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 policy, financial stability or any other matter within its competence... on its activities in the preceding year and on the achievement of its objectives set out in section 4.

This is primarily directed towards the financial sector and other individuals so as 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 so as to effectively and efficiently protect depositors, creditors and the financial system as a whole. This is done 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 so as to ensure compliance with relevant laws and guidelines, thereby fostering safety and soundness in the financial system. Besides that, 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 ascertained, especially through constant open communications. Ultimately, we contribute to the creation of the foundation for sustainable economic growth though our endeavours to foster a stable banking sector.
The year 2018 marked a historical milestone for the Central Bank of Seychelles in particular and the financial system as a whole. The Bank celebrated 40 years of existence as the regulatory and supervisory authority of Seychelles’ banking sector. The past four decades have witnessed significant changes and transformation, predominantly in the financial markets. The Bank has undergone a steep learning curve in its constant efforts to adjust to rapid market changes and shape regulatory policies.

To commemorate the Bank’s 40th anniversary, several activities were organised throughout 2018, the main one being the Anniversary Lecture under the theme, My Contribution Towards my Financial Well-Being, which saw presentations from key sectors of the economy. The event was preceded by an exhibition showcasing the Bank’s journey over the past four decades, titled A Modern Central Bank with a focus on Financial Well-Being. The messages behind these events were crafted on the central theme of financial education and inclusion, given the growing significance of the same in the global financial system, as well as domestically. This is in line with the National Financial Education Strategy 2017-2020, launched in 2017 by the Bank and the Financial Services Authority (FSA), in an endeavour to promote financial education in Seychelles. The strategy seeks to broaden financial education and ultimately, contribute towards the economic growth and financial stability of the country. The Bank commenced work with a broad spectrum of stakeholders for the implementation of the strategy in 2018, which saw the launch of the very first edition of the Financial Education Fair.

Against the backdrop of a tightened monetary policy stance adopted as of the second quarter of 2018 and a relatively stable macroeconomic outlook, the banking sector continued to demonstrate resilience and sound financial positions throughout the year. The sector registered growth in key performance variables including assets, deposits, equity capital and earnings. Given that the domestic economy is highly dependent on the rest of the world, the banking sector’s performance will continue to rely on the functions of the domestic macroeconomic fundamentals as well as developments in the global and regional economies. In this regard, the domestic economy experienced a subdued growth of 4.1 per cent as a result of adverse impacts arising from the aforementioned factors.

In a quest to contribute towards inclusive growth, the development of Seychelles and ensuring a stable financial system, the Bank initiated the process to develop its new strategic plan for the period 2019-2023 in August 2017. At the beginning of the year 2018, the process continued with a Board and Management Retreat whereby the vital issue of improving capacity to support the attainment of the new strategic plan was deliberated on through open and stimulating discussions. Various matters were addressed, including:

- Perceptions of the Bank from the stakeholders’ point of view;
- Evaluation of the Strategic Plan 2014-2018;
- Validation of the Bank’s mission, vision and values;
- Strategic issues; and
- Oversight role of the Bank’s Board of Directors.

The new strategic plan, launched in November, is anticipated to improve on the Bank’s achievements to date and to pursue the accomplishment of its mandated goals and objectives. These are primarily to promote domestic price stability and ensure a stable financial system.

Human capital remains the central driver in the economic development and growth of Seychelles as a small island state with an open economy. The financial sector, in general, is faced with professional and technical skills gap and the commercial banks in particular encounter persistent difficulties to fill specific and critical roles. It is within this context that the Bank pursued endeavours to address the local capacity shortage, through its commitment in 2018 to contribute towards the long-term development needs of the financial sector. The Guy Morel High Achievement Scholarship programme is one such endeavour, launched by the Bank to offer one undergraduate scholarship and one postgraduate scholarship annually to outstanding academic performers in priority fields. The programme, which is open to the general public, will provide an avenue for the development of a pool of specialists within the financial system.

In a bid to enhance Seychelles’ compliance with international standards, the Council of Ministers of the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) adopted the Mutual Evaluation Report (MER) for Seychelles in September 2018, following the second round of Mutual Evaluation on the country’s Anti-Money Laundering and Counter Financing of Terrorism (AML/CFT) framework in 2017. As detailed in the report, the country’s AML/CFT framework is deemed to be at an emerging stage. Seychelles has undertaken significant reforms, especially with regards to the legislative and institutional frameworks, to accommodate the ever-changing AML/CFT landscape. The country further showed its commitment through the hosting of the 18th ESAAMLG Council of Ministers Meeting, the 36th Task Force of Senior Officials Meeting and the 4th Public-Private Sector Dialogue in September 2018. Subsequently, the Minister responsible for Finance in Seychelles took up the presidency of the ESAAMLG in September, for a period of one year.

While the primary sources of domestic risks to financial stability were relatively stable, persistent episodes of financial market volatility have increased the risks to orderly market conditions. Much of this was driven by developments in the external environment, particularly in the area of cybersecurity, policy uncertainties and normalisation of monetary policies in advanced economies. In this regard, as the regulatory and supervisory authority of the banking sector, the Bank’s overarching objective remains to ensure a stable financial system and the protection of depositors. Looking ahead, the Bank will continue to execute its financial stability mandate diligently. In support of this, the Bank will continue to promote an efficient, inclusive and sound banking sector and in turn, contribute towards Seychelles’ aspiration of becoming a premier regional financial services hub.

Ms Caroline Abel
Governor
Foreword by the Head of Financial Surveillance Division

The Bank, as the regulatory and supervisory authority, remains committed towards the effectiveness of supervision and the robustness of the banking sector in Seychelles. This is to ensure that the sector is at par with international best practices and standards as prescribed by international standard-setters. In this regard, a sound, stable and developed financial system is critical for the development of the Seychelles economy and ensuring the transmission and effectiveness of monetary policy.

The year 2018 was favourable for the banking sector, resulting in a robust performance. Gross loans increased by 8.0 per cent from R7,102 million in 2017 to R7,672 million in 2018. Some of the economic sectors that received the highest growth in demand for credit in 2018 were Private Households (28 per cent increase) and Mortgage (27 per cent increase). The key highlights of the banking sector’s performance were:

- Non-performing loans decreased by 41 per cent from R450 million in 2017 to R265 million in 2018;
- Total deposits increased by 10 per cent from R16,851 million in 2017 to R18,506 million in 2018;
- Total assets increased by 10 per cent from R19,659 million in 2017 to R21,688 million in 2018; and
- Performing loans increased by 11 per cent from R6,455 million in 2017 to R7,152 million in 2018.

During 2018, the Bank continued to pursue its mandate of ensuring a sound financial system through the advancement of good governance and appropriate risk-taking by regulated institutions. As such, in its sustained efforts to entrench a resilient banking sector, various improvements to the Bank’s supervisory process were explored, significant of which was a risk-based approach to supervision. The Bank acquired consultancy services in 2018 to assist with the adoption and implementation of a risk-based supervision (RBS) framework. RBS will serve to provide the Bank with an effective methodology to evaluate the safety and soundness of regulated institutions against existing and emerging risks. Hence, RBS will enable the Bank to prioritise its efforts by focusing on significant risks and channelling available resources to commercial banks which warrants greater attention due to their risk profile.

In parallel, at the beginning of 2018, a new accounting standard came into force, specifically, the International Financial Reporting Standard (IFRS) 9. IFRS 9, inter alia, will require commercial banks to take a forward-looking approach in the determination of provisioning for expected credit losses. In this direction, the Bank issued a circular to the commercial banks, Development Bank of Seychelles (DBS) and Housing Finance Company Limited (HFCL) to provide these institutions with the relevant guidance on key aspects of the standard. Thereafter, the Bank commenced evaluating the institutions’ implementation process, their adherence to the standard and the likely impact of the standard on capital adequacy and credit growth. This is expected to continue throughout 2019.

The Seychelles banking sector continues to exude sound financial positions and remains resilient under a range of stressed scenarios. As such, the Bank will continue to be vigilant and maintain its efforts to strengthen the resilience of the banking sector, particularly against the backdrop of strong regulatory foundations. In this regard, in 2016, the Bank commenced work on amending its primary legislation that governs the regulation and supervision of financial institutions, namely, the Financial Institutions Act, 2004 as amended (FIA). Throughout 2018, work continued in order to modernise and address shortcomings in the FIA, key of which were the drafting of research papers comprising of recommendations for relevant amendments and policy papers for the introduction of new banking activities such as private banking, investment banking and Islamic banking.

There has been a concerted effort in recent years in the advancement of a stronger alignment of interest in the management of risks to financial stability. This recognises the increasing interlinkages in the financial sector and is critical to preserving flexibility for the financial system, whilst simultaneously focusing on attendant risks to financial stability. Effective inter-agency co-operation and co-ordination on financial sector issues are currently supported by various arrangements that have been established, key of which is the Financial Stability Committee (FSC) set up in March 2016. During 2018, the FSC identified the key risks to financial stability, in particular, de-risking, cybersecurity risk and AML/CFT. Consequently, the Bank undertook appropriate steps to mitigate these risks through the following initiatives and reforms:

- Assistance from Crown Agents Bank (CAB) for the provision of correspondent banking services;
- Drafting of a Cybersecurity Guideline and creation of a Cybersecurity Working Group;
- Working with relevant partners to enhance compliance with international standards for AML/CFT; and
- Enhancement of AML/CFT risk management framework for commercial banks.

Despite the increasing threats being faced by the banking sector and the financial system as a whole, the banking sector is projected to remain stable and sustain its growth momentum in 2019. This is as a result of outcomes from key reforms and initiatives in the banking sector. Some of the reforms and initiatives planned include:

- Issuance of a Cybersecurity Guideline;
- Enactment of Bank Restructuring and Resolution Act;
- Development of the groundwork for a Financial Stability Act;
- White Paper Stage of the Financial Consumer Protection Bill; and
- Enactment of a new AML/CFT Act and sectoral approach to AML/CFT supervision.

The Bank appreciates the co-operation from financial institutions and stakeholders in the discharge of its mandate during 2018 and will continue to work with the government, financial institutions and all other stakeholders to ensure that a sound and stable financial system prevails.
Overview

1.0 INTRODUCTION

Banking supervision, at its basic, relies on established prudential rules and standards. For supervision to be effective, the Bank needs to understand how financial institutions operate within their environment.

As a result, this strengthens foresight and facilitates pre-emptive actions to mitigate emerging risks. The main legal framework for financial institutions, the FIA, is a comprehensive tool and is not limited to prudential standards. The FIA is complemented by various general and specific laws that apply broadly to the business areas and transactional systems that commercial banks participate in. Furthermore, behavioural standards and good governance encourage institutional, management and individual responsibilities so as to be executed judiciously and ethically. This chapter presents the highlights of the activities undertaken by the Bank throughout 2018 as well as an outlook for 2019, including:

- conduct oversight of supervised institutions through onsite inspections and offsite surveillance;
- key developments in the supervisory framework and financial system;
- external and domestic economic developments;
- consumer financial education and protection;
- participation in and contribution to regional and international initiatives; and
- threats to financial stability and the economy as a whole.
1.1 Structure of the Financial Sector
As at end December 2018, the total number of bureaux de change (BDCs) stood at 26 in comparison to 27 in 2017. The Bank licensed only one BDC during 2018. However, during the year, the licence issued was revoked as a result of non-compliance to the FIA. Likewise, one Class A and PSB licence and one Class B licence holder surrendered their licences during the year. Moreover, one key development in the financial sector was the voluntary operative closure of the Seychelles branch of Habib Bank Limited (HBL). The process proceeded smoothly, and HBL officially ceased all its operations and transactions with the public on December 28. As at end December, the total number of licensed commercial banks remained at 10, consistent with 2017; nevertheless, only eight were in operation given the closure of HBL, and SBM Bank (Seychelles) Limited yet to commence operations.

1.2 Developments in the Domestic Financial Sector
2018 witnessed numerous developments in relation to the domestic financial sector, particularly regarding financial inclusion and consumer protection, and financial education strategies and initiatives. These were aimed at promoting a robust, resilient and inclusive financial sector. The most significant development was the official launch of the very first edition of the Financial Education Fair. Likewise, given the advent of financial technologies (Fintech), the Bank’s Board of Directors approved for the acquisition of consultancy services from the World Bank, to develop a national Fintech strategy for Seychelles. On the payment system front, it was observed that the usage of cheque remains predominant in the country, accounting for 51 per cent of total payment transactions during 2018. Despite such, the Bank has taken various steps towards modernising the national payment system, in particular holding consultations with the World Bank to identify the most appropriate business model and the way forward for the modernisation project. This is expected to continue throughout 2019.

1.3 Macroeconomic Conditions
According to the International Monetary Fund (IMF), the global economy witnessed a decline in the growth of global activity, thereby resulting in an estimated 3.7 per cent growth for 2018. This was due to several factors, especially in large scale economies, comprising natural disaster, oil price and new fuel standards in Germany. Despite oil prices being generally lower than in 2017, demand and supply conditions reflected the volatility in prices. This was as a result of the United States’ (U.S) policy regime on Iranian oil exports as well as fears in relation to a decline in global demand. Consequently, the drop in oil prices has eased inflationary pressures in emerging markets. On the domestic front, analyses on the main economic sectors’ overall developments show modest increase in the average prices of goods and services throughout 2018, with the Consumer Price Index (CPI) revealing year-on-year inflation of 3.4% in December, in comparison to the same period in 2017. Nonetheless, despite uncertainties globally, there was no notable adverse effect on the domestic economy that originated from external developments. In particular, various financial strategies helped further positive performance in 2018 with the tourism industry recording a 3.4 per cent increase in tourism arrivals compared to 2017.

1.4 Licensing and Consumer Protection Issues
Licensing and consumer protection issues remain high on the Bank’s agenda. The Bank received a total of 14 enquiries for BDC and banking licence applications, out of which a Framework Agreement submission of an application. Moreover, analyses on selected banking sector average changes indicate that the cost of financial services generally increased relatively between 2017 and 2018. In particular, the cost of financial leasing, in regard to the minimum balance to open a personal account in foreign currency, which increased by 89 per cent. In addition, the number of complaints received by commercial banks increased by 22 per cent in 2018 compared to 2017, most of which were payment system related.

1.5 Financial Sector Performance
During the review period, the growth rate in banking sector assets remained in an upward trajectory, reaching a total of R7,371.7 million as at December 2018, up by 8.0 per cent in comparison to the year 2017 despite the tightening monetary policy stance adopted by the Bank in the second quarter of 2018. Moreover, the banking sector sustained its profitability trend notwithstanding a lower net profit after tax of R370 million, a decrease of 3.8 per cent compared to the year 2017. Besides that, the banking sector remained sufficiently capitalised in 2018, denoting the capital adequacy ratio (CAR) declining from 22 per cent in 2017 to 19 per cent. Of note, all commercial banks were in compliance with the Financial Institutions (Capital Adequacy) Regulations, 2010 at the end of the review period. In regards to the non-banks under the Bank’s supervisory purview, SCU recorded an increase in its net profit after tax of R2.3 million from the year 2017; DBS registered a net profit of R26 million; and HFCL recorded a net profit of R18 million, which was relatively higher than 2017. The BDC sector, on the other hand, observed a lower net profit after tax for the year 2018, declining from R18 million in 2017 to settle at R14 million at the end of December 2018. The noted decline was as a result of an increase in total non-interest expenses and a decrease in non-interest income. Notwithstanding the decrease in net profit after tax, the BDC sector registered growths in the purchases and sales in foreign exchange, increasing by 0.9 per cent and 5.1 per cent respectively as at year-end.

1.6 Developments in the Supervisory Framework
There have been significant developments on the supervisory front. The Bank undertook several key reforms throughout 2018, of which included the issuance of two circulars, one directed towards unbundling paid-up or assigned capital and one on IFRS 9; and three guidelines, one on the governance and management of correspondent banking relationships, one on requirements for liquidity risk management for the year 2018, and one on requirements for gearing (leverage) management for financial leasing. Aside from the issuance of the circulars and guidelines, the Bank also made relevant amendments to the Financial Institutions (Bank Charges and Fees) Regulations 2013 and Guideline on the Operation of Automated Teller Machines (ATMs), Point of Sale (POS) Terminals, the Acquiring and Issuing of Payment Cards. Furthermore, the Bank continued with its efforts to bring its legislative frameworks at par with international best practices and standards. This focused mainly on the FIA and the National Payment System Act, 2014 (NPSA). Likewise, the Bank worked on several policy papers such as Resolution Framework and Electronic Money Regulations, as a means to ensure the safety and soundness of the banking sector, as well as to introduce new services in the country.

1.7 Regional & International Developments

1.7.1 Initial Commitments
The Bank continued to participate in several regional and international initiatives throughout 2018 by virtue of its membership in regional/international committees or through invitations. These were mainly in relation to financial inclusion, financial stability, crisis management and resolution, IFRS 9, Basel III, and AMUL/CFT. Amongst most significant contributions, the Bank co-hosted the 18th ESAAMLG Council of Ministers and 36th Task Force of Senior Officials meetings in September 2018. The event convened with a Private Sector Forum, and the Minister responsible for Finance in Seychelles took over the presidency of the ESAAMLG for a period of one year.

1.8 Issues and Challenges
Local skills shortage, threat to cybersecurity, and de-risking through loss of correspondent banking relationships continue to prevail in terms of issues and challenges in the banking sector and the financial system as a whole. Other issues and challenges identified throughout 2018 were related to IFRS 9, crisis management and Fintech, among others. During the year, the Bank reaffirmed its commitment to ensuring a safe and sound financial system by working with relevant stakeholders, both locally and internationally, in order to circumvent the issues and challenges identified. For instance, the Bank entered into a Framework Agreement with CAB for provision of correspondent banking services to commercial banks in Seychelles.

1.9 Outlook
Following the global financial crisis in 2008/2009, the banking sector is deemed to be more buoyant with enhanced regulatory and supervisory techniques, tools and approaches established so as to circumvent future crises. As is, many players in the banking sector and the financial system as a whole have become more receptive, particularly in the management of issues that are customer related. From a Seychelles Bankers Association (SBA) perspective, 2019 is expected to bring about both opportunities and challenges in the banking sector, as well as to introduce new services in the country.
Chapter 2

Structure of the Financial Sector

2.0 INTRODUCTION

Pursuant to section 4(2)(b) of the CBSA, one of the Bank’s main objectives is to promote a sound financial system. Likewise, section 3(1) of the NPSA provides the Bank with the power to ‘regulate and oversee the national payment system for the purpose of ensuring its safe, secure, efficient and effective operation’. These pertain to the core function of FSD, which entails the effective regulatory supervision and oversight of the Bank’s supervised entities which is conducted at both micro and macro level. To note, the supervised entities include commercial banks, BDCs, financial leasing companies, non-bank credit granting institutions (NBCIs), credit unions (CUs), payment service providers (PSPs), and oversight of Financial Market Infrastructures (FMIs). Particularly, the regulatory and supervisory functions of FSD includes:

- Research and formulation of policies, laws and regulations for the prudential regulation of supervised entities;
- Offsite and onsite surveillance of those entities;
- Licensing of institutions covered under the FIA, Financial Leasing Act (FLA) and NPSA; and
- Stability of the financial sector at a macro level.

Furthermore, FSD is organised into three sections which are linked in terms of objectives and purpose.

\(^1\)As at the end of 2018, no such company had been licensed by the Bank.
2.1 FSD’s Strategic Imperatives

The activities of FSD are guided by strategic pillars as laid down in the Bank’s Strategic Plan. This is in line with the achievement of the Bank’s vision and mission over the next five years. Following the launch of the Bank’s Strategic Plan for 2019-2023 in 2018, the main pillar guiding FSD’s responsibilities and activities is Pillar II which focuses on financial soundness/stability and consumer protection. The strategic imperatives that FSD will focus on are depicted in Table 2.0:

<table>
<thead>
<tr>
<th>Strategic Imperative</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial System Stability</td>
<td>To foster and maintain a stable financial system, including a safe, sound and efficient payment system.</td>
</tr>
<tr>
<td>Soundness of Supervised Institutions</td>
<td>To ensure safety and soundness of supervised institutions.</td>
</tr>
<tr>
<td>Modernise Regulatory Framework</td>
<td>To develop harmonised, modern, enabling regulatory and supervisory framework.</td>
</tr>
<tr>
<td>Innovation</td>
<td>To improve operational efficiency and effectiveness to achieve objectives.</td>
</tr>
<tr>
<td>Good Governance</td>
<td>To enhance transparency and accountability.</td>
</tr>
<tr>
<td>Capacity Building</td>
<td>To continuously develop a diverse pool of talented professionals to achieve strategic goals.</td>
</tr>
</tbody>
</table>

In light of the above, FSD reviews its strategic imperatives within the framework of the strategic objectives developed by the Bank. In doing so, FSD takes into account and consideration the stability and performance of supervised entities within the context of a continually changing external environment, alterations emanating from global regulatory developments, and emerging trends in the Seychelles banking sector, and financial sector as a whole.

Significant progress was made towards the achievement of the objectives of the strategic imperatives for the 2014-2018 strategic plan, including:

- the representation of Seychelles’ concerns and interests at regional and international committees/seminars in regards to banking-related regulatory and operational issues;
- the safeguarding of the banking and financial system by ensuring appropriate entry and exit of institutions through the issuance and revocation of licences, inclusive of effective and efficient assessment of the fitness and propriety of administrators; and
- the ensuring of the safety and soundness of the banking and financial system by being compliant with prudential standards and supervisory requirements.

2.2 The Financial Sector

As at December 31, 2018, the Seychelles financial sector comprised of the Bank, FSA and Financial Intelligence Unit (FIU) as the regulatory authorities, one CU, two NBCIs, 10 banking institutions\(^2\), 15 PSPs\(^3\), and 26 BDCs. Table 2.1 below illustrates the trend in the number of entities licensed and supervised by the Bank from 2008 to 2018.

<table>
<thead>
<tr>
<th>Entities Licensed and Supervised by the Bank</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banks</td>
<td>9</td>
<td>9</td>
<td>11</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>BDCs</td>
<td>24</td>
<td>26</td>
<td>26</td>
<td>27</td>
<td>26</td>
</tr>
<tr>
<td>PSPs</td>
<td>12</td>
<td>14</td>
<td>14</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>NBCIs</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>CUs</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

\(^2\) One banking institution was yet to start operation at the end of December 2018.

\(^3\) 14 Class A BDC and one e-money service provider – Airtel Mobile Commerce (Seychelles) Ltd.
2.3 Regulatory Framework
FSD is responsible for administering several legislations on behalf of the Bank in promoting a sound financial system. Table 2.2 provides a list of the legislations under FSD’s purview.

Table 2.2: Legislations under FSD’s Purview

<table>
<thead>
<tr>
<th>Year</th>
<th>Legislation</th>
<th>Summary</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>FIA</td>
<td>Governs financial institutions regulated and supervised by the Bank.</td>
</tr>
<tr>
<td>2008</td>
<td>Financial Institutions (Bureau de Change) Regulations, 2008</td>
<td>The regulations repealed the Financial Institutions (Bureau de Change) Regulations, 1997, and provide a simplified, yet robust framework for regulating BDCs. The Regulations set out the prudential requirements for BDCs and the type of activities that they can engage in.</td>
</tr>
<tr>
<td>2009</td>
<td>Foreign Exchange Act, 2009 as amended (FEA)</td>
<td>The FEA is geared towards regulating the foreign exchange market to prevent illegal activities rather than restricting it.</td>
</tr>
<tr>
<td>2009</td>
<td>Financial Institutions (Liquidity Risk Management) Regulations, 2009 as amended</td>
<td>The Liquidity Risk Management Regulations issued in February 2009 require all commercial banks to maintain a minimum of 20 percent of total liabilities as liquid assets. Failure to adhere to the liquid asset requirement results in the commercial bank being fined by the Bank.</td>
</tr>
<tr>
<td>2009</td>
<td>Financial Institutions (Foreign Currency Exposure) Regulations, 2009 as amended</td>
<td>The Financial Institutions (Foreign Currency Exposure) Regulations 2009 came into effect in January 2009. The regulation was issued with the aim of introducing limits to the open positions. The total long to capital limit was initially set at 100 per cent whilst the threshold for total short to capital was 25 per cent. Nonetheless, the Bank amended the regulations, such that effective July 1, 2009, irrespective of whether long or short, the limit as a percentage of capital became 30 per cent. This brought the limits more in line with international norms.</td>
</tr>
<tr>
<td>2009</td>
<td>Credit Union Act, 2009 as amended (CUA)</td>
<td>The CUA was enacted in 2009 in order to repeal the Co-operatives Act, 1970, and is applicable to CUs in Seychelles. The CUA was enacted in order to ensure the safe operations of CUs within the financial system.</td>
</tr>
<tr>
<td>2009</td>
<td>Delegation of statutory functions (DBS Decree) Order, 2009</td>
<td>The DBS Decree was issued in 2009 in order to delegate to the Bank certain sections of the DBS Decree for which the exercise of powers which previously was under the purview of the President and the Minister for Finance.</td>
</tr>
<tr>
<td>2010</td>
<td>Financial Institutions (Application of Act) Regulations, 2010</td>
<td>The regulations were issued in 2010 to make certain sections of the FIA applicable to DBS and HFCL. The applicable sections are principally prudential requirements which commercial banks adhere to, which have been deemed relevant to the two institutions.</td>
</tr>
<tr>
<td>2010</td>
<td>Financial Institutions (Capital Adequacy) Regulations, 2010</td>
<td>The regulations are geared towards Basel II, which embraces a more risk-sensitive make-up of the minimum capital requirements. As per the regulations, commercial banks are required to maintain a minimum capital adequacy ratio and core capital ratio of 12 per cent and 6 per cent respectively. In addition, all commercial banks are required to maintain paid-up or assigned capital of Rs20 million.</td>
</tr>
<tr>
<td>2010</td>
<td>Financial Institutions (Credit Classification and Provisioning) 2010, as amended</td>
<td>The Credit Classification and Provisioning Regulations which was gazetted in November 2010 was amended in May 2011. The amendments took into account certain concerns raised by financial institutions, and were made in order to clarify certain provisions of the regulations. In line with a circular which was issued in May 2011, the regulations as amended came into force in June 2012. The Credit Classification and Provisioning Regulations is aimed at ensuring that financial institutions prudently classify loans and provision for potential losses accordingly.</td>
</tr>
</tbody>
</table>

2.4 The Banking Sector
As at end of December 2018, 10 commercial banks were licensed; however, only eight banks were in operation. This is in view that, SMB Bank (Seychelles) Limited, which was licensed in December 2016 had not yet started its operation. Besides that, following a request, the Bank approved for HBL to wind down. The process proceeded accordingly under the guidance of KPMG Mauritius who was appointed as the Supervising Agent pursuant to section 4 and Schedule 5 of the FIA. HBL officially ceased all operations and transactions with the public on December 28. During the process, HBL repaid its depositors and other creditors in respect of its operations in Seychelles. All unclaimed funds were thereafter transferred to the Bank, Depositors who did not claim their funds by the deadline of December 28 are required to claim their funds from the Bank. Consequently, the Bank revoked HBL’s licence at the end of March 2019 upon being satisfied that the closure had been effectuated in accordance with the relevant legislation and the terms and conditions set out in the letter of approval for closure.

Out of the nine banking institutions, seven are privately owned and the Government of Seychelles had majority ownership in the other two institutions. All of the seven privately owned institutions were foreign-owned (with two having a minority of the shareholders being domiciled in Seychelles). In addition, out of the three non-banking institutions, two are majority owned by the Government of Seychelles, whilst the remaining one is 100% owned by its members. This is illustrated in Chart 2.1.

![Image of Chart 2.1](http://www.cbs.co/downloads/pressrelease/CBS%20web%20articles%20%20in%20%20letter%20%20closure%20%20finalised.pdf)
2.4.1 Branch Networks

Table 2.3 below illustrates the distribution of banking institutions’ branches within Seychelles, more specifically across the three main islands, namely, Mahé, Praslin and La Digue. During 2018, Barclays Bank (Seychelles) Ltd closed its office at the Seychelles International Airport and the Mauritius Commercial Bank (Seychelles) Ltd changed the location of its Anse Royale Branch from Les Dauphins Heureux Building to Shanaz House located along the same street. A new addition to the 2018 Financial Surveillance Report is the branch network for HFCL, DBS and the Seychelles Credit Union. As a consequence, the total number of branches country-wide as at end December was 38.

<table>
<thead>
<tr>
<th>2018</th>
<th>Mahé</th>
<th>Praslin</th>
<th>La Digue</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Al Salam Bank Seychelles Limited (ASBS)</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Bank Al Habib (BAH)</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Bank of Baroda (BoB)</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Bank of Ceylon (BoC)</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Barclays Bank (Seychelles) Ltd (BBS)</td>
<td>6</td>
<td>2</td>
<td>1</td>
<td>9</td>
</tr>
<tr>
<td>Habib Bank Ltd (HBL)</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Mauritius Commercial Bank (Seychelles) Ltd (MCB)</td>
<td>4</td>
<td>2</td>
<td>1</td>
<td>7</td>
</tr>
<tr>
<td>Nouvo Banq (NVB)</td>
<td>3</td>
<td>1</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Seychelles Commercial Bank (SCB)</td>
<td>4</td>
<td>1</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>Housing Finance Company Limited (HFCL)</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Development Bank of Seychelles (DBS)</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Seychelles Credit Union (SCU)</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>25</strong></td>
<td><strong>8</strong></td>
<td><strong>5</strong></td>
<td><strong>38</strong></td>
</tr>
</tbody>
</table>

2.4.2 Bureaux de Change

Throughout 2018, the Bank received only one Class B BDC licence application of which same was approved. Nevertheless, the licence issued was revoked as a result of the licensee being non-compliant to section 13(1)(b) of the FIA. In addition, one Class A and PSP licences holder and one Class B licence holder surrendered their licences. Consequently, this brought the total number of BDCs to 26 – 14 Class A BDCs and 12 Class B BDCs. As regards to the count of PSP licence holders, as at end of December, this was at 15.

*This section states that, ‘the Central Bank may revoke or vary the terms and conditions of a licence if the licensee fails to commence operations within a period of six months or such longer period as has been allowed in writing by the Central Bank’.
The year 2018 witnessed a range of developments relating to the domestic financial sector. This was particularly in regard to the enhancement of the legal framework, implementation of financial education strategies and initiatives aimed at promoting a robust, resilient and inclusive financial sector.

3.0 INTRODUCTION
3.1 Financial Inclusion and Policy Developments

3.1.1 Credit Information System (CIS)

Further to the developments in 2017 in regard to improving the CIS system, in 2018, the Bank undertook consultative sessions with relevant stakeholders. This was done as a means to assess the legal and operational implications of the project. The feedback and recommendations received from the consultative sessions contributed towards the new legal framework being formulated and the design of a new CIS system. The new system is expected to go live by end 2019.

3.1.2 Modernisation of the National Payment System

During the year under review, the Bank held consultations with the World Bank to identify the most appropriate business model and the way forward for the modernisation of the national payment system. Further work is expected to be done in 2019 and includes:

1. Establishing a new Reimbursable Service Agreement (RAS) with the World Bank which will support the preparation and implementation of the payment system modernisation initiatives; and
2. Technical assistance under the RAS with regards to:
   a. design of an optimal national payments architecture;
   b. implementation support; and
   c. legal and regulatory framework and oversight.

3.1.3 Financial Technology (Fintech)

Fintech refers to the innovative use of technology in the design and delivery of financial services and products. Fintech has immense potential to contribute towards economic and social development whereby it can transform the way businesses, governments, citizens and civil society interact and enhance the ease of doing business. In this regard, the development of Fintech in Seychelles can contribute towards the development of the financial sector, especially in the following areas:

1. Developing the national payment systems and other financial infrastructures;
2. Improving access to credit, especially for small and medium enterprises;
3. Fostering capital market development;
4. Enhancing Competition and Innovation; and
5. Promoting greater Financial Stability.

While there are several benefits to the adoption and use of Fintech, there are also significant risks, particularly in relation to financial consumer protection, data protection, cybersecurity, financial stability, money laundering and terrorism financing which need to be taken into consideration.

In this regard, during the year under review, the Bank’s Board of Directors approved for consultancy services to be acquired from the World Bank to develop a national Fintech strategy.

3.1.4 Government Payments

In its efforts to improve the efficiency of Government Payments in Seychelles, in 2018, the Bank analysed the recommendations highlighted in the Government Payment study conducted in 2016. This was done as a means to formulate an action plan for implementation of the deliverables in the study. Subsequently, the recommendations and action plan were presented to the Cabinet of Ministers for endorsement in December 2018. Following the endorsement, the Bank commenced discussions with relevant stakeholders within the financial services sector for implementation of the recommendations. This is expected to continue through 2019.

3.1.5 Strategy for Increasing Electronic Payments (e-Payments)

The Bank, in collaboration with the National Payment Task Force (NPTF), started work in 2018 to draft a strategy to increase the usage of e-payments. The strategy has the objective of identifying key actions necessary to incentivise the use of e-payments and simultaneously disincentivise the use of paper-based payment instruments. Additionally, the strategy will be aligned with the Bank’s plan to modernise the national payment system, which includes creating an enabling environment for the adoption of e-payments facilities. The strategy is anticipated to be finalised and commence implementation during the course of 2019.

3.1.6 National Financial Education Strategy

In 2018, the Bank and its key partners undertook various activities to enhance financial education in Seychelles. Such initiatives are being done as part of the National Financial Education Strategy for 2017-2020. One key activity undertaken was the Financial Education Fair that was held in November and December on Mahé and Praslin, respectively. The mascot will be the face of the financial education initiative, unveiled at the financial education fair held on Mahé.

3.2 Base Erosion and Profit Shifting (BEPS)

As per the Organisation for Economic Co-operation and Development (OECD), BEPS refers to tax planning strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low or no-tax locations where there is little or no economic activity. The OECD and G20 members developed the Inclusive Framework on BEPS, which allows interested countries and jurisdictions to work with the OECD and G20 members on developing standards on BEPS-related issues and reviewing and monitoring the implementation of the whole BEPS Package. On July 7, 2016, Seychelles became the 84th member of the Inclusive Framework on BEPS following its first meeting held in Tokyo, Japan.

In relation to Action 5, an assessment of Seychelles’ preferential tax regimes was undertaken, including the following:

1. International Business Companies;
2. Companies (Special Licences);
3. Export Services under the International Trade Zone;
4. Offshore banking;
5. Non-domestic insurance business;
6. Reinsurance business;
7. Securities business under the Securities Act, 2007; and

Previously, a concessional business tax rate of 3% was applicable to offshore banking, compared to onshore banking which was subject to 25% on the first R1 million of taxable income and 33% on any amount over R1 million. In 2018, revisions to certain legislation governing these regimes were made with a view to aligning the domestic framework with the criteria of Action 5. Among these changes, the Business Tax Act, 2009 was amended to move Seychelles’ tax system to a territorial system. As such, the preferential tax rate for offshore banking was repealed, the final date of application being December 31, 2018 for commercial banks licensed on or before October 16, 2017. As of the beginning of 2019, the respective business tax rates of 25% and 33% will apply to the overall taxable income of all commercial banks with no distinction between onshore and offshore banking from a tax perspective.

These changes will be put forward and reviewed by the OECD’s Forum on Harmful Tax Practices against the requirements of Action 5 in early 2019 and reflect the country’s commitments to international best practice.
3.3 Sustainable Development Goals (SDGs)

3.3.1 Goal 4: Quality Education
The financial services sector operates in an increasingly changing and knowledge-based environment. There is a need to ensure that the workforce is equipped with the right skills, knowledge and competencies in order to meet and support the needs and demands of the financial sector. In line with this, the Bank officially launched its High Achievement Scholarship programme in February 2018, which was later renamed the Guy Morel High Achievement Scholarship in September. The core of the Bank’s commitment to entice and inspire outstanding individuals to pursue a career in the financial services sector. Likewise, the programme aims to address the current lack of highly skilled personnel in the financial sector. For the year 2018, the Bank offered one undergraduate scholarship in the field of Forensic Accounting but did not receive any applications for same possibly as a result of the tight window of one month that it remained opened. Subsequently, the Bank’s Board of Directors expanded the scope of the programme for 2019 and approved for two scholarships as follows:

• one undergraduate scholarship in the field of Economics, Finance, Banking, Accounting or Law; and
• one postgraduate scholarship in the field of Fintech, Financial Law, Financial Journalism or Forensic Accounting.

Furthermore, throughout 2018, the commercial banks reaffirmed their commitments to ensure high-quality education in Seychelles by engaging in various corporate social responsibility (CSR) activities. This included collaborating with relevant stakeholders to promote women involvement in information and communication technology, and donating furniture to schools to improve students’ learning environment. Ultimately, these initiatives aim to achieve three of the targets under Goal 4, namely:

• 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;
• Build and upgrade education facilities that are child, disability and gender sensitive and provide safe, non-violent, inclusive and effective learning environments for all; and
• By 2030, ensure that all learners acquire the knowledge and skills needed to promote sustainable development, including, among others, through education for sustainable development and sustainable lifestyles, human rights, gender equality, promotion of a culture of peace and non-violence, global citizenship and appreciation of cultural diversity and culture’s contribution to sustainable development.

3.3.2 Goal 9: Industry, Innovation and infrastructure
Key drivers for economic growth and development include investments in infrastructure and innovation. In this regard, the President of the Republic of Seychelles announced in his 2017 State of the Nation Address, the requirement for all state-owned enterprises (SOEs) to contribute 0.25% of their profits towards the housing sector, as part of their CSR activities. This requirement came into effect in January 2018, for a five-year period. The aim behind this initiative is to assist the government with housing projects being undertaken across the main islands of Seychelles. Resultantly, it is expected that this will help address the housing problem in the country and contribute towards greater economic growth. As at end December 2018, financial institutions classified as SOEs contributed a total of R412 thousand to the project.

The Bank also stepped up its initiatives to develop the industry and infrastructure of the country, as well as enhancing innovation. This was particularly towards the modernisation of the national payment system. In 2018, the Bank engaged the World Bank for assistance with the identification of a suitable business model for the modernisation of the national payment system. It is anticipated that digitalisation of the national payment system will ensure that funds reach their intended recipients at a lesser cost, faster and efficiently. In this direction, the Bank’s Board of Directors approved the policy paper for the issuance of e-money regulations in the last quarter of 2018. This will assist in the creation of more efficient and effective operating and distribution models for new markets, thereby extending financial inclusion. Consequently, these initiatives aim to achieve three of the targets under Goal 9, including:

• Develop quality, reliable, sustainable and resilient infrastructure, including regional and trans-border infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all;
• Promote inclusive and sustainable industrialisation and, by 2030, significantly raise industry’s share of employment and gross domestic product, in line with national circumstances, and double its share in least developed countries; and
• Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets.

3.3.3 Goal 14: Life Below Water
In October 2018, the Government of Seychelles launched the very first sovereign blue bond at the 5th Our Ocean Conference in Bali, Indonesia. The bond was developed with the assistance of the World Bank by acquiring investments from three companies, namely, Calvert Impact Capital, Nuveen and Prudential Financial Incorporation. The aim behind such an initiative serves to mobilise resources to empower the Seychelles community and businesses to safeguard the oceans and attain the move towards sustainable fisheries. Consequently, this will assist with developing the country’s blue economy. The bond is expected to be issued in 2019 and will be provided through the Seychelles Conservation and Climate Adaptation Trust and DBS.

In addition, DBS administers the Agriculture Development Fund12 and Fisheries Development Fund13 Schemes in order to contribute towards the economic development of Seychelles’ agricultural and fisheries sectors. This is done by offering credit facilities to local businesses so as to improve financial opportunities for investors.

Furthermore, commercial banks have been proactive in 2018 by donating to and participating in various activities that are aimed at improving the environment. For example, certain commercial banks donated trucks to assist with reforestation initiatives and participated in the maintenance of coral reef nurseries. Similarly, the commercial banks donated t-shirts to relevant stakeholders to partake in clean-up the world campaigns. As such, these initiatives aim to achieve four of the targets under Goal 14, specifically:

• By 2020, sustainably manage and protect marine and coastal ecosystems to avoid significant adverse impacts, including by strengthening their resilience, and take action for their restoration in order to achieve healthy and productive oceans;
• By 2025, prevent and significantly reduce marine pollution of all kinds, in particular from land-based activities, including marine debris and nutrient pollution;
• By 2030, increase the economic benefits to Small Island Developing States and least developed countries from the sustainable use of marine resources, including through sustainable management of fisheries, aquaculture and tourism; and
• Provide access for small-scale artisanal fishers to marine resources and markets.

3.4 Employment Trend
In 2018, the number of employees within the banking sector in Seychelles totalled to 783 compared to 742 recorded in 2017. This represents an increase of 5.2 per cent. As can be seen in Table 3.0, the majority of employees in the banking sector are Seychellois, representing 96% of the total number of employees.

Table 3.0: Employment Trend in Seychelles Banking Sector

<table>
<thead>
<tr>
<th></th>
<th>Locals</th>
<th>Expatriates</th>
<th>Locals</th>
<th>Expatriates</th>
<th>Locals</th>
<th>Expatriates</th>
</tr>
</thead>
<tbody>
<tr>
<td>BBS</td>
<td>212</td>
<td>11</td>
<td>229</td>
<td>8</td>
<td>258</td>
<td>5</td>
</tr>
<tr>
<td>MCB</td>
<td>164</td>
<td>4</td>
<td>181</td>
<td>5</td>
<td>183</td>
<td>6</td>
</tr>
<tr>
<td>NVB</td>
<td>128</td>
<td>4</td>
<td>137</td>
<td>4</td>
<td>137</td>
<td>5</td>
</tr>
<tr>
<td>SCB</td>
<td>108</td>
<td>1</td>
<td>108</td>
<td>1</td>
<td>115</td>
<td>1</td>
</tr>
<tr>
<td>ASBS</td>
<td>17</td>
<td>1</td>
<td>16</td>
<td>2</td>
<td>22</td>
<td>3</td>
</tr>
<tr>
<td>BoB</td>
<td>17</td>
<td>3</td>
<td>18</td>
<td>3</td>
<td>15</td>
<td>3</td>
</tr>
<tr>
<td>HBL</td>
<td>11</td>
<td>2</td>
<td>10</td>
<td>2</td>
<td>10</td>
<td>2</td>
</tr>
<tr>
<td>BoC</td>
<td>10</td>
<td>4</td>
<td>11</td>
<td>4</td>
<td>11</td>
<td>4</td>
</tr>
<tr>
<td>BAHL</td>
<td>0</td>
<td>3</td>
<td>0</td>
<td>3</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>Total</td>
<td>665</td>
<td>33</td>
<td>710</td>
<td>32</td>
<td>751</td>
<td>32</td>
</tr>
</tbody>
</table>

12http://www.dbs.sc/product-loans/agriculture-development-fund-adf-scheme
13http://www.dbs.sc/product-loans/fisheries-development-fund-tfif-scheme
A new addition to the 2018 report is the number of employees at the non-banks under the Bank’s purview. This is illustrated in Table 3.1 below.

Table 3.1: Number of Employees for the Non-Banks

<table>
<thead>
<tr>
<th>Year</th>
<th>Locals</th>
<th>Expatriates</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>149</td>
<td>0</td>
</tr>
</tbody>
</table>

3.5 Training

As was the case in 2017, commercial banks continued to offer training to their staff in order to develop their knowledge, skills and competencies. Training programmes attended were in the following areas:

- Compliance;
- AML/CFT;
- Risk Management;
- Financial Crime;
- Professional development programs;
- e-Commerce;
- Project Management;
- Customer Services;
- Front Office Operations;
- Business Continuity Management;
- Human Resources Management;
- Audit and Forensic Accounting; and
- Leadership and Management.

As evident from Table 3.2, as at end December 2018, a total of 1,418 staff were provided with trainings. This represents a decrease of 63 per cent from the previous year.

Table 3.2: Number of Training Participants (2017-2018)

<table>
<thead>
<tr>
<th>Year</th>
<th>No of Participants</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>3,843</td>
</tr>
<tr>
<td>2018</td>
<td>1,418</td>
</tr>
</tbody>
</table>

3.6 Credit Information System Enquiries

Pursuant to Regulation 5(1) of the Central Bank of Seychelles (CIS) Regulations 2012, as amended, participating institutions continued to make enquires into CIS in order to assess the creditworthiness and indebtedness of clients prior to granting credit facilities. As noted in Table 3.3, the CIS system recorded 21,354 enquires in 2018 which represents a 22 per cent decrease from the previous year. It is noted that the decrease stems from financial education initiatives implemented throughout 2018 by the Bank, as well as greater emphasis placed on Regulation 5 of the CIS (Amendment) Regulations 2012 as amended.

Table 3.3: CIS Enquiries (2014-2018)

<table>
<thead>
<tr>
<th>Year Ending</th>
<th>Enquiries</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>22,638</td>
</tr>
<tr>
<td>2015</td>
<td>26,970</td>
</tr>
<tr>
<td>2016</td>
<td>32,666</td>
</tr>
<tr>
<td>2017</td>
<td>27,443</td>
</tr>
<tr>
<td>2018</td>
<td>21,354</td>
</tr>
</tbody>
</table>

3.7 National Payment System Oversight

Pursuant to section 4 of the CBSA, the Bank is mandated to promote a sound financial system. This is further expanded in section 3(1) of the NPSA to include the regulation and oversight of the national payment system by virtue of section 4A of the CBSA. Moreover, section 33(1) of the CBSA provides the Bank with the power to conduct examinations of operators or participants of a payment, clearing and settlement system.

3.7.1 Systems Operated by the Bank

3.7.1.1 CBS Intermediate Transfer Service (CBSITS)

CBSITS was introduced in 2010 and is operated by the Bank, providing for the secure transfer of funds between commercial banks (interbank). The CBSITS operationalises settlement finality of all interbank transfers directly across the General Ledger of the Bank on an intraday basis. CBSITS processes only credit transfers and payments are immediately processed in CBSITS if sufficient funds are available.

In line with the above, during the second half of 2018, the Bank conducted onsite inspections so as to ensure that commercial banks were adhering to the Guideline on the Operation of ATM, POS Terminals and the Acquiring and Issuing of Payment Cards in terms of section 18(1) of the NPSA. The purpose of the exercise was to measure the efficiency and reliability of retail payment instruments and if required, implement corrective measures in order to improve same. The onsite inspections were conducted on a sample of ATMs and POS terminals on Mahé of all commercial banks. Following the exercise, the main areas of non-adherence to the aforementioned guideline were noted and the findings were communicated to the commercial banks for remedial action. Some of the key findings identified are highlighted in Table 3.4 below.

Table 3.4: Key Findings

<table>
<thead>
<tr>
<th>Section</th>
<th>Description</th>
<th>Non-Compliance</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.2 (h)</td>
<td>A payment service provider shall ensure that ATM issue, at a minimum, notes in R50 and higher denominations.</td>
<td>Failure to dispense R50 banknotes</td>
</tr>
<tr>
<td>3.2 (c)</td>
<td>An agreement offsetting of positions or obligations by trading partners or participants. The netting reduces a large number of individual positions or obligations to a smaller number of obligations or positions. <a href="https://www.bis.org/cpmi/glossary_030301.pdf">https://www.bis.org/cpmi/glossary_030301.pdf</a></td>
<td>Absence of contact details on the ATMs and POS terminals.</td>
</tr>
<tr>
<td>4.2 (d)</td>
<td>A payment service provider shall ensure that receipt prints and screen display on all ATMs are legible.</td>
<td>Ineligibility of receipts and screen displays of ATMs and POS terminals.</td>
</tr>
<tr>
<td>3.7.1.1.2 Electronic Cheque Clearing (ECC)</td>
<td>As part of its on-going process to modernise the national payment system, the Bank launched the ECC system in August 2012. It is an interbank electronic cheque clearing system owned by the Bank and all members of the Seychelles Clearing House. The system accepts inputs on a 24 hour basis with netting taking into account only cheques presented before the cut-off period at 1.30p.m. ECC is a multilateral deferred net settlement (DNS) system. A participant which does not have enough funds available at settlement may acquire the Standing Credit Facility (SCF) offered by the Bank within the framework of its monetary policy operations or through the use of interbank borrowing facilities.</td>
<td></td>
</tr>
</tbody>
</table>
3.7.1.3 Seychelles Electronic Funds Transfer System (SEFT)

In August 2013, the Bank, in partnership with the commercial banks and SCU, launched Phase I of an online electronic funds transfer system called the SEFT. The system provides a platform that facilitates local interbank money transfer in a safe, secure and efficient manner. SEFT follows the traditional Automated Clearing House model with an end-of-day multilateral net settlement system. SEFT processes only credit transfers with no value limit. The system accepts inputs on a 24-hour basis. Just like ECC, the SEFT is a DNS system.

In December 2018, the Bank officially launched SEFT Phase II, which provides a customer platform that allows customers of commercial banks and SCU to have online access to SEFT. Given that all commercial banks and SCU have integrated their core banking systems with SEFT, customers now have the option of effecting transactions electronically through their respective commercial banks and SCU.

3.7.1.2 Payment Channels

3.7.1.2.1 Internet Banking

Internet banking (or online banking) is an electronic payment service that enables a commercial bank’s customers to make financial transactions on a website that is operated by the commercial bank offering such services. This can be done through the use of electronic devices such as a computer, laptop, or mobile device. At the end of 2018, four commercial banks were offering internet banking facilities to their customers via their own online platforms.

3.7.1.2.2 Mobile Banking

Mobile banking is the use of a mobile phone to access banking services and execute financial transactions. This includes transactional and non-transactional services, for example, viewing of bank balances, or effecting transactions on a mobile phone21. Likewise, short message service (SMS) banking may be considered to be a form of mobile banking when transactions are effected using SMS. The SMS facility is mainly used by commercial banks or other financial institutions to send notifications or alerts to their customers’ mobile phone. At the end of December 2018, five commercial banks were offering mobile banking services to their customers; of the five banks, only two were offering transaction-based mobile banking, whilst the others utilised the SMS alert function only.

3.7.1.2.3 Mobile Payment

Mobile payment (also known as mobile money) refers to payment or remittance services utilising a mobile electronic device. The value may be transferred to or from a mobile wallet (value stored on the mobile device) so as to be used to purchase goods and services from participating retailers and affect person-to-person payment or money remittances. Mobile payment can be effected either at a POS terminal (retail) or remotely (bill payment or remittances). Ending December 2018, mobile payment service was being offered by Airtel Mobile Commerce Limited only. This service is available at different merchant outlets, namely, the Seychelles Trading Company Hypermarket, Public Utilities Corporation and certain retail shopping outlets country-wide, amongst others.

3.7.2 Statistical Data

3.7.2.1 Total Payment Transactions

Despite multiple initiatives to modernise the national payment system through various electronic means, the usage of cheque remains the predominant mode of payment in the country. As illustrated in Chart 3.222, cheques accounted for more than half of the value of payments (see Chart 3.2) effected during the year 2018. This was followed by electronic funds transfer through the CBSITS. Payments through the SEFT accounted for 15% of the total payments effected, followed by other retail payments on ATMs and POS terminals.

3.7.2.2 Statistical Data

Given that the Seychelles economy is heavily reliant on the tourism industry, the value of foreign transactions executed on ATMs and POS terminals accounted for 24% and 79% respectively, throughout 2018. Although the number of ATM and POS transactions exceeded other types of transactions, the value of these was lower than the value of cheques and CBSITS channels. The majority of payment transactions effected in 2018 were made by customers issuing cheques.

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21https://www.afiglobal.org/sites/default/files/publications/mfswg_gl_1_basic_terminology_finalnewnew_pdf.pdf

22Includes CBSITS, SEFT, Cheques, ATM and POS transactions but excludes cash transactions.
In terms of value of payments, Chart 3.5 shows that the highest monthly value was effected during December 2018. This amounted to R6,711 million for a total of 758,927 transactions, averaging to R8,943 per transaction during the stated month. This reflects normal spending patterns towards the end of the year in light of the festive season.

With regard to the total value of cheques, more cheques were presented in ECC, representing 54% of the total value. For the year 2018, total cheques presented amounted to R36,951 million (ECC R19,803 million and on-us R17,148 million). This translates to an average value of R25,639 per cheque.

The total volume of electronic funds transfer effected during the year 2018 constituted of transfers through SEFT and CBSITS. The highest volume of transfers was processed through SEFT amounting to 233,479 while 96,814 transfers were processed through CBSITS, totalling 330,293 transactions. The highest volume of transaction was effected during the month of December 2018 as a result of increased spending during the festive season.

Although SEFT processed the highest volume of transactions, CBSITS transactions accounted for the majority of transfers in terms of value throughout the year. This indicates that SEFT was mainly used for lower value transactions, while higher value transfers were being routed through the CBSITS. On average, an amount of R147,725 was transferred through CBSITS as opposed to an average amount of R46,111 per SEFT transfer.

Table 3.5: Average Value of Payments for 2018

<table>
<thead>
<tr>
<th>Payment Channels</th>
<th>Transactions (in value)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CBSITS</td>
<td>R147,725 per instruction</td>
</tr>
<tr>
<td>SEFT</td>
<td>R46,111 per transaction</td>
</tr>
<tr>
<td>Cheques</td>
<td>R25,639 per cheque</td>
</tr>
<tr>
<td>POS</td>
<td>R1,753 per transaction</td>
</tr>
<tr>
<td>ATM</td>
<td>R1,443 per transaction</td>
</tr>
</tbody>
</table>

23 Figures are inclusive of ECC and On-us Cheques.
3.7.2.3 Card Transactions

As at the end of December 2018, the total number of debit and credit cards in circulation was at 79,473. This comprised of 73,917 debit cards and 5,556 credit cards. It is noted, however, that of the cards issued, 79% of debit cards and 78% of credit cards were actively used over a period of three consecutive months as at the end of December.

Chart 3.7: Total Number of Cards in Circulation as at end 2018

The total volume of card transactions during 2018 amounted to 4.3 million as seen on Chart 3.8. This constituted mainly of debit card transactions amounting to 4.1 million in comparison to 150 thousand transactions using credit cards. In general, card transactions showed an increasing trend over the year 2018. On average, card usage increased by 54 per cent from January to December.

Chart 3.8: Total Volume of Card Transactions Effected During 2018

The total volume of card transactions similarly depicts a general increase during 2018. From January to December, an increase of 22 per cent was recorded. The popularity of debit cards was also apparent in the total value of card transactions effected during the year. Nevertheless, it was observed that higher value transactions were effected using credit cards. The average value per debit card transaction was R1,393 and that of credit cards R1,599.

3.7.2.4 Card Infrastructures

In terms of usage (the channel), payment cards were used mainly on ATMs and POS terminals. As at the end of December 2018, a total of 62 ATMs were operational while the number of POS terminals in operation totalled 2,040 countrywide. In terms of distribution, 2,040 POS terminals were active in the retail sector, 929 allocated to the tourism sector and 105 terminals used by the Government/Parastatal sector.

Chart 3.10: Total Volume of Card Transactions on Terminals During 2018

During 2018, a total of 6.5 million transactions were recorded on ATM and POS terminals across the country. This constituted 3.4 million ATM transactions and 3.1 million POS transactions. As depicted in Chart 3.10, the total volume of card payment fluctuated throughout the year. Nonetheless, an increase of 14 per cent was recorded from January to December.

Chart 3.11: Total Value of Card Transactions on Terminals During the Year 2018

The most notable movements observed were an increase of 55 per cent in ATM transactions during the month of June 2018 and a drop of 29 per cent in POS transactions during the month of September 2018. Those movements were driven by spending behaviours of customers of three commercial banks.
Chapter 4

Macroeconomic Conditions
4.0 External Developments
As stated by the IMF in its World Economic Outlook (WEO) updates of January 2019, the year 2018 witnessed a decline in the growth of global activity. Despite weaker performance in some economies, the global growth in 2018 was estimated to be 3.7%. Furthermore, the IMF highlighted several factors that contributed towards the reduction in economic activity in large scale economies, including new fuel standards in Germany and natural disasters in Japan. Similarly, weakening sentiments in financial markets and trade policy contributed to the ability to adversely impact world economic prospects.

In the commodities market, volatility in oil prices reflected the demand and supply conditions despite the prices being generally lower in comparison to the previous year. This was as a consequence of the U.S. policy regime on Iranian oil exports, coupled with fears in regard to a decline in global demand. Although inflationary risks had elevated in the U.S., the IMF reported that consumer inflation overall remained contained in advanced economies. As for the emerging markets, inflationary pressures had eased as a result of the drop in oil prices. However, the WEO reported that “this easing has been partially counteracted by the pass-through of currency depreciations to domestic prices”.

4.1 Domestic External Developments
As was the case in previous years, the economy of Seychelles continued to depend greatly on the rest of the world, thereby reflecting the country’s vulnerability to external shocks. In 2018, the service sector further rooted its dominance in the economy as evidenced by its contributions to foreign exchange earnings, gross domestic product (GDP) and employment. This was mainly attributed to the positive performance of the tourism industry. However, important sectors like fisheries, though having significant potential, remained largely underdeveloped and untapped. Another prominent sector is that of financial services. Ultimately, given the limited scope for diversification in the country, it is anticipated that the economy will maintain its reliance on a relatively few sectors, and this is likely to persist in the medium term. Resultantly, growth in real GDP was at 4.1% in 2018.

Concerns vis-à-vis the cost of living continued throughout 2018. This resulted in economic sentiments being marred due to continued disinflation in relation to the effectiveness of service delivery by public institutions. Similarly, the business community expressed their dissonance on announced policy changes, particularly stemming from the fact that they were not part of the consultation process. The CPI increasing by 3.4 per cent in December in comparison to the same period in 2017. This was as a consequence of second-round effects of the weakened Seychelles rupee coupled with an increase in aggregate demand and implemented policy measures. The Bank tightened its monetary policy stance in the second quarter of 2018 following careful consideration of unemployment rate remains weak throughout 2018. As such, the authorities increased emphasis on policies and facilities currently in place with the objective of addressing the youth unemployment issue. Skills mismatch in the local labour market persists, resulting in high dependence on foreign labour, increased number of foreign workers and subsequently higher demand for foreign exchange in the form of outward remittances.

Nonetheless, the tourism industry achieved another positive performance in 2018 with an increase of 3.4 per cent in total tourist arrivals in comparison to the previous year, to stand at 361,844. Europe continued to be the leading tourism source markets for Seychelles, offsetting the decline in tourist arrivals from key source markets like China and the United Arab Emirates. This achievement was largely as a result of the introduction of three new airlines offering direct flights to Seychelles, namely, British Airways, Joon and Edelweiss Air, which began operations in March, May and September respectively. The new airlines were a welcomed development for the country, especially given that the national carrier, Air Seychelles, altered its strategy to focus solely on regional routes. The industry’s earnings contribution to Seychelles’ foreign exchange inflows grew by 17 per cent in comparison to 2017, reaching a new record level of US$559 million. The growth in foreign exchange inflows further offset the increasing demand for same during 2018 as observed from statistics reported by authorised dealers. Despite the growth in earnings, stakeholders maintained that yields from the tourism industry still remain below its maximum potential.

In the context of exchange rate movements, the Seychelles rupee (SCR) depreciated against all of the three main currencies, that is, the US dollar (USD), euro (EUR) and British pound (GBP). This was prominent with the latter two currencies. To note though, to a great extent the movements of the Seychelles rupee were exposed due to the performance of the EUR and GBP on the international markets.

In terms of price developments, NBS reported a moderate increase in average prices of goods and services index, with the basis increasing by 3.4 per cent in December in comparison to the same period in 2017. This was as a consequence of increased costs across the service sector and increased costs of imported goods. Given the tightened monetary stance, this resulted in an upward movement in the interest rate corridor with the Bank of Seychelles Interest Rate (BSIR) being raised to 2.0% and the SCF at 8.0%.

Subsequently, there was an overall increase in interest rates in comparison to 2017, consistent with the monetary policy stance adopted. The effective average lending rate for banks in the third quarter of 2018 increased by 12.0% in 2017 to 12.58% and the savings rate reduced from 2.37% in 2017 to 2.87%. Hence, the interest rate spread expanded from 9.68% to 9.71%. Despite this increase, demand for credit from the private sector remained strong throughout 2018 even though the pace of growth slowed as at end December 2018. By the end of the year, total outstanding credit disbursed to the private sector grew by 12.0 per cent in comparison to 2017. The larger part of these loans continued to be directed towards financing of consumption goods with a total of 23.0% of the sum being allocated to private individuals and households. Notwithstanding the increase in credit, the economy observed a narrowing of the current account deficit as a result of a growth in exports. On the other hand, the current account deficit narrowed from 20% in 2017 to settle at 17% of GDP in 2018, thereby improving the country’s external position. Taking into account Seychelles’ vulnerability as a small island state, and to further consolidate the country’s external position with respect to its ability to weather external shocks, the Bank continued to accumulate international reserves. In the quarter under review, reserves rose to US$554 million in comparison to US$445 million in 2017 through opportunistic purchases from the foreign exchange market. This was a move indicating that the “adequate’ level had already been reached by end 2017. Nonetheless, given that analysis shows an expected growth in imports, gross reserves level corresponded to 3.8 months of imports of goods and services compared to 4.2 months in 2017. In addition, net international reserves surpassed US$375 million to reach US$408 million as at end December 2018.

Despite the aforementioned developments, the transmission of monetary policy through the interest rate channel was persistent throughout 2018. This prompted a revision to the Bank’s Monetary Policy Framework which resulted in the adoption of an interest-rate-based framework, thereby moving away from targeting reserve money. The change served to address the difficulties faced in the implementation of monetary policy, particularly in relation to the achievement of stability in short-term interest rates, whilst simultaneously meeting a reserve money target. Accordingly, the Bank’s Board of Directors approved for the introduction of a Monetary Policy Rate (MPR) effective January 2019, whereby the MPR will lie between the SDF and SCF. This will provide clearer indications of the Bank’s monetary policy stance, determined by the direction of a change in the MPR.

Fiscal-wise, measures to address the cost of living and poverty eradication were implemented. The government, through the Ministry responsible for Finance, implemented the third and final phase of the Progressive Income Tax (PIT) in June 2016. The introduction of same serves to address income inequality among residents. Likewise, the government reaffirmed its stance vis-à-vis environment protection by introducing tax measures targeted towards environment protection and waste reduction. Additionally, the government collaborated with the World Bank to launch the very first sovereign blue bond valued at US$15 million in October at the 5th Our Ocean Conference, in Indonesia. The bond is designed to assist with sustainable marine and fisheries projects, and ultimately the development of the country’s blue economy. Another project on the government's agenda was the introduction of enhanced measures aimed at improving the collection of revenue. The fiscal year witnessed a primary surplus equivalent to 3.3 per cent of GDP, a better performance than the forecasted 3.0 per cent of GDP. This was a result of an increase in the expenditure side in view that revenue collection was overall below forecast, and consistent with the government’s objective of reducing overall public debt to below 50% in 2021. In this sense, public debt reduced to 55 per cent of GDP in 2018 compared to 62 per cent in GDP in 2017, with total domestic debt standing at 29 per cent of GDP.
Chapter 5

Licensing and Consumer Protection Issues

5.0 INTRODUCTION

Consumer protection assists in promoting consumers’ trust and confidence in the financial system. In this regard, licensing and consumer protection issues remain high on the Bank’s agenda.
5.1 Market Entry Enquiries and Licensing of New Commercial Banks and BDCs
As at end December 2018, the Bank received 14 licence application enquiries in total, out of which 10 were for BDC and four for banking licence; out of the 14 enquiries, only two led to formal submission of an application – one for BDC and one for banking licence.

5.1.1 BDC Licence
During the year under review, the Bank processed only one new BDC licence application pertaining to a Class B BDC licence. However, the Class B BDC licence which was issued had to be revoked in view that the licensee failed to commence operations within the stated period prescribed by the Bank and as such, was non-compliant to section 13(1)(b) of the FIA.

5.1.2 Banking Licence
Throughout 2018, the Bank processed only one new banking licence application which was not approved in line with section 6(3) of the FIA. Substantive analysis on the licence application was carried out to determine whether or not the applicant fully satisfied the requirements of section 6(1) of the FIA. Following same, it was established that the applicant had failed to satisfy several sections of the FIA, particularly those related to section 6(1). These sections list out several requirements which the applicant must provide the Bank for analytical purposes, namely in terms of financial status, administrators’ qualification and experience, beneficial owners, capital structure, business plan and risk elements.

5.2 Selected Commercial Bank Average Charges
Table 5.0 provides selected banking sector average charges applied during 2018. The structure is based on only one broad category, namely, access facilitation. The selected banking sector average charges indicate that the cost of financial services generally increased compared to 2017.
5.3 Complaints Handling

5.3.1 Complaints Lodged at Commercial Banks

As observed in Table 5.1, there was a 22 per cent increase in the total number of complaints received by commercial banks from 2017 to 2018. The most predominant cause of the increase was as a result of a rise in complaints related to deposits/savings, money transmission services and branch/ATM services. These stemmed from a broad range of issues including customer accounts being blocked due to customers failing to fulfil their KYC obligations, failure by commercial banks to act upon instructions, disputes about balance of accounts, delays in effecting money transfers and poor customer service, amongst others. From the data recorded, it can be discerned that most of the complaints were payment systems related.

Table 5.1: Complaints Lodged at Commercial Banks

<table>
<thead>
<tr>
<th>Type of Complaints</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Account</td>
<td>95</td>
<td>119</td>
<td>76</td>
</tr>
<tr>
<td>Deposits/Savings</td>
<td>36</td>
<td>61</td>
<td>118</td>
</tr>
<tr>
<td>Credit Card</td>
<td>20</td>
<td>23</td>
<td>33</td>
</tr>
<tr>
<td>Debit Card</td>
<td>393</td>
<td>583</td>
<td>560</td>
</tr>
<tr>
<td>Mortgages</td>
<td>3</td>
<td>4</td>
<td>10</td>
</tr>
<tr>
<td>Other Lending</td>
<td>28</td>
<td>53</td>
<td>72</td>
</tr>
<tr>
<td>Foreign Currency Transaction</td>
<td>3</td>
<td>0</td>
<td>8</td>
</tr>
<tr>
<td>Issue and Administering means of Payment</td>
<td>0</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Safekeeping and administration of valuables</td>
<td>0</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>Credit Reference Services</td>
<td>0</td>
<td>190</td>
<td>0</td>
</tr>
<tr>
<td>Statements</td>
<td>14</td>
<td>9</td>
<td>5</td>
</tr>
<tr>
<td>Money transmission services</td>
<td>262</td>
<td>84</td>
<td>429</td>
</tr>
<tr>
<td>Branch/ATM</td>
<td>56</td>
<td>123</td>
<td>173</td>
</tr>
<tr>
<td>Others</td>
<td>24</td>
<td>84</td>
<td>98</td>
</tr>
<tr>
<td>Total</td>
<td>934</td>
<td>1,298</td>
<td>1,588</td>
</tr>
</tbody>
</table>

Chart 5.0: Complaints Lodged at Commercial Banks by Individuals and Businesses in 2018

Chart 5.0 depicts complaints received by commercial banks, and a distinction is made between complaints received from individuals and businesses. As can be observed, most complaints were received from individuals.

5.3.2 Complaints Lodged at BDCs

For the year 2018, the Bank was more proactive in the collection of data with respect to BDCs. As a result, an aggregate of 448 complaints was recorded by BDCs, with all complaints being related to delays in money transmission services.

5.3.3 Complaints Lodged at the Bank

As at end December 2018, the Bank received and processed 38 consumer complaints, 37 of which were successfully resolved, while investigation of the remaining case was in progress. To note, the majority of complaints related to refusal of loans. In comparison to complaints recorded in 2017, the 2018 figure shows a decrease of 5 per cent.

Chart 5.2: Complaints Lodged at Commercial Banks by Individuals and Businesses in 2018

5.4 Abandoned Property

Pursuant to section 59 of the FIA, the Bank continued to administer abandoned property from commercial banks in 2018. Table 5.3 below shows movements and year-end balances in the abandoned property accounts maintained by the Bank for the year ending 2018.

Table 5.3: Abandoned Property as at December 2018

<table>
<thead>
<tr>
<th>Type of Account</th>
<th>SCR</th>
<th>USD</th>
<th>EUR</th>
<th>GBP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening Balance in 2018</td>
<td>21,814,946.94</td>
<td>200,229.07</td>
<td>20,493.88</td>
<td>7,764.43</td>
</tr>
<tr>
<td>Transferred to the Bank in 2018</td>
<td>1,197,310.22</td>
<td>158,455.85</td>
<td>2,676.14</td>
<td>3,532.58</td>
</tr>
<tr>
<td>Refunded to commercial banks in 2018</td>
<td>(302,437.55)</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Closing Balance</td>
<td>22,709,819.61</td>
<td>358,684.92</td>
<td>20,170.02</td>
<td>11,297.01</td>
</tr>
</tbody>
</table>
5.5 Corporate Governance

As per the Bank’s Corporate Governance Guidelines 2015, corporate governance is defined as the set of processes, customs, policies, laws, and institutions affecting the way a corporation is directed, administered and controlled. It includes the relationships among the many stakeholders involved and the goals for which corporations are governed. Institutions regulated by the Bank are required by law to have in place controls which would mitigate risks that business operations inevitably face. Such controls need to be reinforced through solid corporate governance structures guided by the Bank, and upheld by the Board of Directors of these institutions. It is noted that for BDCs, these controls are taken up by the Directors rather than having a Board, in view of the type of business activities that BDCs provide compared to that of commercial banks. However, few BDCs have their respective Board of Directors or utilise that of their parent company27.

5.5.1 Commercial Banks

During 2018, the Bank received six applications for appointment to commercial banks’ Board of Directors. This consisted of four applications being approved, one application being voided as a result of lack of supporting documents, and one was still being processed in view of outstanding information required from the applicant. In total, there were 72 administrators for commercial banks, out of which 83% were male and 17% were female.

5.5.2 BDCs

As at end December 2018, the Bank did not receive any applications for the appointment of administrators for BDCs. In total, there were 54 administrators for BDCs, out of which 70% were male and 30% were female.

27 Which is usually based abroad.
Chapter 6

Financial Sector Performance
6.1 The Banking Sector

6.1.1 Assets, Liabilities and Equity Capital

From 2017 to 2018, the banking sector’s total assets increased by R2,009 million (compared to an increase of R1,442 million from 2016 to 2017) to settle at R21,668 million. Similar to 2017, the growth was most notable in external assets and loans and advances. For the first quarter of 2018, the Bank maintained the loose monetary policy stance adopted in July 2017. However, as of the second quarter of the year, the Bank’s Board of Directors adopted a tighter monetary policy stance as a result of expected inflationary pressures from both the domestic and international fronts. Consistent with the latter monetary policy environment, there was a general increase in interest rates in 2018, both on deposits and lending, compared to 2017. The rise in lending rates did not significantly deter customers from making use of credit facilities. Nonetheless, the increase noted in loans and advances in 2018 was relatively lower than in 2017.

In terms of funding for total assets, this was primarily as a result of total liabilities, particularly deposit liabilities, as opposed to equity capital. As regards to equity capital, it recorded an increase which was driven by a net profit after tax recorded by the banking sector.

Chart 6.0 shows the trend in the banking sector’s total assets, total liabilities and equity capital from 2014 to 2018. This is discussed further in sections 6.1.1.1 to 6.1.1.3 of the report.

6.1.1.1 Total Assets

The banking sector’s total assets grew by R2,009 million during the review period to stand at R21,668 million. On a year-on-year basis, this represents a 10 per cent growth. The main driver of this increase was external assets, which rose by R1,719 million. The rise in this asset was observed in balances due from financial institutions abroad, which in turn was attributed to an increase in deposits held abroad. Growth was also recorded in loans and advances by R570 million, balances with the Bank and amounts due from financial institutions by R159 million and ‘other assets’ by R206 million. On the other hand, investment in government securities dropped by R598 million, as a result of the maturity of Treasury bills (T-bills) during the review period.

6.1.1.1.1 External Assets

Similar to 2016 and 2017, external assets remained the second largest component of the banking sector’s total assets for the year 2018. This represented 30 per cent of total assets, compared to 25 per cent in 2017. Moreover, external assets recorded a growth of R1,719 million (35 per cent) from 2017 to settle at R6,599 million. To note that the movement was due to a growth in balances due from financial institutions abroad amounting to R2,060 million, as a result of increased deposits placed by the commercial banks. Nevertheless, a decline recorded in securities and ‘other investments’ and ‘other external assets’ by R264 million and R77 million, respectively, mitigated the growth.

Footnotes:

28Figures are based on audited figures.
29Consistent with the prevailing period, most of the deposit liabilities were denominated in foreign currency for the period 2018.
30Figures are based on audited figures.
31 Includes balances due from financial institutions abroad, securities, foreign currency (notes and coins), foreign bills purchased and discounted and other investments in foreign currency.
32Figures are based on audited figures.
33From US$304 million in December 2017 to US$448 million in December 2018.
34Compared to effect of foreign exchange rate which had a lower impact.
6.1.1.1.2 Loans and Advances

Loans and advances continued to demonstrate growth in 2018, recording an increase of R570 million to settle at R7,672 million at the end of 2018. This signified an increase of 8.0 per cent from the year 2017, a lower growth rate compared to 12 per cent recorded from 2016 to 2017, influenced mainly by the Bank’s decision to tighten monetary policy from the second quarter of 2018. Despite the curb in demand for lending, the rise in loans and advances for the year was still considerable. Of note, the third and final phase of the PIT was implemented in the second half of the year, resulting in higher disposable income on average available to the general public. This, in turn, could have contributed to the demand for loans and advances.

In terms of the distribution of loans and advances, commercial banks considered as subsidiaries still held the major proportion of the item in 2018 compared to branches of foreign commercial banks and local commercial banks. Loans and advances extended by subsidiaries accounted for 61 per cent (R4,716 million) of total loans and advances during the year, as illustrated in Chart 6.3.

Chart 6.3: Breakdown of Loans and Advances

Consistent with previous years, term loans was the main component of loans and advances for the year 2018, as observed in Chart 6.4. This stood at R4,366 million at year-end, representing 57 per cent of the banking sector’s loan portfolio. Besides that, term loans grew by R424 million, translating to an increase of 11 per cent from 2017, in comparison to the 9.0 per cent growth observed from 2016 to 2017. ‘Other loans’, which consist of loans denominated in foreign currency, made up the second largest share of the loan portfolio. At the end of December 2018, ‘other loans’ stood at R1,856 million (equivalent to US$133 million\(^\text{\ref{footnote:usd}}\)), thereby representing 24 per cent of loans and advances, despite recording a decline of R125 million (equivalent to US$8.9 million) for the period 2017 to 2018. To note, this was the only loan category that observed a decrease in the year under review. Thirdly, mortgage loans which accounted for 11 per cent of loans and advances, settled at R878 million at year-end. This loan category rose by R173 million, signifying an increase of 25 per cent from 2017. However, contrary to the year 2017, overdrafts grew by R64 million (12 per cent increase) to settle at R581 million. This represents 7.6 per cent of the loans and advances portfolio.

Chart 6.4: Components of Loans and Advances

6.1.1.3 Balances with the Bank and Amounts due from Financial Institutions in Seychelles\(^\text{\ref{footnote:bank}}\)

Balances with the Bank and amounts due from financial institutions in Seychelles represented 15 per cent of the banking sector’s total assets as at end December 2018 at a sum of R3,247 million. This segment of the sector’s asset base recorded an increase of 5.1 per cent from the previous year, thereby becoming the third largest component of total assets. The aforementioned increase is illustrated in Chart 6.5.

Chart 6.5: Balances with the Bank and Amounts due from Financial Institutions in Seychelles

\(^\text{\ref{footnote:usd}}\)Figures are based on unaudited figures.
\(^\text{\ref{footnote:bank}}\)Figures are based on audited figures.
Balances with the Bank and amounts due from financial institutions in Seychelles increased by R159 million in 2018. This was attributed mainly to balances with the Bank as a result of an increase in the MRR, which in turn was driven by an increase in deposits. In comparison to 2017, in 2018 the MRR on deposits liabilities denominated in SCR settled at R1,227 million, an increase of R53 million. Likewise, the MRR denominated in USD grew by US$6 million amounting to US$44 million at the end of the year. Similarly, the MRR denominated in EUR observed a growth of EUR3 million settling at EUR22 million in 2018. Besides that, commercial banks’ investments in Deposit Auction Agreement further contributed to the growth in balances with the Bank. The said instrument recorded an increase of R130 million from 2017 to 2018, attributed to a higher issuance and interest rates related to the tighter monetary policy.

6.1.1.4 Investment in Government Securities

For the year ended December 2018, total investments in government securities amounted to R2,831 million, following a decline of R598 million from 2017. Consequently, this item became the fourth largest component of total asset, constituting 13 per cent of total assets.

As at year-end, investment in T-bills constituted 87 per cent of the banking sector’s total investment in government securities. From 2017 to 2018, T-bills recorded a drop of R605 million, thereby driving the decline noted in total investment in government securities. As at the end of December 2018, investment in T-bills amounted to R2,475 million, representing 68 per cent of total outstanding T-Bills in stock.

Investments in Treasury bonds (T-bonds) increased to R356 million as at the end of 2018, resulting from a growth of R7.3 million on interest accrued on these assets. To note, there were no new issuance nor maturities during the year under review. Out of a total of R600 million T-bonds in stock as at the year-end, 50 per cent were being held by commercial banks.

6.1.1.2 Total Liabilities

Consistent with preceding years, total liabilities remained as the key source of funding for the year 2018, whereby it accounted for 90 per cent of the banking sector’s total assets. On a year-on-year basis, an increase of R1,890 million was recorded in total liabilities, signifying an 11 per cent growth, to settle at R19,470 million. The growth was as a result of an increase of R1,655 million in deposit liabilities, which settled at R18,506 million at the end of the year 2018. The most notable growth in deposit liabilities was observed in time deposits by R780 million, representing an increase of 36 per cent. An upsurge of R463 million and R425 million in current deposits and savings deposits, respectively also contributed to the increase in time deposits. Nonetheless, the increase noted in the banking sector’s deposit base was mitigated by a decline in ‘other deposits’ by R12 million. As at end December 2018, current deposits, time deposits, savings deposits and ‘other deposits’ stood at R11,499 million, R2,938 million, R4,038 million and R31 million, respectively.

Chart 6.6: Breakdown in Government Securities

From 2017 to 2018, further growths were observed in the banking sector’s equity capital, whereby an increase of R119 million was noted, to settle at R2,198 million. Of note, this is a lower increase compared to 2017, which grew by R227 million. The increase in equity capital was driven primarily by a rise of R139 million in ‘other reserves’ as a result of a commercial bank’s revaluation reserve on property foreclosed, amounting to R124 million. Besides that, paid-up capital and assigned capital fell by R167 thousand from 2017 to 2018 due to foreign currency translation. As regards to statutory reserve, it recorded an increase of R3.4 million as a result of transfer of net profit, in line with section 24(1) of the FIA. On the other hand, retained earnings dropped by R24 million during the review period, in light of dividend payments effected in 2018 and the impact of adopting IFRS 9 on financial assets as at January 01, 2018.

Chart 6.7: Banking Sector’s Total Liabilities

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39Figures are based on audited figures.
40This correlated with the decline noted in the total outstanding stock of T-bills. Essentially, this was a result of lower issuance of government securities.
41Figures are based on audited figures.
42Equity capital is made up of paid-up capital or assigned capital, statutory reserve, ‘other reserve’ and retained earnings.
43Two banks have assigned capital denominated in foreign currency which differs from the presentation currency, which is SCR.
6.1.2 Capital Adequacy

From 2017 to 2018, a downward trend was observed in the banking sector’s CAR and core capital ratio. Both ratios declined from 22 per cent to 19 per cent by year-end\(^4\), as observed in Chart 6.8. The decline in both ratios resulted mainly from an increase observed in the sector’s risk-weighted assets from R9,327 million in 2017 to R10,677 million in 2018. It should be noted that the trend in risk-adjusted assets was driven by assets in the riskier categories, notably loans and advances, which mostly attract a risk weight of 100 per cent, as well as external assets, which fall in the 20 per cent risk ‘bucket’. Throughout 2018, all commercial banks were in adherence to the Financial Institutions (Capital Adequacy) Regulations, 2010\(^5\).

Moreover, the net tangible capitalisation ratio of the banking sector remained on a downward trajectory from the previous year, declining from 11 per cent to 10 per cent. The decline was due to a growth noted in total assets in 2018.

Chart 6.8: Capital Adequacy Indicators

6.1.2.1 Capital Base\(^6\)

A decrease of 1.5 per cent was observed in the banking sector’s regulatory capital, from R2,083 million in 2017 to R2,051 million in 2018 as noted on Table 6.1. Tier 1 capital, which is the principal element in regulatory capital, saw a decrease of R39 million (1.9 per cent). This was caused by a drop in retained earnings\(^7\).

Table 6.1: Components of CAR

<table>
<thead>
<tr>
<th></th>
<th>Figures are in SCR’000</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tier 1 Capital</td>
<td></td>
<td>1,807,888</td>
<td>2,022,098</td>
<td>1,963,387</td>
</tr>
<tr>
<td>Tier 2 Capital</td>
<td></td>
<td>51,583</td>
<td>60,857</td>
<td>67,585</td>
</tr>
<tr>
<td>Total regulatory capital (base) (A)</td>
<td></td>
<td>1,859,471</td>
<td>2,082,955</td>
<td>2,050,972</td>
</tr>
<tr>
<td>Total risk-adjusted assets (B)</td>
<td></td>
<td>7,875,753</td>
<td>9,327,957</td>
<td>10,676,033</td>
</tr>
<tr>
<td>Risk-weighted assets on-balance sheet assets</td>
<td></td>
<td>6,398,415</td>
<td>7,653,299</td>
<td>8,669,788</td>
</tr>
<tr>
<td>Risk-weighted assets off-balance sheet assets</td>
<td></td>
<td>1,859,471</td>
<td>237,281</td>
<td>426,337</td>
</tr>
<tr>
<td>Capital adequacy ratio (A/B)</td>
<td></td>
<td>24%</td>
<td>22%</td>
<td>19%</td>
</tr>
</tbody>
</table>

\(^4\)Figures for this section are based on unaudited figures for the year under review.

\(^5\)The similarity in the ratios were due to the transfer of profit from Tier 2 capital to Tier 1 capital after audit and the minimal difference between the two Tiers because of general provision.

\(^6\)Commercial banks are required to maintain a minimum paid-up capital of R20 million and a minimum limit of 12 per cent and 6 per cent for the capital adequacy ratio and core capital ratio, respectively.

\(^7\)Also known as regulatory capital.

6.1.2.2 Total Risk-Adjusted Assets

As at end December 2018, risk-adjusted assets grew by 14 per cent to settle at R10,677 million as a result of an increase in total on-balance sheet (R1,016 million) and off-balance sheet (R189 million) risk-weighted assets. The banking sector’s total on-balance sheet risk-weighted assets observed increases principally in the assets classified in the 20 per cent and 100 per cent\(^8\) ‘buckets’. The latter ‘bucket’ saw an increase\(^9\) which is also the main contributor of total assets at 80 per cent. With regard to the 20 per cent ‘bucket’, assets in this band increased from R881 million to R1,222 million from 2017 to 2018 as a result of an increase in the banking sector’s assets denominated in foreign currency. This was driven by two commercial banks. On the other hand, the 50 per cent risk category saw a rise of 0.2 per cent over the review period, and this consisted mainly of assets in the form of claims on mortgages.

Over the review period, the largest constituent of the banking sector’s total risk-weighted assets consisted of total risk-weighted assets for credit risk, which made up 87 per cent of the total. However, growth was also noted in operational risk-weighted assets at 5.8 per cent from 2017. This was mainly attributed to an increase in the banking sector’s gross income during the review period.

6.1.3 Asset Quality\(^10\)

As illustrated in Chart 6.9, the banking sector’s non-performing loans (NPLs) recorded a significant decline of R185 million to settle at R265 million at the end of 2018\(^11\). This was due to two major facilities being written off as well as a few facilities being paid off during the year. Ultimately, this caused the ratio of NPLs to total loans and advances to decrease to 3.4 per cent. As at the end of 2018, loans classified in the substandard, doubtful and loss categories represented 45 per cent, 16 per cent and 37 per cent of total NPLs, respectively.

Similar to NPLs, total provisions observed a drop from R222 million to R119 million, apportioning for 1.6 per cent of total loans and advances in the respective period. To note, R47 million out of the R119 million provisions related to loans classified as NPLs.

Chart 6.9: Asset Quality Indicators

\(^8\)This ‘bucket’ comprised mainly of private sector claims and ‘other assets’.

\(^9\)From R6,352 million in 2017 to R6,943 million in 2018.

\(^10\)Figures for this section are based on unaudited figures.

\(^11\)This represented a drop of 41 per cent compared to 2017 where a growth of 5 per cent was recorded.
As per Table 6.2, it can be observed that the decline in NPLs from 2017 to 2018 was due to a decrease in loans in the health and tourism sectors. The drop was due to loan write-offs and clearance of loan arrears of certain facilities by commercial banks. This was mainly driven by two commercial banks. Conversely, increases were recorded in other sectors during the review period, notably in the real estate and the agriculture and horticulture sectors, which collectively grew by R30 million.

Table 6.2: Sectoral Distribution of NPLs

<table>
<thead>
<tr>
<th>Figures are in SCR’000</th>
<th>2017</th>
<th>2018</th>
<th>Change (2017 to 2018)</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture &amp; horticulture</td>
<td>396</td>
<td>13,217</td>
<td>12,821</td>
<td>322%</td>
</tr>
<tr>
<td>Art &amp; Entertainment</td>
<td>11,483</td>
<td>11,207</td>
<td>(276)</td>
<td>(2.0%)</td>
</tr>
<tr>
<td>Building and Construction</td>
<td>10,232</td>
<td>9,381</td>
<td>(851)</td>
<td>(8.0%)</td>
</tr>
<tr>
<td>Commercial Development</td>
<td>15,274</td>
<td>13,601</td>
<td>(1,673)</td>
<td>(11%)</td>
</tr>
<tr>
<td>Cottage industries</td>
<td>1,472</td>
<td>6,577</td>
<td>5,105</td>
<td>347%</td>
</tr>
<tr>
<td>Education</td>
<td>35</td>
<td>24</td>
<td>(11)</td>
<td>(31%)</td>
</tr>
<tr>
<td>Financial institutions</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0.0%</td>
</tr>
<tr>
<td>Fishing</td>
<td>3,080</td>
<td>11,712</td>
<td>8,632</td>
<td>279%</td>
</tr>
<tr>
<td>Government</td>
<td>61,885</td>
<td>66,688</td>
<td>4,803</td>
<td>8.0%</td>
</tr>
<tr>
<td>Health</td>
<td>152,424</td>
<td>0</td>
<td>(152,424)</td>
<td>(100%)</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>867</td>
<td>2,890</td>
<td>2,023</td>
<td>233%</td>
</tr>
<tr>
<td>Mortgage loans</td>
<td>1,275</td>
<td>6,845</td>
<td>5,570</td>
<td>437%</td>
</tr>
<tr>
<td>Non-Profit Institutions</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0.0%</td>
</tr>
<tr>
<td>Others</td>
<td>11,437</td>
<td>2,757</td>
<td>(8,680)</td>
<td>(76%)</td>
</tr>
<tr>
<td>Private household</td>
<td>40,941</td>
<td>43,185</td>
<td>2,244</td>
<td>5.0%</td>
</tr>
<tr>
<td>Professional, Scientific &amp; Technical Services</td>
<td>673</td>
<td>582</td>
<td>(91)</td>
<td>(14%)</td>
</tr>
<tr>
<td>Real estate</td>
<td>0</td>
<td>17,539</td>
<td>17,539</td>
<td>0.0%</td>
</tr>
<tr>
<td>Residential Development</td>
<td>8,381</td>
<td>14,846</td>
<td>6,465</td>
<td>77%</td>
</tr>
<tr>
<td>Telecommunications, Computer &amp; Information</td>
<td>106</td>
<td>91</td>
<td>(15)</td>
<td>(14%)</td>
</tr>
<tr>
<td>Tourism</td>
<td>101,611</td>
<td>15,764</td>
<td>(85,847)</td>
<td>(84%)</td>
</tr>
<tr>
<td>of which small hotel</td>
<td>11,155</td>
<td>2,361</td>
<td>(8,794)</td>
<td>(70%)</td>
</tr>
<tr>
<td>of which large hotel</td>
<td>60,075</td>
<td>4,415</td>
<td>(55,660)</td>
<td>(90%)</td>
</tr>
<tr>
<td>of which guest house</td>
<td>2,046</td>
<td>2,622</td>
<td>576</td>
<td>28%</td>
</tr>
<tr>
<td>Trade</td>
<td>21,963</td>
<td>19,740</td>
<td>(2,223)</td>
<td>(10%)</td>
</tr>
<tr>
<td>Transport</td>
<td>6,553</td>
<td>8,307</td>
<td>1,754</td>
<td>27%</td>
</tr>
<tr>
<td>Total NPLs</td>
<td>450,100</td>
<td>264,953</td>
<td>185,147</td>
<td></td>
</tr>
</tbody>
</table>

Table 6.3: Sectoral Distribution of Loans

<table>
<thead>
<tr>
<th>Figures are in SCR’000</th>
<th>2017</th>
<th>2018</th>
<th>Change (2017 to 2018)</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture &amp; horticulture</td>
<td>93,633</td>
<td>107,684</td>
<td>4,051</td>
<td>4.3%</td>
</tr>
<tr>
<td>Art &amp; Entertainment</td>
<td>54,305</td>
<td>51,039</td>
<td>(326)</td>
<td>(0.6%)</td>
</tr>
<tr>
<td>Building and Construction</td>
<td>518,689</td>
<td>630,992</td>
<td>112,303</td>
<td>21.6%</td>
</tr>
<tr>
<td>Commercial Development</td>
<td>144,154</td>
<td>172,961</td>
<td>28,807</td>
<td>19.6%</td>
</tr>
<tr>
<td>Cottage industries</td>
<td>34,715</td>
<td>47,604</td>
<td>12,889</td>
<td>37.3%</td>
</tr>
<tr>
<td>Education</td>
<td>25,230</td>
<td>26,893</td>
<td>1,663</td>
<td>6.6%</td>
</tr>
<tr>
<td>Financial institutions</td>
<td>400,668</td>
<td>365,614</td>
<td>(35,054)</td>
<td>(8.8%)</td>
</tr>
<tr>
<td>Fishing</td>
<td>43,724</td>
<td>67,588</td>
<td>23,864</td>
<td>54.7%</td>
</tr>
<tr>
<td>Government</td>
<td>587,917</td>
<td>577,982</td>
<td>(9,935)</td>
<td>(1.7%)</td>
</tr>
<tr>
<td>Health</td>
<td>157,171</td>
<td>2,882</td>
<td>(154,289)</td>
<td>(98.8%)</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>189,970</td>
<td>113,947</td>
<td>(76,023)</td>
<td>(39.7%)</td>
</tr>
<tr>
<td>Mortgage loans</td>
<td>781,103</td>
<td>992,711</td>
<td>211,608</td>
<td>27.1%</td>
</tr>
<tr>
<td>Non Profit Institutions</td>
<td>225</td>
<td>4,578</td>
<td>4,353</td>
<td>191.7%</td>
</tr>
<tr>
<td>Others</td>
<td>270,835</td>
<td>238,767</td>
<td>(32,068)</td>
<td>(11.9%)</td>
</tr>
<tr>
<td>Private household</td>
<td>998,521</td>
<td>1,278,888</td>
<td>280,367</td>
<td>28.1%</td>
</tr>
<tr>
<td>Professional, Scientific &amp; Technical Services</td>
<td>22,867</td>
<td>20,774</td>
<td>(2,093)</td>
<td>(9.2%)</td>
</tr>
<tr>
<td>Real estate</td>
<td>557,649</td>
<td>546,751</td>
<td>(10,898)</td>
<td>(2.0%)</td>
</tr>
<tr>
<td>Residential Development</td>
<td>67,581</td>
<td>100,714</td>
<td>33,133</td>
<td>48.9%</td>
</tr>
<tr>
<td>Telecommunications, Computer &amp; Information</td>
<td>60,187</td>
<td>121,049</td>
<td>60,862</td>
<td>101.2%</td>
</tr>
<tr>
<td>Tourism</td>
<td>1,081,940</td>
<td>1,079,969</td>
<td>(1,971)</td>
<td>(0.2%)</td>
</tr>
<tr>
<td>of which small hotel</td>
<td>109,825</td>
<td>154,803</td>
<td>44,978</td>
<td>41.0%</td>
</tr>
<tr>
<td>of which large hotel</td>
<td>565,174</td>
<td>537,530</td>
<td>(27,644)</td>
<td>(5.0%)</td>
</tr>
<tr>
<td>of which guest house</td>
<td>206,263</td>
<td>265,170</td>
<td>58,907</td>
<td>28.3%</td>
</tr>
<tr>
<td>Trade</td>
<td>789,502</td>
<td>798,137</td>
<td>8,635</td>
<td>1.1%</td>
</tr>
<tr>
<td>Transport</td>
<td>264,822</td>
<td>333,580</td>
<td>68,758</td>
<td>26.0%</td>
</tr>
</tbody>
</table>

With regards to the banking sector’s sectoral distribution of loans, Table 6.3 shows that the private households and tourism sectors accounted for the largest proportion of the distribution of total loans and advances. These amounted to R1,279 million and R1,080 million, respectively. This was followed by mortgage and trade loans aggregating to R1,792 million.
6.1.4 Earnings

6.1.4.1 Levels and Trends of Profitability

The banking sector recorded a net profit before tax of R639 million in 2018, compared to R597 million in 2017, as illustrated in Chart 6.10. This represented year-on-year growth of 7.2 per cent, in contrast to a decline of 9.5 per cent recorded in 2017. Additionally, net profit after tax of R370 million was recorded in 2018, representing a decline of R15 million compared to 2017.

As demonstrated in Chart 6.11, the proportion of profit after tax of the subsidiaries grew by 8.5 percentage points, while this item declined by 6.6 percentage points for the local commercial banks in 2018.

![Chart 6.10: Trend in Profit](image)

![Chart 6.11: Profit After Tax](image)

### 6.1.4.2 Composition of Income and Expenses

Total income increased by R162 million in 2018, as a result of a 12 per cent and 10 per cent rise in interest and non-interest income, respectively. As such, the banking sector’s total income amounted to R1,616 million at year-end. The increase in interest income was mostly due to a growth in loans and advances, while the rise in non-interest income was driven by an increase in commission and exchange.

Based on unaudited financial statements, the rise in interest income on loans and advances was driven by the higher interest received on term loans. This was driven by an increase in the volume of loans disbursed, coupled with a rise observed in the average lending rates. The increase in lending rates was in line with the tight monetary policy stance adopted. However, a decrease was observed on interest income earned on local investments, particularly due to lower issuance of T-bills in 2018.

Total expenses recorded a rise of R119 million during the period under review to settle at R977 million. As per unaudited data, the main contributor to the increase was non-interest expenses, which rose by R102 million from 2017 to 2018. This was mostly noted in ‘other expenses’, salaries and allowances and Head Office charges. As for interest expense, the increase was observed in both interest on savings deposits and time deposits.

Table 6.5 shows the banking sector’s earnings ratios from 2016 to 2018. Generally, all ratios remained fairly stable from 2017 to 2018, with the exception of average yield on loans and advances, which recorded the most significant change. To note, this is in line with the tightened monetary policy stance adopted.

![Table 6.4: Breakdown in Profitability](image)

![Table 6.5: Earnings Ratio](image)

Figures for this section are based on audited figures unless otherwise stated.

Figures are based on unaudited figures.

For comparative purposes, the ratio has been rounded-off to 2 decimal places.
6.1.5 Liquidity

6.1.5.1 Composition of Liquid Assets and Liquidity Ratios

Similar to the preceding years, further growths were observed in the banking sector’s liquidity indicators from 2017 to 2018, as observed in Chart 6.12. Broad liquid assets grew by R1,615 million to stand at R12,610 million at the end of December 2018. Correspondingly, a growth of R2,220 million was observed in the banking sector’s core liquid assets. These were driven by increases in deposits with other commercial banks, which grew by R1,975 million.

The required liquid assets held by all commercial banks grew from R3,446 million as at December 2017 to R3,861 million as at December 2018. Nonetheless, commercial banks held a higher proportion of liquid assets in 2018, whereby this stood at R9,995 million at the end of the stated period. This represented a growth of 18 per cent from 2017.

A growth of 7.0 percentage points was recorded in the banking sector’s liquid assets to total liabilities ratio to settle at 64% at the end of the year 2018. This shows that liquid assets could match 64 per cent of total liabilities. Furthermore, all commercial banks remained above the prudential limit throughout the year under review. With regards to the bank run ratio, this increased to 68 per cent in 2018, as a result of a rise of 15 per cent rise in the banking sector’s broad liquid assets.

Chart 6.12: Liquidity Indicators

6.1.5.2 Concentration of Ten Largest Depositors

Chart 6.13 shows the banking sector’s deposits outstanding from the ten largest depositors as a percentage of total deposits liabilities. This ratio provides an indication of the banking sector’s funding concentration from 2014 to 2018. From 2017 to 2018, this ratio increased by 1.1 percentage points to settle at 11 per cent. The rise in this ratio was driven by a 22 per cent increase in the banking sector’s ten largest deposits, specifically due to a large sum of deposits received by one commercial bank during the year 2018.

Chart 6.13: Concentration of Largest Depositors

6.1.6 Sensitivity to Market Risk

For the first half of the year, one commercial bank was in contravention of the Financial Institutions (Foreign Currency Exposure) Regulations, 2009 as amended. Consequently, appropriate actions were taken up with the commercial bank in respect of this breach. At the end of December 2018, all commercial banks were in compliance with the aforementioned Regulations, except for one commercial bank, which was undergoing voluntary winding down in preparation for its closure in March 2019.

At the end of 2018, the banking sector’s total long position and total short position to capital ratio stood at 7.9 per cent and 4.4 per cent respectively, as illustrated in Chart 6.14. The difference between the two ratios represents a Net Open Position (NOP) of 3.5 per cent. The positive NOP indicates an overbought position, meaning that the commercial banks’ total foreign currency assets exceeded total foreign currency liabilities by 3.5 per cent.

Similar to the previous year, no significant movements were observed in the banking sector’s total long position and total short position to capital ratio. This is due to the fact that commercial banks are not adversely impacted by foreign exchange rate movement. To note, commercial banks minimise their foreign currency exposure by ensuring minimal gap between their foreign currency assets and liabilities denominated in the same currency.
6.2 Non-bank Financial Institutions

6.2.1 Seychelles Credit Union

SCU’s total assets grew by R66 million or 18 per cent from 2017 to settle at R439 million by the end of 2018. Consistent with past observations, the increase in SCU’s total assets was in turn driven by increases in the institution’s total deposits. Asset-wise, the main contributor to this growth was the institution’s loan portfolio, which increased by R44 million from 2017 to 2018. To note, this asset is the main component of SCU’s total assets and represented 65 per cent of its asset base. In terms of deposits liability, savings deposits were the driving factor for the increase, which rose from R248 million in 2017 to R289 million in 2018. As at the end of 2018, SCU’s total assets and total deposits settled at R439 million and R315 million, respectively.

In regards to SCU’s capital, this item registered an increase of R13 million to stand at R104 million by the end of 2018. This increase was driven by the rise in ownership shares, current unaudited profit, retained earnings and general reserve amounting to R6.6 million, R2.3 million, R2.2 million and R2.2 million, respectively. Similar to the previous years, SCU reported a net profit after tax, which amounted to R9.6 million for the year 2018. This represents an increase of R2.3 million, compared to R7.5 million in 2017. The main factor for the higher net profit after tax in 2018 was due to higher interest income earned on loans during the stated period. Chart 6.15 illustrates SCU’s indicators over the review period.

Additionally, commercial banks are not bound by any prudential requirement in terms of limits for interest rate exposure. However, such risk is monitored through the submission of monthly regulatory returns. Furthermore, commercial banks are expected to have a robust risk management framework encompassing all risks, as well as conducting analysis to determine their exposure with regard to same. Part of mitigating this risk is commercial banks’ inclusion of a variable interest rate clause in their loan agreement to manage interest rate movement.

6.2.2 Development Bank of Seychelles

A decline was observed in DBS’ total assets in the year 2018, compared to the preceding years. The item dropped by R31 million during the year under review to stand at R1,076 million, representing a decrease of 2.8 per cent from the year 2017. The main driver of this decline was noted in the institution’s balances with local commercial banks, which fell by R25 million in 2018, driven by the two-year 6.0% DBS bonds, which matured in 2018. Moreover, loan disbursements and the repayments of the institution’s debt borrowings further contributed to the decline in balances with local commercial banks.

Loans and advances also recorded a decline in the review period, dropping from R909 million in 2017 to R895 million in 2018. This represented a decrease of R14 million in absolute terms or 1.5 per cent in relative terms. The lower loan portfolio was attributed to the loan settlement of several large facilities. Moreover, the repayment of loans by the institution’s clients greatly offset the disbursement made during the year. Despite the decline observed, loans and advances remained as the main component of DBS’ total assets, accounting for 83 per cent of the institution’s asset base at the end of 2018. Also consistent with previous years, loans granted under the SME Scheme remained the largest contributor to DBS’ loan portfolio.

In regards to the institution’s debt borrowings, the item decreased by R12 million, to settle at R434 million at the end of 2018, following repayments effected during the year. Additionally, DBS bonds declined by R50 million from 2017, on account of the item maturing.

Figures used for this section are based on unaudited figures.

Figures used for this section are based on audited figures.
6.2.4 Bureaux de Change

The BDCs recorded a growth in total assets of Rs32 million to settle at Rs306 million by the end of December 2018, mainly as a result of increases in receivables and balances with commercial banks. As regards to total liabilities, this item increased by Rs22 million, due to higher debt incurred. By the end of 2018, the BDCs' total liabilities stood at Rs170 million. The other source of funding, equity capital, recorded an increase from 2017 to 2018, which grew by Rs11 million. This was due to the BDCs recording a net profit after tax of Rs17 million, compared to Rs28 million in 2017. The main factor for the lower net profit after tax in 2018 was due to an increase in total non-interest expenses and a decrease in non-interest income. Chart 6.18 illustrates the BDCs' indicators over the review period.

During 2018, the institution’s borrowings declined from Rs132 million (14 per cent) in 2017 to Rs114 million, mainly as the result of continuous repayment of its borrowings.

In terms of capital, a growth of Rs23 million (6.3 per cent) was recorded, to settle at Rs346 million at the end of 2018. This growth was mainly attributed to the net profit of Rs26 million registered by DBS for the year in comparison to Rs16 million in 2017. The main contributor to the institution’s profit was interest income earned on loans and advances, which grew by Rs12 million.

Consistent with the previous year, HFCL remained profitable for the year under review as illustrated in Chart 6.17. In 2018, a net profit of Rs18 million was recorded, a relative increase on the 2017 figure by Rs7 million (70 per cent). However, the increase in net profit was mainly due to reversal of provision for credit impairment, as opposed to higher operating profit.

Figures used for this section are based on unaudited figures.

classified as ‘other investments’.
Moreover, the Bank issued several warning letters, in line with section 53 of the FIA, to financial institutions that violated certain requirements under the FIA, as noted below:

- Breach of Regulation 5(1)(a) of the Financial Institutions (Bureau de Change) Regulations 2008 – Failure to maintain unimpaired paid-up capital or assigned capital as the case may be, of not less than R500,000;
- Breach of Regulation 5(3) of the Financial Institutions (Bureau de Change) Regulations 2008 – Failure to invest at all times half of the institution’s paid-up or assigned capital in liquid assets; and
- Breach of section 40 of the FIA for late submission of prudential returns to the Bank.

It should be noted that, for first time offences, the Bank may issue the financial institution with a warning depending on the severity of the offence. For repeated offences, the Bank issues monetary penalty to which the financial institution has the option to compound the offence in line with the Financial Institutions (Compounding of Offences) Regulations, 2013.

<table>
<thead>
<tr>
<th>Table 6.7: Penalties Imposed on Financial Institutions in 2018</th>
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<tbody>
<tr>
<td>Non-compliance</td>
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<tr>
<td>Breach of Financial Institutions (Foreign Currency Exposure) Regulations, 2009 as amended</td>
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<tr>
<td>Section 29(1) of the FIA – Failure to request Central Bank approval prior to issuing credits aggregating more than 25 per cent of such institution’s core capital</td>
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<tr>
<td>Section 10(1) and 10(4) of the FIA - Failure to pay annual license fee within the deadline</td>
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<tr>
<td>Section 40 of the FIA – Late submission of prudential returns</td>
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<tr>
<td>Section 43 of the FIA – Unapproved change in shareholdings</td>
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<tr>
<td>Section 9(5) of the FIA – Failure to notify change of shareholders</td>
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<tr>
<td>Section 43(1) of the FIA – Failure to obtain written approval before appointing or electing an administrator</td>
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<td>Total</td>
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Chapter 7

Developments in the Supervisory Framework
7.0 Introduction

The year under review witnessed changes to the legislative framework and guidelines issued by the Bank. This was done as part of the Bank’s efforts to enhance the effectiveness of the regulatory environment and supervisory oversight of the financial institutions, so as to ensure the safety and soundness of the financial system. In this regard, the Bank undertook several key reforms in 2018 as illustrated in Table 7.0 below.

Table 7.0: Key Reforms in 2018

<table>
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<tr>
<th>Month</th>
<th>Description</th>
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| February | The Bank issued a circular on unimpaired paid-up capital or assigned capital on February 2, 2018 in accordance with Regulation 4(1) of the Financial Institutions (Capital Adequacy) Regulations 2010. The circular serves to provide clarity in respect of the computation of unimpaired paid-up or assigned capital. In determining whether paid-up capital or assigned capital is impaired or unimpaired, all commercial banks are required to sum the values of the following items:  
  • paid-up ordinary shares;  
  • paid-up non-cumulative perpetual preference shares;  
  • share premium;  
  • statutory reserve fund; and  
  • retained earnings/losses as well as unaudited losses. |
| April | On April 5, the Bank issued a circular as a means to provide guidance on the requirements of IFRS 9. The guidance focuses on credit risk and accounting for expected credit losses based on the principles issued by the Basel Committee on Banking Supervision (BCBS). The guidance is applicable to all commercial banks, DBS and HFCL. |
| July | The Bank issued amendments to the Financial Institutions (Bank Charges and Fees) Regulations 2013. The amendments were as a result of the Bank reinforcing consumer protection matters, particularly in regard to the ease of providing access to information related to financial services. |
| December | Two regulations were issued in line with initiatives being undertaken to develop the legislative framework for financial leasing. The Financial Leasing (Liquidity Risk Management) Regulations and the Financial Leasing (Gearing) Regulations set requirements for liquidity risk management and gearing (leverage) management for companies engaging in the leasing business. The overall purpose of the regulations is to reduce the frequency and severity of liquidity and financial problems that such companies may face. |

The amendments were made as a result of outcomes from onsite examinations conducted by the Bank in 2018.

The Bank continues to strive to ensure that the legal framework for the regulation and supervision of the financial sector in Seychelles remain relevant and current. Key reforms undertaken during the year under review reflect both local and international market developments, and comply with applicable international regulatory and supervisory standards and best practices.

7.1 Financial Leasing

During the year under review, the Bank continued with its initiatives with respect to the development of the legislative framework for financial leasing. This is done in line with the Bank’s mandate and as such, aims to ensure that a balanced approach to regulation is maintained so as to not suppress the growth and entry of financial leasing companies in the market. In this regard, the Bank issued two regulations in December, namely, Financial Leasing (Liquidity Risk Management) Regulations and Financial Leasing (Gearing) Regulations. The regulations are expected to lessen the frequency and severity of problems related to financing and liquidity that leasing companies may face.

Furthermore, in order to harmonise the legislative framework for financial leasing institutions, the Bank amended Regulation 5 of the Financial Leasing (Capital Adequacy and Reserve Fund) Regulations 2014. The amendment removed the requirement for a financial leasing company (not being a commercial bank) to invest or deposit at a minimum, half of its paid-up capital in a commercial bank, T-Bill or any other government securities of not more than 365 days.

7.2 Enhancing Industry Standards in Retail Payments

Throughout 2018, the Bank conducted limited scope onsite examinations at commercial banks that offer ATMs, POS terminals and payment cards products and services. The aim of this exercise was to assess the commercial banks’ adherence to the Operation of ATMs, POS Terminals and the Acquiring and Issuing of Payment Cards guidelines issued in August 2017. Consequent to the examinations, certain concerns were raised which resulted in further analysis of the guidelines issued, and amendments were made to address same. The amendments provide greater clarity in relation to the functionality of all POS terminals, and repeal the requirement of POS terminals having pin pad shields. The Bank issued the amended guidelines in December 2018.

7.3 International Financial Reporting Standard 9 – Financial Instruments

As per the FIA, all financial institutions in Seychelles are required to prepare their financial statements according to an internationally recognised financial reporting framework. Presently, all commercial banks have adopted IFRS/IAS standards, and precedence has been set for the continuous application of IFRS 9.

Even though it was mandatory for all commercial banks and other financial institutions to adopt IFRS 9 as of January 1, 2018, the Bank observed that most of them only initiated implementation during the mentioned year16. In this regard, the Bank conducted analyses on the implementation process of IFRS 9 by commercial banks, DBS and HFCL throughout 2018. The analyses revealed shortcomings, and as such, the Bank issued a circular on IFRS 9 implementation which is in line with BCBS principles. The circular provided guidance to commercial banks, DBS and HFCL on key aspects of IFRS 9, in particular to credit risk and accounting for expected credit losses. In addition, the Bank was provided technical assistance from the IMF in the last quarter of 2018 in order to review and enhance the effectiveness of implementing IFRS 9. Recommendations received from the technical assistance will be implemented in 2019. This includes:

- Refining and refreshing the regulations relating to provisioning to ensure that it is fit for purpose under IFRS 9;
- Introducing a refined and granular set of reporting requirements; and
- Raising supervisory intensity on IFRS 9 and its relationship with credit risk.

7.4 Unimpaired Paid-Up Capital or Assigned Capital

The Financial Institutions (Capital Adequacy) Regulations, 2010 and the Financial Institutions (Bureau de Change) Regulations, 2006 requires financial institutions to maintain unimpaired paid-up capital or assigned capital at all times. However, the Bank registered cases whereby financial institutions were non-compliant with these requirements. In addition, the institutions’ respective external auditors failed to highlight the breaches during the auditing process. As such, in the first quarter of 2018, the Bank issued a circular to commercial banks and BDCs in order to provide greater clarity on the computation of unimpaired paid-up capital or assigned capital.

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16This was done with the assistance of consultants and external auditors.
7.5 Upcoming Developments within the Supervisory Framework

7.5.1 Credit Union Rules
In 2018, the Bank undertook work towards the issuance of two new rules for CUs, namely, capital adequacy and foreign currency exposure. Following consultations with SCU in regards to the proposed draft Capital Adequacy and Foreign Currency Exposure Rules, discussions ensued on the technical aspects of these legislations. Consequently, in the fourth quarter of 2018, the proposed rules were submitted to the Attorney General’s Office for legal drafting. Further work will be undertaken during 2019 in order for the rules to be issued.

7.5.1.1 Capital Adequacy
Further to work undertaken in relation to the Capital Adequacy Rules in 2017, work progressed into the consultation stage with SCU in 2018. The aim of the consultation was to better comprehend SCU’s views given that the recommendations for the rules depart from what is enabled in the CUA. Accordingly, the recommendations which showed a departure from the CUA highlighted the need to amend the CUA.

7.5.1.2 Foreign Currency Exposure
During the first quarter of 2018, the Bank circulated the draft regulations and accompanying rules allowing CUs to partake in foreign currency business, to the SCU. The proposed rules will allow currency transactions, including BDC activities, to be undertaken with members of CUs only. Given the implication of same, the Bank identified relevant amendments to be made to the FEA and CUA in order to allow CUs to extend BDC related services to non-members. These are to be completed in 2019. Moreover, the draft rules adopt total open position limits using the shorthand method with institutional capital as the denominator. This is consistent with the proposed Capital Adequacy Rules for CUs whereby regulatory capital is represented by institutional capital.

7.5.2 Financial Leasing
In an effort to enhance the development of the financial leasing framework further, in 2018 the Bank initiated work on the development of a new set of regulations. The regulations focus on the management of financial lease concentration risks that aim to prevent institutions that engage in financial leasing activities from making excessive financial leases to a single lessee or group of associated lessees. Additionally, the proposed regulations will include a framework on the management of financial lease exposure with connected parties. This will assist in reducing the risk of improper and excessive lending to connected parties which may jeopardise the interests of a financial leasing institution/commercial bank or be detrimental to its financial position. The regulations are expected to be gazetted in 2019.

7.5.3 Enhancing Compliance with AML/CFT Requirements
In November 2018, the ESAAMLG published Seychelles’ second round of MER. The objective of the exercise was to assess the country’s compliance and implementation of the 40 Financial Action Task Force (FATF) recommendations. The said recommendations aim to combat money laundering and terrorist financing as well as the financing of proliferation of weapons of mass destruction.

In addition, during the year under review, the Bank along with relevant stakeholders, partook in Seychelles’ initiative to introduce a new AML Act. The new Act will address the shortcomings identified in the MER and the National Risk Assessment (NRA) Report 2017\(^2\), and will reinforce AML/CFT requirements for reporting entities. In this regard, in the last quarter of 2018, a policy paper for the new AML Act was presented to and approved by the Cabinet of Ministers. The new AML Act is expected to be gazetted in 2019.

\(^2\)The report reflects Seychelles’ continuous commitment and efforts in complying with international standards in the protection of the financial and economic system against criminal activities. The assessment was done so as to better comprehend, assess, and identify money laundering and terrorism financing risks faced by the country.

7.5.4 Financial Institutions Act Amendments
The Bank pursued its efforts to enhance the FIA during 2018. This included relevant research works which resulted in the compilation of research papers recommending necessary amendments to the law. The proposals made reflect changes in the supervisory environment with a view to aligning the FIA with international best practices. Work on the project will continue in 2019.

7.5.5 National Payment System Act and National Payment System (Licensing & Authorisation) Regulations Amendments
The safety and efficiency of the national payment system are of great interest to the Bank given the role of payment systems in the financial sector, economic development and conduct of the country’s monetary policy. As such, during 2018, the Bank progressed with relevant research works in order to gazette the BPSA and the NPS (Licensing & Authorisation) Regulations. This was with the intent of addressing deficiencies identified therein and enhancing the compliance of these legislations with international standards and best practices. Information gathered from the research works was utilised to draft a policy paper to outline the required amendments to the legislations. Work in respect of same is expected to continue in 2019.

7.5.6 Islamic Banking & Finance
The Cabinet of Ministers endorsed the National Policy and Strategy for Islamic Banking & Finance in the last quarter of 2018. Thus, the Bank will intensity relevant works in respect of Islamic Banking & Finance throughout 2019. This will include acquiring expert assistance to enhance staff knowledge on Islamic Banking & Finance and set up the appropriate framework for the regulation and supervision of same.

7.5.7 Investment Banking
In 2016, a fact-finding mission to Hong Kong was undertaken by representatives from the Bank and FSA in order to comprehend the regulatory and supervisory framework for investment banking. Consequently, in 2018, the Bank drafted a policy paper highlighting the gaps in the existing legislations, and put forth recommendations that will assist the relevant stakeholders in taking a policy decision to introduce investment banking in Seychelles. This was done with the assistance and guidance of the World Bank. Work with respect to same is expected to continue in 2019.

7.5.8 Private Banking
In 2016, the Bank drafted a policy paper based on findings obtained from a fact-finding mission to Guernsey in July in order to understand the regulatory and supervisory framework of private banking. In 2018, further research was done to address comments on the preliminary paper which covered aspects of the development of a framework for private banking in Seychelles. The Bank is expected to acquire assistance from the World Bank in this regard in 2019 whereby further work will be undertaken before a policy decision is taken.

7.5.9 Basel II and Risk Based Supervision (RBS)
Relevant amendments to the Capital Adequacy Regulations were identified by the Bank in 2018, resulting in a policy paper being drafted. The amendments identified were in relation to aspects of Pillar I of Basel II. The policy paper was submitted to the Attorney General’s Office during the same year. While work was underway on the revisions to the Capital Adequacy Regulations, the Bank initiated parallel-run reporting of the new capital adequacy returns. The aim of such was to allow the Bank to ascertain any problems and ensure that the commercial banks could satisfactorily compile the new returns. Consequently, in 2019, the Bank will focus on engaging with the Attorney General’s Office in order to gazette the Capital Adequacy Regulations. Thereafter, the Bank will work on issuing a guideline to the commercial banks for the adoption of the new returns.

Furthermore, in June 2018, the Bank acquired consultancy services in order to implement an RBS framework. The RBS framework will allow, inter alia, for a more optimal use of supervisory resources and a greater appreciation of risk management practices and its interplay with the capital planning process of supervised institutions. Pillar II of Basel II will be incorporated within the RBS framework as it focuses on risk management with an eye on the capital framework. Ultimately, this will serve as a complementary and valuable component to the RBS structure.
7.5.10 Electronic Money (e-Money) Regulations

Work commenced in 2018 for the issuance of an e-Money Regulations. The said regulation will provide the Bank with adequate powers to regulate and supervise e-money services, thereby ensuring the safety and security of Seychelles’ payment system. The draft policy paper for the issuance of the e-Money Regulations was approved by the Bank’s Board of Directors in the last quarter of the year. Moreover, the e-Money Regulations will cover matters related to licensing, prudential requirements amongst other general requirements related in the provision of e-money related services. The regulation is expected to be gazetted in 2019.

7.5.11 Resolution Framework

The IMF conducted a review of Seychelles’ resolution framework in 2017 following a request from the Bank. Consequently to the review, the Bank undertook work to revamp the resolution options provisioned in the FIA. In December 2018, the policy paper for the implementation of a resolution framework was approved by the Cabinet of Ministers. The Act is expected to be gazetted in 2019.

7.5.12 Foreign Exchange Act

The Bank identified required amendments to the FEA in 2018. These amendments focus mainly on the existing impediments to PSPs that wish to undertake cross-border transactions but are currently unable to do so. This is in view that these entities are not considered under the FEA as an authorised dealer. Likewise, in order to tie in with the proposed Foreign Currency Exposure Rules for CUs, the FEA amendments will further allow these institutions to participate in the business of buying and selling of foreign exchange. The proposed amendments also seek to ensure the relevance of certain provisions of the FEA in the prevailing environment as well as its consistency with existing laws. The amendments are expected to be finalised in 2019.

7.5.13 Non-Bank Credit Granting Institutions Act

One of the recommendations from the Financial Sector Development Implementation Plan of 2014 is the introduction of a Non-Bank Financial Institutions Act. This piece of legislation will act as an umbrella legislation over all the non-banks that are supervised by the Bank such as DBS, HFCL, and SCU. Nonetheless, in view that the FSA is mandated to regulate and supervise non-banks, and that certain non-banks under the Bank’s regulatory purview already have their respective legislations in place, like the CUA, the Bank is proposing that a new legislation be enacted. This new legislation will focus solely on non-bank credit granting institutions like DBS and HFCL, and those that may be formed in the future. In this regard, the Bank commenced work in 2018 on the drafting of a policy paper. The draft paper serves to provide the Bank with clear and adequate powers for the regulation and supervision of these institutions. Work is expected to continue in 2019.

7.5.14 Self-Assessment of the Basel Core Principles

The BCBS developed the Core Principles for Effective Banking Supervision in 2012 (the Core Principles) so as to encourage bank supervisors to perform self-assessments on their regulatory practices. According to the BCBS, the self-assessment aims to produce an action-oriented, credible and comprehensive synopsis of the national banking supervisory system that is based on the Core Principles and Core Principles Methodology34. In line with this, the Bank commenced work in 2018 to review and assess its compliance with the Core Principles. Work in regards to same is expected to continue in 2019.

7.5.15 Outsourcing Framework

In order to meet new and complex challenges, financial institutions are progressively outsourcing their processes, activities and functions to third parties. Such challenges include competition, technological innovation, economies of scale, and improvement in the quality of services to stakeholders. In view that financial institutions have been sending requests, on an ad hoc basis, to the Bank to seek approval to engage in outsourcing activities, the Bank commenced work in 2018 to develop and establish an outsourcing framework which will provide guidance to supervisors and regulated entities in processing such requests. The proposed framework is to be in line with international best practices and regulatory standards. Work with respect to same is expected to continue in 2019.

7.5.16 Cybersecurity Guideline

The financial services sector is increasingly moving towards a technologically oriented era. As such, the significance of financial institutions’ cybersecurity stance and capabilities cannot be understated, and is gradually being subject to regulatory scrutiny in many jurisdictions. In this direction, the year 2018 saw close industry engagement, primarily with commercial banks, on the Bank’s proposed cybersecurity guideline that will aim to contribute to a financial sector that is more resilient to risks emanating from the cyberspace. The finalised guideline is due to be issued in 2019.

7.5.17 Financial Consumer Protection Act

In 2018, the Bank and FSA submitted the policy paper for the Financial Consumer Protection Act to the Attorney General’s Office in order to commence work on the drafting of the Financial Consumer Protection Bill. Upon completion of the drafting stage, the Bank and FSA will commence the White Paper Stage whereby the public will be provided with the opportunity to provide their comments and concerns on the proposed Bill. Thereafter, the Financial Consumer Protection Bill will be submitted to the National Assembly for approval for the law to be enacted before the end of 2019.

7.5.18 Credit Information System

During the year 2018, much improvement was noted with regards to participating institutions35 providing credit reports to customers when applying for credit facilities. Furthermore, emphasis has been placed on Regulation 10 of the CIS (Amendment) Regulations 2014, in ensuring that customers can access their credit report at their respective commercial bank(s) for reasons other than requesting or making changes to a credit facility. As a result, the Bank did not record any complaints from the general public in regards to refusal of access to information pertaining to CIS.

In addition, during the year under review, the Bank pursued its work on the formulation of a new CIS Act. The Bank conducted consultations with relevant stakeholders in order to enrich the adequacy of the proposed legal framework. Consequently, the policy decisions of the Bank will be approved at the start of 2019 and the new legal framework is expected to be enacted by the end of 2019 inclusive of the issuance of relevant regulations pertaining to same.

7.5.19 Application Packs and Forms

Pursuant to provisions in the FIA, the Bank conducts licencing of financial institutions, appoints administrators and processes approvals for acquisitions of substantial interest. The licencing process is at the helm of the supervisory framework, and to facilitate the application process for commercial banks, BDCs and PSPs, the Bank has made available on its website, the necessary application packs and forms that need to be completed for the abovementioned activities. Nonetheless, 2018 saw the initiation of a comprehensive review of the application packs and forms. This includes updating the application packs and forms so that same can be aligned with international best practices as well as addressing deficiencies observed. This process is anticipated to continue in 2019.

7.5.20 Financial Institutions (Bank Charges and Fees) Regulations

In April 2018, amendments made to the Financial Institutions (Bank Charges and Fees) Regulations, 2013 (the Regulations) came into effect. The amendments served to reinforce consumer protection through the easing of access to financial services information. Further to the Regulations being gazetted, awareness on the amendments to the Regulations was also conducted through videos which were aired on the national television station.

7.5.21 Principles of Financial Market Infrastructure (PFMI) Assessment

In November 2018, the Bank acquired consultancy services in order to assess the financial market infrastructures in Seychelles against the PFMI published in April 201236. In addition, the consultancy is expected to assist with enhancing the effectiveness and efficiency of the oversight assessment process at the Bank and FSA. The assessment is expected to be completed early 2019.

34https://www.bis.org/publ/bcbs130.pdf
35Committee on Payments and Market Infrastructures and International Organization of Securities Commission
https://www.bis.org/cpmi/publ/d101a.pdf
Regional & International Developments and Initiatives

8.0 INTRODUCTION

In 2018, the Bank participated in several regional and international initiatives by virtue of its membership in regional/international committees or through invitation. These initiatives focused on the Bank’s regulatory and supervisory mandate and are in line with its strategic imperatives. The benefits of such engagements are that they enable the Bank to remain abreast with the ever-changing regional and international regulatory and supervisory environment, broaden exposure to international developments and provide opportunities to enhance technical capacity and capability. Ultimately, the exposure facilitates better execution of the Bank’s mandate.

Generally, the regional and international developments and initiatives were aimed at a range of areas, in particular within the regulatory and supervisory sphere, including:

- IFRS 9;
- Payment System;
- Banking Supervision; and
- Crisis Management and Crisis Resolution.
8.1 Regional and International Initiatives

8.1.1 Southern African Development Community (SADC)

8.1.1.1 Subcommittee of Bank of Supervisors (SBS)

The SADC SBS, of which Seychelles is the Deputy Chairperson, was held in Eswatini on February 27 to 28, 2018. During the meeting, the delegates discussed various topics, including the implementation of the Committee of Central Bank Governors (CCBG)’ strategic focus area on promoting financial stability in SADC countries. Additionally, the meeting saw the presentation of the crisis simulation exercise proposal to the CCBG. Following the presentation, the participants provided their feedback, of which Seychelles partnered with the Bank of Namibia and South Africa Reserve Bank (SARB) to share crisis binder experience. Consequently, an action plan was developed with clear deadlines stated therein for the development of the financial system landscape of Seychelles, especially in regards to financial inclusion initiatives, formalisation of an internal macro prudential framework, and updating the crisis binder framework.

8.1.1.2 Payment System Oversight Committee (PSOC)

The 13th SADC PSOC Meeting was held in South Africa on March 8, 2018. The event saw the participation of the Bank by virtue of its membership. The proposal for PSOC to issue a guidance document on the pricing framework for the SADC Integrated Electronic Settlement System (SIRESS)36 fees was discussed, and members were advised to issue their respective directives in relation to same once the guidance is issued. Other matters on the agenda included commercial banks in the SADC region’s implementation of straight-through processing (STP), the adoption of ISO 20022 standards and issues related to the adoption of International Bank Account Number (IBAN).

8.1.2 Alliance for Financial Inclusion (AFI)

8.1.2.1 Approaches to Enhancing Financial Inclusion through Digital Financial Services (DFS)

On May 8 to 9, 2018, representatives from the Bank participated in a regulatory training on DFS which was organised by the African Financial Inclusion Policy Initiative (AFI) in collaboration with the Banque Centrale de la Republique de Guinee. AFI is the regional initiative and platform for AFI’s African members to support and develop financial inclusion policy and regulatory frameworks in Africa and to coordinate regional peer learning efforts.37 The above-mentioned regulatory training featured discussions under AFI’s Public-Private Dialogue, which targeted technical staff in AFI member institutions that are closely involved in DFS policy work or are directly in charge of the supervision and/or the oversight of e-money. The principal themes included in the training were:

- Public and private sector collaboration to promote digital economy, innovation and financial inclusion;
- Overview of real-time payments enabled DFS for financial inclusion;
- Innovative solutions business models and partnership approaches to build financial services for financial inclusion;
- Identity solutions to foster financial inclusion;
- Enabling the next wave of growth and innovation in Africa;
- Introduction to GSMA mobile money certification, a tool to promote excellence in risk management and consumer protection; and
- Promoting excellence in risk management and consumer protection for mobile financial services.

8.1.2.2 6th Annual Roundtable of the Leaders of the AFI

The Bank participated in the 6th Roundtable of the Leaders of the AFI which was held on May 10 to 11, 2018, in the Republic of Guinea. The event saw the participation of over 100 regulators and policymakers. The AFI addressed key issues, particularly in relation to identifying solutions to women-owned micro, small and medium enterprises (MSMEs) and SMEs; the means of accessing credit from financial institutions; enhancing interoperability for DFS in Africa; and highlighting key policy and regulatory approaches so as to ensure that consumers in Africa are protected when using digital credit facilities.

8.1.2.3 AFI Pacific Islands Regional Initiatives (PIRI)

AFI, in collaboration with the Central Bank of Samoa, hosted the 4th Annual PIRI Leaders Roundtable forum in Apia, Samoa from June 5 to 8, 2018. PIRI is the regional initiative of AFI Pacific Islands member states. Given the similarity in challenges faced by PIRI members, AFI and PIRI member states considered extending the PIRI membership to other small island member states (such as Seychelles and The Bahamas) so that members can leverage on each other’s experiences when addressing financial inclusion matters. During the convening, PIRI’s Expert Group on Financial Inclusion discussed on national financial inclusion policies, whereby it was emphasised that government and relevant authorities need to play a major part in recognising the importance of financial inclusion initiatives as part of the overarching policy framework. Simultaneously, a training on financial inclusion sex-disaggregated data in support of the Denarau Action Plan for gender and women’s financial inclusion was conducted. Thereafter, a two-day high-level regional initiative meeting was conducted under the theme Fintech for Financial Inclusion whereby the participants alluded to various topics, including:

- the unexploited potential of Fintech in developing and emerging economies;
- regulatory and supervisory framework of Fintech; and
- the risks and challenges of Fintech.

8.1.2.4 AFI Global Policy Forum (GPF)

The GPF was held in Sochi, Russia during the first week of September 2018. The 2018 GPF also marked AFI’s 10th anniversary. During the event, it was highlighted that AFI’s focus going forward is to deliver content for the membership, respond to members’ demand to enhance financial inclusion, expand access to micro-insurance and other risk mitigation financial services for the poor and intensify communication on impact on the practical lessons from the network. Subsequently, the AFI Membership Council approved for AFI to issue member-based regulatory and policy guidance to address specific challenges of financial inclusion policy implementation in the AFI network. The AFI Membership Council also unanimously endorsed the Sochi Accord on Fintech for Financial Inclusion. This will encourage peer learning and progress on Fintech for financial inclusion, including the exchange of tested and transformative solutions to accelerate access and use of financial services. It will also allow AFI members to harness the potential of Fintech in their countries, and ultimately, improve financial inclusion, strengthen market conduct and consumer protection.

8.1.3 Financial Stability Institute (FSI)

The 13th BCBS-FSI High-Level Meeting, hosted by SARB, was held in Cape Town, South Africa on January 25 to 28, 2018, under the theme Strengthening financial sector supervision and current regulatory priorities. The event saw the participation of representatives from numerous sub-Saharan African central banks and supervisory authorities, BCBS and FSI. The event kicked off with a keynote address by the Deputy Governor of SARB who supported the need to continually improve and reinforce regulatory programs, and highlighted certain difficulties (such as de-risking) being faced by sub-Saharan Africa in the implementation of regulatory reforms. Over the course of the event, the Secretary General of BCBS conducted a presentation on the final Basel III agreement. During the presentation, BCBS reaffirmed its stance to sharpen its focus on assisting in ensuring the full, timely and consistent implementation of new standards under Basel III. In addition, those present discussed pertinent issues regarding the implementation of the expected credit loss provisioning framework, with a focus on difficulties being faced. The participants also discussed various challenges encountered in the financial system, including:

- the reduction of correspondent banking relationships;
- cross-border banking issues;
- the need to enhance capacity building at supervisory agencies;
- the role of state-owned banks;
- non-performing loans; and
- consolidation of the banking industry.
8.1.4 Africa Training Institute (ATI)

8.1.4.1 Financial Sector Surveillance

On March 26 to April 6, 2018, the Bank participated in a course on Financial Sector Surveillance which was attended by junior to middle-level government officials tasked with surveillance of the financial sector. The programme focused upon the identification of current risk build-up; monitoring of risk build-up through key indicators and tools; design and perform macro stress tests of solvency and liquidity as well as interpreting results; and tracking systemic risk from pro-cyclical and interdependence (cross-sectional element). Participants had the opportunity to engage in hands-on workshops which allowed for the utilisation of the latest techniques for risk assessment.

8.1.4.2 Bank Restructuring and Resolution

The Bank participated in a course on bank restructuring and resolution from October 29 to November 2, 2018, held in Mauritius. The overall purpose of the course was to present participants with a comprehensive overview of conceptual and operational issues related to bank restructuring and resolution of weak banks. Several topics were explored and discussed during the course, including how to identify and supervise weak banks, crisis preparedness, bank resolution and how to manage systemic crises. In the aftermath of the financial crisis, the concept of strengthening bank restructuring and resolution, both in terms of legal framework and practical implementation, gained prominence. This prompted many regulators across the globe to reassess their frameworks and practices, and to take steps to enhance the existing framework in light of emerging concepts, practical issues and international best practices. In this regard, the Bank is working on the development of a comprehensive framework for crisis management and resolution planning with the implementation of the Financial Stability Board’s (FSB’s) key attributes. For that reason, capacity building in this area remains a priority for the Bank.

8.1.4.3 Core Elements of Banking Supervision

The Core Elements of Banking Supervision course provided participants with a complete interpretation of the theoretical and operational issues concerning to bank regulation and supervision. The course was held from December 4 to 14, 2018, and covered a range of topics comprising elements of micro and macro prudential supervision, the Basel core principles, banking regulation developments, liquidity requirements, and stress testing. Additionally, during the course, participants had the opportunity to engage in discussions and exercises on concrete application and approach often utilised by regulators and supervisors. The exercises were complemented by theoretical-based lecturers, and participants were provided with the opportunity to present their own country experiences.

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

8.1.5.1 IFRS

A five-day seminar on IFRS was organised by the AFRITAC South in Mauritius from March 19 to 23, 2018. The main objective of the seminar was to discuss on imperative standards especially the newly introduced IFRS 9, along with related best practices such as Basel requirements and BCBS guidance on credit risk and accounting for credit losses. The main topics covered comprised an introduction to IFRS, IFRS 9 impairment, asset classification and provisioning regulatory approach, transitional arrangements, and implementation issues. Ultimately, the course provided the Bank with the necessary knowledge to review the implementation of IFRS 9 by financial institutions in Seychelles as well as how to better provide guidance to these institutions during the implementation process.

8.1.5.2 Impact of Basel III Reforms in Implementation of Basel II and III in Emerging Markets and Developing Economies (EMDEs)

The seminar on Impact of Basel III reforms in the implementation of Basel II and III in EMDEs was held from July 16 to 20, 2018 in Mauritius. The main objective of the course was to provide an opportunity for supervisory authorities to exchange views and experiences relative to the implementation of the Basel Framework within their respective countries. The course covered an array of topics comprising recent developments in the area of regulation and supervision, leverage ratio requirements of Basel III, macro-prudential supervision issues and challenges, liquidity requirement of Basel III, and the impact of Basel III reforms on the Basel implementation program of EMDEs amongst others. This ties in with the Bank’s initiatives taken during the year under review in implementing the requirements of Basel II and Basel III, which are expected to be carried out throughout 2019.

8.1.5.3 Crisis Management and Crisis Resolution

The crisis management and crisis resolution seminar held in South Africa, from October 15 to 19, 2018, addressed the strategic focus area as determined by the CCBG of the SADC countries. The seminar hosted by SARB and led by AFRITAC South, aimed to enable participants to complete a questionnaire on the crisis management framework to be developed for the SADC region. The course focused on the theoretical aspect of crisis management and resolution such that a conceptual framework can be developed and subsequently, built upon to develop a more practical crisis management framework.

8.1.5.4 Orientation Programme for Newly Recruited Central Bank Officers

On October 22, 2018, a joint collaborative programme co-hosted by the IMF (through the AFRITAC South) and Bank of Mauritius (BoM) was officially launched. The five-day seminar provided an overview of central banking with practical experience from BoM on various topics. Representatives from IMF, ATI, and AFRITAC South conducted lectures on a range of topics about the different responsibilities and activities of central banks. This included governance, monetary policy regimes, regulation and supervision, the modernisation and development of the financial markets, among others. The programme also provided participants with the opportunity to engage with industry experts as well as with each other, so as to better comprehend central banking from the viewpoint of different jurisdictions.

8.1.6 Banking Supervisors Training Programme

The Monetary Authority of Singapore (MAS) held its 26th Banking Supervisors Training Programme from June 24 to 29, 2018, of which the Bank was a participant. The programme brought together bank supervisors from regional central banks and supervisory authorities. The aim of the programme was to expand participants' perspectives of MAS' banking regulatory systems and supervisory regimes. The programme consisted of supervisory training modules and representatives from MAS also shared their regulatory and supervisory experience. Participants were presented with a variety of subjects instructed by speakers such as:

- The implications of Fintech on supervision;
- RBS – offsite monitoring and onsite inspection;
- Corporate governance;
- AML/CFT;
- Market risk;
- Liquidity risk management; and
- Challenges on country supervisory framework.

8.1.7 Financial Action Task Force (FATF) Standards

The FATF Training and Research Institute experts conducted training on the FATF standards from December 10 to 14, 2018. The main objective of the training was to provide a better understanding of the interrelationships between different parts of the AML/CFT system, including the link between policy and operations, and the evolution to a risk-based approach to AML/CFT supervision. The training highlighted the challenges being faced by jurisdictions in implementing the FATF standards, especially in the context of information sharing on beneficial ownership; the laws of the countries and how these should be adapted to ease the AML/CFT process; financial intelligence and investigations; terrorism and proliferation financing; and lack of resources which lead to low case closures, among others.
8.1.8 Enhancing the Safety and Soundness of the National Payment System: The Role of the Overseer

On October 1 to 5, 2018, the SARB Academy, in conjunction with the Toronto Centre, organised a workshop entitled Enhancing the Safety and Soundness of the National Payment System: The Role of the Overseer. The main objective of the workshop was to expose participants to a holistic approach to payment systems, covering all the main areas of the payment, clearing and settlement ecosystem. Participants were also provided with the tools to effectively and strategically participate in the national payment system oversight functions as well as have the opportunity to explore the more recent developments in the payment and settlement space. The effective delivery of the objectives was achieved by means of a panel of recognised experts and practitioners in the field with many years of experience.

8.1.9 Digital Financial Assets (DFA): Opportunities and Challenges

The OECD organised a two-day workshop on DFA at their headquarters in Paris, France on May 15 to 16, 2018. The sessions provided an opportunity for a range of global representatives to discuss the evolution of DFA and FinTech, as well as their implications for monetary policy and the stability of the financial system (both opportunities and challenges). The sessions also focused on the main challenges for regulation, taxation and the combat of financial crimes (AML/CTF). In this regard, the sessions provided the opportunity for participants to learn from the experience of other jurisdictions, and in the Seychelles context, how to be better placed to handle the wave of developments.

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

The Bank participated in the 31st Seminar for Senior Banking Supervisors from Emerging Economies, hosted by the World Bank, IMF and the Federal Reserve System was held in Washington, D.C from October 22 to 26, 2018. Discussions among the participants provided insight into the approaches adopted in the various jurisdictions in relation to banking supervision. This included, inter alia, the latest development in the Basel Frameworks, the proportionality principle, emerging policy considerations and practical lessons of FinTech, perspective on AML developments for commercial banks and correspondent banking relationships. Additionally, the challenges of implementing IFRS 9, the use of stress testing in supervision and the emergence of Sup-Tech and Reg-Tech were other topics of instruction.

8.1.11 Financial Stability, Systemic Risk and Macro Prudential Policy

The Financial Stability, Systemic Risk and Macro Prudential Policy course, facilitated by the Deutsche Bundesbank’s Centre for Technical Central Bank Cooperation, provided an inclusive forum for discussion of risks and challenges faced by attendees in the realm of financial stability. The course was held in Frankfurt, Germany from June 4 to 8, 2018. The topics ranged from policy discussion to technical measurement and assessment of risks, covering a broad range of financial stability and systemic risk assessment. Several of the areas presented were highly topical for the domestic jurisdiction and developments pertaining to the financial stability framework. Throughout the presentations and discussions, a number of interesting themes arose which will be incorporated into the work of the Bank on issues such as the Bank’s objectives and the role of macro prudential policy, development of frameworks and models, and powers to be incorporated or considered as part of the upcoming Financial Stability Act.

8.1.12 ESAAMLG

8.1.12.1 18th Council of Ministers Meeting & 36th Meeting of the Task Force of Senior Officials

Seychelles hosted the 18th ESAAMLG Council of Ministers and 36th Task Force of Senior Officials meetings from September 2 to 8, 2018. As the host country, Seychelles also took over the Presidency of the ESAAMLG. During the seven-day event, three sets of meetings were held, namely the Working Groups, the Task Force of Senior Officers Plenary Meeting, and the Council of Ministers meetings.

During its meeting, the ESAAMLG Council of Ministers adopted the Second Round of Mutual Evaluations (MEs) on Seychelles’ AML/CFT framework, which was undertaken in November-December 2017. As per the 2018 MER, the AML/CFT system in the country is deemed to be at an emerging stage. It is noted that Seychelles has taken steps to reform a number of its legislative and institutional frameworks as recommended by the 2008 MER and the ever-changing AML/CFT landscape. Moreover, Seychelles completed its NRA on ML/TF in 2017. This improved the country’s comprehension of ML/TF risks and is anticipated to further enhance AML/CFT policies and strategies, including their implementation. However, the overall implementation level is deemed low due to a lack of capacity and enforcement. Table 8.0 provides a summary of the Effectiveness Compliance Ratings for Seychelles.

Table 8.0: Effectiveness Compliance Ratings

<table>
<thead>
<tr>
<th>Non-compliance</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Risk, policy and coordination</td>
<td>Low</td>
</tr>
<tr>
<td>2. International cooperation</td>
<td>Low</td>
</tr>
<tr>
<td>3. Supervision</td>
<td>Low</td>
</tr>
<tr>
<td>4. Preventive measures</td>
<td>Moderate</td>
</tr>
<tr>
<td>5. Legal persons and arrangements</td>
<td>Low</td>
</tr>
<tr>
<td>6. Financial intelligence</td>
<td>Low</td>
</tr>
<tr>
<td>7. Money laundering investigation &amp; prosecution</td>
<td>Low</td>
</tr>
<tr>
<td>8. Confiscation</td>
<td>Low</td>
</tr>
<tr>
<td>9. Terrorism investigation &amp; prosecution</td>
<td>Low</td>
</tr>
<tr>
<td>10. Terrorism financing preventive measures &amp; financial sanctions</td>
<td>Low</td>
</tr>
<tr>
<td>11. Proliferation financing sanctions</td>
<td>Low</td>
</tr>
</tbody>
</table>

As regards to technical compliance (see Table 8.1), Seychelles made amendments to various national legislations in order to strengthen transparency requirements. In addition, since 2008, the AML Act and Proceeds of Crime (Civil Confiscation) Act, 2008 (POCA) have been amended numerous times so as to strengthen the regimes. Notably, the positive changes encompass:

- Improved market entry requirements in the international financial sector operations;
- Expanded the scope of ML/TF offences;
- Enhanced the powers and functions of the law enforcement agencies;
- Broadened the scope of key preventative measures and introduced risk-based approach; and
- Completed the NRA.

Ultimately, the alterations have contributed to significant improvements in the level of technical compliance with the FATF Standards. Nonetheless, deficiencies observed were in relation to:

- Targeted financial sanctions;
- Customer Due Diligence including beneficial owner information;
- Autonomy and operational independence of the FIU;
- Risk-based supervisory framework;
- Narrow scope of sanctions for non-compliance with AML/CFT requirements; and
- Operational capacity in most of the competent authorities.
Table 8.1: Effectiveness Compliance Ratings

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>AML/CFT Policies and Coordination</td>
<td></td>
</tr>
<tr>
<td>1. Assessing risks and applying a risk-based approach</td>
<td>Partially Compliant</td>
</tr>
<tr>
<td>2. National cooperation and coordination</td>
<td>Partially Compliant</td>
</tr>
<tr>
<td>Money Laundering and Confiscation</td>
<td></td>
</tr>
<tr>
<td>3. Money laundering offence</td>
<td>Largely Compliant</td>
</tr>
<tr>
<td>4. Confiscation and provisional measures</td>
<td>Partially Compliant</td>
</tr>
<tr>
<td>Terrorist Financing and Financing of Proliferation</td>
<td></td>
</tr>
<tr>
<td>5. Terrorist financing offence</td>
<td>Partially Compliant</td>
</tr>
<tr>
<td>6. Targeted financial sanctions related to terrorism and terrorist finance</td>
<td>Partially Compliant</td>
</tr>
<tr>
<td>7. Targeted financial sanctions related to proliferation</td>
<td>Non-Compliant</td>
</tr>
<tr>
<td>8. Non-profit organisations</td>
<td>Non-Compliant</td>
</tr>
<tr>
<td>Preventive Measures</td>
<td></td>
</tr>
<tr>
<td>9. Financial institution secrecy laws</td>
<td>Compliant</td>
</tr>
<tr>
<td>10. Customer due diligence</td>
<td>Largely Compliant</td>
</tr>
<tr>
<td>11. Record keeping</td>
<td>Compliant</td>
</tr>
<tr>
<td>12. Politically exposed persons</td>
<td>Largely Compliant</td>
</tr>
<tr>
<td>13. Correspondent banking</td>
<td>Compliant</td>
</tr>
<tr>
<td>14. Money or value transfer services</td>
<td>Compliant</td>
</tr>
<tr>
<td>15. New technologies</td>
<td>Non-Compliant</td>
</tr>
<tr>
<td>16. Wire transfers</td>
<td>Partially Compliant</td>
</tr>
<tr>
<td>17. Reliance on third parties</td>
<td>Largely Compliant</td>
</tr>
<tr>
<td>18. Internal controls and foreign branches and subsidiaries</td>
<td>Compliant</td>
</tr>
<tr>
<td>19. Higher risk countries</td>
<td>Partially Compliant</td>
</tr>
<tr>
<td>20. Reporting of suspicious transactions</td>
<td>Compliant</td>
</tr>
<tr>
<td>21. Tipping-off and confidentially</td>
<td>Compliant</td>
</tr>
<tr>
<td>22. Designated non-financial business and professions (DNFBPs): customer due diligence</td>
<td>Largely Compliant</td>
</tr>
<tr>
<td>23. DNFBPs: other measures</td>
<td>Largely Compliant</td>
</tr>
<tr>
<td>Transparency and Beneficial Ownership of Legal Persons and Arrangements</td>
<td></td>
</tr>
<tr>
<td>24. Transparency and Beneficial Ownership of Legal Person</td>
<td>Largely Compliant</td>
</tr>
<tr>
<td>25. Transparency and Beneficial Ownership of Legal Arrangements</td>
<td>Partially Compliant</td>
</tr>
<tr>
<td>Powers and Responsibilities of Competent Authorities and other Institutional Measures</td>
<td></td>
</tr>
<tr>
<td>26. Regulation and supervision of financial institutions</td>
<td>Partially Compliant</td>
</tr>
<tr>
<td>27. Powers of supervision</td>
<td>Largely Compliant</td>
</tr>
<tr>
<td>28. Regulation and supervision of DNFBPS</td>
<td>Partially Compliant</td>
</tr>
<tr>
<td>29. Financial Intelligence Unit</td>
<td>Partially Compliant</td>
</tr>
<tr>
<td>30. Responsibilities of law enforcement and investigative authorities</td>
<td>Compliant</td>
</tr>
<tr>
<td>31. Powers of law enforcement and investigative authorities</td>
<td>Compliant</td>
</tr>
<tr>
<td>32. Cash counters</td>
<td>Largely Compliant</td>
</tr>
<tr>
<td>33. Statistics</td>
<td>Partially Compliant</td>
</tr>
<tr>
<td>34. Guidance and feedback</td>
<td>Partially Compliant</td>
</tr>
<tr>
<td>35. Sanctions</td>
<td>Partially Compliant</td>
</tr>
<tr>
<td>International Cooperation</td>
<td></td>
</tr>
<tr>
<td>36. International instruments</td>
<td>Compliant</td>
</tr>
<tr>
<td>37. Mutual legal assistance</td>
<td>Partially Compliant</td>
</tr>
<tr>
<td>38. Mutual legal assistance: freezing and confiscation</td>
<td>Non-Compliant</td>
</tr>
<tr>
<td>39. Extradition</td>
<td>Partially Compliant</td>
</tr>
<tr>
<td>40. Other forms of international cooperation</td>
<td>Largely Compliant</td>
</tr>
</tbody>
</table>

The event concluded with a Private Public Sector Forum which provided an opportunity and enabled representatives from both the public and private sector to share ideas, best practices and engage with each other on how best to implement AML/CFT standards in the ESAAMLG region. The main topics of discussion were:

- De-risking;
- Challenges of implementing the FATF Standards on New Technologies; and
- Tackling money laundering associated with illegal wildlife trade.

8.2 Participation in International Questionnaires and Surveys

During 2018, the Bank – through FSD – participated in the following international questionnaires and surveys, as highlighted in Tables 8.2 and 8.3.

Table 8.2: Participation in International Questionnaires

<table>
<thead>
<tr>
<th>Questionnaires</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cross-Border Banking Supervision</td>
</tr>
<tr>
<td>The State of Play of the Experiences and Initiatives of African Central Banks in Fintech and Cyber Security</td>
</tr>
<tr>
<td>Roundtable on Industry Solutions to Correspondent Banking Relationships Withdrawal</td>
</tr>
<tr>
<td>Prudential Standards, Guidelines and Rating System (PSGRS) Assessment for the Year 2017</td>
</tr>
<tr>
<td>Long Term Financing of the African Development Bank</td>
</tr>
<tr>
<td>Financial Access Survey</td>
</tr>
<tr>
<td>International Control System</td>
</tr>
<tr>
<td>Financial Soundness Indicators</td>
</tr>
</tbody>
</table>

Table 8.3: Participation in International Surveys

<table>
<thead>
<tr>
<th>Surveys</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Macro Prudential Policy Survey</td>
</tr>
<tr>
<td>Interest Rate Controls</td>
</tr>
</tbody>
</table>
Chapter 9

Issues and Challenges

9.0 INTRODUCTION

Issues and challenges are becoming increasingly interconnected, resulting in alterations to the means by which the financial services sector operates. The issues and challenges presented by impending accounting and financial reporting standards, emerging technologies, disruptions from the digital sphere, and alterations in the regulatory and supervisory environment continues to be high on the agenda of the financial services sector. Specifically, the banking sector is expected to embrace novel approaches and concepts/ideas for the accomplishment of tasks. In this regard, this chapter outlines the issues and challenges observed in the financial services sector to both the commercial banks and the Bank.
9.1 Issues
9.1.1 Staffing
Commercial banks continue to struggle with the shortage of both clerical and professional staff. This raises concerns that a lack of an appropriately skilled workforce will inevitably stifle the growth and development of the financial services sector. In order to remain competitive and improve returns, commercial banks will have to focus on ways by which they can improve efficiency and offer better customer experiences, for instance, by improving agility. Nevertheless, commercial banks still face three significant issues in the development of talent strategies, namely:

1. The preparation of widespread retraining to better equip staff with the ability to offset technology-driven disruptions, particularly in regards to the increasing move towards automation;
2. The identification of required skills, knowledge and competencies for the future; and
3. The attraction and retention of a pool of professionals with those essential skills.

Further, the mobility of commercial banks’ employees from one commercial bank to another has been a regular practice in the banking sector. Ultimately, managing existing talent more effectively is pivotal for the banking sector to succeed. Following discussions initiated between SBA, the commercial banks and their key partners in 2017, further discussions were held in 2018 in preparation of a training plan for the financial sector. However, the difficulty in finalising and implementing the training plan remains a key issue for the relevant stakeholders.

9.1.2 Adopting International Best Practices
Banking business is turning into a global network of complex financial relationships and the Seychelles banking sector is gradually integrating into the global financial system. Contextually, it is essential that established principles and best practices developed by global standard-setters like BCBS are adopted. In line with same, the Bank initiated work in 2018 to assess its compliance with the Core Principles. It is expected that this will impact regulatory frameworks currently in place. Moreover, the Bank has to continuously monitor new standards in order to keep abreast and be compliant with international standards and established principles. Additionally, the forthcoming adoption of a risk-based approach to supervision has shown that the regulator faces the issue of knowledge, skills and resources shortage. In this respect, the Bank is enhancing its efforts to improve staff capability in meeting the ever-changing regulatory and supervisory environment. Ultimately, the continuous alterations in international standards require the Bank to remain abreast with new standards/ requirements that may impact Seychelles’ banking sector.

9.1.3 Crisis Management and Supervisory Strategies
In order to mitigate these risks more effectively, it is deemed essential to strengthen supervisory capacity with adequate supervisory approaches, tools and techniques. As such, there is a need to have a crisis management framework in place to resolve systematically problematic financial institutions. Also, bank supervisors should be well equipped with the strategies and framework for managing crisis situations with effective and sound implementation plans for each and every resolution option. In this regard, the Bank initiated work on a crisis management and resolution planning framework in 2018 and this is expected to be finalised in 2019. In addition, at the SADC level, a framework indicating minimum requirements to guide the region in a cross-border crisis simulation exercise is being prepared and is expected to be submitted to the CCBC in September 2019.

9.1.4 Cybersecurity
The risks that originate from the cyberspace are a key threat to financial stability and remain high on the agenda of the FSC. Risks from the cyberspace continue to remain due to the increasing move towards e-banking channels and the use of FinTech. As is, the domestic banking sector continues to fall prey to card skimming, and for the year 2018, this was quite significant. As highlighted in the Financial Stability Report 2017, ‘NotPetya’ and ‘WannaCry 2.0’ were two major cyber risks noted globally that have impacted numerous users. These two events remained significant throughout 2018 due to their potential threat to the domestic financial sector and the economy as a whole. Nevertheless, the banking sector reaffirmed its vigilance and enhanced security measures. This was done through the creation of a cybersecurity working group by the Bank, which comprises staff from all commercial banks and the Bank. The working group is the platform used to discuss all matters cybersecurity-related. Accordingly, the Bank commenced work on a Cybersecurity Guideline which serves to provide the minimum standards that all commercial banks will be required to adhere to, thereby reducing the impact of risks from the cyberspace. The guideline is expected to be issued in 2019.

9.2 Challenges
9.2.1 IFRS 9
Consequent to the global financial crisis, the standard-setters deemed it essential to make changes to accounting and financial reporting standards/requirements. For example, as permitted by IAS 39, the delayed recognition of credit losses on loans and other financial assets were regarded as problematic. In this direction, this led to the recommendation – from the standard-setters – that a forward-looking approach to impairment be undertaken. This requires financial institutions to have a pool of historical, current and forward-looking data upon which a model can be built through the utilisation of judgements regarding expected losses. Nonetheless, one of the most significant challenges identified in this regard is the availability and quality of data. Likewise, with the use of judgments about possible default events and whether payments are to be received as due and, if not, how much will be recovered, there exists a lack of a common definition of default which presents a further challenge. For instance, the challenge for the regulator is to reconcile what is determined as a default, compared to what the commercial banks determine as a default; if the regulator relies on the commercial banks to determine what is a default, then the commercial banks might present a more optimistic view.

Furthermore, throughout 2018, the Bank assessed all commercial banks’ implementation of IFRS 9. It was observed that a key challenge with the implementation process is whether enough has been done to thoroughly cover all aspects of IFRS 9, given that the banking sector lacked the required expertise to implement same. Besides, given that there are several matters that require judgements/interpretation with IFRS 9, the involvement of external auditors and independent consultants should be at the forefront throughout the implementation process by commercial banks. In this regard, the Bank issued a circular in April, to provide guidance to the commercial banks, DBS and HFCL on the requirements of IFRS 9. The circular focuses on credit risk and accounting for expected losses and is based on the principles issued by the BCBS.

9.2.2 Ensuring Effective Implementation of Best Practices for AML/CFT
With rapid growth and increased integration of Seychelles’ financial services sector with the global industry, there are possibilities of abuse of financial services institutions for money laundering from illicit activities. There are global concerns about the misuse of resources for terrorist financing, drug trafficking and money laundering. In its MER under the First Round of Mutual Evaluations (MEs) which analysed the level of compliance with the FATF 40 Recommendations, Seychelles was Compliant with 1 Recommendation; Largely Compliant with 2; Partially Compliant with 21; Non-Compliant with 15 and Not Applicable for 1. Nonetheless, following the Second Round of MEs on Seychelles’ AML/CFT framework in November-December 2017, which was adopted in September 2018 by the ESAAMLG Council of Ministers, Seychelles’ compliance was as follows:

- 10 Compliant;
- 10 Largely Compliant;
- 16 Partially Compliant; and
- 4 Non-Compliant.

Although Seychelles’ level of compliance has increased, evidence from the MER shows that both the Bank and the financial institutions have a relatively good understanding of ML/FT risks. However, AML/CFT matters still prove to be a challenge for both parties, given that more work has to be done, especially towards making necessary amendments to legislations to ensure compliance with international standards set by FATF. As such, a policy paper for the introduction of a new AML Act, as well as amendments to the POCA, were drafted and presented to the Cabinet of Ministers in the last quarter of 2018. The new Act addresses deficiencies observed in the AML Act, 2006, and is to heighten Seychelles’ compliance with international standards. The new Act is to be gazetted in 2019.

9.2.3 De-risking

As per the World Bank, de-risking refers to global financial institutions terminating or restricting relationships with and closing the accounts of clients considered high risk. De-risking is primarily driven by the amalgamation of cost/benefit matters and concerns pertaining to AML/CFT risks. This poses a threat to financial stability and inclusion, and as such, require ongoing discussions between relevant parties in determining possible solutions in overcoming this risk. This is especially the case for those who rely heavily on the international payment system to effect trade. Seychelles has not been spared, as some of the commercial banks have experienced this phenomenon with correspondent banking relationships being terminated. The loss of correspondent banking relationships to the domestic banking sector, wholly or partly, has adverse impacts on economic activity and financial transactions for government, individuals and corporates alike. To mitigate this risk, in March 2018, the Bank entered into a Framework Agreement with CAB for provision of correspondent banking services to commercial banks in Seychelles. Likewise, CAB is also assisting with reviewing the commercial banks’ AML/CFT frameworks and providing guidance so as to strengthen same.

9.2.4 Fintech

Rapid changes are visible in the financial services sector owing to a nexus between finance and technology. Given the rise of competition and online digital technology, traditional banks need to try and maintain their status in the economy. This can be achieved through more effective branding and introducing innovative digital tools. Besides that, significant regulatory challenges are prevalent from the integration of traditional finance and Fintech. For example, the regulatory system is seen as being outmanoeuvred and outpaced by Fintech and internet financial markets. The market is engaging in Fintech even before the regulator has set up the relevant regulatory and supervisory frameworks to ensure the safety and soundness of the financial system. There are growing concerns vis-à-vis cybercrimes, which is seen to be on an alarming trend globally. In this light, the Bank, along with FSA and the Ministry responsible for Finance, has taken the initiative to commence work on a nationally coordinated Fintech strategy which will be done with the assistance of the World Bank. This is expected to be done throughout 2019.

9.2.5 Enforcement of Supervisory Directions

On completion of onsite examinations, reports are prepared and commercial banks are given directions to address issues identified. Nonetheless, it has been noted that commercial banks are continuously failing to meet stipulated deadlines to rectify issues observed. This is especially in relation to foreign commercial banks which require certain policies to be signed off by their respective Head Offices abroad. Similarly, there is a lack of cooperation by commercial banks in submitting responses with regards to requested information, which therefore impedes analyses. Consequently, this proves to be a challenge for the Bank, especially to follow up on all the commitments made by commercial banks and to ensure that appropriate rectifications are made in a timely manner.

9.2.6 Modernisation of the Payment System

With the digitisation agenda across the globe, many jurisdictions, including Seychelles, have realised that the financial sector is not isolated from the technological evolution happening worldwide. Consequently, in Seychelles, it was deemed imperative that diagnostic studies are undertaken to better understand the impacts of modernising and further developing the national payment system and identifying the most appropriate course of action to do so. Given the limited availability of local expertise, the Bank had to rely on international consultants to undertake these studies. However, the studies were not prescriptive on the business models and cases to pursue for the country. Therefore, the Bank had to remain reliant on international partners to proceed with the modernisation endeavour. Moreover, although modernisation of the national payment system and the financial sector, in general, has long been in discussion amongst bankers and policy-makers, the lack of comprehension amongst the stakeholders as to the rationale for modernisation and the high cost implications remains prevalent. As such, this has made the implementation of the project challenging and long overdue and necessitates ongoing stakeholder consultation throughout the different phases of the initiative. As a consequence, the Bank commenced engagement with the World Bank in 2018 for assistance with the implementation project through the form of technical assistance under RAS.

38FATF recommendations, the UNODC/Commonwealth/IMF model law, legislations from other jurisdictions, Seychelles’ NRA results and the first draft report received from ESAAMLG assessors.

Chapter 10

Outlook
10.0 Banking Sector: Seychelles Bankers Association Perspective

A decade on from the global financial crisis, it can be generally argued that the global banking sector is on firmer ground. This is evident from enhanced regulatory and supervisory techniques, tools and approaches as a means to reduce the risk of future crises. Likewise, the players in the financial system are more receptive in the management of issues that are customer related, and placing greater emphasis on the legitimacy of banking relationships that contribute to savings, create more productive investments and output, thereby leading to real economic growth. As regards to the Seychelles banking sector, the commercial banks are deemed to be strong, healthy and profitable. Nevertheless, there may be a need for re-evaluation and change, particularly in relation to regulatory compliance, technological advancements and greater sophistication in the management of risks.

The Seychelles Perspective

According to the NBS, as at December 2018, the population of Seychelles stood at 97,199. With a relatively small population, the country is not a world leader in banking innovation or technology. Nevertheless, with a GDP per capita of US$16 thousand\(^2\) as of end 2017, 3.4 per cent increase in quarter four of 2018 for GDP growth rate and the second highest income per capita in Africa\(^2\), there remains untapped potential for the banking sector to grow and prosper in 2019.

In its first Financial Stability Report, the Bank cautioned that Seychelles needed to take urgent steps to improve its reputation as a jurisdiction with a high risk of money laundering. Failure to address the deficiencies observed could result in the ever-increasing problem of loss of correspondent banking relationships. Eventually, this would threaten the ability of the commercial banks to execute international transactions. Besides that, the 2018 ESAAMLG MER for Seychelles reports that commercial banks are the most compliant of all reporting entities and have contributed significantly towards maintaining the country’s rating of largely compliant. However, the key challenges for 2019 and the years ahead remain the strength of commercial banks to effectively enhance financial education and inclusion, and assist the relevant authorities with continuing efforts to improve perceptions and awareness of regulatory and compliance frameworks under which all commercial banks operate. Furthermore, with the existence of a substantial register of offshore companies and continuing pressure to on-board non-resident customers and accounts, commercial banks will continue to explore avenues which foster growth in the international financial services sector. Ultimately, commercial banks need to remain at the forefront of regulatory compliance.

Globally, investments in Fintech continues to grow exponentially. In this regard, local commercial banks will have to play their part by phasing out traditional technologies in favour of paperless transactions and adopting existing as well as innovative electronic platforms to facilitate better customer experiences. While doing so, commercial banks need to ensure that effective mechanisms are in place to protect their customers against fraudulent activities and risks in the cyberspace. Nonetheless, concerns remain with regard to cost optimisation, particularly concerning the provision of banking and financial products and services. As such, while they may opt for the use of blockchain technology to reduce the cost of financial transactions, commercial banks remain largely unresponsive to the advent of same. This is further accentuated by the fact that such a move may inevitably lead to consumer and corporate financial data protection issues as a result of cyber risks.

During 2018, the third oldest commercial bank, HBL, requested approval from the Bank to cease operations. This event was as a result of a business decision from HBL’s head office and was not a reflection of the state of commercial banks in Seychelles. On the contrary, it can be argued that the commercial banks in the country are stable, strong and liquid. The financial reporting year for 2017 for commercial banks’ financial statements notes actual impairment losses of 0.2%, further confirming the strength of commercial banks’ existing project appraisal and evaluation processes. However, with an average deposit to lending ratio of 2.1, pressure may begin to increase so as to find profitable lending opportunities. In 2019, this may be subject to opportunities to purchase government papers coupled with alterations in the Bank’s MPR. Therefore, this necessitates a need for commercial banks to maintain strict lending policies to ensure that traditional risk-return trade-off is not compromised. As such, commercial banks must be more proactive in the management of client-specific and portfolio risks.

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\(^2\)https://data.worldbank.org/country/seychelles

\(^3\)Based on IMF data from 2017.
Outlook for 2019

Amid political and policy uncertainties worldwide coupled with ever-changing idiosyncratic shocks and the advent of Fintech, Seychelles needs to remain vigilant of financial stability risks. Therefore, it is vital that there are adequate policies in place to mitigate these risks.

In light of the dynamic nature of financial stability risks, the macro prudential tool kit used to identify these risks as well as mitigate their impact needs to be enhanced periodically. Therefore, FSS will continue to update its macro prudential tools so that they remain relevant. Furthermore, to provide a sound legal standing to the financial stability mandate being collectively implemented by the relevant authorities, preparatory work on the drafting of a Financial Stability Act will be initiated in 2019. Additionally, a framework identifying domestic systemically important banks (D-SIBs) is expected to be implemented during the year 2019. Following the identification of D-SIBs, the D-SIBs framework will stipulate the necessary additional capital buffers that those institutions would need to put aside in order to alleviate risk spill over to the financial system.

As the financial sector becomes more technologically based, it is vital for regulators to remain abreast of the ever-changing technological landscape, especially in the area of Fintech. While ensuring that the necessary measures are in place to mitigate the potential risks that technological developments bring, regulators should also appreciate their limitless possibilities. Thus, it is crucial for the regulatory environment to be such that opportunities emanating from technological developments can be tapped in safely and securely, while preserving the country’s financial stability.
Annex

List of Abbreviations

Africa Training Institute
African Financial Inclusion Policy Initiative
Al Salam Bank Seychelles Limited
Alliance for Financial Inclusion
Anti-Money Laundering and Counter Financing of Terrorism
Automated Teller Machine
Bank Al Habib
Bank of Baroda
Bank of Ceylon
Barclays Bank (Seychelles) Limited
Base Erosion and Profit Shifting
Basel Committee on Banking Supervision
British Pound
Bureau de Change
CBS Intermediate Transfer Service
Central Bank of Seychelles Act, 2004 as amended
Committee of Central Bank Governors
Consumer Price Index
Corporate Social Responsibility
Credit Information System
Credit Union Act, 2009 as amended
Credit Unions
Crown Agents Bank
Deferred Net Settlement
Development Bank of Seychelles
Digital Financial Assets
Digital Financial Services
Domestic Systemically Important Banks
Eastern and Southern Africa Anti-Money Laundering Group
Electronic Cheques Clearing
Emerging Markets and Developing Economies
Euro
Financial Action Task Force
Financial Institutions Act, 2004 as amended
Financial Intelligence Unit
Financial Market Infrastructures
Financial Services Authority
Financial Stability Board
ATI
API
ASBS
AFI
AML/CFT
ATM
BAH
BBB
BCBS
GBP
BDC
CBSITS
CBSA
CCBG
CPI
CSR
CIS
CUA
CUS
CAB
DNS
DBS
DFA
DFS
D-SIBs
ESAAMLG
ECC
EMDeS
EUR
FATF
FIA
FIU
FMIs
FSA
FSB
Financial Stability Committee
Financial Stability Institute
Financial Stability Section
Financial Stability Unit
Financial Surveillance Division
Foreign Exchange Act, 2009
Global Policy Forum
Gross Domestic Product
Habib Bank Limited
Housing Finance Company Limited
International Bank Account Number
International Financial Reporting Standards
International Monetary Fund
Mauritius Commercial Bank (Seychelles) Limited
Micro, Small and Medium Enterprises
Monetary Authority of Singapore
Monetary Policy Rate
Money Laundering and Terrorist Financing
Mutual Evaluation
Mutual Evaluation Report
National Bureau of Statistics
National Payment System
National Payment Systems Act, 2014
National Payment Task Force
National Risk Assessment
Non-bank Credit Granting Institutions
Nouvobanq
Organisation for Economic Co-operation and Development
Pacific Islands Regional Initiatives
Payment Service Providers
Payment System Oversight Committee
Payment, Clearing and Settlement Systems
Point of Sale
Principles of Financial Market Infrastructure
Proceeds of Crime Act
Progressive Income Tax
Prudential Standards, Guidelines and Rating System
Regional Technical Assistance Center for Southern Africa
FSC
FSI
FSS
FSU
FSD
FEA
GPF
GDP
HBL
HFCL
IBAN
IFRS
IMF
MCB
MSMEs
MAS
MPR
ML/TF
ME
MER
NBS
NPS
NPSA
NPTF
NRA
NBCIs
NVB
OECD
PIRI
PSPs
PSOC
PCSS
POS
PFMi
POCA
PIT
PSGRS
AFRITAC South
List of Abbreviations

- Reimbursable Service Agreement: RAS
- Risk-Based Supervision: RBS
- SADC Integrated Electronic Settlement System: SIRESS
- Seychelles Commercial Bank: SCB
- Seychelles Credit Union: SCU
- Seychelles Electronic Funds Transfer: SEFT
- Seychelles Rupee: SCR
- Short Message Service: SMS
- Small and Medium Enterprises: SMEs
- South Africa Reserve Bank: SARB
- Southern African Development Community: SADC
- Standing Credit Facility: SCF
- Standing Deposit Facility: SDF
- State-Owned Enterprises: SOEs
- Straight Through Processing: STP
- Subcommittee of Banking Supervisors: SBS
- Sustainable Development Goals: SDGs
- United States: U.S.
- US Dollar: USD
- World Economic Outlook: WEO
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Banking Hours
The normal banking hours are between
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