Vision Statement

To be an internationally recognised
financial supervisor committed
to the sustained development
of Mauritius as a sound and competitive
financial services centre

Mission Statement

In carrying our mission, we aim:

To promote the development, fairness, efficiency
and transparency of financial institutions
and capital markets in Mauritius

To suppress crime and malpractices
so as to provide protection to members of the public
investing in non-bank financial products

To ensure the soundness and stability
of the financial system in Mauritius
for the benefit of the economy

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Members of the Board

B.R. Gujadhur
Chairman MA (ECONOMICS)

Managing Director, Bank of Mauritius

Mr. Gujadhur has extensive knowledge of the financial sector of Mauritius – having worked for the Bank of Mauritius for many years and having been closely associated with the development of the financial sector over a long period. Previously, Mr. Gujadhur was the Director of Banking Supervision and is currently the Managing Director of the Bank of Mauritius. Mr. Gujadhur was appointed as Chairman of the Financial Services Commission in August 2001.

D. Basset SC
Vice Chairman MA (OXON)

Legal Practitioner, Basset Chambers

Mr. Basset was admitted to the Mauritian Bar in 1975. After 10 years in the legal and judicial service, Mr. Basset joined the banking sector. He returned to the legal profession in 1990 and has provided his expertise in numerous working committees relating to company law matters. In November 2000, along with other colleagues of the Bar, he set up Basset Chambers. His main areas of practice are company law, commercial law and civil litigation.

R. Chellapermal FCCA

Director, Financial Policy Analysis, Ministry of Finance

Mr. Chellapermal was admitted as a member of the Chartered Association of Certified Accountants in 1980. He joined the Ministry of Finance in 1983 after working in the private sector for 6 years. At the Ministry, Mr. Chellapermal has been involved in various projects relating to the financial services sector including the establishment of the Stock Exchange, the review of company legislation and the regulatory framework governing international business. He has also served on various committees – including the Company Law Advisory Committee and the Mauritius Accounting and Auditing Standards Committee.

Members of the Board

J. Lallchand PhD CANTAB

Manager, Rogers Aviation & Tourism

Dr. Lallchand holds a senior management position in the Rogers Group – a leading Mauritian conglomerate with 140 subsidiaries. Dr. Lallchand spent two years in the Planning & Development department of Rogers & Co. Ltd, where he was actively involved in the planning and restructuring exercise of the entire Group in 1999-2000. He has also worked for the World Bank and Tate & Lyle Head Office (London). Dr. Lallchand is a Board Member of the Mauritius Tourism Authority. He has carried out lengthy research on regional financial centres and the development of capital markets in emerging economies.

R. Makoond MSc TOURISM PLANNING

Executive Director, Joint Economic Council

Prior to his present responsibilities at the Joint Economic Council, Mr. Makoond was the Deputy Secretary General of the Mauritius Chamber of Commerce & Industry until 1993. He has also worked in the public service for the Ministry of Commerce, the Ministry of Economic Planning & Development and the Ministry of Tourism. Mr. Makoond is a member of the Mauritius Negotiating Team on the ACP-EU relations and the WTO Standing Committee. He is also involved at policy level in a number of institutions such as Business Parks of Mauritius Ltd and the Board of Investment. Mr. Makoond is a Director of the European Centre for Development Policy Management, a Dutch foundation.

Y. Pat Fong BSc (ECON) FCA

Partner, Kemp Chatteris Deloitte

Mr. Pat Fong started his audit career in the United Kingdom in 1960 and moved to Mauritius in 1963. He became a Partner in Kemp Chatteris Deloitte & Touche in 1966. His audit assignments have focused on banks and other financial institutions. He acted as liquidator of the former Mauritius Cooperative Central Bank Ltd.

R.P. Ramlugun BA (ADMINISTRATION)

Permanent Secretary, Ministry of Industry, Financial Services & Corporate Affairs

Having worked for seven years in the private education sector, Mr. Ramlugun joined the public service in 1985 as Administrative Officer. He has served in various Ministries before acceding to his present position in 2004. He is currently the Chairperson of the National Committee for Anti-Money Laundering and Combating the Financing of Terrorism. He is also the Chairperson of the Task Force of Senior Officials of the Eastern and Southern Africa Anti-Money Laundering Group.

Chairman's Statement

The drive towards convergence of global regulatory practices continued during the past year. It embraced all financial sector activities, notably the banking, securities and insurance sectors. Management of risk and measures that can be taken to bring an even level of discipline in all segments of financial markets were the main considerations. The search for global consensus on the regulatory framework centred on common concerns: given the key importance of the financial sector to the global economy and increasingly globalising financial markets, systemic risk should be contained and a reasonable degree of cross-border regulatory equivalence should be achieved. The FSC participated in most of these international discussions hosted by international standards-setting bodies such as the IOSCO, the Securities Regulator and the IAIS, the Insurance Regulator.

The FSC brought these regulatory developments to bear on the local financial market in several ways. It revamped certain codes and guidelines. It issued new guidelines and practice notes to industry. Memoranda of Understanding were signed with still more financial Regulators. Exchange of information with other Regulators increased. Consultations were held with industry with a view to striking the correct balance between rigorous application of prudential norms and business development. Legislation was reviewed and new legislative proposals have been introduced after extensive consultation with industry. Work was also undertaken at the regional level to seek to harmonise regulatory practices with fellow Regulators and to raise the overall platform of compliance with international norms and standards.

As the world economy picked up during the year, the rate of flow of financial business through Mauritius was gradually restored. Uncertainties which had hampered business in the two preceding years gradually phased out and confidence was restored once again on the markets. This factor is reflected in the substantially enhanced volume of business in 2003-04 in the Non-Bank Financial Institutions (NBFI) sector as a whole. Details of sectoral performances are given in the text of the Report. However, the whole range of business activity, from insurance, pensions, securities, treasury management, credit finance to global business, turned around successfully. Application of prudential rules identified some weak units in operation, notably in the insurance sector, where the FSC was called upon to take firm action, and in the Global Business sector, where some companies had to be struck off the rolls. Notwithstanding, there was resurgence of confident business growth in all sectors taken together. Both profitability and contribution to GDP increased as far as the NBFI sector was concerned.

Existing legislations were revisited to keep pace with international standards and maintain industry within safe operational margins. Proposed new legislations to beef up the regulatory régime, with respect to the securities market, collective investments, short and long-term insurance and pensions, and regulation of corporate service providers, are on the point of being implemented. They are aimed at providing better consumer protection, strengthening the institutional framework, improving accountabilities and introducing an overall good environment for inducing market development. As usual, the change-over from a familiar operating platform to a more demanding and modern framework brought its own lot of resistance in its wake.

In view of raised international compliance standards, Mauritius could not afford to stay behind, particularly where it was a question of introducing more transparent structures to protect the public interest. Further, it has to be realised that the scope of the internal market is limited.

The potential of the services sector can therefore be tapped more fully on external markets, in much the same way as Global Business activities have demonstrated in past years. To go for this outreach and expand the scope of Mauritius' financial sector, modern tools and control systems, which are compatible with best international practices, are absolutely necessary.

International forces of competition became fiercer in the last year, as developed countries increased pressure towards greater disclosure, exchange of information and other similar tax-driven policies. A good legislative and regulatory package should meet the exigencies arising from this situation. Improvements introduced by the FSC in terms of additional regulatory requirements should be seen in this context as the necessary foundation to protect the activity level and reputation of the financial centre of Mauritius. In the changing environment, however, it is absolutely necessary for business to be clear about the parameters of its operations and to marshal its resources accordingly. This principle has been respected and business has

"In view of raised international compliance standards, Mauritius could not afford to stay behind, particularly where it was a question of introducing more transparent structures to protect the public interest."

been kept fully advised of the new regulatory developments and their implications.

The outreach to markets in this context goes beyond a compendium of local rules. On the one hand, those rules have to be conducive to business development and should be comparable to what obtains in the other financial centres. On the other hand, aptitudes, skills and market development awareness of operators and Regulators are key to responding to market opportunities. To this end, various training programmes were undertaken by operators for the benefit of their staff during the year. The public authorities also initiated a series of training activities while the University of Mauritius introduced new, specialised finance and financial management courses. Some specialised financial training courses of international standing were introduced by the Financial Services Promotion Agency (FSPA).

On its part, the FSC undertook an extensive training programme for its own staff with the assistance of outside expertise. The training is geared to conduct of business on the market and is thus intended to enhance the element of complementarity between industry and the FSC. The Board feels that the benefits from the extensive training programme will be more fully realised if staff members are dedicated, loyal and trustworthy. The Board believes strongly in the necessary bond of trust that should bind its staff to Management as trusted repositories of confidential customer and business information. The Board enlisted the services of a human resource management team this year. Its mission is to tide over the process of change management in the FSC and to optimise human resource allocation in the organisation. This exercise will be completed before the end of the calendar year.

For the second time in the past three years, the Board of the FSC itself undertook a self-assessment exercise. The aim was to re-appraise the policy objectives set by the Board for the FSC against the background of global developments. The exercise was also aimed to examine the efficiency of the channels of communication between Board and Management and to thereby assess whether and what needed to be done to favour timely flow of information for effective policy decision-making. In line with Corporate Governance principles, the Board established key Sub-Committees, notably its Audit and Risk Management Committee, its Investment Sub-Committee and a Salary Review Sub-Committee to oversee the ongoing salary review exercise. The FSC's functional approach to integrated regulation of the NBFI sector was also given a boost in the course of the year. The Directorates for Licensing, Policy & Research, and Surveillance were reinforced. The emerging structure at the top will, no doubt, go a long way to improving the effectiveness of the FSC in its responsibility to safeguard the public interest.

The intensification of the FSC's on-site inspection programme brought regulated entities under closer scrutiny. In a few cases, some element of delaying tactics was adopted by certain regulated entities not accustomed to external inspection. The purpose of the on-sites is to protect the public interest and the FSC is fully determined to bring up all regulated entities falling under its oversight to take the necessary actions to maintain their financial soundness and to make the required degree of public disclosure to enable the public to take informed investment decisions. The legal reinforcement under way will heighten the public accountability element of financial enterprises.

Market conditions improved in 2003 and 2004. Demand for financial services had ebbed somewhat in 2001 and 2002 on the domestic market. Simultaneously, the World Economy operated on the sidelines of recovery in those years with the attendant risk of a slippage. Global economic forecasts now indicate that global economic recovery has been well established in 2004, notwithstanding high oil prices. The recovery is supported by a broad-based rally in financial markets, including a rise in equity prices, a further drop in bond spreads and an upturn in private financial flows to emerging markets. While the relatively weak state of the economy in previous years put the financial services sector to a test of resilience, the uncertainties now appear to have shifted this consideration behind. Business prospects are gradually being restored and the scope for financial sector activity has taken a turn for the better. At the same time, financial markets have been undergoing a major transformation in the presence of new global competitive forces. These represent new challenges.

"While the relatively weak state of the economy in previous years put the financial services sector to a test of resilience, the uncertainties now appear to have shifted this consideration behind. Business prospects are gradually being restored and the scope for financial sector activity has taken a turn for the better."

Chairman's Statement

The new global competitive forces reinforce the business prospects of jurisdictions which have re-positioned themselves in anticipation of foreseen changes. Such jurisdictions are perceived as having higher potential due to deeper governance structures and business strengths involving their mainstream global association. They have been attracting more durable business, based on their farsighted strategy. In contrast, jurisdictions with peripheral financial market activity which are not deeply seated are perceived as having relatively short-term horizons. They are confronted with the risk of market concentration and absence of an adequate dose of diversification. There are risks that single factors which can overturn their comparative advantage can have significant impact on their market scope. Mauritius has the opportunity, with the various legislative and regulatory changes under way, to strategise the areas of the market where it would be best placed to operate in the future. Targeted markets, a higher degree of specialisation of operators, continuous skill upgrading and attracting core business activities should form part of this strategy. An open mind on global changes and adapting local structures to respond to them in anticipation of events should increase the scope of our financial sector.

The Board has maintained a pragmatic approach on these issues. It considers that regulation is meaningful where market space is being created in a consistent and sustainable manner. It has therefore directed its attention to putting in place the appropriate regulatory infrastructure to enable Mauritius to vie with other competing centres successfully. High standards of professionalism are being encouraged and the NBFI scope is being extended to undertaking a wider range of services.

Over its three years of existence, the FSC has asserted itself as a credible Regulator of the Non-Bank Financial Institutions sector. It has developed the required integrated response to its wide range of responsibilities. Key legislative and regulatory rules have been implemented and more is on the way to consolidate the development of a sound financial sector in Mauritius. Growth of the sector has been sustained and there are good prospects for business development in the future. Accountability to the public has considerably improved and it is contemplated that standards of compliance and public disclosure will be raised further to match conditions prevailing in mature financial markets. Much committed work has gone into building this strong edifice against all odds during the past three years.

The Management and Staff of the FSC deserve to be congratulated for having undertaken this arduous task to its current port of call. I have exchanged views with several officers of the FSC and I am personally satisfied that they have the capabilities and necessary commitment to fulfil the mission that the FSC has set for itself. As in the past, the Chief Executive, the Deputy Chief Executive and the Senior cadres of the FSC have spared neither their time nor their energy to meet extremely tough deadlines and intellectual challenges to execute the work of the FSC and to keep the market convinced of the purposefulness of the Regulator's enterprise.

As the foregoing illustrates, the Board has taken a host of initiatives to shape the FSC to its demanding standards. The organisation has responded admirably to those demands. There have been occasions when extremely difficult decisions have had to be taken. The Board has unfailingly stuck to its decisions, unrelenting on principles. It has been a pleasure to work with the Board and derive the benefit of collective intellectual enrichment. I wish to record, here, my deepest appreciation of the spontaneous support extended to me by the Vice Chairman and Members of the Board to take the FSC to its current prestigious position on the market.

B.R. Gujadhur
Chairman

Chief Executive's Report

This third year carried the Financial Services Commission through a critical phase of its transformation process: it implemented its capacity-building programme, embarked on a massive recruitment plan and rolled out a set of intensive training courses for its staff. Interaction with stakeholders intensified amid a ground swell of expectations while regulatory and supervisory action was pursued with a forward-looking approach, applying best practices and risk-based techniques to the supervision of Non-Bank Financial Institutions (NBFIs).

Our Licensing Directorate processed more than 2,000 license and registration applications apart from authorisations and approvals, and our Surveillance Directorate effected offsite examinations of all the insurance statutory returns and reviewed more than 2,000 accounts submitted in the course of the year.

Industry for its part braced up to the challenges of the quick-paced changes in the economic and financial environment. The financial services sector attracted growing attention as major investment groups went through restructurings in a bid to stepping up their presence on the market.

The FSC NBFI Survey 2003 throws an interesting light on the macro-prudential setting: defeating dithering impressions, it reveals (in relation to GDP during the period under review) an overall growth of assets of NBFIs from 36.79% to 40.24%, profits before tax rose from 3.8% to 4.3%, value added raised frictionally from 4.2% to 4.8%, while total value added of the reporting NBFIs rose by almost 25%. The insurance sector recorded an increase of 21% in value added to fetch Rs 4.3 billion, and that of management companies grew by 28%.

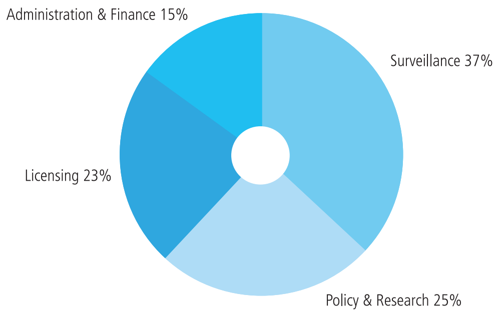
FSC's New Profile

The Commission remains very focused on its vision to develop into a world-class Regulator with the aim of establishing a sound regulatory and supervisory framework for NBFIs, based on effective and well-balanced prudential standards and conduct of business rules. Apart from commitment to this vision, it is required of the Commission to have a proficient staff dispensing high-quality and effective supervision over the institutions that it regulates.

Starting with an overall 56 person-strong staff in December 2001, the Commission has, at the end of the review period, increased its workforce to a total of 96 excluding the messenger grade.

The composition and features of the personnel need to be stressed to demonstrate the potential of the organisation. Quite strikingly, the gender composition of the staff shows a predominance of 53% female employees to 47% male. The distribution of staff within the various areas of the organisation reflects the varying importance of the activities of the organisation, deploying 60.4% of the resources in the core activities of licensing and surveillance, 25% in policy & research, leaving 14.6% engaged in corporate and support services. Such an allocation compares favourably against international benchmarks.

Allocation of FSC Staff



Staff Characteristics

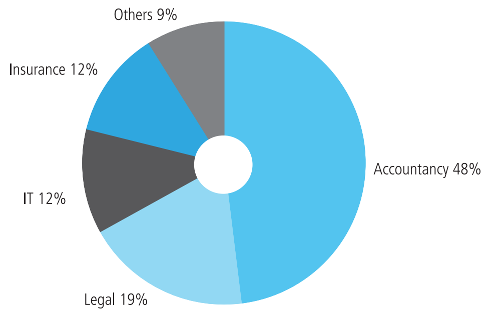
Number of Staff 96		
Female: 53%		Male: 47%
University and Professionally Qualified: 80.2%		
Professional Qualifications only: 20.8%	University Degrees only: 67.5%	Diploma and other Certificate Holders: 11.7%
Of University Graduates		
Also Professionally Qualified: 44.2%		Postgraduate Qualifications: 48%

Chief Executive's Report

It is also interesting to bring out the academic qualifications of the FSC staff which again afford favourable comparison with well-established regulatory authorities (see Table on page 11).

The relevance of the qualifications and competencies of the staff are borne out by the blend of professions that they represent:

Blend of Professionals



In-depth induction courses and structured training programmes were run throughout the year. Institutional strengthening and capacity-building will remain a constant concern for the Commission.

Consultative Approach

Working closely with the industry, the Commission prepared four pieces of draft legislation concerning (i) Insurance, (ii) Securities and Collective Investment Schemes, (iii) Private Occupational Pension Schemes and (iv) an Investment Limited Partnership law. These drafts were released for full public consultation. A final draft legislation will be recommended to the Ministry in the light of the comments received. The mechanism of consultation has been used as often as can be before the promulgation of any major rules as a matter of public governance to ensure the participation and contribution of the civil society in the regulatory process. This form of collaboration has proved extremely useful in developing a good understanding between the regulated institutions, the public and the Regulator, though initially what was proposed to be a consultative process nearly slipped into negotiation. The end result has invariably been a better implementation of and readier compliance with the regulations.

This consultative approach has allowed the Commission to heighten interaction with its stakeholders, especially consumer associations and the investing public. In this year, the Commission has also set up its Consumer Services, a special unit dedicated to consumer education and handling of complaints against regulated institutions. The Board was presented with and approved a strategy paper based on best practices in consumer education, for the launching of a consumer education programme. A Code of Business Conduct with a special focus on consumer protection is in the process of being finalised to support consumer awareness initiatives in the insurance sector. Other topics to be developed in the programme relate to some common investment products, household budget and savings. Building awareness of the role of the Commission was seen as a priority in view of the unrealistic expectations about the role of the Regulator.

NBFIs were also called to participate in the annual survey conducted by the Commission and the findings of the survey – which appear as one of the special features of this Report – will in the course of next year be developed further as a separate FSC Annual NBFI Statistics Supplement. New forms of return have been devised which will form part of the quarterly returns to be made by the industry.

Cooperation

Work on the consolidation of regulatory standards progressed at the level of the international standards-setting organisations and crystallised in the adoption of methodologies for the assessment of compliance with the core principles and standards, thus giving greater clarity and transparency in the financial sector assessments conducted under the aegis of the World Bank and the International Monetary Fund (IMF).

In the pursuit of its statutory objective, particularly in connection with the fight against financial crimes and money laundering, the Commission found very effective mutual cooperation both with local and foreign regulators and law enforcement agencies. It assisted them in their bona fide enquiries and obtained in return useful assistance for processing certain licensing applications of foreign applicants and in its own investigations. The Commission has so far signed 12 Memoranda of Understanding on information sharing, mainly with neighbouring countries, and three more are near conclusion.

The Commission hosted two major events: one was the meeting of the Committee for Insurance, Securities and Non-Banking Financial Authorities (CISNA), the regional association of non-bank regulatory authorities, and the other was the Regional Conference on the Regulation of Non-Bank Financial Institutions, organised jointly with the World Bank Institute.

At the close of the review year, Mauritius submitted itself to the Africa Peer Review Mechanism (APRM) and became one of the first countries to adopt the assessment process within the framework of the New Partnership for Africa's Development (NEPAD).

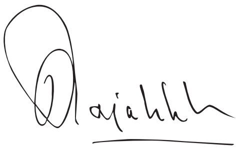
Conclusion

The Annual Report is an essential instrument of accountability for the Commission. Over and above the publication of its audited accounts and the disclosure of fees and salaries of its officers, it details the progress made in laying the foundation for a regulatory body called upon to play a vital role in the maintenance of financial stability, the safeguard of efficient and sound markets and the protection of consumers' interest in the non-bank financial sector.

Conscious of its responsibility, the Board of the FSC held, during the 12 months' period under review, 18 meetings of more than 60 man-hours to the exclusion of the time devoted by each Board member to the meetings of Sub-Committees and other demands of the Commission. I thank them all for their support and guidance. I must pay a special tribute to the inspiring leadership provided by the Chairman in the conduct of the business of the Commission. He gratified the Board with his experience, wisdom and sense of moderation, and displayed at moments of crisis that fortitude and equanimity which only seasoned Regulators master.

I must finally congratulate the staff for showing such patience and resilience in this time of change. Most of them – if not all – have realised that these changes are geared to making the FSC a highly respected and coveted institution. This report testifies to their work and dedication.

We are ready for more challenges in the coming year.



Iqbal Rajahbalee
Chief Executive

National & International Economic Trends

National Economic Trends

Overall Growth Performance

Macroeconomic indicators show that the economy achieved reasonable growth in 2003. Gross Domestic Product (GDP) increased by 4.6% in real terms, supported by an improvement in sugar production and higher value added by the financial intermediation sector. Tourism and the Export Processing Zone (EPZ) saw their pace of growth slow down marginally during the year. Overall, the economy is forecast to grow by 4.7% in 2004 on the expectation that manufacturing, tourism and the financial sectors will pick up, while the EPZ is expected to contract once again against the background of an emerging tougher international competitive environment.

Sectoral performance was characterised by temporary factors, such as climatic conditions, which had a positive effect on the volume of sugar production in 2003 (537,000 tonnes), higher than the level of production in 2002 (521,000 tonnes). It was also affected by more lasting factors, such as the changing global trade framework, which is shifting away from a system of access quotas and market preferences to a more generalised liberalisation of the global trade regime.

Growth rates in the main sectors of the economy are set out in Table 1, whilst Table 2 presents the share of these sectors in GDP.

A sector requiring close attention is the EPZ. Data show that EPZ growth rates contracted by 6.0% and 4.0% respectively in 2002 and 2003. The sector is forecast to record a further, albeit smaller, contraction of 1% in 2004.

The textile and apparel sector is the most important component of the EPZ, which accounted for a total employment of 77,623 in December 2003. Employment in the EPZ sector in

Table 1: GDP Sectoral Growth Rates

Sector	2000 (%)	2001 (%)	2002 [1] (%)	2003 [2] (%)
Sugarcane	64.5	9.9	- 19.3	2.7
EPZ Products	6.0	4.4	- 6.0	- 4.0
Hotels & Restaurants	13.5	1.0	3.2	2.7
Financial Intermediation	14.6	11.0	2.0	7.2
Trade	3.0	3.0	3.0	3.0
Transport & Communication	11.4	8.9	6.7	6.4

1 Revised Estimates 2 Preliminary Estimates

Source: CSO

Table 2: GDP Composition

Sector	2000 (%)	2001 (%)	2002 [1] (%)	2003 [2] (%)
Sugarcane	3.6	4.0	3.3	3.3
EPZ Products	12.0	11.6	10.9	9.8
Hotels & Restaurants	5.6	6.3	6.1	5.8
Financial Intermediation	9.1	9.8	9.5	9.8
Trade	11.9	11.2	11.2	11.1
Transport & Communication	13.0	12.9	13.5	13.7

1 Revised Estimates 2 Preliminary Estimates

Source: CSO

2003 contracted by 9,581, or by 11%, reflecting closure of certain factories and downsizing due to restructuring in other cases.

The economic prospects of the EPZ sector are tied to its ability to restructure itself successfully in the face of tough international competition and to neutralise the impact of its lower access to export markets arising from the phasing out of favourable international trade agreements or loss of market access. Work is ongoing with the European Union (EU) and the United States of America (USA) to achieve some degree of differential treatment in favour of our exports to those markets.

During the last three years (2001-2003), the pace of growth of the tourism sector has indicated a slowdown. Growth in 2003 amounted to a mere 2.7%. The occupancy rate dropped from 70% in 2002 to 62% in 2003. This, however, is in line with international tourism trends and is mainly caused by a weakening of economies in our main source markets, the impact of international terrorism threats and the war in Iraq. Boosted by world recovery, the growth of the tourism industry is targeted at 5.4% in 2004.

Performance of the Financial Intermediation Sector

The financial intermediation sector comprises insurance services, domestic banking, global business banking and other financial services (which includes leasing and investment services). This sector expanded by 7.2% in 2003, recovering from weaknesses noted in 2002, when the industry grew only by 2.0%. Financial services growth is forecast at 7.4% for 2004.

In 2003, the financial intermediation sector's performance improved compared to the preceding year. This recovery, with an overall growth rate of 7.2%, is mainly attributed to the dramatic resurgence in the performance of what was formerly known as 'Offshore Banking'. Domestic banking fared less well with its growth rate going down in 2003. Nonetheless, the overall performance is positive and reflects a boost in activity worldwide. Growth in the insurance sub-sector came down from 8.0% in 2002 to 7.3% in 2003.

Table 3 gives a breakdown of the performance of the financial intermediation sector over the last three years.

Savings and Investment

Gross National Savings (GNS) increased by 7.5% in 2003 and is expected to increase further in 2004. The savings rate, calculated as the ratio of GNS to GDP at market prices, was 26.5% in 2003 and is forecast to increase marginally to 26.7% in 2004.

Investment is measured as the Gross Domestic Fixed Capital Formation (GDFCF). Investment picked up in 2003, increasing by 10.3% in real terms as compared to an increase of only 1.9% in 2002. Excluding irregular items such as aircraft and marine vessels, the annual growth rate of investment for 2003 works out to 8.2%. Investment is expected to pick up further in 2004. The ratio of GDFCF to GDP has hovered around 22% in the past two years and is estimated to remain at about 22.1% in 2004.

Table 3: Financial Intermediation – Value Added at Current Basic Prices

	2001		2002 [1]		2003 [1]	
	Growth Rate (%)	Value Added (Rs m)	Growth Rate (%)	Value Added (Rs m)	Growth Rate (%)	Value Added (Rs m)
Insurance Services	10.0	2, 851	8.0	3,251	7.3	3,750
Domestic Banking	5.0	4,324	10.7	5,039	5.9	5,708
Offshore Banking	24.0	3,340	-13.5	2,600	12.3	3,124
Other (Leasing, Investment Companies, etc)	5.0	958	1.0	1,000	0.5	1,045
Total	**11.0**	**11,473**	**2.0**	**11,890**	**7.2**	**13,627**

1 Revised Estimates
Source: CSO

National and International Economic Trends

Inflation

The rate of inflation, as measured by changes in the Consumer Price Index, declined from 5.1% in 2002/2003 to 3.9% in 2003/2004. Factors contributing to the lower rate of inflation in 2003/2004 include prevailing low rates of inflation in trade partner countries and favourable weather conditions. External factors including increasing oil prices over the last year, as well as movements in the exchange rate of the rupee, are also relevant to the level of inflation prevailing in the economy. The latter factors have secondary effects on the prices of other goods and services in the economy as their impact gets adjusted into those prices. It is estimated that inflation will stand at around 4.8% for calendar year 2004 and will increase to around 5.5% in financial year 2004/2005.

Unemployment

According to statistics on employment and the labour force published by the Central Statistics Office (CSO), the number of unemployed persons in 2003 was around 54,400 compared to 50,800 in 2002. The unemployment rate was 10.2% in 2003 against 9.7% in 2002. Net employment decreases were registered mainly in the EPZ manufacturing and in the sugar sectors, while net employment increases were recorded mainly in the wholesale & retail and construction sectors.

Public Finance

The budget deficit for 2003/2004 is estimated to amount to Rs 9,157 million, as compared to a higher absolute deficit of Rs 9,235 million in 2002/2003. Total derived revenue and grant went up from Rs 30,298 million in 2002/2003 to Rs 33,401 in 2003/2004 whereas total derived expenditure and lending minus repayments increased from Rs 39,533 million to Rs 42,558 million. As a ratio of GDP, the budget deficit came down from 6.2% to 5.6%. It is estimated that the budget deficit for 2004/2005 will be around Rs 9.1 billion, resulting in a deficit to GDP ratio of 5.0%. The bulk of budget financing is from domestic sources.

Public debt, which consists of internal and external debt, declined from Rs 95.5 billion at the end of June 2003 to Rs 93.4 billion at the end of June 2004, or from 64% to 56.7% of GDP.

The country's debt service ratio, which is the ratio of debt servicing on external debt to the value of exports of goods and non-factor services, declined from 8.2% in 2002/2003 to 6.4% in 2003/2004.

External Trade

Total international trade in 2003 was valued at Rs 114,433 million, with imports amounting to Rs 61,411 million and exports at Rs 53,022 million. Total international trade worked up to 72.6% of GDP, reflecting the great degree of openness of the economy. The trade deficit increased from Rs 6,329 million in 2002 to Rs 8,389 million in 2003 or by 32.5%. Total exports came down by 0.2% in 2003 while imports increased by 0.2%.

For year 2003, total exports to the Common Market for Eastern and Southern Africa (COMESA) countries amounted to Rs 4,154 million compared to Rs 2,534 million worth of imports. Regarding trade with Southern African Development Community (SADC) countries, imports were valued at Rs 8,852 million and exports at Rs 1,350 million. The main buyers from COMESA and SADC countries were Madagascar (78%) and South Africa (58%) respectively.

Balance of Payments

The current account surplus on the balance of payments came down from Rs 7,458 million in 2001/2002 to Rs 3,554 million in 2002/2003. It further declined to Rs 1,803 million in 2003/2004 and it is estimated that the surplus will be more or less of the same order in 2004/2005. The surplus arose from surpluses recorded on the services and current transfers accounts which more than offset deficits on the merchandise and income accounts.

Net international reserves of Mauritius amounted to Rs 48,414 million at end June 2004. The latter figure represented 8.6 months' equivalent of imports.

Foreign Investment

Foreign Direct Investment (FDI) in Mauritius in 2003 registered inflows of Rs 1,721 million compared to Rs 829 million in 2002. Direct Investment abroad amounted to Rs 153 million compared to Rs 36 million in 2002.

National and International Economic Trends

International Economic Trends

Overall Growth Performance

According to IMF projections, global GDP growth in 2004 is projected at about 4.6% compared to 3.9% in 2003 – mainly due to global recovery strengthening and broadening. With global trade rising sharply, financial markets becoming buoyant and the US economy rebounding, the balance of risks has improved significantly and global growth has changed correspondingly.

A more detailed look at the performance of individual countries and regions is provided below:

- In *industrial countries*, the recovery is projected to be strongest in the US with GDP growth reaching 4.6% in 2004, accompanied by continued strong productivity growth. In the euro area, recovery remains subdued, and while there are signs of a pickup in fixed investment, household consumption remains weak. In Japan, GDP growth has continued to exceed expectations, with strong external demand – notably from China – accompanied by rising investment and a recent pickup in consumption.
- *Emerging markets and developing countries* have also seen an upturn in activity. Buoyant growth in China, underpinned by rapid increases in investment and exports, has provided an important support to activity in countries within and outside the region. GDP growth in India has also exceeded expectations, aided by favourable rainfall and low domestic interest rates.
- In *Latin America*, while GDP growth – notably in Brazil – remained weak in 2003, the recovery is expected to consolidate in 2004, underpinned by strengthening domestic demand, higher commodity prices and global recovery.
- Unpredicted soars in oil prices have been the main focus of attention in the *Middle East countries* in the last few months with the price of a barrel rising to a record of US$ 55. International oil prices have been on the rise due to a number of factors, including the hurricanes in the Americas, the legal and supply woes of Russia's Yukos, and the situation in Iraq. In Central and Eastern Europe, a moderate upturn is projected, constrained by the relatively weak performance of the euro area and the need for fiscal consolidation in many countries.
- Among the *poorest countries*, GDP growth in Sub-Saharan Africa (excluding South Africa) jumped to 4.4% in 2003, aided by surging oil production in Nigeria. GDP growth in the region is expected to strengthen further in 2004, reflecting a combination of improving macroeconomic fundamentals; higher commodity prices, better weather conditions (e.g. in Ethiopia), and rising oil and gas production in several countries.

Global Inflation

Inflation – with very few exceptions – remains subdued. Consumer Price Inflation in advanced countries averaged 1.8% in 2003. Inflation in other emerging markets and developing countries, is also in (or very close to) single digit figures now in every major region.

Financial and Equity Markets

The year 2003 will be remembered as a year of drama and recovery. Markets were remarkably resilient in an environment where SARS, terrorism and geopolitical tensions dealt severe blows to the leisure and retail industry that weakened corporate earnings and threatened economic recovery. Markets made a strong improvement as the year drew to a close, confidence not undermined as corporate scandals continued to unfold.

Investor sentiment made a strong recovery in 2003, as reflected in the 23% gain in the MSCI World Index, which has continued its recovery into 2004, compared to the three previous years of decline (about 43%). Worldwide equity issuance was at its highest level for more than two years.

Bond Markets were buoyant with spreads falling to record lows. Spreads of BBB-rated corporate bonds fell to about 130 basis points by 27 February 2004, 26 points below the October 2002 peak, and the lowest level since August 1998. Emerging market spreads were about 490 basis points below the October 2002 level.

The Parmalat episode did not dampen investor confidence, because companies demonstrated greater cooperation and capacity to deal speedily and resolutely with corporate misdeeds since Enron, building on the concerted international efforts to strengthen financial systems and markets since the Asian crisis.

Since the Enron collapse in December 2001, the International Organisation of Securities Commissions (IOSCO) responded quickly. Three sets of IOSCO Principles were issued in October 2002 – firstly to strengthen ongoing disclosure and material development reporting by listed entities, secondly for auditor independence and thirdly in respect of auditor oversight. These high-level Principles, as well as those issued in September 2003 (regarding the activities of credit rating

National and International Economic Trends

agencies and for addressing the sell-side analyst conflicts of interest), were well received by markets and by the Financial Stability Forum (FSF).

It is also encouraging that, since the adoption in May 2002 of the Multilateral Memorandum of Understanding (IOSCO MOU) on Regulatory Co-operation and Information Sharing – to enhance the ability of securities Regulators to conduct cross-border investigations of international securities fraud – 25 members of the IOSCO became signatories while another two have indicated a willingness to undertake the necessary reforms to do so.

Foreign Exchange Markets and Emerging Economies

Exchange market developments have been dominated by a further decline in the US dollar, driven primarily by concerns over the sustainability of the US current account deficit. Notwithstanding some revival since late February, the US dollar has depreciated by 3.25% in trade-weighted terms since the G-7 Statement on exchange issues of 19 September 2003. The distribution of corresponding appreciations across countries and regions has remained uneven, focused primarily on the euro and a number of other industrial countries' currencies including, increasingly, the yen – the latter despite substantial official intervention. Emerging markets' currencies, while generally appreciating against the US dollar, have depreciated in trade-weighted terms. In Asia, this has been accompanied by substantial intervention and a further build-up in official reserves.

Elsewhere in financial markets, equity prices have risen strongly in both mature and emerging markets; bond spreads have dropped further, particularly for high-yield corporates. Financing flows to emerging markets have rebounded, with net private inflows rising to US$ 140 billion in 2003. This generalised shift towards riskier assets was partly due to actual (and perceived) improvements in fundamentals – notably, the strengthening recovery, rising corporate profitability, and improving credit quality in both corporate and emerging markets – but clearly also reflected more temporary factors, notably easy monetary conditions and abundant liquidity. Notwithstanding the deterioration in fiscal positions, long-run interest rates remain unusually low by historical standards, apparently partly reflecting expectations that monetary policy will remain conducive for a significant period, but also due to cyclical factors (including the upturn in US corporate profitability, which has so far allowed the pickup in investment to be financed without substantial recourse to borrowing).

Conclusion

Ongoing discussions at the level of the World Trade Organisation (WTO) for liberalisation of trade in goods and services are expected to usher in a new era of freer multilateral trade at the global level. The phasing out of arrangements, such as the Multi Fibre Agreement and preferential access to specific markets, should be read in this context. These arrangements have proved favourable to Mauritius' economic development over the years. Their phasing out or re-configuration poses certain challenges to the economy of Mauritius.

The challenges include a substantial amount of re-positioning of sectors of the economy by addressing essentially micro-management issues. Those issues are related to productivity, restructuring and networking of industry with a view to meeting the requirements of more demanding market conditions. Some efforts are being made to train workers, re-equip enterprises, raise the level of skills so as to attract appropriate investment and form useful economic alliances with globally competitive producers. More needs to be done, however, to retain a competitive edge in the provision of goods and services to global markets. As world economic growth picks up, Mauritius could build on these strengths to shift over to become a producer for global markets with lesser degrees of protection and preferential access to markets.

Report of the Licensing Directorate

Reorganisation of the FSC

The vision of the Financial Services Commission (FSC) is to be an internationally recognised financial Regulator. In order to increase effectiveness in pursuit of its mission, the FSC has been reorganised into Directorates (viz. Licensing, Surveillance, and Policy & Research) and Clusters.

Operation of Licensing Directorate

The Licensing Directorate is responsible for licensing Global Business Companies (GBCs) and all domestic Non-Bank Financial Institutions (NBFIs). The latter include insurance companies and pension funds, capital market operators, specialised credit institutions as well as financial services providers and market professionals.

In considering licence applications, the Licensing Directorate focuses on two fundamental areas: (1) the project that underlies the activity for which the licence will be used and (2) the people behind the project. The guiding principles underlying the first area are technical in nature and focus (*inter alia*) on the financial soundness and the viability of the prospective Licensee. The second area concentrates on satisfying the Fit and Proper criteria and likely adherence to procedures concerning Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT). The licensing criteria applied to NBFIs must reflect international standards promulgated by the international standard-setting bodies. It is believed that this is the best approach towards upgrading the quality of domestic NBFIs and maintaining the reputation of Mauritius. Within this framework, the Commission aims to achieve maximum efficiency in processing not only applications but also changes to the original application in a consistent, transparent and fair manner.

Developments within the Licensing Directorate

Streamlining of the Application Process

In the period under review, the Licensing Directorate undertook a review of its internal procedures to see whether, and if so, how it might be possible to achieve greater efficiency. The first part of the exercise focused on the global business sector – namely applications for Category 1 and Category 2 Global Business Licences.

Our internal quality control statistics indicate improvements have been achieved – e.g. in respect of Category 1 Global Business Companies (GBC 1s). For the four-month period ended 30 June 2004, the number of applications approved was no less than 90% greater than in the same period last year. At the same time, the processing time has been minimised by 15% from 7 days to 6 days. While the aim is to ensure greater efficiency in issuing Category 1 Global Business Licences, the FSC ensures this is not achieved to the detriment of the technical evaluation of the project. The principle remains that the activity to be conducted should be one that is prescribed by the law and that the project appears to be feasible, based on realistic assumptions and is consistent with AML/CFT rules.

The time taken to issue a Category 2 Global Business Licence is much less and the figures show that for the month of June 2004, the time taken by the FSC to consider an application and issue a Category 2 Global Business Licence (excluding the time taken for the Company to be incorporated) was less than 2 days.

Domestic NBFIs must obtain a licence from the FSC in order to conduct business in the financial services sector in Mauritius.

During the year under review, the FSC licensed 301 domestic NBFIs which respectively operate as:

Capital Market Operators	5
Specialised Finance Institutions	3
Financial Service Providers and Market Professionals * (* excluding Insurance Salespersons)	30
Insurance Salespersons	263

An important part of the streamlining of the application process for domestic NBFIs – and GBCs – is the standardisation of the licensing conditions.

Standardisation of the Licensing Conditions

The Licensing Directorate has undertaken a review of the licensing conditions applicable to the different types of activities which it licenses. The purpose is to streamline the licensing process in order to simplify it and achieve greater transparency. The aim is to formulate a set of standardised core licensing conditions that will apply to all companies irrespective of their line of business and a specific set of conditions for each activity to be undertaken. The review encompassed conditions for business activities in both the domestic and the global business sectors and has also taken into consideration changes that have been made in the legislation and requirements imposed by the various Codes and Guidelines issued by the FSC during recent years.

Regulatory Initiatives & Developments

As the restrictions imposed on GBCs are set out in the law, the intention is to harmonise, as far as possible, the licensing conditions for companies operating in the global business and domestic sectors so as to maintain a level playing field between these two sectors. Out of the existing 170 licensing conditions, the proposed licensing conditions have now been reduced to some 30 (Core and Specific).

Consultation with all stakeholders will precede the finalisation and implementation.

Register of Incorporator Companies

The FSC has issued Practice Notes on Incorporator Companies. Under the Practice Notes, a Management Company may, with the approval of the FSC, operate an Incorporator Company Register separate from other Category 2 Global Business Companies (GBC 2s). It is believed that the Register of Incorporator Companies will further enhance the licensing process and enable investors to have access to a licensed company more rapidly than before.

The Register must be kept up-to-date at all times. In order not to derogate from the requirements generally applicable to incorporation and licensing of non-Incorporator Companies, the Practice Notes require that Management Companies adhere strictly to all the provisions of the law on Anti-Money Laundering when dealing with Incorporator Companies.

Further, the maintenance of an Incorporator Companies Register makes it even more important for a Management Company to fulfil all pre-licensing requirements and to maintain adequate records.

Renewal of Global Business Licences

Applicants having met the required criteria are issued with a Global Business Licence – which is valid for one year. The licence is renewed upon the settlement of an annual fee.
Non-settlement of fees results in the lapse of the licence – about which the FSC must notify the company in writing. The FSC has recently implemented strict procedures to ensure that all Licensees are in full compliance before the licence can be renewed. Non-compliance will result in existing Licensees having to go through the application process again should they wish to renew their licence.

Creation of a Database

With the increasing number of NBFIs, retrieval of information and compilation of statistics about their activities are becoming more difficult tasks. Conscious of the need to update and upgrade its statistical database, the FSC has set up an internal Steering Committee to manage the establishment of a comprehensive database of all Licensees. The database will be used to measure the developments taking place in the non-bank financial services sector, including the domestic and the global business sectors. In addition, it will be a reliable information system based on which the Licensing Directorate will process applications and the Surveillance Directorate will conduct its on-site and off-site examinations.

All relevant prudential data retrieved from statutory returns and accounts as well as observations made in actuaries', auditors' and examiners' reports will be recorded and stored in the database.

The Policy & Research Directorate will benefit from this back-up in having an up-to-date and comprehensive statistical base for its planning and research activities. The database will also be used for compiling information to produce statistics on market developments and to respond to queries relating to the non-bank financial services sector.

Electronic Monitoring and Control of Files and Application Process

There is an increasing volume of files in circulation at the FSC. In this respect, the FSC is working on a system to computerise the classification and monitoring of files. The application process will also be monitored and controlled electronically, and this will produce regular information on processing time for various types of applications. The database will be used as an internal control mechanism.

A Technical Registry where all technical files are kept has been entrusted with new functions, such as the provision of statistics and analysis of Licensees and the keeping of public Registers of Licensees.

Public Registers of Licensees

In line with our policy to be a transparent regulatory body, the FSC is in the process of establishing a system of Public Registers whereby members of the public may access online the different registers of licensed NBFIs (except for GBCs). The name and address of the NBFI, the name of the promoters, the date of issue of the licence, the type of activity the company undertakes will, *inter alia*, be made available to the public. The Public Registers will enable market operators and others easy access to a valuable source of information and help them to better understand and analyse the developments taking place in the non-bank financial services sector.

The Registers include the following:

- Insurance Companies
- Insurance Agents
- Insurance Brokers
- Insurance Salespersons
- Collective Investment Vehicles
- Investment Clubs
- Leasing Companies
- Factoring Companies
- Credit Finance Companies
- Investment and Pension Fund Management Companies
- Stockbroking Companies

Analysis of the Applications Approved and Registrations Issued in 2003/2004

The figures in Table 4 indicate an aggregate growth of 10.1% for the period under review – with the largest increases being in respect of GBC 2s and in the approval of domestic market participants. It is to be noted that the registration of insurance salespersons constitutes about 90% of the increase in the number of Financial Service Providers & Market Professionals for the period under review.

Non-Bank Financial Institutions (NBFIs)

Chart 1 provides a breakdown of the activities of domestic NBFIs (excluding insurance intermediaries) licensed in the period under review.

Chart 1: Breakdown of Activities of Domestic NBFIs

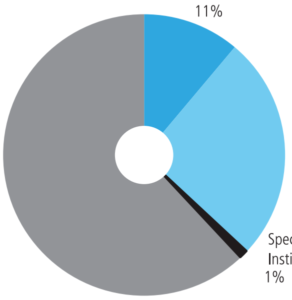


Table 4: Analysis of Applications Approved in Period under Review

Type	30 June 2004	30 June 2003	Change	% Change
GBC 1s	7,261	6,847	414	6.0
GBC 2s	16,334	14,567	1,767	12.1
Insurance Companies	23	23	0	0
Capital Market Operators	56	51	5	9.8
Specialised Finance Institutions	3	0	3	n/a
Financial Service Providers & Market Professionals *	290	260	30	11.5
Insurance Salespersons	2,955	2,692	263	9.7
Total	**26,922**	**24,440**	**2,482**	**10.1**

* Excluding Insurance Salespersons

Regulatory Initiatives & Developments

Report of the Surveillance Directorate

Off-Site Supervision

The Financial Services Commission (FSC) reviews the audited financial statements and statutory returns submitted by Licensees to ascertain compliance with the relevant laws and regulations as well as licensing conditions.

The solvency and financial standing of Licensees are also evaluated as part of the ongoing assessment of the Licensees' fitness and propriety.

Salient statutory breaches and regulatory concerns noted during our off-site supervision included:

Breaches of Financial Services Development Act 2001/Companies Act 2001

A number of Licensees did not submit audited financial statements or statutory returns within the time frame specified in the Financial Services Development Act (FSDA) 2001. The Commission served revocation notices and/or revoked the licences of those who persistently failed to furnish the required audited financial statements and returns.

Non-adherence to the Companies Act (CA) 2001 related mainly to non-submission of the Secretary's Certificate and non-disclosure of the Accounting Standards used in preparing the audited accounts. The Commission also served revocation notices and/or revoked the licences of Global Business Companies (GBCs) for failure to appoint a Registered Agent/Management Company and/or Office Bearers as required under the FSDA 2001 and CA 2001.

Breaches of the Insurance Act 1987

The technical reserves of a number of general insurers were found to be inadequate. The Commission is monitoring closely the financial soundness of those concerned. Several insurers were required to ensure proper segregation of accounts between their life and general businesses. One insurer did not maintain the minimum statutory deposit and was directed to make good the deficiency. The investment portfolio of another insurer did not adhere to the requirements prescribed under Section 27 of the Insurance Act.

Failure to Observe Licensing Conditions

Regulatory actions were taken against some Licensees with impaired solvency and against others for improper accounting or for handling clients' monies improperly.

Non-Compliance with the International Financial Reporting Standards (IFRS)

Many Licensees failed to observe the reporting and disclosure standards required under the IFRS, despite certification by their auditors. The common breaches related to:

- IAS 1 Presentation of Financial Statements
- IAS 12 Income Taxes
- IAS 16 Property, Plant and Equipment
- IAS 17 Leases
- IAS 21 Foreign Currency Transaction
- IAS 24 Related Party Disclosure
- IAS 27 Non-Consolidation of Financial Statements
- IAS 32 Financial Instruments: Disclosure and Presentation
- IAS 39 Financial Instruments: Recognition and Measurement
- IAS 40 Investment Properties

On-Site Inspections

The Commission conducts on-site inspections of Licensees to:

a) check compliance with the law and with the relevant regulations
b) ascertain compliance with anti-money laundering legislations and codes
c) assess the market conduct of Licensees and promote fairness and transparency
d) examine the corporate governance of Licensees including operating, accounting and management controls as well as risk management practices
e) verify and evaluate the financial performance and position of Licensees

On-site inspections of Management Companies (MCs) started in September 2002 on a pilot basis and became fully operational in January 2003. The Commission also issued a Guide to Compliance for Global Business Companies in January 2003 – to explain the scope and conduct of its on-site inspections. Since then, the Commission has inspected 8 MCs, of which 6 relate to the financial year under review. The inspections revealed a number of weaknesses in the internal control and procedures relating to anti-money laundering requirements in some Licensees. Outstanding licence fees and non-submission of audited financial statements were also common findings.

On-site inspections of Stockbroking Companies (SBCs) started in June 2003. The Commission inspected 6 SBCs, of which 2 relate to the current financial year. Significant weaknesses were noted in the internal controls and procedures relating to anti-money laundering measures and trading practices. Generally, policies and procedures were not properly documented. The Commission has required the MCs and SBCs concerned to take appropriate remedial action to address our regulatory concerns.

The Commission has adopted a risk-based approach in respect of the on-site inspection of insurance companies, in line with international best practice.

Regulatory Initiatives for 2003/2004

Conduct of Insurance Intermediaries

Insurance intermediaries provide an important distribution channel and interface between consumers and insurers. Proper market conduct by insurance intermediaries is the key to promoting public confidence in the insurance industry and in safeguarding the interests of policyholders. Recognising their critical role, the Commission initiated a thorough review of the conduct of insurance intermediaries.

The review revealed that certain insurance agents failed to keep proper records and to remit premiums collected. Some agents did not comply with the FSC Code on the Prevention of Money Laundering and Terrorist Financing.

The Commission, therefore, issued a circular to remind all agents to submit annual statements, to specify the period within which premiums collected are to be remitted to insurers and to outline the procedures adopted for the prevention of Money Laundering and Terrorist Financing. Corporate insurance agents were also requested to submit their latest audited accounts as well as the names of key personnel.

The Commission took regulatory action against certain agents, as summarised in Table 5.

The Commission noted that 4 persons acted as insurance agents without being registered under the Insurance Act. "Show cause" letters were issued and action was pending as at 31 July 2004. Twenty registrations were cancelled arising from cessation of operations.

The Commission identified 138 people acting as salespersons without being registered. They were given a grace period to submit their applications, failing which the Commission warned that it would take appropriate regulatory action. Regulatory action taken is outlined in Table 6.

Regulatory Initiatives for 2004/2005

Supervision of Financial Conglomerates

The Commission is undertaking a study to formulate an appropriate legislative and regulatory framework for the supervision of financial conglomerates, including financial holding companies.

Table 5: Regulatory Follow-up Action against Agents

Regulatory Follow-up Action	No. of Insurance Agents
Proposal to cancel registration for non-submission of information	11
Suspension of registration upon failure to furnish complete information	16

Table 6: Status of Unregistered Insurance Salespersons

No. of unregistered salespersons	138
Applications received as at 31 July 2004	41
Persons who have ceased operations	60
Resolved with changes in particulars in Register of Salespersons	34
Action pending as at 31 July 2004	3

Regulatory Initiatives & Developments

Review of Supervisory Framework for On-Site and Off-Site Supervision

The Commission continues to refine its procedure in respect of both on-site and off-site supervision of Licensees to ensure ongoing adherence to international best practice and a harmonised supervisory approach across all non-bank financial services under the purview of the Commission.

Promoting Fairness and Transparency in the Capital Markets

As part of the Commission's mandate to promote fairness and transparency in the financial markets, a study has been initiated to establish operating policies and procedures to detect financial fraud, improper trading/business practices and market abuse in the securities and capital markets.

Report of the Policy & Research Directorate

Mapping the Route for Regulatory Developments

Conscious of not only the changing international environment in which the financial services sector is evolving, but also of local market developments and needs, the Government responded rapidly to the challenge in December 2000 by proposing to review the whole financial landscape in Mauritius.

A high-level Committee was put in place to examine in depth the non-bank financial services regulatory and operational structures. As a result, the Financial Services Commission (FSC) was created with a view to regulating the non-bank financial services sector in Mauritius in a coherent and effective manner, thereby establishing a unified structure within the financial system.

In Mauritius, where the level of sophistication of the financial services sector is continuously increasing and where the level of shareholder activism remains modest, it was imperative to forge ahead with a re-engineering of the financial architecture whereby emphasis was placed on integration and rationalisation. The starting point was the FSC's acceptance of the supervisory role of existing institutions with additional responsibility for the whole non-bank financial services sector.

Having realised the need to innovate, build and strengthen a credible institution that would be recognised by others as such, much effort has been invested in trying to optimise the FSC's structure. The original structure – which was based on a functional approach – has been replaced by a matrix arrangement.

The three Directorates that were created (Licensing, Surveillance and Policy & Research) form the pillars of the Commission – ably supported by Administration and Finance.

As the FSC puts human resources at the forefront of its development, a series of high-level, tailor-made training sessions were organised for all technical staff. Securities, Insurance and regulatory developments were the centrepiece of the training sessions – delivered by high-calibre professionals from the United States of America and South Africa.

In addition to this training, several members of staff have attended conferences, seminars and training programmes abroad – to improve their expertise and to benefit from international exposure and networking contacts.

This has enriched the knowledge and experience of the individual staff members concerned, thus strengthening the institution itself. The FSC continues to place emphasis on staff training to upgrade skills and knowledge as part of our ongoing development.

The Way Forward

All members of the Commission's staff are conscious of the FSC's Vision Statement which reflects our determination, commitment and professionalism in achieving excellence.

The FSC aims to achieve:

- a well-developed non-bank financial services sector in Mauritius
- enhancement of the financial architecture to enable Mauritius to be regarded as an attractive, safe and well-regulated centre where sound practice prevails
- high standards of disclosure set by international standards-setters
- close cooperation and good working relationships with overseas Regulators
- wider public understanding of the law, regulations and practice notes intended for non-bank financial services operators
- sound principles for market regulation and good corporate governance

In April 2004, after the reorganisation of the FSC into Directorates, an Action Plan was prepared, covering a period of fifteen months from April 2004 to June 2005.

The Action Plan clearly spells out our objectives concerning work/projects/assignments, including deliverables set against a time schedule.

Each Directorate is organised into different "clusters" which group a number of people with different skills under the leadership of a coordinator who is accountable to a Director. The clusters within each Directorate are linked laterally to one another to achieve efficiency and harmony. This enhances work flow and use of human resources in an effective manner. Staff may also work across clusters to tackle specific issues requiring specialist expertise or a blend of skills. We refer to this as the "matrix approach".

As regards the Policy & Research Directorate, its mission statement is "to act as a think tank in the formulation and implementation of financial regulation policies in line with international benchmarks and standards set by international standards-setters".

Regulatory Initiatives & Developments

The objectives of the Policy & Research Directorate are to:

- design a policy framework for the non-bank financial services sector in Mauritius and to identify key research areas
- provide policy guidance and assistance to the Surveillance and Licensing Directorates in the implementation of policies
- strengthen the image of the FSC by enhancing its quality assurance in its work processes and communication

Structure & Work

The Policy & Research Directorate comprises five clusters.

Cluster 1, which is responsible for the Coordination of the Law, Rules and Standards and Codes, has been fully involved in the preparation and consultation in respect of the following Bills and Regulations:

- Securities Bill
- Securities (Collective Investment Schemes) Regulations
- Investment Limited Partnership Bill
- Insurance Bill

The working documents for the above Bills were released to the public by the Ministry of Industry, Financial Services & Corporate Affairs on 11 June 2004 for consultation. A wide cross-section of the population responded, making valuable comments and suggestions.

Cluster 2, in charge of the Coordination of Specialised Themes, is organised in a way that enables staff to share any specialist knowledge and interest they have and to further enhance their expertise in those disciplines by becoming "resource persons".

A list of selected disciplines or "themes" is provided hereunder:

- Corporate Governance
- AML/CFT
- Global Business Development
- Risk/Prudential Management
- Taxation
- Company Law
- Accounting Standards
- WTO – Financial Services
- Investigation Techniques

Resource persons are encouraged to give presentations on the latest developments in their selected area or theme and to prepare papers from time to time that are intended to trigger debate and discussion within the FSC and outside. The intention is to encourage discussion on matters that might help to shape future policies.

Cluster 3 is focused on Economic Research and Analysis. This includes statistical surveys, publications, organising high-level training programmes, and information and communication.

The Cluster is the platform from which the Coordinated Portfolio Investment Survey (CPIS) is carried out annually as requested by the IMF to obtain portfolio investment statistics. As from this year, the FSC is responsible for collection and compilation of data for the whole non-bank financial sector including the Global Business sector. The Bank of Mauritius is responsible for the banking sector.

Another important survey handled by Cluster 3 concerns Non-Bank Financial Institutions registered in Mauritius as at 31 December 2003.

The data will be used for micro and macroeconomic analysis, will enable the FSC to identify market trends in each industry segment and will also provide economic input for the National Accounts and other purposes.

Further, a CPIS for Category 1 Global Business Companies (GBC 1s) is being carried out. The survey collects information on assets owned by residents of Mauritius and issued to non-residents as at 31 December 2003.

The data from the survey will be used in the compilation of the balance of payments and international investment position statistics for Mauritius. The data will also assist in monitoring the size and the composition of the financial sector of Mauritius.

The survey is being conducted in coordination with other jurisdictions to facilitate international data comparability. All the assets owned by licensed GBC 1s in Mauritius are included regardless of where they are administered from or whether they have a physical presence in Mauritius.

Cluster 4 is the focal point for Consumer Services, overlooking complaints from the public and consumer education. Apart from handling complaints from consumers of non-bank financial services products, the cluster is finalising an overall consumer services strategy for the Commission.

This will include areas of major concern for the broadest range of consumers, and will cover products/services that are high in demand now or which are likely to characterise the development of the financial services sector in the short-term future. A fine-tuned communication strategy will be designed to fulfil the objectives of the consumer services function.

Cluster 5 is responsible for Information Technology (IT). This is a broad responsibility ranging from systems analysis and design to ensuring that all the FSC's hardware is properly maintained. It provides a support function that is conducive to the efficient operations of the FSC's regulatory functions. Support takes the form of information management – which is an important function within the FSC. IT is playing a central role in the development of a new database.

International Relations

International Organisation of Securities Commissions (IOSCO)

The FSC is a member of the IOSCO and represents Mauritius on the Emerging Markets Committee two and four. The FSC participated in an IOSCO Regional Committee Meeting on the Self-Assessment Programme held in Mumbai in April 2004.

Committee for Insurance, Securities and Non-Bank Financial Authorities (CISNA)

In April 2004, the FSC hosted the 11th CISNA meeting, which grouped the Regulators from the insurance, securities and non-bank financial services sectors in the Southern African Development Community region.

International Cooperation (Memoranda of Understanding)

Since its creation, the FSC has always given its fullest cooperation to Regulators locally and abroad. Memoranda of Understanding (MOUs) are evidence of commitment to cooperate and to exchange information with other regulatory bodies.

The FSC has adopted a proactive approach to entering into such agreements with its counterparts.

MOUs on the Exchange of Information for Co-operation and Consultation were signed during the CISNA meeting in Mauritius in April 2004 between the FSC and the following Authorities:

- The Namibia Financial Institutions Supervisory Authority
- The Insurance Supervisory Department of Tanzania
- The Pensions and Insurance Authority of Zambia
- The Securities and Exchange Commission of Zambia
- The Capital Markets Authority of Uganda

Regulatory Initiatives & Developments

Anti-Money Laundering and Terrorist Financing Focus and Initiatives

Introduction

As the supervisory authority for Non-Bank Financial Institutions (NBFIs), the Financial Services Commission (FSC) remains committed to national and international Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) initiatives. The work of the FSC during the year under review has been to ensure that Licensees comply with the requirements of the Codes on the Prevention of Money Laundering and Terrorist Financing issued by the FSC in 2003 (the Codes), the Financial Intelligence and Anti-Money Laundering Act 2002 (FIAMLA) and the Financial Intelligence and Anti-Money Laundering (FIAML) Regulations 2003. This was achieved through the work of the licensing and surveillance staff.

Licensing Regime

The FSC's AML/CFT initiatives began with the issue of Codes which apply to insurance entities, investment businesses and Management Companies (MCs). Licensees are statutorily bound to adhere at all times to the core principles laid out in the Codes. These principles relate to the requirement to adequately "Know Your Client" (KYC), the verification of identity of applicants for business and the principals thereof, the extent to which reliance may be placed upon eligible or group introducers, and the requirement to implement internal control mechanisms to prevent money laundering and terrorist financing.

MCs, for instance, are licensed by the FSC as corporate and trust service providers after satisfying standard licensing conditions which include the satisfaction of the Fit and Proper test. As Licensees of the FSC, MCs are required to carry out due diligence of the client, establish and verify the latter's identity as well as obtain and keep records of the details of the due diligence exercise for Anti-Money Laundering purposes.

In processing the application for Global Business Companies (GBCs), the FSC takes comfort from the fact that the MC – as its Licensee – has fulfilled the pre-licensing identification requirements set out in the Codes before submitting the application and that the records of the beneficial owners and promoters of their client companies form part of those of the MC. In processing an application for a GBC, the FSC does not require submission of all due diligence and KYC documents. Documents – originals or copies appropriately certified – evidencing the existence of the applicant for business and a letter of comfort on the applicant for business primarily form the basis on which the FSC will make a decision at the licensing stage. An indication of the sources of funds is also essential.

Additionally, Licensees who establish business relationships with persons or entities based in any jurisdiction that appears on the Financial Action Task Force (FATF) list of Non-Cooperative Countries and Territories (NCCTs) and in those jurisdictions that are not considered as equivalent jurisdictions for the purposes of the Codes are reminded at all times of the legal obligation to apply enhanced due diligence procedures and additional monitoring procedures in respect of these client relationships.

Surveillance Regime

Under the current AML/CFT regulatory system, Licensees are required to put in place reasonable measures for countering the risk that the financial institution might be used to facilitate money laundering and the financing of terrorism. In January 2003, the FSC started its on-site compliance testing regime, which is ongoing. As part of this exercise, during the year under review, the FSC continued to monitor its Licensees to ensure compliance with the Codes, the FIAMLA and the FIAML Regulations.

Rather worryingly, the FSC's on-site inspections have revealed some common deficiencies in the implementation of the risk-countering measures by a few Licensees.

These include:

- Insufficient KYC checks
- Insufficient understanding of the source of the client's wealth
- Inadequate record-keeping procedures
- Low level of staff Anti-Money Laundering training measures
- Insufficient internal control mechanisms

The defaulting Licensees were required to take immediate remedial action.

Combating the Financing of Terrorism

The FSC strongly supports international initiatives concerning the fight against terrorism and is committed to cooperating with and assisting national government agencies in their efforts to combat the financing of terrorism. During the year under review, the FSC ensured that Licensees were regularly updated on any changes to the UN Al-Qaida and Taliban Watch List. Licensees are requested to consult the Watch List not only at the time they form a new business relationship but also on an ongoing basis. No report of any possible links between

Licensees' client companies and entities and individuals designated as terrorist organisations or terrorists by the UN Al-Qaida and Taliban Sanctions Committee has been received.

Staff AML/CFT Training

Money laundering and terrorism financing techniques change and become more and more sophisticated in response to the development of AML/CFT counter-measures. Training for maintaining awareness and vigilance is an absolute must. During the year under review, staff members attended extensive training both locally and internationally. By way of example, in-house AML/CFT training was provided to all new members of staff while some staff members participated in a regional workshop on 'Basic Analysis and Money Laundering Investigative Training' organised jointly by the Financial Intelligence Unit (FIU) and Financial Crime Enforcement Network (FinCEN). A member of staff also attended the FATF meeting of experts on typologies which was held in Oaxaca, Mexico, in November 2003.

National Committee for AML/CFT

The FSC is a member of the National Committee for Anti-Money Laundering and Combating the Financing of Terrorism (the National Committee) established under the FIAMLA. During the year under review, the FSC continued to provide full support to the National Committee in its attempts to deepen and expand the national AML/CFT framework.

Recently, with the assistance of the Financial Sector Reform and Strengthening (FIRST) Initiative, the National Committee enlisted the services of a US consultant to prepare a Money Laundering Investigation and Prosecution Handbook (the Handbook). The Handbook aims to assist those involved in investigating and prosecuting money laundering and terrorist financing. In so doing, the Handbook provides a concise description of the national AML/CFT legal framework – including the institutional framework. The Handbook also sets out the methods and techniques which should be adopted in investigating and prosecuting the crimes of money laundering and terrorist financing. The FSC is pleased to have been able to contribute to the creation of this Handbook.

Looking Ahead

Since the Codes were last issued in April 2003, Anti-Money Laundering initiatives have developed nationally and internationally.

At the national level, a number of legislative changes have been introduced to enhance the existing AML/CFT legal framework. For instance, the FIAML Regulations were enacted and came into operation in June 2003. Further, changes which affected the FSC were made to the FIAMLA by the Anti-Money Laundering (Miscellaneous Provisions) Act 2003. By way of example, the existing regulatory and supervisory powers of the FSC have been widened.

Under the new provisions of the FIAMLA, the FSC may issue codes and guidelines to financial institutions falling under its supervision for AML/CFT purposes. Further, the FSC was given statutory responsibility for supervising and enforcing compliance by Licensees with the requirements imposed by the FIAMLA – including any regulations or guidelines which are made under the FIAMLA.

Additionally, operational difficulties with respect to the implementation of the Codes have highlighted a number of areas where the Codes need to be strengthened, clarified or refined.

At the international level, the FATF revised its Forty Recommendations and produced a new comprehensive framework for combating money laundering and terrorist financing. In February 2004, the FATF adopted the AML/CFT Methodology 2004 – which will now be used in the assessment/evaluation of a country's compliance with the international AML/CFT standards as recommended by the FATF. This Methodology has also been endorsed by the IMF and the World Bank.

All these factors have made a review of the Codes desirable. The review exercise of the Codes in collaboration with industry representatives has started in June 2004 and was ongoing at the time of writing. The main objectives of the review exercise include:

- to ensure that, as far as possible, the requirements of the Codes are consistent with international AML/CFT standards as contained in the Revised FATF 40 Recommendations and the Eight Special Recommendations on Terrorist Financing 2001
- to ensure that there are no inconsistencies between the requirements of these Codes and the national AML/CFT regulatory regime
- where possible, to avoid unnecessary duplication of obligations
- where possible, to ensure that there is consistency and a level playing field

Meanwhile, the FSC issued a regulatory update in November 2003 to make Licensees aware that, following the admission of the Russian Federation and South Africa to the FATF, these jurisdictions are considered as Equivalent Jurisdictions for the purposes of the Codes. Lastly, the FSC records that the FIU has also issued a list of Equivalent Jurisdictions.

Regulatory Initiatives & Developments

Some International Developments

Introduction

The functions of the Financial Services Commission (FSC) are described in section 6 of the Financial Services Development Act 2001. The Commission's responsibilities include the establishment and maintenance of "…such links and liaison with international agencies in the field of financial services as may be necessary for the furtherance of its objects…" The international dimension of the Commission's activities has been incorporated into our vision statement – which refers to our aspiration to become "…an internationally recognised financial supervisor…" In order to satisfy these responsibilities, the Commission must keep itself informed about global developments in respect of regulation, supervision and anti-money laundering and terrorist financing. This Paper summarises some of the recent international initiatives that impinge upon the work of the FSC.

Taking each in turn:

Financial Stability Forum (FSF)

By way of background, the FSF undertook a survey (by way of a questionnaire) of both on-shore and "offshore" jurisdictions at the end of 1999. The results concerning the centres that were described as having significant offshore finance activities were published in April 2000. The report was important for all jurisdictions because it classified them into three categories. After the FSF's meeting in Rome at end March 2004, a Communiqué was issued which referred to the close interest taken by the FSF in the progress made by Offshore Finance Centres (OFCs) in strengthening regulatory cooperation and in respect of exchange of information.

The FSF noted that nearly all the 42 jurisdictions that they had identified as having offshore activity had by that stage been assessed by the IMF. The FSF believes that "…significant reforms were initiated in response to the FSF initiative and the IMF assessment program…" [1] The FSF said also that they attach "…particular importance to all OFCs improving cross-border cooperation and information exchange practices (…) the IMF should evaluate both the ability of OFC authorities through their existing procedures to obtain relevant information on financial activities originating in their own jurisdictions, as well as the willingness to share this information with foreign authorities in a cooperative, non-discriminatory, timely and effective manner…" [2]

The FSF strongly believes that all jurisdictions should publish their IMF assessment reports. In fact, Mauritius has done so already. The IMF's summary of findings at the conclusion of the Financial Sector Assessment Programme (FSAP) assessment is on the IMF's website.

The Financial Action Task Force (FATF)

By way of introduction, 2003 was significant for the FATF for at least two reasons – which have ongoing implications. Firstly, the IMF and World Bank officially recognised the FATF's Forty + VIII Special Recommendations on Anti-Money Laundering and Terrorist Financing (AML/CFT) as appropriate standards for combating money laundering and terrorist financing. This led to the development of a common methodology to assess compliance.

The FATF issued this methodology in 2004 and in March 2004, the IMF and World Bank agreed to use this methodology in their FSAP. Thus, the FATF's 40+8 recommendations will be the standard against which the prevailing AML/CFT processes in all jurisdictions will be tested using this methodology.

Accordingly, this is significant for Mauritius because when our next AML/CFT review takes place, it will be on the basis described above.

During 2004, it is intended to start a third round of mutual evaluations of FATF members. The results of the four most recent mutual evaluations (which were conducted on Argentina, Brazil, Mexico, and Saudi Arabia) are freely available for interested readers.

Secondly, probably the most important development for the FATF was that its 33 members renewed the organisation's mandate for a further eight years – until 2012. Previous mandates have been for periods of 5 years – so the extended renewal period indicates that members believe that much remains to be accomplished. In fact, the new mandate includes the following tasks:

- To continue establishing the international standards for combating money laundering and terrorist financing
- To ensure global action in combating money laundering and terrorist financing, including building stronger cooperation with the IMF and the World Bank
- To ensure that members implement the revised Forty plus Eight Special Recommendations in their entirety and in an effective manner
- To increase its membership appropriately
- To enhance relationships between the FATF and the FATF-style Regional Bodies [3]

At the end of its Plenary Meeting in June 2003, the FATF issued its revised Forty + VIII Special Recommendations – which were described in the FSC's Annual Report for 2003. In 2004, the FATF issued further guidance on the implementation of the VIII Special Recommendations on Terrorist Financing. The additional guidance mentioned above took the form of an interpretative note and best practices paper on Special Recommendation III[4] in October 2003 and an interpretative note on Special Recommendation II[5] in June 2004. The FATF has continued its work on Non-Cooperative Countries and Territories (NCCTs) – and seems to be pleased with the progress thus far. In July 2004, the FATF's President said that "…the NCCT process has been very successful in encouraging countries to take necessary action to clean up their financial systems…"[6] During the recent past, the FATF has further refined the processes it uses to identify trends and techniques used by launderers and those involved in terrorist financing. The areas considered in the annual typologies exercise (attended by a member of the FSC's staff) included non-profit organisations, wire transfers, money laundering in insurance, politically exposed persons.

International Association of Insurance Supervisors (IAIS)

The IAIS was formed in 1994 and now comprises members that are insurance Regulators and supervisors from more than one hundred and sixty countries (including Mauritius). Under its Executive Committee, there are three additional Committees – Technical, Emerging Markets and Budget. The Insurance Core Principles are amongst the six Principles that the IAIS has issued. The Core Principles were first issued in 1997 and were revised in 2000 and, most recently, in 2003. "…The 28 Principles cover all aspects of insurance industry regulation and supervision – from licensing a company to winding it up. Principles addressing such issues as transparency of the supervisory process, assessment and management of risk, consumer protection, and anti-money laundering have been added … [they] provide a globally accepted framework for the regulation and supervision of the insurance sector…"[7] The IAIS expects insurance supervisors to make self-assessments of the extent to which the Principles are being observed in their respective jurisdiction. The IAIS has developed a programme to assist supervisors to review their systems "objectively and comprehensively in order to improve them..."[8] In a document ("Insurance Core Principles Self-Assessment Programme") issued in July 2004, members of the IAIS were asked to undertake this type of self-assessment and to submit the results by January 2005. There are two parts to the assessment. The Summary Self-Assessment includes a synopsis of the extent to which the jurisdiction satisfies each Core Principle and where a Principle is not observed, an explanation why not and/or what action is being taken to remedy this situation. The Self-Assessment Questionnaire – part two – includes advanced criteria by which the regulatory and supervisory systems should be evaluated. The Commission is currently preparing its response to the self-assessment exercise.

In April 2004, the IAIS announced a new framework for collecting, processing and publishing global reinsurance statistics – the object being to increase transparency in the insurance sector. The work that has been undertaken already by an IAIS Task Force (Task Force Re) will be continued by an IAIS Steering Group to be formed for the purposes of producing the statistics and reports annually, and to develop the framework to include further areas. The Task Force's report is available on www.iaisweb.org.

International Monetary Fund (IMF)

In March 2004, the IMF announced that the first phase of its OFCs assessment programme was almost complete – with 41 of the 44 jurisdictions that were involved from the start having been assessed already or in the process of being assessed at that time. The assessments indicated that the absence of adequate resources in OFCs causes a shortage of appropriate numbers of people with adequate skills – which in turn leads to what was referred to as "…shortcomings in the supervisory systems…" Compliance with assessed standards was found to be higher in jurisdictions that had higher levels of income. The second phase of the assessment programme will focus on the following:

- Regular monitoring of OFCs' activities and compliance with supervisory standards
- Improved transparency of OFCs' supervisory systems and activities
- Technical assistance in collaboration with bilateral and multilateral donors
- Collaboration with standards-setters and the on-shore and offshore supervisors to strengthen standards and exchange of information

The IMF and World Bank jointly conduct FSAPs – and the criteria described above will doubtless form part of Mauritius' next FSAP assessment.

International Organisation of Securities Commissions (IOSCO)

At its Annual Conference in October 2003, the IOSCO adopted its Methodology for Assessing Implementation of the IOSCO Objectives and Principles of Securities Regulation. The purpose of the Methodology is to assist Regulators in conducting assessments on the extent to which IOSCO's Principles have been implemented. The Principles (which were first adopted in 1998 and last updated in June 2003) represent a general framework for the regulation not only of securities markets but also for market intermediaries, issuers of securities and also for the "…sale of interests in, and the management and operation of collective investment schemes…" [9] The Principles are not intended to be a check-list. From time to time, the IOSCO issues resolutions to provide "…content to the more broadly stated IOSCO Principles…" [10] Meanwhile, the framework aims to protect investors, to reduce systemic risk and to ensure fair, efficient, and transparent markets. It is anticipated that the Methodology will have wide applications – from self-assessments to forming part of the IMF/World Bank FSAPs.

Joint Forum

The Joint Forum was established in 1996 under the aegis of the Basel Committee on Banking Supervision, the IOSCO and the IAIS to deal with issues that are common to the banking, securities and insurance sectors respectively. The Joint Forum recently published a report for consultation entitled "Outsourcing in Financial Services". The document includes 9 guiding, high-level principles "…designed to assist regulated entities in determining the minimum steps they should take when considering outsourcing activities. These include establishing a coherent policy and specific risk management programmes as well as determining the types of issues that should be considered in contracts…" [11] "Outsourcing" is of particular interest to some FSC Licensees in Mauritius.

The World Bank

Although the FSAP dates back to 1999, Mauritius underwent its first FSAP assessment at the end of 2002. The 1997 financial crisis in Asia demonstrated the link between a country's financial sector and macroeconomic stability. In response, the IMF and the World Bank developed a joint programme that focuses on the strengths and weaknesses of a particular country's financial sector. "Financial systems" is to be interpreted broadly. It comprises the institutions that one might expect (such as banks, collective investment schemes and insurance companies) and also the markets themselves. The regulatory and supervisory framework is included as is the payments system and the jurisdiction's legal framework. The point is to create some sort of advance warning by identifying any potential for crisis conditions. The results of the FSAP form part of the IMF/World Bank's general work. For the IMF, the results generate a Financial System Stability Assessment Report – which analyses strengths and vulnerabilities of the financial system and results in a stability assessment. For the World Bank, the results are used to produce a Financial Sector Assessment – which identifies those points that concern the development of institution-building. The Financial System Stability Assessment Report (published by the IMF) and the Financial Sector Assessment (published by the World Bank) arising from Mauritius' FSAP are available on the respective website of the IMF/World Bank.

Memoranda of Understanding

In the light of the global nature of financial services, it is important for Regulators to accumulate intelligence about persons and activities involved in similar business in other jurisdictions. Cross-border cooperation and exchange of information are important facets of our regulatory approach. The importance of this approach will be evident – not only from the FSF's Paper described above but also from views expressed at one time or another by other supranational authorities – including the G7, the Joint Forum, the Basel Committee, the IAIS, the IOSCO and the FATF. The FSC's response to this obligation includes entering into Memoranda of Understanding with regulatory authorities in Mauritius and abroad. A Memorandum of Understanding (MOU) is a legal document that has many applications but in respect of financial services, a MOU describes how and the extent to which one Regulator will be prepared to assist another Regulator in the performance of its duties – usually by sharing information. National legislation cannot be overridden by a MOU – which, to be effective, should not be overly prescriptive. Section 7 (10) of the Financial Services Development Act 2001 empowers the FSC to "... enter into an agreement or arrangement for the exchange of information with a foreign supervisory institution …" Currently, the FSC has signed 12 Memoranda of Understanding with regulatory counterparts worldwide.

Conclusion

Awareness of the types of matters described above is important not only to keep our knowledge current – but also because many of the Papers issued by supranational authorities (including but not limited to those authorities mentioned above), form part of the Reports on the Observance of Standards and Codes (ROSCs) which, in turn, form the basis of the joint IMF/World Bank FSAPs – to which Mauritius will be subjected on an ongoing basis. Accordingly, the Commission hopes that Licensees will derive some benefit from knowing something of the developments summarised in this review.

Bibliography

1 & 2 Press Release; Financial Stability Forum; 5 April 2004;

3 The Mandate for the Future of FATF (September 2004-December 2012);

4 Special Recommendation III deals with freezing and confiscation of terrorists' assets;

5 Special Recommendation II deals with criminalisation of terrorist financing;

6 "FATF Tackles Terrorism Financing, Delists Guatemala"; FATF; 2 July 2004;

7 & 8 Insurance Core Principles Self-Assessment Programme; International Association of Insurance Supervisors; Pg 2; July 2004;

9 Methodology for Assessing Implementation of the IOSCO Objectives and Principles of Securities Regulation; Pg 1; IOSCO; 16 October 2003;

10 Methodology for Assessing Implementation of the IOSCO Objectives and Principles of Securities Regulation; Pg 2; IOSCO; 16 October 2003;

11 Joint Forum Provides Outsourcing Guidance to the Financial Sector; The Joint Forum; Press Release; 2 August 2004.

Overview of NBFIs

FSC Statistical Survey 2003

The classification of Non-Bank Financial Institutions (NBFIs) adopted by the Financial Services Commission (FSC) has laid the foundation for a methodology to assess the size and depth of the NBFI sector in Mauritius. Based thereon, a Statistical Survey was carried out by the FSC for the second time covering the period ending 2003.

This Survey has provided more complete and exhaustive information pertaining to the operations of NBFIs. Many of the figures published in this Report represent an improved version of the figures published in the last Annual Report due to the fact that respondents have themselves submitted revised data.

Moreover, certain reporting entities have been regrouped given the greater number of entities responding to the Survey this year. It is important to note that the FSC Survey 2003 has, for the first time, elicited a 100% response rate from licensed entities.

Analysis of Operations & Performance of NBFIs

Table 7 summarises the overall financial performance of the various NBFIs operating in Mauritius in terms of assets, turnover, profit before tax and value added. The results obtained are mainly based on the Survey. Audited accounts and statutory returns submitted to the FSC have also been used as well as returns submitted by other authorities.

On the basis of the data in Table 7, the reporting NBFIs' contribution to GDP increased from 4.2% in 2002 to 4.8% in 2003. The most important component of the NBFIs remains Insurance Companies followed by Occupational Pension Schemes and Management Companies, in terms of the indicators stated in Table 7 – their share in the total value added being respectively 57%, 30% and 5%.

The assets of NBFIs increased significantly by Rs 11.1 billion in 2003 and reached the level of Rs 63.5 billion. Assets of Insurance Companies grew by 20% and accounted for the bulk

Table 7: Financial Performance of NBFIs

	Number		Assets (Rs m)		Turnover (Rs m)		Profit Before Tax (Rs m)		Value Added (Rs m)	
NBFI	**2003**	**2002**	**2003**	**2002**	**2003**	**2002**	**2003**	**2002**	**2003**	**2002**
Insurance Companies	23	23	32,592	27,160	6,871	6,203	3,810	3,196	4,274	3,543
Occupational Pension Schemes *	824	786	18,239	14,352	3,224	2,713	2,271	1,678	2,271	1,678
Fund/Investment/Portfolio Managers	12	12	1,705	823	200	123	31	27	48	42
Stockbroking Companies	11	11	487	437	50	63	25	34	37	46
Leasing Companies	11	11	8,479	7,488	2,233	2,064	211	210	237	234
Credit Finance Companies	3	3	704	696	186	168	46	37	83	72
Insurance Brokers	10	10	215	168	98	79	28	19	62	48
Pension Administrators, Actuary & Treasury Manager	4	4	14	12	31	23	3	3	18	15
Management Companies	63	57	957	1,103	887	850	250	184	420	328
Corporate Trustees	19	19	58	53	68	27	57	20	59	21
Captive Managers	5	5	7.47	7.99	1.61	2.56	0.13	1.41	0.35	1.57
Total	**985**	**941**	**63,457**	**52,300**	**13,850**	**12,316**	**6,733**	**5,409**	**7,509**	**6,028**
% of GDP			40.24	36.79	8.78	8.66	4.27	3.80	4.76	4.24

* Includes only Insured Pension Schemes & Superannuation Funds

of the total increase in NBFI assets during the year. Total turnover of the NBFI sector amounted to Rs 13.9 billion, up from Rs 12.3 billion in 2002.

The trend towards a high level of concentration of business amongst certain players in most sectors is confirmed by the data. This is in view of the fact that a few large players continue to exercise a dominant role in their respective segments. As firms become more competitive, expand the scope of their services and improve the quality of their professional services, some de-concentration of business may be expected.

Survey data regarding employment in the NBFI sector is presented in Table 8. The data is only being provided with a view to presenting the sectoral distribution of employment within the NBFI sector. As expected, the insurance sector was the largest single employer. In aggregate, data from the Central Statistics Office for March 2004 indicate that the insurance sector employed a labour force of 2,231 in the large establishment group. Collectively, the total employment in the NBFI sector increased from 2,761 in March 2003 to a marginally higher level of 2,797 in March 2004.

Table 8: Employment Breakdown of NBFIs (as at December 2003)

NBFI	Reporting Population	Total Employment	Expatriate	Managerial	Technical	Support
Insurance Companies	19	1,517	16	105	281	1,115
Fund/Investment/ Portfolio Managers	12	65	5	24	24	12
Pension Administrators & Actuaries	3	20	1	3	4	12
Stockbroking Companies	11	57	–	16	11	30
Leasing Companies	11	77	–	15	23	39
Credit Finance Companies	3	193	–	11	6	176
Insurance Brokers	10	104	–	21	31	52
Management Companies	62	95	4	23	34	34
Corporate Trustees	19	7	–	3	4	–
Captive Managers	5	–	–	–	–	–
Grand Total	**155**	**2,135**	**26**	**221**	**418**	**1,470**

Insurance & Pensions

International Overview

The direct insurance industry is on the road to recovery with further progress expected in 2004, according to Swiss Re's latest Sigma study. Worldwide premiums for life and non-life insurance grew by an inflation-adjusted 2% to US$ 2,941 billion in 2003. Sigma's annual review of developments in world insurance shows that premiums for life and non-life business increased markedly in 2003.

Life insurers reported improved profitability despite a slight decline in premium income.

As in past years, the life and non-life sectors showed opposing trends. In 2003, non-life insurance premiums rose by 6% to US$ 1,268 billion while life insurance premiums fell by 0.8% to US$ 1,673 billion. Industrialised countries generated just under 90% of the premium volume, with emerging markets accounting for around 10%.

Both the direct life and non-life insurance industries are experiencing a turn-around after the turbulent financial markets and extreme loss events of past years. Expected growth in premiums and profits this year should speed up this process.

Life Insurance: Falling Premiums, less Pressure on Balance Sheets and Income Statements

The 0.8% decline in life premiums in 2003 reflects a fall in life business in the US and UK, as well as below-average growth recorded in other industrialised countries and a number of emerging markets.

Consumers remained cautious about buying unit-linked policies and traditional products due to a lack of confidence in the sustainability of the stock market recovery and the decrease in profit sharing and guaranteed returns.

The erosion of equity capital in previous years – precipitated by investment write-downs on equity holdings and corporate bonds – has forced a large number of life insurers to reduce their with-profit payouts and guaranteed returns.

Life insurers' balance sheets improved against a backdrop of improved economic conditions. Although investment income remained below average, the pressure exerted by write-downs on corporate bonds and equity holdings relaxed. Cost savings and business restructurings contributed to the improvement in results.

Life insurers' equity bases stabilised, indicating that the outlook is brighter for the life insurance industry.

Non-Life Insurance: Premium Growth and Improved Results

Albeit at a slower pace than in the previous year, the 6% growth reported in non-life insurance was twice as high as the ten-year average, with price increases in virtually all regions. Following the increases in property rates in previous years, substantial rate rises were registered, particularly in third party liability. Since 2000, non-life premium income has grown at a cumulative real rate of 22%, mainly on the back of an increase in premium rates. Rate increases, together with more stringent underwriting standards and comparatively few extreme losses, resulted in a marked improvement in non-life underwriting results in 2003. However, investment results remained poor and overall profits are likely to be average. Although insurers' equity capital bases improved, capital remained scarce.

Outlook for 2004: the Recovery is Set to Continue

The pickup in the global economy and the expected rise in both interest rates and stock markets are set to further improve conditions for life insurers and spur demand in life and non-life business. Price-driven growth in non-life insurance will slow as rates gradually stabilise. Premium growth for direct insurers will consequently be less pronounced than in 2003. Assuming average claims levels in 2004, results may well improve further. Life insurers' equity capital and profits should witness some sustained recovery given the improved conditions.

Private Pension Funds Developments

Private occupational pensions around the world are undergoing major reforms. Governments are subject to considerable pressure from stakeholders and the public at large following numerous large scale financial scandals affecting pensioners' funds. Factors such as increase in longevity and an increasing number of people nearing retirement have influenced decision makers around the world to review private occupational pension systems. Presently, many company pension funds are at risk from volatile stock markets. Sharp drops in equity prices may cause the value of the pension fund to vary substantially from the amount needed to provide pension payouts in the future. In cases where a company goes bankrupt, employees who have paid into the fund often are left with far less than what they contributed or even nothing. The growth of defined contribution schemes is also shifting responsibility on employees, who may not be equipped to face related risks.

Table 9: Assets of Contractual Savings Institutions

	2003 Rs million	2002 [1] Rs million	2001 [1] Rs million
Superannuation Funds	4,528	3,430	2,984
Sugar Industry Pension Fund	2,470	2,196	2,161
Insured Pension Schemes	13,711	10,922	8,904
Total Occupational Pension Schemes	20,709	16,548	14,049
National Pension Fund	25,900	22,422	21,772
National Savings Fund	4,170	3,380	2,849
Insurance Companies	32,592	27,160	23,972
Total	**83,371**	**69,510**	**62,642**
Less Double Counting (insured schemes)	(13,711)	(10,922)	(8,904)
Total Contractual Savings Assets	**69,660**	**58,588**	**53,738**
	% of GDP	**% of GDP**	**% of GDP**
Superannuation Funds	2.87	2.41	2.26
Sugar Industry Pension Fund	1.57	1.54	1.64
Insured Pension Schemes	8.69	7.67	6.74
Total Occupational Pension Schemes	13.13	11.62	10.64
National Pension Fund	16.42	15.75	16.48
National Savings Fund	2.64	2.37	2.16
Insurance Companies	20.67	19.08	18.15
Total	**52.87**	**48.83**	**47.43**
Less Double Counting (insured schemes)	(8.69)	(7.67)	(6.74)
Total Contractual Savings Assets	**44.17**	**41.15**	**40.69**
	% of Total Assets	**% of Total Assets**	**% of Total Assets**
Superannuation Funds	6.50	5.85	5.55
Sugar Industry Pension Fund	3.55	3.75	4.02
Insured Pension Schemes	19.68	18.64	16.57
Total Occupational Pension Schemes	29.73	28.24	26.14
National Pension Fund	37.18	38.27	40.52
National Savings Fund	5.99	5.77	5.30
Insurance Companies	46.79	46.36	44.61
Total	**119.68**	**118.64**	**116.57**
Less Double Counting (insured schemes)	(19.68)	(18.64)	(16.57)
Total Contractual Savings Assets	**100.00**	**100.00**	**100.00**

[1] Includes revised figures

Sources: Registrar of Associations, NPF, NSF, SIPF

In light of the various events, it has been realised that more efficient regulation and management of company pension schemes are required if today's employees are to enjoy adequate retirement pensions tomorrow. The Organisation of Economic Co-operation and Development (OECD) has established six Core Principles of Occupational Pension Regulation to assist in meeting those objectives. The Core Principles cover the following areas:

- Conditions for effective regulation
- Establishment of pension plans, pension funds and pension fund managing companies
- Pension plan liabilities, funding rules, winding up, and insurance
- Asset management
- Rights of members and beneficiaries, and adequacy of benefits
- Supervision

The OECD is also working on other pension-related issues such as pension fund governance and financial education.

Outlook in Mauritius

In Mauritius, contractual savings (assets of life insurance companies and pension funds) exceeded 44% of GDP in 2003. The total asset base of contractual savings institutions stood at Rs 69.7 billion in 2003, indicating an increase of 19% during 2003. The share of Insurance Companies in the total asset base was Rs 32.6 billion (47% of the total contractual savings) while that of Occupational Pension Schemes was Rs 20.7 billion (30% of the total contractual savings) in 2003.

It is to be noted that 42% of the assets of Insurance Companies are linked to Occupational Pension Schemes that are insured and/or administered by Insurance Companies. Assets of Insurance Companies grew by 20.0% in 2003 compared to 13.3% in 2002, while growth in fund value of Occupational Pension Schemes was 25.2% in 2003 compared to 17.8% in 2002. The data clearly indicate the growing importance and prospects of the contractual savings sector in the Mauritian economy.

Table 9 summarises the asset distribution among the various contractual savings institutions.

The Insurance Sector and the Macroeconomy

Table 10 shows how the share of total assets of Insurance Companies in national GDP has been increasing over the years and even more significantly in 2003.

Growth in assets as a whole has moved from 16.7% in 1999 to 20.7% in 2003, representing an increase of almost 24%. Total assets of the registered Insurance Companies stood at Rs 32.6 billion in 2003, representing a 20.0% growth rate during the course of 2003 compared to 13.3% in 2002. Table 11 indicates the investment portfolio of Insurance Companies for the past five years.

Table 10: Growth & Contribution of Insurance Companies' Assets to GDP

	2003	2002	2001	2000	1999
Total Assets (Rs million)	32,592	27,160	23,972	21,123	18,635
% of GDP	20.7	19.1	18.2	17.4	16.7
Growth in Assets (%)	20.0	13.3	13.5	13.4	11.8

Table 11: Distribution of Insurance Companies' Assets

	2003 (%)	2002 (%)	2001 (%)	2000 (%)	1999 (%)
Shares & Debentures	48	38	35	35	30
Mortgage Loans	18	21	23	25	25
Government Securities	13	13	9	7	6
Deposits & Securities	7	9	14	13	17
Land & Property	4	4	5	5	6
Other Loans	2	4	4	5	5
Other Assets	8	11	10	10	11

Industry Highlights & Analysis of Statistics

The major change in the composition of assets of Insurance Companies in 2003 relates to the proportion of "Shares & Debentures" which has gone up from 38% to 48% of total assets in 2002 and 2003 respectively, thus representing an increase of 26% in that type of asset. Mortgage loans, which constituted 25% of total assets in 1999, dropped to 18% of total assets in 2003. A more detailed analysis is provided later in this report. The share of "Government Securities" in the assets of Insurance Companies has been maintained in 2003. Overall it is observed that over the past 5 years there has been a shift in the asset allocation policies of Insurance Companies with emphasis being more on investments in conservative assets such as Corporate Securities and Government Securities. Detailed breakdowns of asset and liabilities of individual Insurance Companies are provided in Annexes 1 and 2 respectively.

Structure & Composition

As at 31 December 2003, the FSC had 23 Insurance Companies on its Register, including 3 foreign insurers and 2 insurers that are in the process of liquidation. Four of the registered insurers carry out long-term insurance business only, while 7 registered insurers carry out general insurance business only, 11 registered insurers carry out both long-term and general insurance businesses and 1 foreign insurer is a "Survey, Settling

Table 12: No. of Policies Issued by Insurance Companies

	31 December 2003	31 December 2002
No. of policies issued for general business	307,680	233,297
No. of policies issued for long-term business	137,392	214,070
Total policies issued	**445,072**	**447,367**

Table 13: Main Financial Performance Indicators of Insurance Companies *

	2003	2002	2001
Assets (Rs million)	32,592	27,160	23,972
Assets (% of GDP)	21	19	18
Total Gross Premiums (Rs million)	**6,871**	**6,203**	**5,334**
of which long-term business	4,142	3,760	3,247
of which general business	2,729	2,443	2,087
Total Gross Premiums (% of GDP)	**4.4**	**4.4**	**4.0**
Gross Claims (Rs million)	**4,240**	**3,683**	**2,780**
of which long-term business	2,224	2,294	1,671
of which general business	2,016	1,389	1,109
Insurance Funds (Rs million)	**25,782**	**21,555**	**19,198**
of which long-term fund	25,120	20,906	18,592
of which general fund	618	577	522
of which other funds	44	72	84
Total Profit Before Tax (Rs million)	**3,806**	**3,196**	**2,915**
of which from long-term business	3,467	2,778	2,505
of which from general business	339	418	410
Value Added (Rs million)	**4,270**	**3,543**	**3,265**

* Figures are as at end of different financial periods and have been extracted from statutory returns

and Recovery Agent" for foreign underwriters. There has been no new entrant in the local insurance market.

Data gathered by the FSC Survey indicate that the number of policies issued for general business increased by 31.9% whereas the number of policies issued for long-term business declined by 35.8% in 2003 (Table 12). Despite this decrease, the value of gross premiums for long-term business increased by 10.2% in 2003 as per figures submitted in the statutory returns.

The insurance industry has performed well in 2003 with overall growth in all indicators. Table 13 provides a snapshot of the main financial performance indicators for both the long-term and general insurance businesses. The number of Insurance Companies in operation was respectively 19, 20 and 22 in 2003, 2002 and 2001.

An analysis of the financial performance of Insurance Companies reveals the following:

1. Total gross premiums amounted to Rs 6.9 billion in 2003, representing a growth of 10.7% compared to a growth rate of 16% in 2002. This lower rate of growth is in keeping with the international trend of slowdown in life premiums in 2003 as highlighted earlier. Gross premiums from long-term insurance business constitute 60% of the total gross premiums, indicating the dominance of the long-term business in the local insurance industry.
2. Total gross claims paid amounted to Rs 4.2 billion in 2003, reflecting a growth rate of 15% compared to the growth rate of 32% in 2002. Gross claims from long-term insurance business constitute 52% of the total gross claims paid.
3. The Survey, which covered data pertaining to gross premiums and gross claims for the period ending 31 December 2003, indicates that gross premiums amounted to Rs 2.7 billion for general business and Rs 3.7 billion for long-term business, giving a total of Rs 6.4 billion. Gross claims were Rs 2.0 billion for general business and Rs 1.9 billion for long-term business, giving a total of Rs 3.9 billion. These figures vary from the figures obtained in the statutory returns because of the difference in time period reporting.
4. Total insurance funds which amounted to Rs 25.8 billion grew by 19% in 2003 compared to 12% in 2002. As indicated in Table 13, almost the totality of the funds is derived from the long-term insurance fund, indicating once more the importance of the long-term insurance business.
5. Profit before tax amounted to Rs 3.8 billion in 2003, representing a significant growth of 19.2% compared to 9% in 2002. The bulk of the profit was generated by long-term insurance business.
6. Value added to GDP by the insurance sector was estimated to amount to Rs 4.3 billion in 2003. This figure represents a significant growth of 20.6% compared to 9% in 2002. As explained earlier, the insurance industry was the largest contributor from the non-bank financial sector in the national economy.

The above indicates that overall, the insurance sector has recorded positive growth during 2003 especially in terms of assets, insurance funds, profit before tax and value added.

Concentration of Business

The 19 operational Insurance Companies involved in the long-term and general businesses as at 31 December 2003 continued to operate in an oligopolistic environment with only a few companies holding the major share of the market. Dividing

Table 14: Concentration of Business of Total Insurance Market, 2003 *

	4 Large Companies (%)	9 Medium Companies (%)	6 Small Companies (%)	All Companies (%)
Total Assets	80	18	2	100
Total Profit Before Tax	81	18	2	100
Total Gross Premiums	59	35	6	100
Profit Before Tax/Gross Premiums	75	28	17	55
Return on Assets (Profit Before Tax/Total Assets)	12	11	11	12

* Figures are as at end of different financial periods and have been extracted from statutory returns

the 19 Insurance Companies by size reveals some interesting patterns as indicated in Table 14. The 4 largest companies account for 80% of total assets and 81% of total profit before tax, while the smaller companies account for only 2% of the market. The ratio Profit Before Tax/Gross Premiums is significantly higher for the large companies while the Return on Assets is more or less identical for all Insurance Companies.

Long-Term Insurance Business

Fifteen Insurance Companies operate in the long-term insurance business sector including 1 foreign company and 1 company that is in liquidation.

As indicated in Table 13, gross premiums in respect of long-term insurance business stood at Rs 4.1 billion in 2003, representing a 10% increase compared to 16% in 2002. Investment income on the long-term insurance fund registered a 22% increase during 2003 and amounted to Rs 2.4 billion, which represents 57% of gross premiums. Investment income has been growing at a higher rate since 2002, which reflects an improved return on the underlying assets based on market trends.

As indicated in Table 15, payment of benefits in the form of net claims decreased slightly to Rs 2.19 billion in 2003. Survival benefits payable under endowment policies and annuity payments accounted for 69% of the total payments in 2003 as against 51% in 2002. Approximately 5% of the total benefits were paid in respect of death claims during the year 2003. The proportion of bonus cashed to total payments decreased to 11% in 2003 from 23% in 2002.

Long-term insurance business operated on the whole with sound financial ratios as indicated in Table 16. A small part of premiums collected was ceded to reinsurers (3.9% in 2003), while net claims (payments for all kinds of benefits, including surrenders) decreased slightly to 60.4% of net premiums in 2003. Administration costs absorbed 18.2% of net premiums in 2003, representing an increase of 27% from the previous year.

A summary of the Revenue Accounts of individual Insurance Companies is detailed in Annex 3.

Table 15: Net Claims Breakdown for Long-Term Insurance Business *

Claims	2003 Rs million	2002 Rs million
On Death	114	112
On Maturity	1,049	719
By Way of Lump Sum	164	171
By Way of Periodical Payments	305	265
On Surrender	313	480
Bonus Cashed	247	517
Total	**2,192**	**2,264**

* Figures are as at end of different financial periods and have been extracted from statutory returns

Table 16: Financial Ratios for Long-Term Insurance Business

Ratios	2003 (%)	2002 (%)	2001 (%)	2000 (%)	1999 (%)
Ceded Premiums/Gross Premiums	3.9	3.6	3.8	4.2	4.1
Net Claims/Net Premiums	60.4	62.5	52.5	52.8	54.2
Administration Costs/Net Premiums	18.2	14.3	16.0	16.6	15.9
Investment Income/Net Premiums	59.5	53.6	50.6	53.1	59.2
Profit before Tax/Net Premiums	87.2	76.7	80.2	84.7	88.5

Table 17: Assurances & Annuities 2003 *

	Business in Force		New Business	
	Individual	Group	Individual	Group
Assurances				
No. of policies	291,533	814	46,822	201
Sum assured (Rs million)	42,439	21,443	9,363	5,043
Annual premium (Rs million)	2,065	478	388	68
Single premium (Rs million)	1,145	47	948	17
Annuities				
No. of policies	6,543	1,662	835	330
Premium (Rs million)	87	27	18	99
Annuities (Rs million)	349	184	59	10

* Figures are as at end of different financial periods

Table 18: Breakdown of General Insurance Business by Class of Business *

	2003 (Rs million)	2002 (Rs million)
Gross Premiums		
Fire	603	525
Motor	1,052	1,002
Personal Accident	202	189
Transport	275	227
Miscellaneous	597	500
Total Gross Premiums	2,729	2,443
Gross Claims		
Fire	877	356
Motor	728	625
Personal Accident	66	52
Transport	43	56
Miscellaneous	302	300
Total Gross Claims	2,016	1,389

* Figures are as at end of different financial periods

Assurances & Annuities

The FSC once again requested Insurance Companies to submit data on assurances and annuities for 2003. The information submitted for new business and business in force are summarised in Table 17.

As indicated in Table 17, the total number of life assurance policies in force in 2003 stood at 292,347 compared to 299,992 in 2002. In Table 12, the FSC Survey on its side reveals that the total number of life policies issued by the Insurance Companies amounted to 137,392 as at 31 December 2003.

This difference is explained by the fact that the data covered different time periods. New business life assurance policies for individuals increased to 46,822 in 2003, representing a growth of 8% over the previous year. For life business in force, sum assured for individuals increased marginally in 2003. Annual premiums for the individual life business in force was Rs 2.1 billion in 2003 (Rs 2.5 billion in 2002) and represents 50% of the gross life premiums. It is to be noted that annual premiums for individuals for new business decreased by 40% in 2003 while single premiums for the same type of business increased by 115% in 2003. As for annuities, the number of policies for business in force increased by 11% in 2003.

General Insurance Business

Eighteen Insurance Companies operate in the general insurance market, including 1 foreign insurer and 1 company that is in liquidation. The general insurance market comprises 5 classes of business, i.e. fire, motor, personal accident, transport, and miscellaneous – details relating to gross premiums and gross claims are indicated in Table 18.

Although motor insurance was the largest class of general insurance, accounting for 38% of total non-life gross premiums in 2003, its share has been decreasing since 2001. Fire and miscellaneous insurance classes are also relatively large, accounting each for 22% of the total non-life gross premiums in 2003. These 2 lines cover large industrial and commercial risks and tend to rely heavily on re-insurance.

Experience of the past years demonstrates the large volatility of claims. In fire insurance, the gross claims ratio attained 145% of gross premiums in 2003 compared to 68% in 2002.

A summary of the Revenue Accounts of individual Insurance Companies is detailed in Annex 4.

Insurance Intermediaries

The FSC licenses different types of insurance intermediaries, namely Insurance Brokers, Insurance Agents and Insurance Salespersons. The evolution of the registered insurance intermediaries is indicated in Table 19.

FSC Survey Results on Insurance Brokers

There were 10 operational Insurance Brokers in 2003 compared to 9 in 2002. An analysis of the financial positions of Insurance Brokers indicates that the total asset base of this sub-sector stood at Rs 215 million in 2003 reflecting an increase of 28% over the previous year. The bulk, that is, 77% of the total assets were concentrated in current assets, (mostly in the form of debtors), whilst 97% of the total liabilities were made up of trade and other payables.

With regards to the financial performance of Insurance Brokers, the total income in 2003 stood at Rs 98 million, representing an increase of 23% over the previous year. Salaries and allowances constituted 45% of total expenses in 2003. Total profit before tax stood at Rs 27 million in 2003, reflecting an increase of 46% from the previous year.

On the basis of the information submitted, the value added to GDP by the sub-sector of Insurance Brokers is evaluated at Rs 62 million for 2003, representing an increase of 30% over the previous year.

Insurance broking business remains quite concentrated in terms of business generated by operators: in 2003, 4 of the companies shared 78% of the total assets, 3 of the companies generated 85% of the total income while the same 3 companies accounted for 97% of the total profit before tax and 43% of the total value added. Insurance broking business is focused on

Table 19: Registered Insurance Intermediaries *

	2003	2002	2001	2000
Insurance Brokers	10	9	8	8
Insurance Agents	130	169	144	114
Insurance Salespersons	2,692	2,571	2,512	2,416

* For period ending 30 June

non-motor business, with the total value of premium amounting to Rs 351 million in 2003.

The performance described above indicates a healthy development of insurance brokerage in Mauritius. Prospects in this field of business are in line with developments in the insurance sector and are likely to continue the trend of positive growth in the years ahead.

Occupational Pension Schemes

Through its annual survey, the FSC continued to gather relevant information on Occupational Pension Schemes which was drawn from Insurance Companies and Pension Administrators. Information pertaining to Superannuation Funds was obtained from the audited accounts submitted to the Registrar of Associations – the information submitted by Pension Administrators did not cover the whole sector of Superannuation Funds. Information obtained from the Income Tax Office was used to complement the information obtained from the FSC Survey in relation to Insured Pension Schemes. An overview of the Occupational Pension Schemes is summarised in Table 20.

Overview

Data for 790 Insured Pension Schemes were provided in the FSC Survey indicating a coverage of 67% of the total number of approved Insured Pension Schemes. The bulk of the Insured Pension Schemes are Defined Benefit plans. The corporate schemes which constitute the majority of the Insured Pension Schemes are mostly insured/administered by one private Insurance Company while the parastatal schemes are administered by the only state-owned Insurance Company. The reported number of beneficiary members for the Insured Pension

Table 20: Overview of Occupational Pension Schemes

	2003	2002	2001	2000
Insured Pension Schemes				
No. of schemes approved by Commissioner of Income Tax [1]	1,169	1,048	965	897
No. of schemes surveyed	790	753	n.a	n.a
of which are DB plans	719	n.a	n.a	n.a
of which are DC plans	71	n.a	n.a	n.a
No. of corporate schemes	684	643	n.a	n.a
No. of parastatal schemes	106	110	n.a	n.a
No. of beneficiary members	44,598	44,317	n.a	n.a
of which are contributory	13,961	n.a	n.a	n.a
of which are non-contributory	30,637	n.a	n.a	n.a
Value of funds under management (Rs m)	13,711	10,922	8,904 [2]	8,120 [2]
Growth in fund value (%)	25.5	22.7	9.7	12.6
Superannuation Funds [3]				
No. of funds registered by Registrar of Associations [4]	49	45	40	38
No. of funds for which audited accounts have been analysed	34	33	32	29
Asset base (Rs m)	4,528	3,430	2,984	2,713
Growth in asset base (%)	32.0	14.9	9.9	13.9

1 Source: Income Tax Office. Approved as at 1 July
2 Source: Annual Reports of Insurance Companies
3 Source: Audited Accounts (Registrar of Associations)
4 Registered as at 30 June
n.a: not available

Schemes was 44,598 in 2003 compared to 44,317 in 2002. The bulk of them consisted of non-contributory members.

The total asset base of Insured Pension Schemes and Superannuation Funds reached Rs 18.2 billion in 2003 compared to Rs 14.4 billion in 2002, indicating a growth of 27% during that period and corresponding to 11.6% of GDP in 2003. Tables 21 and 22 provide further details on the financial performance of Insured Pension Schemes and Superannuation Funds respectively.

Insured Pension Schemes

The fund value of Insured Pension Schemes was Rs 13.7 billion in 2003, indicating a 25% growth over the previous year. On the basis of the information obtained, it is observed that 92% of the total value of funds of Insured Pension Schemes in 2003 was managed by 2 Insurance Companies, one private-owned and another state-owned. This pattern continues to be maintained over the past years and will most likely continue in the future given the low competition in the pension insurance business.

Total income of Insured Pension Schemes in 2003 was Rs 2.27 billion, representing a growth of 16% over the previous year. A breakdown of income generated by Insured Pension Schemes indicates that investment income accounted for 39% of the total income while total contributions represented 44% of total income in 2003.

Total expenditure of Insured Pension Schemes decreased by 14% in 2003 and reached Rs 706 million. Of the expenditure, 63% was absorbed by benefits payments while 18% of the expenditure was in the form of cash withdrawal benefits.

Table 21: Financial Performance of Insured Pension Schemes Surveyed

	2003	**2002**
No. schemes covered	790	753
Value of funds under management (Rs m)	13,711	10,922
Income Breakdown	**(Rs m)**	**(Rs m)**
Employer contributions	413	404
Employee contributions	20	19
Aggregate contributions [1]	563	512
Investment income	877	787
Other income	384	211
Transfer from other pension schemes	9	9
Total income (Rs m)	**2,266**	**1,942**
Expenditure Breakdown	**(Rs m)**	**(Rs m)**
Administration costs	89	84
Benefits payments	445	438
Cash withdrawals benefit	126	231
Cost of pension purchased	18	10
Other expenditure	28	64
Total expenditure (Rs m)	**706**	**827**
Operating Performance	**(%)**	**(%)**
Benefits/contributions	44.7	46.8
Administration costs/contributions	8.9	8.9
Investment income/assets	6.4	7.2
Investment income/total income	38.7	40.5

[1] Data was submitted in aggregate form and was not available in split form

Table 22: Financial Performance of Superannuation Funds

	2003	2002	2001	2000
No. of schemes covered	34	33	32	29
Asset base (Rs m)	4,528	3,430	2,984	2,713
Income Breakdown	**(Rs m)**	**(Rs m)**	**(Rs m)**	**(Rs m)**
Employer contributions	382	294	263	239
Employee contributions	28	12	8	6
Investment income	274	236	214	199
Other income	274	229	49	454
Total income (Rs m)	**958**	**771**	**534**	**898**
Expenditure Breakdown	**(Rs m)**	**(Rs m)**	**(Rs m)**	**(Rs m)**
Benefits payments	181	156	137	128
Operating expenses	66	52	34	50
Operating Performance	**(%)**	**(%)**	**(%)**	**(%)**
Benefits/contributions	44.1	51.0	50.7	52.0
Operating expenses/contributions	16.2	16.8	12.5	20.5
Investment income/assets	6.1	6.9	7.2	7.3
Investment income/total income	28.6	30.6	40.1	22.2

Source: Audited accounts (Registrar of Associations)

Table 23: Asset Allocation of Superannuation Funds

	2003 (Rs m)	2002 (Rs m)	2001 (Rs m)	2000 (Rs m)
Asset base	4,528	3,430	2,984	2,713
		Percentage of Total Assets		
Corporate securities	29.1	26.4	26.2	27.3
Government securities	5.8	5.1	3.2	2.9
Bank deposits	9.5	5.8	10.0	10.5
Real estate	5.5	7.4	6.6	6.2
Foreign securities	10.7	12.0	11.3	9.3
Secured loans	14.1	17.7	18.7	20.0
Unsecured loans	16.5	20.1	20.0	19.2
Other assets	8.8	5.5	4.0	4.6
Growth rate of total assets (%)	32.0	14.9	9.9	14.0

Source: Audited accounts (Registrar of Associations)

The operating performance ratios of Insured Pension Schemes remained rather stable and healthy during 2002 and 2003. Investment income ratios in 2003 were slightly lower than in 2002.

Superannuation Funds

As indicated in Table 22, the asset base of Superannuation Funds has been growing progressively since 2000 with a more significant growth of 32% in 2003 reaching Rs 4.5 billion.

Total income of Superannuation Funds has been growing steadily since 2001. It reached Rs 958 million in 2003, representing a growth of 24% over the previous year. A breakdown of income indicates that contributions accounted for 43% and investment income accounted for 29% of the total income of Superannuation Funds in 2003.

Benefits payments by Superannuation Funds have been increasing since 2000. They reached Rs 181 million in 2003, representing a 16% increase over the previous year. Operating expenses have been on a rising trend since 2001. They reached Rs 66 million in 2003, representing a growth of 27% over the previous year.

The operating performance ratios of Superannuation Funds remained rather stable and healthy during 2002 and 2003. Investment income ratios in 2003 were slightly lower than in 2002. The ratios followed the same trends as for the Insured Pension Schemes.

An analysis of the asset composition of Superannuation Funds since 2000 indicates a rather stable investment policy adopted by these funds, as indicated in Table 23.

It is observed that since 2000, the most important allocation of assets of Superannuation Funds is in the form of corporate securities and loans (secured and unsecured) with an average of 27% and 36% of total investments respectively. Despite investments in Government securities being somewhat low, their share in the total assets has been increasing steadily over the years.

Investments in foreign securities which were on the rise since 2000 had a lower contribution in the total assets of Superannuation Funds in 2003. A similar trend is reflected in the case of investments in real estate.

Role in Housing Finance

Occupational Pension Schemes and Insurance Companies play an important part in housing finance. On the basis of information gathered from various sources and compiled in Table 24, the total housing market was estimated at Rs 20.3 billion in 2003, representing 11.6% of GDP.

This market which has been increasing in real terms over the years has been a particularly attractive investment for large Superannuation Funds as well as for Insured Pension Schemes in view of their high return, low default rate and long maturity.

Table 24: Role in Housing Finance (2000/2003)

	2003	2002	2001	2000
	Percentage of Total Housing Loans			
Insurance Companies	29.1	29.5	29.1	29.1
Sugar Industry Pension Fund	3.7	3.9	4.1	4.4
Superannuation Funds	3.1	3.1	2.9	2.9
Total Contractual Savings Institutions	35.9	36.5	36.1	36.4
Commercial Banks	37.5	37.1	37.1	35.5
Mauritius Housing Corporation	26.6	26.4	26.8	28.1
Total	100	100	100	100
Total (Rs m)	**20,285**	**19,773**	**19,252**	**18,167**
% of GDP	11.6	13.9	14.6	15.2

Source: Annual Reports of RoA, SIPF, MHC, BoM