be tackled through legislative reforms. Furthermore, the increasing financial difficulties being faced by a number of SOEs continue to put pressure on the Government's budget.





Annex

List of Abbreviations

Africa Training Institute	ATI
African Financial Inclusion Policy Initiatives	AfPI
Al Salam Bank Seychelles Limited	ASBS
Anti-Money Laundering and Countering the Financing of Terrorism	AML/CFT
Associate Qualification in Islamic Finance	AQIF
Attorney General	AG
Automated Teller Machines	ATMs
Bank Al Habib	BAH
Bank of Baroda	BoB
Bank of Ceylon	BoC
Barclays Bank (Seychelles) Ltd	BBS
Basel Committee on Banking Supervision	BCBS
Bureaux de Changes	BDCs
Capital Adequacy Ratio	CAR
Central Bank of Seychelles Act, 2004 as amended	CBSA
Central Bank of Seychelles Immediate Transfer Service	CBSITS
Central Bank of West African States	BCEAO
Consumer Empowerment and Market Conduct	CEMC
Consumer Price Index	CPI
Correspondent Banking Relationships	CBRs
Countering Proliferation Financing	CPF
Credit Information System	CIS
Credit Union Act, 2009 as amended	CUA
Credit Unions	CUs
Department of Information Technology	DICT
Deposit Auction Arrangement	DAA
Development Bank of Seychelles	DBS
Digital Financial Services	DFS
Eastern and Southern Africa Anti-Money Laundering Group	ESAAMLG
Electronic Cheque Clearing	ECC
Euro	EUR
European Union	EU
Financial Action Task Force	FATF
Financial Institutions Act, 2004 as amended	FIA
Financial Intelligence Unit	FIU
Financial Leasing Act, 2013	FLA
Financial Market Infrastructures	FMI s
Financial Sector Development Implementation Plan	FSDIP



List of Abbreviations

Financial Services Authority	FSA
Financial Stability Institute	FSI
Financial Surveillance Division	FSD
Foreign Exchange Act	FEA
Global Money Week	GMW
Global Policy Forum	GPF
Gross Domestic Product	GDP
Gross International Reserve	GIR
Habib Bank Limited	HBL
Housing Finance Company Limited	HFCL
Identification Document	ID
International Accounting Standards	IAS
International Financial Reporting Standard	IFRS
International Monetary Fund	IMF
Islamic Banking & Finance Institute Malaysia	IBFIM
Macroeconomic and Financial Management Institute of Eastern and Southern Africa	MEFMI
Mauritius Commercial Bank (Seychelles) Ltd	MCB
Minimum Reserve Requirements	MRR
Monetary Authority of Singapore	MAS
Monetary Policy Rate	MPR
Money Laundering and Terrorist Financing	ML/TF
Mutual Evaluation	ME
Mutual Evaluation Report	MER
National AML/CFT Committee	NAC
National Bureau of Statistics	NBS
National Payment System (Licensing and Authorisation) Regulations, 2014	NPSR
National Payment System Act, 2014	NPSA
National Risk Assessment	NRA
Net International Reserve	NIR
Non-bank Credit Granting Institutions	NBCGIs
Non-Performing Loans	NPLs
Nouvobanq	NVB
Organisation for Economic Co-operation and Development	OECD
Pacific Islands Regional Initiatives	PIRI
Payment Service Providers	PSPs
Point of Sale	POS
Politically Exposed Person	PEP
Principles of Financial Market Infrastructures	PFMIs

List of Abbreviations

Public Enterprise Monitoring Commission	PEMC
Regional Technical Assistance Center for Southern Africa	AFRITAC South
Return of Assets	ROA
Return of Equity	ROE
Risk-Based Supervision	RBS
SBM Bank (Seychelles) Limited	SBM
Seychelles Bankers Association	SBA
Seychelles Commercial Bank	SCB
Seychelles Credit Union	SCU
Seychelles Electronic Fund Transfer	SEFT
Seychelles Petroleum Company	SEYPEC
Seychelles Public Transport Corporation	SPTC
Small Island Developing States	SIDS
South African Reserve Bank	SARB
Southern African Development Committee	SADC
State Owned Enterprises	SOEs
Technical AML/CFT Committee	TAC
Technical Assistance	TA
Treasury Bills	T-bills
Treasury Bonds	T-bonds
United States	US
US Dollar	USD
World Economic Outlook	WOE



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