VISION STATEMENT

Hugonia Tormentosa

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

CONTENTS

MEMBERS OF THE BOARD

B.R. Gujadhur
Chairman MA (ECONOMICS)
Managing Director Bank of Mauritius

Prior to his appointment as Chairman of the Financial Services Commission in August 2001, Mr Gujadhur has had a long career with the Bank of Mauritius, of which he is currently the Managing Director. Previous positions occupied by him include the post of Director of Banking Supervision of the Bank of Mauritius. He has an extensive knowledge of the financial sector of Mauritius and has been closely associated with its various stages of development in the course of his long career in the sector.

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 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, review of companies legislation and the regulatory framework governing the offshore sector. He has also served in various committees including the Company Law Advisory Committee and the Mauritius Accounting and Auditing Standards Committee.

J. Lallchand PHD CANTAB

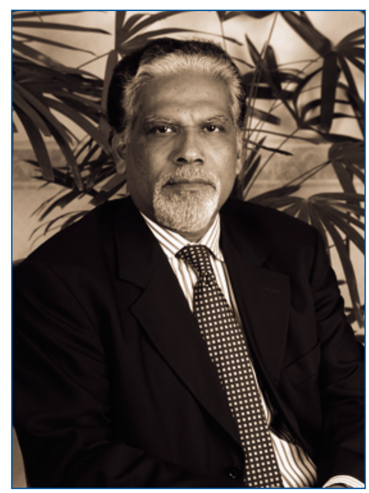
Manager, Rogers Aviation & Tourism

Dr Lallchand is working in a senior management position in the Rogers Group, a leading Mauritian conglomerate with some 140 subsidiaries. He has also worked for 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 considerable 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, 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 the Business Parks of Mauritius and the Board of Investment. Mr Makoon is a Director of the European Centre for Development Policy Management, a Dutch foundation.



Y. Pat Fong BSC (ECON) FCA

Partner Kemp Chatteris Deloitte & Touche

Mr Pat Fong started his audit career in the United Kingdom in 1960 and moved to Mauritius in 1963 and became Partner of 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.

CHAIRMAN'S STATEMENT

The second Annual Report of the Financial Services Commission comes at a time when the first visible signs of a pick-up in the global economic outlook have started emerging. Uncertainty as to when and how the turnaround would come about kept down business levels in the global economy during 2002-03. International financial flows suffered a setback during this period, which inevitably had an adverse impact on the flow of financial business through Mauritius.

Looking for reasons behind this slowdown, the perception may have arisen that a lowering of regulatory standards in Mauritius would have been conducive to a greater volume of business. In fact, the observed business slowdown goes as far back as 2001, clearly establishing that its more profound cause lay in the state of the world economy. The current upturn of the world economy is expected to overcome several defensive postures adopted by economic agents in diverse jurisdictions, the combined effect of which was to contribute to depress business generally. Accordingly, cross-border financial flows are expected to resume in tune with the pace of global economic recovery in the coming time. Some unmistakable signs of a pickup of activity in the financial sector of Mauritius have recently emerged.

The Board of the FSC has, on more than one occasion weighed carefully the stand advocated in favour of relaxation of regulatory standards in the difficult business environment that prevailed in 2002-03. While concessions have been made to smoothen procedural aspects respecting the exercise of supervisory scrutiny, the Board has been unable to compromise on regulatory standards per se. The Board considers the implementation of good regulatory standards as part of a long-term strategic objective towards the maintenance of a sound and well reputed financial centre in Mauritius. Other than this fundamental consideration, the Board is all the more conscious of the fact that the international community has its sight centred on international regulatory standards in their actual application by individual jurisdictions and that we cannot afford to join jurisdictions having short term perspectives in this respect.

Consultations have however been held all along with the industry with a view to making a collective effort to overcome the depressed market sentiment which prevailed during the international downswing phase of past years. A right balance has been struck in all possible cases through constructive dialogue. Draft legislations relating to short and long term insurance, pensions and securities have benefited amply from discussions with industry professionals and they are now chalked out for the legislative stage in the near term. Legislations pertaining to the improvement of the Anti Money Laundering framework, suppression of the financing of terrorism and mutual legal assistance have already been enacted. Consolidation of a credible framework of laws and regulations will form the basis for sustained future growth of the financial sector in foreseeably highly competitive market conditions.

As regards the global business sector, the Indian Supreme Court Ruling of 8 October 2003, upholding the validity of the Tax Residence Certificate issued by the Mauritian Authorities, has put to rest apprehensions raised in this regard, the effect of which had been to arrest or considerably slow down the flow of financial business directed to the Indian market. The Indian Supreme Court judgement also established the legal and economic legitimacy of the India-Mauritius Double Tax Avoidance Treaty and imparted the necessary assurances and confidence to investors interested in the Indian market. Accordingly, global business is expected to receive a boost as a result of this Ruling and flows of funds should soon be restored to their normal levels. The FSC has, besides, affirmed its commitment to high standards of regulation vis-à-vis the Indian regulatory authorities by signing a Memorandum of Understanding with The Securities and Exchange Board of India (SEBI) in December 2002, the main object of which is to favour exchange of supervisory information between the two authorities for the better upkeep of markets.

Some downsides on the market during the year also occupied the Board's attention. The case of the Mauritius Commercial Bank, which was confronted with a massive fraud during the year, was considered with all the attention it deserved, given the place and position of this bank on the domestic market and as a listed company. The Board's main consideration in this case was centred on the preservation of the image of Mauritius as a financial centre of good standing through the adoption of suitably swift measures to reassure the markets that the situation was rapidly brought under control. The financial damage suffered by the bank was contained and there are indications now that the bank has been able to ride over the storm.

The mood remained positive through the year on the side of the capital market, with a favourable and sustained upward thrust as seen from the sustained evolution of the stock market performance index. Action was taken in the course of the year to review the strength of individual companies in the insurance sector in a bid to raise the collective financial soundness of the sector as a whole. The Trusts Act 2001 has laid down a modern foundation for conducting trust business activities in Mauritius. There are good indications to show that Mauritius has started being seen as an attractive venue for international trust business. Progress was also made during the year in the area of structured finance deals, based on advantages conferred by Mauritius' double tax avoidance treaty network.

The Finance Act 2003 made a provision for licensees authorised under section 14 of the Financial Services Development Act to be treated as Tax Incentive Companies. This decision has sparked off renewed interest by new financial service providers, including pension administration, leasing, assets and investment management companies, to be licensed under this section of the Law. This trend is keeping with the observed growing scope and importance of Non-Bank Financial Institutions (NBFIs) in Mauritius since the inception of the FSC. Moreover, in as much as this type of development will help achieve a better balance in terms of the weights of the banking and non-banking sectors in the economy, inherent business concentration risks in the financial sector will come to be more reasonably distributed as between the banking and the non-banking sectors. Financial sector stability will thus be enhanced.

Statistics and analysis carried out by the FSC indicate that NBFI development in Mauritius is spearheaded by the insurance industry with a total assets base of Rs 27 billion and gross annual premiums of Rs 6.2 billion generated in 2002. In terms of contribution to GDP, the insurance sector's share to value added was Rs 3.5 billion in 2002, representing 2.5% of total GDP. The pension sector is another important pillar in the NBFI sector with Rs 43 billion worth of funds (includes the Rs 11 billion insured/administered funds). Both the insurance and pensions sectors (which are inter-linked) are set to expand their levels of activity in the years ahead and will no doubt lead the development of the NBFI sector for a number of years. Statistics on the leasing sector show that the 12 companies in operation had an assets base of Rs 7.1 billion, and generated a turnover of Rs 2 billion in 2002. Prospects for the leasing sector look promising as the demand for lease financing continues to increase with the expansion of business for small and medium enterprises.

Mauritius has undergone an assessment of the strengths and weaknesses of its financial sector in late 2002 under the IMF/World Bank Financial Sector Assessment Programme (FSAP). The Report of the assessment was presented in the latter part of 2003. One of the main conclusions of this Report is that ***"overall, the Mauritian financial sector is currently in good health and short-term stability risks are modest."*** The Report has also commended the rigorous standards of financial sector regulation practised in Mauritius, in keeping with international best practices. Its recommendations on the further development of the financial sector are being acted upon whereas its recommendations regarding a few observed shortcomings in the legal framework have been immediately addressed. Viewed against this type of proactive background, it is not surprising that the Financial Intelligence Unit (FIU) of Mauritius has in a relatively short span after its establishment been admitted to the Egmont Group of FIU's, which is an international recognition much to the credit of Mauritius.

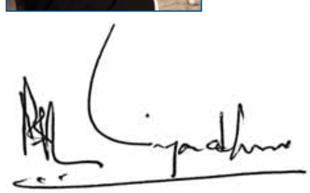
I must commend the Management and Staff of the FSC for long hours of untiring efforts committed by them to stand up the FSC as an internationally respected regulator of integrated financial services in the relatively short span of its existence so far. The fruits of these efforts are to be found in the following remarks made in the FSAP Mission Report on Mauritius. ***"The Government of Mauritius has undertaken a comprehensive program of legal and regulatory reform over the past three years with a view to developing Mauritius as a competitive international financial centre of high standing. This reform process was well underway, through incomplete, at the time of the FSAP missions. The Government has adopted a prudent and phased approach to integrated regulation and supervision of the financial sector."*** The Board is conscious however, that upgrading, adjusting and balancing carefully the regulatory framework to achieve effective business friendly conditions will demand persistent adaptation efforts on the part of all, the industry included.

The Board strongly feels that a more collaborative approach between the FSC and industry will be beneficial to all. I have, in my personal contacts with members of the industry, encouraged the pursuit of this goal by adopting a non-conflicting attitude so that differences of opinion become the launching pad for searching better and new solutions in our uphill task as a financial centre rather than becoming a counterproductive activity designed to damage the good name of the jurisdiction. This message seems to be accepted across the board.

Certain unavoidable costs should however be reckoned with. As cross border financial regulation gains in scope with the initiatives of the FATF, the EU and the OECD in particular, Mauritius should be able to demonstrate that it has the necessary ingredients to continually meet the test of a soundly regulated financial centre. The associated new standards underlying this requirement will have to be complied with. This factor explains the current intensification of the onsite and offsite programmes of the FSC and the issuance by it of a series of codes and guidelines for the conduct of accountable and responsible business by service providers.

On the part of the FSC itself, the need to deliver speedier and globally efficient decisions to industry calls upon the FSC to adequately resource itself to meet expectations of higher standards of service. The FSC has accordingly embarked on an ambitious staff training and recruitment programme as from October 2003 whereby the staff strength is being more than doubled up with the intake of promising high calibre professionals. As a result, the FSC is in a better position now to preserve the reputation of Mauritius as quality international financial centre.

The FSC broke new grounds in 2002-03. It has emerged as a better equipped and highly respected integrated regulator of the non-bank financial sector of Mauritius. Other than the considerable efforts put in by Management and Staff to reach this station, Board Members have played a critical role committing their time and tendering wise counsels for the advancement of the FSC's objectives. As Chairman, I have benefited from the unflinching support of Board Members for which I record here my deep appreciation and look forward to pursue the tasks ahead with even determination and the same sense of purpose.



B.R. Gujadhur
Chairman

CHIEF EXECUTIVE'S REPORT

Let it be said at the very outset: while some may curse the year 2002-03 for its economic morass as "annus horribilis", Mauritius industries in the non-bank financial sector managed to keep a steady keel and displayed a good measure of resilience. The assets of contractual savings institutions, that is, insurance and pension funds industry alone, have increased to Rs 59.2 billion representing 42% of the Gross Domestic Product; stock market capitalisation grew by 32.7% to Rs 45.4 billion and market turnover increased by 5.2% to Rs 2 billion; and the aggregate turnover of Management Companies operating in the Global Business sector increased by 10%, though aggregate value added increased by a fractional 1.5%.

We are comforted in the belief that regulatory reforms can be operated without undue impediment to the conduct of business. When reform is made in difficult economic times, it becomes an easy scapegoat for any loss of business. We are adopting a very cautious approach in introducing changes in the regulation of the various activities in the non-bank financial services sector. There is no doubt that if the purpose of regulation is not properly understood, the task of the regulator to implement and to enforce the rules will be very hard indeed.

DEVELOPING THE REGULATORY FRAMEWORK

In discussions held over the last two years with the different industry professionals, there evolved a general consensus that regulation is necessary for the very safety, stability and credibility of financial services business. It was also the generally accepted view that regulation itself was protective of the interest of the public as much as of the service providers and that it could even enhance business processes. Further, nobody advocated the non-enforcement of regulation that had been properly adopted. Instead, the debate was about the intensity of the regulation.

The FSC has been elaborating its regulatory framework for the guidance of its licensees. In carrying out its functions, the Commission is guided by its four main statutory objectives:

- Safety and stability of the market;
- Integrity of the market;
- Fair treatment of investors and consumers, and
- The protection of the reputation of Mauritius as a financial services centre by repressing crimes and dishonourable conduct.

We understand the statute also to require the FSC to develop policies for sustainable industry development. All these objectives need to interweave into a harmonious regulatory framework. An over-emphasis, for instance, on the element of safety and stability by introducing high-handed rules to prevent the collapse of a financial institution, might impact adversely on the ability of the institution to innovate and be competitive, and the cost of regulation and supervision might grow out of proportion. Conversely, some objectives reinforce each other: for example measures taken to ensure integrity of the market will bolster up the objective of preserving the reputation of Mauritius. This regulatory framework describes the role and approach of the FSC in each of its main areas of activities.

Already, since last year the FSC's organisational structure has been gradually changing from the traditional industry-based silo style to functional lines of operation. Hence, we have started to put in place different divisions that cut across specific industries to focus on the core functions of the Commission. These are the Licensing, the Surveillance, the Enforcement and the Policy Divisions which are themselves supported in their activities by four units providing corporate, human resource management, and information management services, and assistance to consumers.

The FSC is designing this regulatory framework on the basis of:

- A coherent and comprehensive structure that creates a level playing field among providers of financial services;
- A broad-based adoption of international standards and norms, bearing in mind local specificities;
- A balanced approach to regulation that addresses both the objectives and costs of regulation, and
- A risk-based approach that focuses regulatory attention on areas according to their level of risks to the financial system.

The framework is being fine-tuned and further details will be published early 2004.

Thoughts on the regulatory framework have led to a more rational classification of the Non-Bank Financial Institutions (NBFIs) in accordance with their functions and nature of their activities. By breaking down the activities into distinct categories, it is possible to identify regulatory concerns corresponding to the same type of risks across different providers of financial services and allow for a logical differentiation in regulation. This explains for instance why some institutions must satisfy more stringent prudential obligations while others must satisfy more extensive conduct of business rules instead. This approach is consistent with the fundamental idea that underpins the setting up of a single regulator for the non-bank financial services sector and with a risk-based supervisory approach.

STATISTICAL SURVEY

This new classification was used in the survey that was carried out into the non-bank financial services sector. The survey was backed up by a legal provision that was introduced in June 2002 in the Financial Services Development Act 2001 (FSD Act). It allowed us to collate systematically information about the different sub-sectors and measure their size and importance. It encouraged financial institutions to collect, organise and manage their own set of information and generate reports. It sheds an interesting light on the areas that has been so far unregulated like occupational pension schemes and new areas of financial activities like credit financing and leasing.

A survey calls for the disclosure of a fair amount of confidential information to the FSC. None of such information pertaining to an institution may be published unless the material is already in the public domain. What is released to the public is only aggregate figures and data. This duty of confidentiality is essential to the realisation of the survey and its reliability.

Often underrated, statistics are powerful and unavoidable tools for policy making and trend analysis not only for the public sector but for decision-making in the private sector as well. As a matter of public governance, the exercise is also meant to give greater transparency in the area of financial activities and is intended to be carried out every year. The FSC would wish to extend in the first instance assistance to those institutions which are not able to participate in the survey because of some inherent difficulty in managing their own information, though legal sanction is provided for deliberate refusal to respond to the survey questionnaire.

OPERATIONS

While these new policies and innovations were being introduced, the FSC had to carry out its basic functions of licensing and supervising the entities under the provisions of the Stock Exchange Act, the Insurance Act or under the provisions of the FSD Act. The licensing work involves not only the processing of applications for licences or registration but all approvals and authorisations, changes in the original application documents and the monitoring of statutory filing and reporting obligation of licensees.

Off-site examination of licensees' accounts, documents, filings and other information and on-site inspections are carried out by the Surveillance Division which is also responsible for market watch and general market surveillance as well as investigation.

HUMAN RESOURCE DEVELOPMENT

Taking on the full scope of the objectives of the FSC under the statute has called for the recruitment of additional staff. The first phase of this recruitment exercise has increased the number of the FSC's staff from 55 to 82 and by the end of the exercise next year it will bring the number to 126 employees. The distribution of the resources within the organisation will result in 61% of the staff being employed in core supervisory work, 22% in policy and research and 17% in general corporate services.

The effectiveness of the regulatory work of the FSC depends on the quality of its staff. Our human resource development programme lays emphasis on professional development and training. Regular in-house training sessions were conducted on subjects ranging from risk management to corporate governance, from compliance to inspections. Members of our staff also attended local and overseas training programmes.

The professional quality of the staff would be severely deficient if it were devoid of ethical standards. After consultation with the staff, a Code of Conduct for the FSC employees was adopted. It spells out some common understanding of certain key values and calls for the observance of ethical standards. It would serve as a guide to the staff in avoiding situations or postures that are likely to cause embarrassment or to expose members of staff ethically or morally.

RELATIONSHIP WITH OTHER ORGANISATIONS

The FSC collaborated in the area of its expertise with other government institutions and organisations. It has participated in the Anti-Money Laundering National Coordination Committee set up by the Ministry of Economic Development, Financial Services and Corporate Affairs for the smooth implementation and development of the AML-CFT framework; it assisted in a number of other government committees covering as wide a range of topics as the Regional Integration Initiative to the General Agreement on Trade in Services, from the national pension reform to the elaboration of a Code on Corporate Governance; from legal services to accounting standards.

At the international level, the FSC is a member of the International Association of Insurance Supervisors (IAIS) and of the International Organisation of Securities Commissions (IOSCO). It had the opportunity to participate together with the Bank of Mauritius at the last meeting of the Offshore Group of Banking Supervisors and we were represented at the meeting of the Offshore Group of Insurance Supervisors. The FSC is an active member of the Committee of Insurance and Securities National Authorities (CISNA) whose membership consists of regulatory authorities of the SADC member states.

LEGISLATIVE PROGRAMME

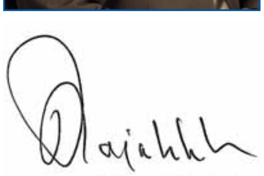
Much attention was devoted to the single issue of anti-money laundering and combatting terrorist financing (AML-CFT). The overall framework was re-examined and tightened and where necessary the law was amended to pre-empt the latest FATF recommendations. The FSC itself issued its own Code on AML-CFT specific for Insurance, Entities, Investment Businesses and Management Companies.

The FSC has proposed the introduction of new legislation for the regulation of insurance and securities business. Draft laws have been discussed with the industry professionals and preliminary consultations are nearly over. It is expected that the draft bills will be released for public consultation shortly. On the recommendation of the National Committee on Pension Reform, a brief (containing instruction for the drafting of legislation relating to private occupational pension schemes) has been prepared.
A first draft of the bill will be presented for consultation early 2004.

CONCLUSION

In June 2003, within the context of the Financial Sector Assessment Programme (FSAP), the joint mission of the IMF and the World Bank found, concerning the financial services sector, ***“a high level of compliance with internationally accepted norms and best practices”***, thus commending the FSC’s approach in regulatory reforms and recognising the efforts undertaken by the commission to enhance regulation and supervision in the area of non-bank financial services.

Ending its first two years on such a note is more than gratifying for our institution. Credit goes to staff members who throughout have shown unflinching support and commitment. I must also thank the Chairman and the members of the Board for their guidance and clear sense of direction. With such support and guidance, we look confidently forward to meeting the challenges of the coming year.



Iqbal M. Rajahbalee
Chief Executive

NATIONAL & INTERNATIONAL ECONOMIC DEVELOPMENTS

NATIONAL ECONOMIC TRENDS

OVERALL GROWTH PERFORMANCE

Despite its strong dependence on external factors, the Mauritian economy registered a slowdown in 2002 with a growth rate of 2.3% compared to 5.6% in 2001. Uncertainties about the pickup of growth in the world economy and international competitive factors combined to keep Mauritius' economic growth at a revised rate of 4.8% in 2003. Continuing efforts to address firmly the twin issues of competition and productivity, together with a drive to further diversify the economy with the addition of new activities, such as the Information and Communications Technology (ICT) sector, are seen as the basis for future economic growth. New signs of economic upturn in the United States and Europe carry the potential to overhaul the performance of the Mauritian economy provided current efforts towards restoring the sustained viability of exporting enterprises are implemented in a timely manner. As greater confidence comes back in the coming period at the level of the international economy, the observed slowdown of international capital flows is expected to be reversed. This factor is viewed as giving a new impetus to the growth of the domestic financial services sector in the near term, thereby overcoming the recent slowdown in the pace of growth of this sector. Recent years' mitigated growth outcome is mainly attributed to the fall in output of the sugar sector and a negative growth of 4% in the EPZ sector. A decrease in the level of activities of banks operating in the global business sector also contributed to the lower growth rate in 2002. However, the tourism sector which is another major component of the economy, witnessed positive growth in 2002. Table 1 indicates the GDP composition of the various economic sectors whilst growth rates in the major segments of the economy are disclosed in Table 2.

Table 1: GDP Composition

Sector	2003[2]	2002[1]	2001[1]	2000
Sugarcane	3.4%	3.3%	4.0%	3.6%
EPZ products	10.2%	11.1%	11.6%	12.0%
Hotels & restaurants	5.5%	6.0%	6.3%	5.6%
Financial Intermediation	9.3%	9.5%	9.8%	9.1%
Trade	11.1%	11.2%	11.2%	11.9%
Transport & Communication	13.9%	13.5%	12.9%	13.0%
Construction	6.0%	5.8%	5.6%	6.0%

[1] revised estimates

[2] revised forecast

Source: Central Statistics Office

Table 2: GDP Sectoral Growth Rates

Sector	2003[2]	2002[1]	2001[1]	2000
Sugarcane	+9.4%	-19.3%	+9.9%	+64.5%
EPZ products	-2.0%	-4.0%	+4.4%	+6.0%
Hotels & restaurants	+2.7%	+3.2%	+1.0%	+13.5%
Financial Intermediation	+3.6%	+2.0%	+11.0%	+14.6%
Trade	+3.0%	+3.0%	+3.0%	+3.0%
Transport & Communication	+7.7%	+7.4%	+8.9%	+11.4%
Construction	+8.0%	+7.8%	+1.5%	+7.5%

[1] revised estimates

[2] revised forecast

Source: Central Statistics Office

The sugar sector suffered a setback with the passage of cyclone Dina in 2002. This setback was coupled with unfavourable climatic conditions prevailing during the harvest season. Sugar output fell from 645,598 tonnes in 2001 to 520,887 tonnes in 2002. The decline in EPZ exports to our major European trade partners can be attributed to the subdued economic climate in these countries resulting in weak demand for the concerned export products. The political upheaval in Madagascar also impacted negatively on the growth of the Mauritian EPZ sector as from the first half of 2002.

Despite positive growth witnessed in the tourism sector in 2002, the growth potential of this sector was undoubtedly affected by the difficulties facing world tourism. These difficulties spring from a dampened level of activity in major industrialised economies, heightened security concerns following increasing terrorist attacks, a tense global geopolitical climate in this context, exchange rate developments in major economic blocs, and the outbreak of the SARS (Severe Acute Respiratory Syndrome) epidemic in certain markets.

The trade sector has maintained a constant growth rate of 3.0 % since 2000. Growth in the transport and communications sector has witnessed a slight slowdown in 2002 with a growth rate of 7.4%.

PERFORMANCE OF THE FINANCIAL INTERMEDIATION SECTOR

The “financial intermediation” component comprises insurance services, domestic banking, Global Business banking, and other (leasing and investment companies). Performance of the financial intermediation sector remained subdued in 2002 with an overall growth rate of 2%. After years of robust expansion, the banking sector showed a zero growth rate in 2002. This sharp slowdown is attributed to a drop in the activities of banks holding Category 2 licences, which, in turn, reflects a decline in overall business transactions following dampened activity worldwide as further reflected in the slow pace of growth in the number of applications for Global Business Companies channelled through the FSC during the course of 2002. As regards domestic banks, they maintained their growth rate of 5.0 % as in preceding years 2001. Table 3 gives a breakdown of the performance of the financial intermediation segment of the economy.

Table 3: Financial Intermediation Performance

	2002[1]		2001[1]	
	Growth rate (%)	Value added (Rs m)	Growth rate (%)	Value added (Rs m)
Insurance services	+8.0%	3,251	+10.0%	2,851
Domestic banking	+5%	4,750	+5%	4,324
Offshore banking	-14%	2,600	+24%	3,340
Other (leasing, investment companies, etc)	+32%	1,300	+5%	958
Overall / Total	+2.0	11,901	+11.0	11,473

[1] revised estimates

Source: Central Statistics Office

SAVINGS & INVESTMENT

Gross Domestic Fixed Capital Formation increased to Rs 31.5 billion in 2002 with the public sector accounting for 30.4% of overall investment. The main projects undertaken by the public sector relate to the utilities sector, the education sector, the telecommunications sector and the Cybercity project. As for the private sector, investments were mainly undertaken in the building, manufacturing and hotel sectors. The overall investment rate fell slightly to 22.2% whilst the savings rate fell to 27.5% in 2002 reflecting a resource surplus of 5.3% of GDP, which implies that resources were potentially being underutilised.

INFLATION

According to data published by the Central Statistics Office in Mauritius (CSO), the inflation rate as measured by changes in the Consumer Price Index for the financial year 2002/2003 came down to partly 5.1% compared to 6.3% for financial year 2001/2002. The inflation rate for 2003/2004 is set to go down further to 4.3 % and that for calendar year 2003 is estimated at 3.9%. The downward trend in inflation is partly explained by the rupee appreciation, particularly vis-à-vis the dollar, the modest growth of demand in the economy and the averaging out effect of price increases. It is to be noted that the inflation rate followed a downward trend despite the increase in the VAT rate last year, the upward revision in prices of public transport and higher cost of local telephone calls and the recent cuts in interest rates. In this respect, the inflation trend in Mauritius is following closely the falling price tendency in major industrial countries which, in the past year, were in fact faced with a potential deflationary risk that now seems to have been averted.

UNEMPLOYMENT

According to the statistics on employment and the labour force published by the Central Statistics Office, the number of unemployed persons in 2002 is estimated at 50,800 representing an unemployment rate of 9.7% compared to 9.1% in 2001. The rise in unemployment is largely attributed to the difficulties faced by the EPZ sector and to a mismatch of available skills compared to market demand. Better prospects of job growth are expected in the other sectors of activity, particularly in the construction sector. At a more fundamental level, efforts at creating sustainable jobs will be based on retraining and reskilling of part of the labour force that has been laid off due to factory closures and redirecting the training and skills programme towards more promising future growth sectors, such as ICT, Business Process Outsourcing and other knowledge-based activities.

PUBLIC FINANCE

Despite reduced economic growth, a relatively good performance has been achieved in relation to tax revenue over the first semester of the financial year 2002/03 mainly attributed to VAT revenue and taxes on international trade. Nevertheless, it is expected that the total derived revenue will slightly undershoot the estimate for financial year 2002/03 in the context of continuing subdued domestic activity. Total government recurrent revenue was estimated at Rs 30.3 billion by the end of financial year 2003 compared to Rs 24.8 billion in 2002. The estimate for government capital revenue was expected to be Rs 3.4 billion for the financial year 2003 as compared to Rs 4.9 billion compared to 2002. Public debt servicing is likely to be lower than budgeted on account of recent cuts in interest rates. Overall, the budget deficit for the financial year 2003 is estimated to be 6.0% of GDP. *(source: Ministry of Finance)*.

EXTERNAL TRADE

Domestic exports registered a decline in 2002 following contraction in sugar and EPZ sectors. A trade deficit of Rs 10.1 billion was registered in 2002 as compared to Rs 10.4 billion in 2001. A 12% increase in total imports was registered in 2002. With regard to trade with regional organisations, a total trade value of Rs 17 billion was undertaken in the COMESA and SADC countries in 2002 compared to Rs 15 billion in 2001 with more than 50% of the trade relating to South Africa.

BALANCE OF PAYMENTS

The deficit on the goods account is expected to widen to nearly Rs 9 billion in financial year 2003 on account of poor export growth owing to the reduced sugar production as well as a modest performance of the EPZ sector and an increase in imports.

On the other hand, the surplus on the services account is projected to remain strong, improving slightly from last financial year's level of Rs 12.0 billion. Current transfers should also be in a surplus position amounting to over Rs 2 billion in financial year 2003. Accordingly, the current account is projected to register a surplus of Rs 7.7 billion, representing 5.5% of GDP and testifying to the economy's strong external position. In line with the strong current account position, the overall balance of payments stood at a surplus of over Rs 10 billion in 2002 thereby further consolidating the reserve position. Net international reserves increased to Rs 44 billion as at December 2002, representing around 40 weeks of import cover based on the expected import bill for current financial year exclusive of Freeport activities *(source: BoM)*.

FOREIGN INVESTMENT

There was a slight decrease in Foreign Direct Investment (FDI) in Mauritius in 2002 compared to 2001 which amounted to Rs 829 million and Rs 936 million respectively. FDI in Mauritius remained timid and focused on specific strategic sectors of the economy on a one-off basis. For instance the latest significant FDI investment was in the telecommunication sector in 2000 with the share participation of France Telecom in Mauritius Telecom (Rs 7,204 million). Direct investment abroad amounted to Rs 36 million in 2002 compared to Rs 68 million in 2001.

INTERNATIONAL ECONOMIC TRENDS

OVERALL GROWTH PERFORMANCE

According to IMF projections *(source: World Economic Outlook 2003)* global economic recovery is expected to continue in 2003, albeit at a relatively subdued pace of 3.2%, 0.2 percentage point higher than in 2002. This growth rate estimate is based on the assumptions that there will be little spillover effects on the world following the war in Iraq.

Looking across individual countries and regions:

- In *industrial countries*, the United States is expected to continue to lead the recovery, with GDP growth in 2003 projected to be slightly higher at 2.6% compared to 2.4% in 2002. In the euro area, with domestic demand still quite weak, fiscal policy tightening, and the euro appreciating, growth projections have been reduced sharply. The situation in Germany is of particular concern - GDP growth is expected to be well under 1 percent for the third year running and strains in the financial sector are becoming increasingly apparent. GDP growth is also expected to remain weak in Japan, where deflation persists and growth in domestic demand is expected to decrease further.

- In *emerging markets*, GDP growth prospects for 2003 have fallen moderately, in part reflecting the weaker outlook in industrial countries. Growth in *emerging Asia* exceeded expectations in 2002, particularly in China which recorded a growth rate of 8% - this is expected to remain solid in 2003. However, the recent slowing in the global information technology (IT) sector will, if sustained, have an adverse impact on the newly industrialised economies and the ASEAN-4 (Indonesia, Malaysia, the Philippines, and Thailand) – an overall growth of 4.1% is expected in 2003 for the ASEAN-4. The uncertain economic outlook of trade partners of East Asia tends to cloud the picture about this bloc's economic prospects. Domestic demand has generally strengthened, but in most countries is not sufficiently robust to support a self-sustaining recovery, and the region continues to run a very large balance of payments surplus with the rest of the world. The issue of China's exchange rate policy recently assumed international proportions with the insistence of the US that a revaluation of the yuan is overdue in the face of resistance by China.

In *Latin America*, after the deep recession in 2001–02, activity has begun to turn up. However, significant vulnerabilities remain in a number of countries, including Argentina, Brazil, and Uruguay without potential threats of debt default in one case whereas the political crisis has had a serious impact on activity in Venezuela.

In the *Middle East*, many countries have benefited from higher oil prices, but the regional security situation continues to have serious implications for activity, including in those countries having close economic relations with Iraq, in Israel and the West Bank and Gaza. GDP growth in Turkey has exceeded expectations, but the new government faces significant challenges, especially in the light of recent policy slippages and the impact of war in Iraq. Overall GDP growth in the Middle East & Turkey is expected to be higher in 2003 with 5.1% compared to 4.8% in 2002.

In *transitional countries*, GDP growth has remained mixed. In Russia, delays in implementing reforms have weakened investment prospects. In central and Eastern Europe, GDP growth continues to be underpinned by strong foreign direct investment inflows as EU accession nears, offsetting the impact of weaker euro area demand. Overall GDP growth in the transitional countries is projected to be 4.9% in 2003 compared to 4.2% in 2002.

- Among the *poorest countries*, GDP growth in Africa remained relatively resilient to the global downturn, reflecting improved macroeconomic policies and stability, progress in resolving regional conflicts, rising commodity prices, and debt relief under the Heavily Indebted Poor Countries (HIPC) initiative. While GDP growth is expected to rise in 2003 to 3.7%, the outlook is clouded by adverse shocks. Poor weather with the effects exacerbated by governance problems and the HIV/AIDS pandemic have led to a serious famine in Southern Africa, the Horn of Africa, and the Western Sahel, now affecting 38 million people. The continuing turmoil in Zimbabwe and the political crisis in Côte d'Ivoire also have serious implications for these countries and their neighbours.

GLOBAL INFLATION

Global inflation remains very low, with consumer prices expected to increase by less than 2 percent in 2003 in advanced countries, and by just under 6 percent in developing countries. Given the expectation that output gaps in the United States and the euro area will widen further in the short term, and the continued moderate deflation in Japan, a number of observers expressed concern that outright deflation could become a more widespread problem. These fears appear to be receding at present, specifically as regards the US and the EU.

While declines in price levels for short periods in individual countries cannot be ruled out — indeed, inflation in Germany was close to zero in the second half of 2002, and the risk of a short period of falling prices is significant—

the risks of a sustained deflationary spiral currently appear small. Inflationary expectations remain well anchored, and excess capacity and output gaps in most countries seem unlikely to increase to levels that would dramatically change those expectations. However, since deflation has large potential costs, these concerns reinforce arguments for erring on the side of monetary accommodation at the present juncture, and underscore the importance of central banks, making it clear that they will act aggressively and pre-emptively to forestall deflation if the need arises. The Federal Reserve Bank of the US adopted the most aggressive stance in this respect and appears to have warded off the deflationary risk to which the US was exposed. Overall the global tendency is for inflation not to be a major policy preoccupation even though there are preliminary signs that some central banks may reverse their loose monetary stance so far as some of these economies may be heating up.

FINANCIAL AND EQUITY MARKETS

Forward-looking indicators — such as asset prices and confidence indicators — are likely to remain highly volatile and will be difficult to interpret until global economic uncertainties are reduced. A relatively rapid resolution of the uncertainties surrounding the situation in Iraq could provide a larger boost to global activity from the second half of 2003 than was originally assumed, both through a stronger pickup in confidence and through lower oil prices.

With corporations in both the United States and Europe having relatively high cash balances it is possible that investment could respond relatively quickly, though overall corporate balance sheets are still not strong. In addition, continued strong productivity growth in the United States remains an important supportive factor. But on balance, the risks remain distinctly on the downside, the more so, the longer the conflict continues. Beyond the specific risks in major industrial countries, including Japan and to a lesser extent Germany, they include the following:

- *A prolonged and destructive conflict in Iraq could have a severe impact on global activity*, through elevated oil prices, falling consumer and business confidence, lower equity prices, and higher risk premia. To minimise the impact, the international community needs to accelerate the rebuilding process so that economic recovery is protected as much as possible in the circumstances.

- *The recovery continues to depend heavily on the outlook for the United States*. Given the weakness in both Japan and the euro area, this is probably inevitable and even necessary in the short run.

- *The possibility of further declines in mature financial markets cannot be ruled out*. While forward looking price earning ratios are now close to their historical averages, and earnings expectations have fallen back from earlier optimistic levels, there remains the possibility that—after a long period of overvaluation — markets could overshoot on the downside, having a direct effect on demand and adding to existing pressures on financial institutions and corporates. Higher-than-expected losses on defined benefit pension plans or the emergence of additional corporate scandals could add to such risks. In the United Kingdom, Australia, some of the smaller European countries, and to a lesser extent the United States, housing prices have been surprisingly strong in an environment where equity markets are falling. Correspondingly, the possibility of a slowdown—or even an abrupt adjustment—is also a source of concern. Looking forward, as growth prospects improve, the possibility of a sharp fall in long-term bond prices—which, with interest rates very low, are presently very high — is also a source of risk.

- *Vulnerabilities in a number of emerging market countries—notably some countries in Latin America and Turkey—remain high*. While financing conditions have recently improved, it is possible that the recent improvement in risk appetite may not prove enduring. In order to ensure debt sustainability among certain countries, a further reduction in spreads will depend on the strength of economic fundamentals rather than external factors. Due to frail economic recovery, the global economy may be more vulnerable to the effect of contagion.

At macroeconomic level, due to drastic monetary policy relaxation over the past years, the room for manoeuvre has been significantly reduced and the scope for further fiscal policy relaxation has become tighter. As a result of shocks, the financial cushions in the banking system of several European countries and in Japan have also been reduced.

As a result of the weakening of financial strength of insurers, their presence in the credit derivatives market has been reduced as well, thereby diminishing banks' ability to deal with credit risks. Such events would hamper the ability of the financial system to absorb shocks. As a result, the policy makers in leading economies face an unpredictable and risky situation. With moderate inflationary pressures, the monetary policies of major industrial countries should remain receptive, providing a buffer against unexpected changes in the geopolitical landscape and associated risks. A flexible approach is more appropriate to cope with a dynamic environment.

By end of February 2003, the leading financial markets indices have fallen between 40 and 70 percent since their highest. The drops experienced in the U.S markets have accelerated. In the euro area, the Euro Stoxx dropped by about 15 per cent in the past months. In Japan, stock prices have hit the lowest in 20 years. Uncertainties about the economic outlook are also reflected in implied volatilities of major share prices, which have generally remained above their recent averages.

Technology sectors continue to be the hardest hit. In the US, shares fell about two thirds from their highest until February 2003. In general, telecoms in Europe are still suffering from the high fees paid to their governments for the third generation (3G) mobile telephony licences. The introduction of (3G) infrastructure has been slower due to timid demands and high indebtedness. However, the subsidising of telecoms infrastructure in poorer European countries may help the development of that sector. The Deutsche Börse has restructured its trading activities due to a sharp decline in Germany's TMT sector. IPO's driven by high yield technology enterprise in the U.S have fallen sharply. The more entrenched firms rather than starts-up are more likely to bring a turnaround in that sector.

The financial sector in particular, the insurance sector, has somewhat been spared by the downturn, even though affected by the aftermath of the September 11 terrorist attacks. Other financial institutions with healthy balance sheets have seen their cushions dried up as a result of prolonged downturn. In Germany, share prices of insurance and banks have plunged by 17 and 30 percent over the last five months. This has triggered a downgrading by rating agencies.

FOREIGN EXCHANGE MARKETS & EMERGING ECONOMIES

The strengthening of the euro against the dollar was the highlight on the forex market. It started to appreciate in the early 2002, reaching the same level as the dollar in mid July, falling to its previous level, it started rebounding in the late October. From 2002 to early March 2003, the euro gained more by 20 per cent against the dollar. The yen was in synch with the euro appreciating against the dollar early 2002.

However, the yen deviated from the euro's upward trends and marked a depreciation against both currencies. It reached almost its same level of mid-2002 against the dollar by March 2003, but lower against the euro by 10 per cent for the same period.

Although an euro appreciation had been anticipated, the timeframe and extent of such was less certain. The key reason was the demand from Eastern European countries for more euros as a result of currency switches. It is anticipated that the US currency will be under pressure due to high US current account deficit in the long run. Due to the weak European growth rate which may be further eroded as a result of loss in competitiveness, a sharp downward calibration of the dollar is to be avoided. Investment in US assets has been unattractive as a result of low US Treasury yields, increase in corporate bankruptcies and decline of the dollar.

The increase of foreign net purchases of government and agency bonds was the notable feature. The yield spreads of emerging market bond indices (EMBI) over US government paper started rising in 2002 following a decrease in 2001 due to the instability in Latin America. Following the announcement of the credible economic reforms in Brazil, a decline in spreads was noted over the past months which are almost back to the levels of early 2002.

Despite the fact that inflation seems to be well contained in Brazil, the country remains vulnerable to investors' expectations as debt is high and pegged to exchange rate or short-term interest rates. The Argentinian economy seems to still suffer from the economic hangover. However, the economic recovery has gathered pace with a promising outlook on default debt negotiations.

With the geopolitical instability in the Middle East, bond yields were affected. On the other hand, the spreads, despite falling, remain elevated. The Asian economies seem to be well equipped to withstand the shocks given the low spreads over the US bonds. With a view to moving out of equities, the year 2002 witnessed a huge sale of the Asian emerging markets equities, accompanied with an increase in Asian bond spreads. This is due to the North Korean crisis, investors' mood has been dampened. As a common feature for small economies to rely on external trade, this vulnerability becomes more apparent in case of more terrorist attacks. Despite all this, the Asian market still looks interesting with the low performance of the US capital markets.

CONCLUSION

Beginning with the latter half of 2002, but more particularly during the second half of 2003, some signs of a pickup of economic activities in key industrial countries have started emerging. In the United States, it has needed successive reductions of the key lending rate by the central bank coupled with substantial relaxation of fiscal policy to turn around the depressed state of demand in the economy. In a bid to continue stimulating their economies, there are real risks that individual EU members would breach the self-imposed limit of 3% of GDP in terms of the agreed size of the fiscal deficit under the Stability and Growth Pact of the EU. The current slow recovery of the world's major economies may produce a catch-on effect in the rest of the world and hence shift the stage to a brighter outlook in terms of global economic performance in the coming year.

The stresses of the preceding years have highlighted more forcefully than ever before the importance of international competition in securing a share of international trade. No sector of economic activity, the financial sector included, can afford to bypass the strong forces of global competition, more so as the World Trade Organisation will push forward its agenda for liberalisation of trade in services. Short-term palliatives, such as the practice of competitive devaluation of currencies or loose monetary policy, will confer unenduring advantages to industry in this environment as it has been recently reflected in the stand taken by the G7 in its September 2003 meeting which brought to the fore the issue of unfair exchange rate practices of some countries that need to be addressed by those countries.

In this emerging international framework, the pursuit of cost efficiency and higher productivity will prove to be key factors for sustaining economic growth. Economic structures that do not stand a good chance to remain competitive will have to give way to others better able to withstand the global competition. It is not quite clear that units of production in small island economies, such as Mauritius, would, in this set-up, be able to successfully compete with units having larger economies of scale from other economies. The underlying constraint due to such disparities may to some extent be overcome by forming external alliances and working with effective international producer networks with a view to overcoming the constraints of size and hence gain market access. This approach is applicable as much to the real sector as to the provision of international services, including financial services.

The Mauritian economy has registered commendable rates of growth in the tough economic environment of the past few years. More needs to be done to re-position the economy effectively. Efforts may be directed to the generation of appropriate critical skills to tap international opportunities, such as those that have arisen recently from rapid growth in the area of outsourced international business. Steps taken to increase the scope of the internal market should be also directed to target our potential for tapping external markets, particularly in regional economies. The key to success in this area is to identify the opportunities well in time, generate the critical mass on which the business may be developed and build in sufficient flexibility in the domestic skill and resource base to respond efficiently and effectively to changing patterns of global demand.

Industry reports

DEVELOPMENT OF NON-BANK FINANCIAL INSTITUTIONS IN MAURITIUS

The FSC's mandate is wholly dedicated to the regulation and supervision of Non-Bank Financial Institutions (NBFIs). Their role and potential for contribution to the Mauritian economy take an increasing importance as they come under focus.

The past 10 years have witnessed the development and growth of Non Banking Financial Institutions (NBFIs) across the globe. The expansion of middle income groups in developing countries has increased the demand for property ownership, small-scale investment, and savings for retirement resulting in the growing need for housing finance, contractual savings, insurance services, pension plans management, and asset management. NBFIs offer individuals and enterprises access to a broad range of financial services and tailored financial instruments.

NBFIs provide a number of economic advantages namely:

- Adding to economic strength by enhancing the resilience of the financial system to economic shocks;
- Broadening the spectrum of risks available to investors through the enhancement of equity promises (by adding liquidity, divisibility, informational efficiencies, and risk-pooling services);
- Encouraging investments and savings;
- Providing contingent financial promises and thereby fostering a risk management culture, and last but not least
- Offering competition for banks in the provision of financial services.

A well-developed and properly regulated NBFI sector constitutes an important component of a broad, balanced, and efficient financial system that spreads risks and provides a sound base for economic growth and prosperity.

Academic research carried out over the past years indicates that there exists a positive relationship between financial sector functions and economic growth. Financial intermediary development has a substantial and significant impact on economic growth both in developed and developing economies. There is also strong evidence that financial depth and diversity add to economic growth and development.

The presence of the FSC as the single regulator for the non-bank financial sector has prompted the expansion of activities of NBFIs through the provision of a proper regulatory framework for this sector. The FSC has adopted an active and supportive approach in enabling the NBFI sector to grow. Further development in this sector is anticipated as the necessary legislative, operational and regulatory frameworks are enhanced. The FSC's approach to the regulation of the NBFI sector is based on the inherent risks associated with the financial business activity carried out by the NBFIs.

CLASSIFICATION OF NBFIs

There is so far no universally established nomenclature for NBFIs in academic works or literature on financial regulation. The FSC has adopted a classification of the various NBFIs in Mauritius in order to implement a systematic approach in the development and regulation of the sector. Some of the NBFIs listed below are currently licensed by the FSC in accordance with statutory enactments whilst others are subject to general licensing conditions pending the introduction of relevant legislation.

The classification distinguishes between the manufacturer of the product, the service provider and the financial products. It is based on a functional view of the institutions while financial products are analysed as financial promises in the judicial sense. This classification differentiates according to the nature of the activities, the type and the intensity of regulation and supervision.

(1) INSURANCE COMPANIES & PENSION FUNDS

This sub-sector specialises in providing contingent promises by underwriting economic risks associated with death, illness, damage to or loss of property, other loss exposures and retirement incomes.

- Insurance Companies
- Captive Insurance Companies
- Re-insurance Companies
- Statutory Pension Funds:
  - National Pension Fund
  - National Savings Fund
  - Sugar Insurance Pension Fund
  - Civil Service Pension Scheme
  - Superannuation Funds or Occupational Pension Schemes

(2) CAPITAL MARKET OPERATORS

Investment Schemes

This sub-sector comprises investment vehicles organised financial arrangements which pool investors' (individuals and firms) funds for the purpose of acquiring financial assets in the form of equity, debt, and derivative promises. The distinguishing characteristic of these vehicles is that they transform the underlying investment promises into essentially equity-type promises by the vehicle. The ultimate risk inherent in the underlying investment portfolio is borne by the shareholder or unitholder in the vehicle.

- Collective Investment Schemes
- Authorised Mutual Funds
- Unit Trust Schemes
- Investment Trust Companies
- Private Equity Funds
- Venture Capital Funds

Market Makers

This sub-sector comprises companies that intermediate in markets in financial securities such as equities, government and corporate debts, and derivatives by taking dealing and risk positions in the activities undertaken.

- Stockbroking Companies
- Fund Managers
- Portfolio Managers

Market Infrastructure Providers

This sub-sector comprises organised institutional units that settle and maintain the infrastructure of the capital market and include:

- Stock Exchange of Mauritius
- Central Depository System
- Custodial services

(3) SPECIALISED CREDIT INSTITUTIONS

This sub-sector comprises institutional units that provide a limited range of specialised financial services (non-deposit taking) to a specialised target group of investors / institutions by raising and channelling funds from lenders and lending them to borrowers. These NBFIs provide a highly specialised service that typically focuses on a single product or sector.

- Credit Finance Companies
- Leasing Companies
- Factoring Companies
- Mortgage Finance Companies

(4) FINANCIAL SERVICE PROVIDERS AND MARKET PROFESSIONALS

Included in this sub-sector are firms or individuals that arrange, execute, or otherwise facilitate client transactions in financial assets by providing specialised services to their customers on a fee-for-service basis. These units do not as a main business activity raise funds or extend credits on their own account, but do provide finance-related services.

- Corporate Service Providers (*essentially Management Companies operating in the Global Business Sector)*
- Managers of Captive Insurance Business
- Insurance Brokers
- Insurance Agents
- Insurance Salesmen
- Pension Administrators
- Investment Advisers
- Actuaries
- Auditors
- Securities Analysts
- Treasury Managers
- Share Registry

INFORMATION ON NBFIs

Statistical information on the financial services sector constitutes an important input in the policy making process of the sector. Statistics help to identify strengths and systemic vulnerabilities of the financial services sector and to define priority measures for improving the operation and oversight of the system and also the sector's contribution to economic growth and development. Furthermore, the publication of statistics on the financial services sector provides greater transparency and indicates proper governance of the industry at large.

Statistics therefore constitute an important decision-making tool for stakeholders by enabling them to understand and appreciate the depth and characteristics of the financial services industry.

Prior to the establishment of the FSC, information pertaining to NBFIs operating in Mauritius remained scattered with different organisations collating data for different purposes. Thus, when the FSC was set up it was evident that one of the statutory obligations of the Commission would be to gather and report information pertaining to the operations and regulation of its licensed entities. This has been done through Section 6 (m) of the FSD Act 2001 which provides for the FSC to statutorily *"… collect, compile, publish and disseminate statistics in respect of the non-banking financial services sector"*. The FSC is further empowered to require its licensees to furnish statistical information relating to their business as may be required by the Commission.

FSC STATISTICAL SURVEY

In light of the above, the FSC has acted promptly to attend to its statutory duty of initiating procedures to assess the size and depth of the NBFI sector. Thus, the FSC carried out for the first time a statistical survey covering all NBFIs operating in Mauritius both in the domestic and Global Business sectors. The classification described earlier has helped to bring most of the NBFIs within the ambit of the survey. Details relating to the methodology of the Survey are highlighted in Annex 1 while results pertaining to each category of NBFI are discussed in the relevant sections of this Report.

OVERALL PERFORMANCE OF NBFIs

Table 1 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 have been obtained from the Survey and the audited accounts and statutory returns submitted to the FSC have been also used.

Table 1: Financial Performance of NBFIs

Rs million

NBFI	Assets		Turnover		Profit Before Tax		Value Added	
	2002	2001	2002	2001	2002	2001	2002	2001
Insurance Companies*	27,160	23,972	6,203	5,334	3,196	2,915	3,543	3,265
Investment & Asset Managers, Venture Capital Manager & Pension Administrators	861	474	161	129	12	31	47	55
Stockbroking Companies	438	471	58	64	30	35	42	48
Leasing Companies	7,116	6,704	2,008	1,748	209	186	237	209
Credit Finance Companies	696	656	168	158	37	37	71	70
Insurance Brokers	210	151	85	63	26	9	54	35
Management Companies*	977	916	974	885	281	313	472	465
Corporate Trustees	46	46	6	5	4	2	4	2
Captive Managers	8	n.a	3	n.a	1	n.a	2	n.a
Total	37,512	33,390	9,666	8,386	3,796	3,528	4,472	4,149
% GDP	26.4%	25.3%	6.8%	6.4%	2.7%	2.7%	3.1%	3.1%

* data extracted from audited accounts and statutory returns

Table 2: Employment Breakdown of NBFIs *(as at 31 December 2002)*						
NBFI	**Reporting population of NBFIs**	**Total employment**	**Expatriate**	**Managerial**	**Technical**	**Support**
Insurance Companies	19	1,538	14	123	535	866
Investment Managers, Asset Managers & Venture Capital Companies	12	54	1	16	14	23
Pension Administrators & Actuaries	3	27	n.a	n.a	n.a	n.a
Stockbroking Companies	11	61	0	18	15	28
Leasing Companies	12	77	0	18	15	44
Credit Finance Companies	3	181	0	12	1	168
Insurance Brokers	8	93	0	17	50	26
Management Companies	38	457	7	104	249	97
Corporate Trustees	11	0	0	0	0	0
Captive Managers	4	9	1	4	1	3
Grand Total	121	2,497	23	312	880	1,255

n.a: not available

On the basis of the above data, the contribution of NBFIs to GDP has remained the same in 2001 and 2002, i.e 3.1%. The results indicate that Insurance Companies are the most important sub-sector of the NBFIs in Mauritius, in terms of assets, turnover, profit before tax, value added, and employment. Management Companies and Leasing Companies are the two other categories of NBFIs that have significant economic importance, their share in the total value added for the NBFI sector being respectively 12% and 6%.

The reported results are in line with the findings of the FSAP Mission Report which has confirmed the dominance of a few major players and concentration of risks amongst various NBFIs. This trend of concentration of business is found in most sub-sectors of NBFIs and is discussed further in this Report under each relevant section.

For the first time, data on occupational pension schemes have been gathered. Results from the Survey indicate the significant importance of occupational pension schemes in Mauritius. With a fund value of Rs 15 billion, the 791 schemes cover 66,538 beneficiary members. The growing importance of the pension industry has prompted the authorities to work on comprehensive pensions legislation. Further details on this sector are found in the relevant section. Additionally, a Working Paper on Occupational Pension Funds, authored by Dimitri Vittas of the World Bank is reproduced in this Report.

Data on employment in the NBFI sector is also reported for the first time. Table 2 indicates that 2,497 persons are directly employed in the NBFI sector, with the majority of staff being employed at the support level. Some 23 expatriates are employed in the NBFI sector. Although, in real terms, the total employment figure in the NBFI sector is not that high, it is important to note that the quality and level of expertise of work in this sector is very high compared to work in other economic sectors.

INSURANCE & PENSIONS

OVERVIEW

The last two decades have witnessed unparalleled growth in contractual savings (assets of life insurance companies and pension funds) in many countries and in some high income countries, contractual savings are in excess of 100 per cent of Gross Domestic Product (GDP). Contractual savings institutions have also become dominant financial intermediaries whose development and growth have ranked very high in many governments' agenda. Contractual savings institutions promote the accumulation and investment of long term resources and play an important role in the deepening and development of financial markets

In Mauritius, contractual savings exceed 40% of GDP which by developing countries' standards in Africa, Asia, Latin America and the transition economies is commendable. However the further strengthening of the sector which will require quite substantial and deep reform of the pension system and as a corollary, that of the insurance industry will have to be undertaken in a comprehensive and phased manner if the sector's contribution to the economy is to be improved.

Contractual savings institutions in Mauritius comprise Insurance Companies and Occupational Pension Schemes created by statutory bodies and private sector companies, the National Pensions Fund and the National Savings Fund. Their role in the mobilisation of savings and capital formation underscores their economic importance and their potential force in the local financial system.

The total asset base of contractual savings institutions stood at Rs 59 billion in 2002 representing 42% of GDP. The share of Insurance Companies in the total asset base was Rs 27 billion (51% of the total contractual savings) while that of the occupational pension schemes was Rs 17 billion (29% of the total contractual savings). However, 40% of the assets of Insurance Companies are linked to occupational pension schemes that are insured and/or administered by Insurance Companies. Table 1 summarises the asset distribution among the various contractual savings institutions.

As is reported in the previous section and further evidenced from the data below, the insurance industry in Mauritius represents the most important component in the total non-banking financial sector. The 27% growth in the fund value of occupational funds in 2002 indicates the increasing importance of the pension sector in Mauritius. The FSC is for the first time reporting on this sector in the section below. On the basis of the data obtained, it is clear that the insurance and pensions industries will spearhead the development of the non-banking financial sector in the years ahead.

Table 1: Assets of Contractual Savings Institutions

Rs million

	2002	2001
Self-Administered Funds	4,058	2,458
Sugar Industry Pension Fund	2,196	2,161
Insured / Administered Funds	10,922	8,904
Total Occupational Funds	17,176	13,523
National Pension Fund	22,422	21,772
National Savings Fund	3,380	2,849
Insurance Companies	27,160	23,972
Less Double Counting (Insured / Administered Funds)	(10,922)	(8,904)
Total Contractual Savings Assets	59,216	53,212
% of GDP	42%	40%

Sources: FSC, NPF, NSF, SIPF

INSURANCE SECTOR

The insurance industry in Mauritius is relatively well developed with a market penetration which is higher than India and on the same level as Singapore (vide Vittas Report on the Insurance industry in Mauritius of March 2003).

In its last Annual Report, the FSC placed emphasis on the major problems facing the insurance industry worldwide and in Mauritius in the aftermath of the September 11th 2001 attacks. Major international reinsurance companies have had to review their strategies to minimise their risk exposure to render their operations financially viable. As Mauritius is highly reliant on the overseas reinsurance market, the situation on the international scene was not without effect on the local insurance market resulting in an increase in reinsurance premia and a reduction in the scope of risk cover.

The insurance sector was subject to the FSAP review in late 2002. An overall positive assessment of the insurance sector was made in the Financial Sector Assessment report released in August 2003. The Report refers to the insurance industry as being ***"well developed"***. It also states that ***"the large and medium sized companies are efficient and financially strong. Despite the high level of concentration, the insurance industry appears competitive, efficient, and reasonably profitable"***. The Report recommends the promotion of further consolidation in the industry - to ensure sound competition and greater safety by raising the level of minimum capital and introducing risk-based capital requirements.

THE INSURANCE SECTOR AND THE MACROECONOMY

Table 2 below shows how the share of total assets of Insurance Companies in national GDP has been increasing over the years and more significantly in 2002.

Table 2: Growth & Contribution of Assets to GDP

	2002	2001	2000	1999	1998
Total assets (Rs million)	27,160	23,972	21,123	18,635	16,672
% of GDP	19.1%	18.2%	17.4%	16.7%	15.9%
Growth in assets (%)	13.3%	13.5%	13.4%	11.8%	17.9%

The insurance sector in Mauritius will soon be operating within a new legislative and operational framework. One of the main changes that will be brought about with the new insurance legislation will be the segregation between long term and short term insurance business as discussed later. Thus, Insurance Companies will have to review their current operations to specialise in only one of the lines of business mentioned above. Separate pension legislation will also be introduced to regulate pension business in Mauritius.

The contribution of the insurance industry to the Mauritian economy as a whole has grown from 16% in 1998 to 19% in 2002. It is to be noted that the relatively well developed insurance sector does not only offer services to the public but at the same time the sector strengthens the Mauritian economy with considerable amounts in the form of investments as can be seen from Table 3 below.

Table 3: Assets Distribution					
	2002	2001	2000	1999	Percentage 1998
Shares & Debentures	38	35	35	30	26
Mortgage Loans	21	23	25	25	26
Government Securities	13	9	7	6	9
Deposits & Securities	9	14	13	17	16
Land & Property	4	5	5	6	7
Other Loans	4	4	5	5	5
Other Assets	11	10	10	11	11

Assets allocation over the past years has remained almost the same, except in 2002 where there is a slight change for the share in "Deposits & Securities" and "Government Securities". Insurance Companies have adequate assets diversification with the largest investments being in corporate securities (both equities and debentures), representing 38% of the total assets. Housing loans account for 21% of total assets in 2002. The share of housing loans has been decreasing over the past 3 years indicating the growing presence of banks in the housing finance sector. It is important to note that investments in "Government Securities" have increased in 2002 by 44% whilst investments in "Deposits & Securities" have declined by 36% in 2002. Detailed breakdowns of assets and liabilities of individual Insurance Companies are provided in Annexes 3 & 4 respectively.

STRUCTURE & COMPOSITION

As at 31 December 2002, 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 and Recovery Agent" for foreign underwriters. There have been no new entrants in the local insurance market.

The insurance industry has performed well in 2002 with overall growth in all indicators. Table 4 provides a snapshot of the main financial performance indicators for both the long term and general insurance businesses represented by 20 and 22 Insurance Companies in 2002 and 2001 respectively.

Table 4: Main Financial Performance Indicators of the Insurance Industry*		
	2002	**2001**
Assets (Rs million)	27,160	23,972
Assets (% of GDP)	19%	18%
Total Gross Premiums (Rs million)	6,203	5,334
of which long term business	*3,760*	*3,247*
of which general business	*2,443*	*2,087*
Total Gross Premiums (% of GDP)	4.4%	4.0%
Gross Claims (Rs million)	3,683	2,780
of which long term business	*2,294*	*1,671*
of which general business	*1,389*	*1,109*
Insurance Funds (Rs million)	21,555	19,198
of which long term fund	*20,906*	*18,592*
of which general fund	*577*	*522*
of which other funds	*72*	*84*
Total Profit Before Tax (Rs million)	3,196	2,915
of which from long term business	*2,778*	*2,505*
of which from general business	*418*	*410*
Value Added (Rs million)	3,543	3,265

* Figures are as at end December

Total assets of the registered Insurance Companies stood at Rs 27 billion as at 31 December 2002, representing a 13% growth rate during the course of 2002. In fact, assets of Insurance Companies have experienced a uniform growth of 13% since 2000. An analysis of the assets breakdown of Insurance Companies reveals the following:

1. Total premiums amounted to Rs 6.2 billion in 2002 representing a growth of 16% over the previous year. Insurance premiums have been growing steadily since 2000 at an average rate of 14%. Premiums from long term insurance business constitute 61% of the total gross premiums, indicating the dominance of the long term business in the insurance industry.

2. Total insurance funds which amounted to Rs 21 billion grew by 12% in 2002. As indicated in Table 2 almost the totality of the funds derived from the long term insurance fund, indicating once more the importance of the long term insurance business.

3. Profit before tax amounted to Rs 3 billion in 2002 representing a growth of 9% over the previous year. Once again, the bulk of the profit was generated by long term insurance business.

4. Value added by the insurance sector was calculated at Rs 3.5 billion in 2002, representing a growth of 9% from the previous year. As explained earlier, the insurance industry provides the greatest contribution from the non-bank financial sector in the national economy.

It is clear from the above results that the insurance industry is being driven by long term insurance business. This situation is most likely to continue in the years ahead with the growing scope of long term business especially in line with the high level of development of the pensions sector and the housing finance sector.

CONCENTRATION OF BUSINESS

The 20 operational Insurance Companies involved in long term and general businesses operate in a highly oligopolistic manner with a few companies holding the major share of the market. In 2002, 3 Insurance Companies controlled 73% of the total assets with the largest being the state-owned company, SICOM which on its own absorbed 37% of the total Insurance Companies' assets. However, it is to be noted that 58% of SICOM's assets includes the assets of the parastatal pension schemes which are administered but not insured by SICOM. The same 3 Insurance Companies generated 80% of the total gross premiums and they handled 63% of the total gross claims. In terms of profit before tax, the 3 Insurance Companies produced 72% of the total profit before tax and 68% of the total value added. These results clearly indicate that the insurance market is dominated by these 3 major players with the other Insurance Companies competing for the remainder of the market.

LONG TERM INSURANCE BUSINESS

15 Insurance Companies operate in the long term insurance business sector including 1 foreign company and 1 company that is in liquidation. As explained earlier, the insurance industry is driven by long term insurance business and the concentration in this sector is very high.

As indicated in Table 4, gross premiums in respect of long term insurance business stood at Rs 3.8 billion in 2002, representing a 16% increase from the previous year.

Investment income on the long term insurance fund registered a 23% increase during 2002 and stood at Rs 1.9 billion which represents 52% of gross premiums. It is important to note that the growth in investment income in 2002 was the highest since 1998. Given the long term nature of life insurance business, income arising from the investment of funds in this sector plays an important role.

As indicated in Table 4, payments of benefits in the form of gross claims have increased to Rs 2.3 billion in 2002, representing a 38% increase from the previous year. Survival benefits payable under endowment policies and annuity payments accounted for 51% of the total payments in 2002 as against 72% in 2001. Approximately 5% of the total benefits were paid in respect of death during the year 2002. The proportion of bonus cashed to total payments has increased from 11% in 2001 to 23% in 2002.

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

Assurances & Annuities

The FSC requested Insurance Companies to submit data on assurances and annuities for 2002. The information submitted for new business and business in force are summarised below in Table 5.

Table 5: Assurances & Annuities 2002

	Business in Force		New Business	
	Individual	Group	Individual	Group
Assurances				
No. policies	299,087	905	43,408	129
Sum assured (Rs million)	41,819	20,208	7,954	4,842
Annual premium (Rs million)	22,531	486	647	20
Single premium (Rs million)	46	39	441	11
Annuities				
No. policies	5,594	1,782	661	177
Premium (Rs million)	34	56	14	101
Annuities (Rs million)	216	168	42	6

As indicated in Table 5, the total number of life assurance policies in force in 2002 stood at 299,992. The FSC Survey on its side reveals that the total number of policies issued by the Insurance Companies amounts to 447,367 in 2002 with an almost equal split between long term and general insurance businesses. It is observed that annual premiums for the individual life business in force exceed Rs 2.5 billion and represents 67% of the gross life premiums. It is to be noted that annual premiums for individuals increased by 17% in 2002 compared to 98% in 2001. As for annuities, the number of policies increased by 15% in 2002 following a decrease of 11% in 2001.

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 of 5 classes of business, i.e. fire, motor, personal accident, transport, and miscellaneous. Unlike the long term insurance sector, concentration of business is much less in the general insurance sector. Three Insurance Companies account for 46% of gross premiums in 2002. Gross premiums have increased by 17% in 2002 to reach Rs 2.2 billion.

The claims experience of the past years demonstrates the large volatility of losses. In fire insurance, the gross claims ratio fluctuated around 30% of gross premiums up to 2001, but increased drastically to 68% in 2002.

A summary of the Revenue Accounts of individual Insurance Companies is detailed Annex 5.

INSURANCE INTERMEDIAIRIES

The FSC licenses different types of insurance intermediaries, namely Insurance Brokers, Insurance Agents and Insurance Salesmen. The growth of the number of registered insurance intermediaries is indicated in Table 6.

The FSC Survey reveals that the number of agents and salespersons working for Insurance Companies were 97 and 1,096 respectively for 2002. There is a significant difference between these latter figures and the FSC's records as per Table 6 - this is explained by the fact that the Commission does not obtain any official and updated communication relating to this matter.

Table 6: Registered Insurance Intermediaries

	2003*	2002	2001	2000	1999
Insurance Brokers	10	9	8	8	7
Insurance Agents	130	169	144	114	106
Insurance Salesmen	2,692	2,571	2,512	2,416	2,361

* as at 30 June 2003

Although motor insurance is the largest class of general insurance, accounting for 41% of total non-life gross premiums in 2002, its share decreased in 2002. Fire and miscellaneous insurance classes are also relatively large accounting for 22% and 20% respectively of the total non-life gross premiums. These 2 lines cover large industrial and commercial risks and tend to rely heavily on re-insurance.

FSC Survey Results on Insurance Brokers

There were 9 operational Insurance Brokers in 2002 compared to 7 in 2001. Since one of the companies has only been licensed in October 2002, the number of reporting entities for the Survey was 8 for 2002.

An analysis of the financial positions of the Insurance Brokers indicates that the total assets base for this sub-sector stands at Rs 210 million in 2002 reflecting an increase of 39% over the previous year. 57% of the total assets are concentrated in current assets, (in the form of debtors), whilst 82% of the total liabilities constitute of trade and other payables. With regards to the financial performances of Insurance Brokers, the total income in 2002 stood at Rs 85 million representing an increase of 36% over the previous year. Salaries and allowances constitute 43% of total expenses in 2002. Total profit before tax stood at Rs 25 million in 2002 reflecting an increase of almost three times from the previous year – this is despite the fact that 3 out of the 8 Insurance Brokers generated losses in 2002.

On the basis of the information submitted, the value added for the sub-sector of Insurance Brokers is evaluated at Rs 54 million for 2002 representing an increase of 54% over the previous year.

Insurance broking business remains quite concentrated in terms of business generated by operators: in 2002, 4 of the companies shared 82% of the total assets, 3 of the companies generated 81% of the total income while these same 3 companies created 96% of the total profit before tax. Insurance broking business is focused on non-life business with a total value of premium amounting to Rs 411 million in 2002.

The performance described above indicates a healthy development of the insurance brokerage business 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.

COMPLAINTS

Over the year under review, the FSC has registered an increasing number of written complaints from policy holders, consumer organisations, insurers and third parties against Insurance Companies regarding mainly the unsatisfactory handling of motor claims.

The number of written complaints received during the period 1 July 2002 to 30 June 2003 has increased to 350 as against 257 in 2002 and 180 in 2001.

ENFORCEMENT ACTIONS

During the period 1 July 2002 to 30 June 2003, in addition to the on-going investigation into the affairs of a registered Insurance Company, on-site inspections have been effected in 3 Insurance Companies on the basis of weaknesses observed in their Statutory Returns and Audited Accounts. In the case of one company, the insolvency situation warranted an immediate injection of capital and this has been done with the participation of a foreign partner as well as local shareholders. As regards the other 2 companies that have been under on-site inspection, corrective actions have been taken regarding their non-compliance particularly with respect to their Statutory Reserve Fund.

For the Insurance Company which is still under investigation, it has been directed not to issue or renew any insurance policy pending injection of additional capital required to meet the negative balance in its Profit & Loss Account.

UPDATE ON INTERNATIONAL REGULATORY ORGANISATIONS

The FSC is a member of the Committee of Insurance, Securities, and Non-Banking Financial Authorities (CISNA), a regional organisation comprising regulators of insurance companies, retirement funds, capital markets and collective investment schemes within the SADC.
On 3 April 2003, the FSC signed the CISNA's Multilateral Memorandum of Understanding (MMou) on the Exchange of Information and Surveillance of Securities, Insurance and Retirement Activities to enhance the supervisory regime of the non-banking financial sectors in the SADC. The signing of the above MMou will help in reinforcing the FSC's ability as well as that of other members in better supervising cross border transactions, in the prevention of financial fraud within the territories of SADC countries.

NEW LEGISLATION

The Insurance Act 1987(as amended) will soon be replaced by new legislation. Separate draft legislation pertaining to long term and short term insurance businesses are currently in preparation. The new draft bills which are presently under consultation will focus on specific regulatory issues such as capital adequacy and margin of solvency requirements, corporate governance, internal control mechanisms, risk management, early warning systems and protection of policy holders. The new legislation will address many of the issues raised in the Financial Sector Assessment report.

OCCUPATIONAL PENSION SCHEMES

Occupational pension schemes in Mauritius cover three main types: the civil service pension scheme; pension schemes for various statutory bodies; and pension schemes established by private sector entities.

pension administrators which provided information on both corporate and parastatal occupational pension schemes. A breakdown on the type of occupational pension schemes is indicated in Table 7

Data for 791 schemes were provided in the Survey indicating a coverage of 72% of the total number of approved occupational pension schemes. The total coverage of occupational pension schemes reached 66,538 employees in 2002, representing 13% of the labour force. Over 19% of the total number of beneficiaries were employed in parastatal organisations. As can be deduced from Table 7, despite the small number

Table 7: Types of Pension Schemes

	Insured and/or administered schemes	Self-administered schemes	Total
Total no. schemes	753	38	791
of which corporate schemes	*643*	*35*	*678*
of which parastatal schemes	*110*	*3*	*113*
Number of schemes insured and/or administered by insurance companies	753	n.a	
of which are insured only	*511*	*n.a*	
of which are administered only	*146*	*n.a*	
of which are insured & administered	*96*	*n.a*	
No. beneficiary members	44,317	22,221	66,538

All occupational pension schemes are approved by the Commissioner of Income Tax and benefit from tax incentives. The vast majority of occupational pension schemes are insured and/or administered by Insurance Companies. Self-administered schemes are registered with the Registrar of Associations. A Working Paper on Occupational Pension Funds authored by Dimitri Vittas of the World Bank is reproduced in this Report.

The FSC has for the first time obtained relevant information on occupational pension schemes through its Survey. The Survey targeted Insurance Companies and

of self-administered occupational pension schemes, the number of employees covered by these schemes account for some 33% of the total number of beneficiaries. Out of the 19 Insurance Companies surveyed, 10 Insurance Companies were involved in the management of occupational pension schemes. 68% of the pension schemes managed by Insurance Companies are "insured only", indicating that a minority of the occupational schemes are administered by Insurance Companies.

Table 8: Financial Performance Summary of Pension Schemes			
	Insured/ administered schemes	**Self-administered schemes**	**Total**
Value of funds under management (Rs m)	10,922	4,058	14,980
Value of employer contributions (Rs m)	908	275	1,183
Value of employee contributions (Rs m)	18	67	85
Value of investment income (Rs m)	1,263	384	1,647
Value of benefits payments (Rs m)	695	180	875
Value of operating expenses (Rs m)	237	28	265
Ratio benefits / contributions (%)	75	53	69
Ratio operating expenses / contributions (%)	25	8	21

On the basis of financial information obtained from the Survey, the total fund value of the occupational pension schemes amounts to almost Rs 15 billion in 2002, corresponding to 10.5% of GDP. The data above indicates that 73% of the fund value of the occupational pension schemes is managed by insurance companies of which 95% of this value is managed by 2 Insurance Companies only - this indicates the high concentration of the pension insurance business and also that there is little competition in this business from other life Insurance Companies.

Almost all the occupational pension schemes in Mauritius are non-contributory and operate as defined-benefit plans offering pensions equal to two-thirds of final salary on the last month of employment after 40 years of service. Table 8 indicates that contributions are derived essentially from employers as is expected from defined-benefit pension schemes – the value of total contributions by employers and employees amounted to Rs 1.3 billion in 2002. The data obtained from the Survey indicate that higher benefits accrue to insured pension schemes than to self-administered schemes. However, self-administered schemes incur higher operating expenses than insured pension schemes. This is probably explained by the presence of economies of scale in Insurance Companies.

With regards to investment performance, the 3 largest Insurance Companies generated 75% of the total investment income in 2002, indicating once more the high level of concentration of the pension insurance business. The good investment performance of insured pension schemes is explained by the heavy allocation of investment assets in government securities and housing loans.

The Survey did not cover an analysis of the assets and liabilities of occupational pension schemes. This will be covered in next year's survey.

SECURITIES

OVERVIEW

The last decade has witnessed important changes in the world economy as a result of the liberalisation of international capital flows as well as the structural changes in financial activity. World finance was in a state of flux with changes taking place in markets, in the domestic policies of Governments, as well as those of international institutions. New institutions to promote financial stability have emerged and a lot of skepticism has been shown on the soundness of *"the international financial architecture"*. Crises like those which hit Mexico, Brazil, East Asia, Russia, and Turkey added fuel to the arguments that financial liberalization and more market oriented policies could seriously jeopardize economic and financial stability of countries.

In this state of flux, Mauritius, a small island economy which started promoting securities market development towards the end of the 80s and with an Exchange operational in 1989 had to confront serious challenges to continue with financial sector liberalisation and promote open market policies. Already with the South East Asian crisis, a major decline was experienced in foreign portfolio investment in Mauritius where sales of equities by foreigners exceeded purchases. Added to this, the market experienced a number of scandals which could not leave indifferent the "new" local investors who had started to accept that the securities market could also be an attractive avenue for investment of their hard gained savings and were disillusioned at major fall in share prices which in some cases were even below the initial issue price. But the major worrying factor remained the low issuance volume with only one company listing after five years and the lack of enthusiasm by companies to issue new equities or debentures. Besides, the apprehension which issuers had of investors' willingness to subscribe to new issues after the major scandals and the exit of foreign investors, there was also the fact that no official encouragement to "go to the market" was forthcoming, all the former tax incentives that were granted having been levelled out. It is a fact that the lower corporate taxes in the early years of the Exchange that applied to companies that were admitted on the Stock Exchange acted as a trigger to companies listings and consequently to the development of a market for securities. Companies' listings and the development of a solid investor base is the nerve centre for the future development of the market. The Stock Exchange of Mauritius, though fully equipped with the most modern automated trading system and a Central Depository and Settlement System is clearly underutilized and the low level of transactions has started to cause severe blows to the smaller market intermediaries, the stock broking companies.

MARKET ANALYSIS

Official Market

In spite of unfavourable market conditions during fiscal year 2002/2003 the stock market maintained a steady course with a rising SEMDEX. The unfortunate events that hit the financial sector were constraints that the market operators had to do their best to contain and minimise as best they could to maintain investors' confidence. There were 42 companies listed on the Stock Exchange which comprised one authorised mutual fund and three companies which had listed debentures on the Debt Board as at the end of June 2003.

Only one company sought admission to the Official Market namely Caudan Development Ltd, a company, quoted on the OTC and which was admitted to the Official Market in July 2002.

Two companies on the Official Market, namely the State Bank of Mauritius Ltd (SBM) and the Mauritius Commercial Bank Ltd (MCB) applied for the repurchase of 10% and 15% respectively of their shares. The SBM started buying its own shares in December 2002 and intended to acquire 38,250,000 shares. MCB planned to purchase 42,316,568 of its own shares as part of its share buy back scheme, over an 18 month period. The company's share buy back scheme commenced on 17th June 2003.

In October 2002, the Stock Exchange of Mauritius launched the Stock Exchange of Mauritius Total Return Index (SEMTRI) which provided a new indicator of the overall stock market performance. SEMTRI was established to reflect the two forms of return generated by a stock market investment: capital appreciation and dividends. It provides a market index in terms of US dollar and Mauritian Rupee.

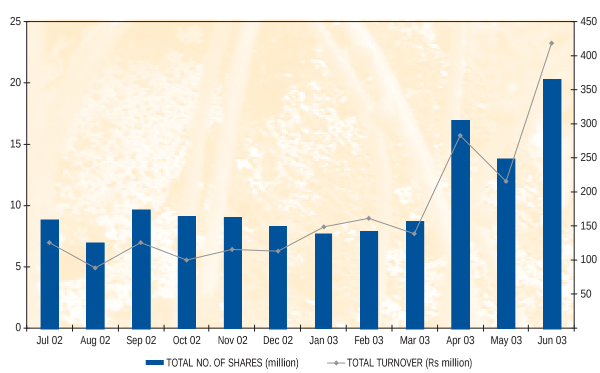
Performance of the Market

Turnover for the fiscal year 2002/2003 amounted to over Rs 2 billion as opposed to Rs 1.9 billion for the previous corresponding year, representing an increase of 5.2%.

The turnover for the first half of the fiscal year 2002/2003 represented around one third of the total transactions effected with an average of around Rs 112 million carried out on a monthly basis. Turnover for the second half of the fiscal year progressed fairly rapidly registering an average turnover of Rs 228 million monthly.

Chart 1 highlights the volume and turnover of the market during the year under consideration.

Chart 1: Volume and Turnover on Official Market (2002-2003)



Stock Market Indices

The SEMDEX was at 365.69 points at the beginning of the fiscal year and closed at 486.56 points at the end of June 2003. The all share index registered an increase of 33% during the period under review with a peak of 489.45 points in June 2003. The SEM 7 was at 81.19 points at the beginning of July 2002 and closed at 106.93 at the end of June 2003. It registered an increase of 31% during the fiscal year 2002/2003.

The SEMTRI in local currency and US dollar was at Rs 717.59 and US$ 381.94 respectively and closed at Rs 1,015.93 and US$ 542.14, both gaining around 42%.

The trends in the SEMDEX, SEM 7 and SEMTRI are indicated in Charts 2, 3, 4a & 4b respectively.

Chart 2: Trends in SEMDEX (2002-2003)

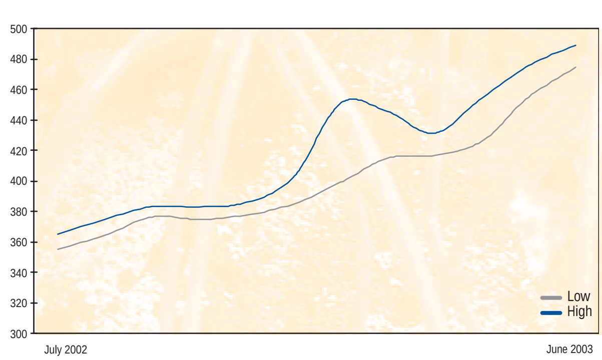


Chart 3: Trends in SEM-7 (2002-2003)

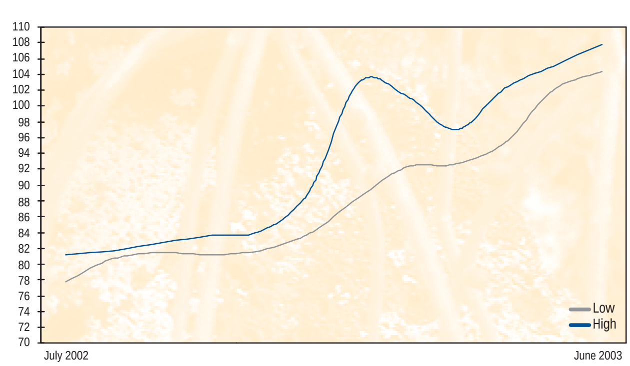


Chart 4a: Trends in SEMTRI Rs. (2002-2003)

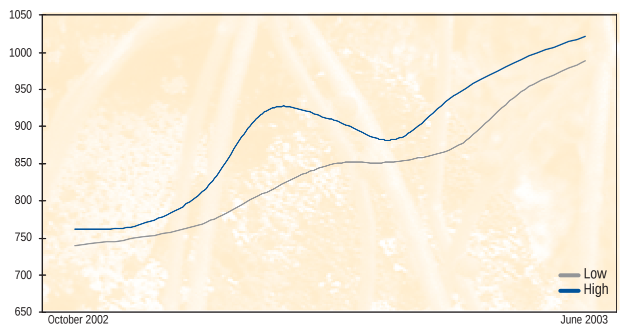
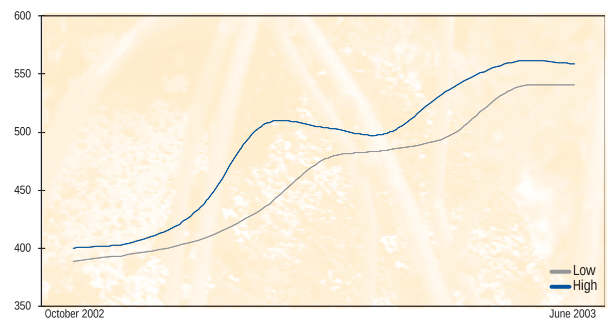


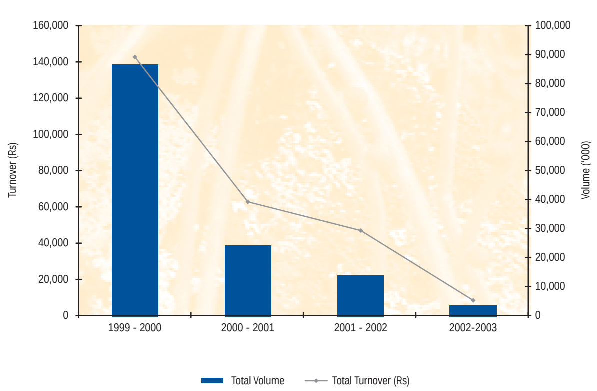
Chart 4b: Trends in SEMTRI US $ (2002-2003)



Debentures

At the end of June 2003 there were three companies on the Debt Board with five series of debentures. Since most of the debentures have reached maturity, the value traded decreased considerably as shown in Chart 5.

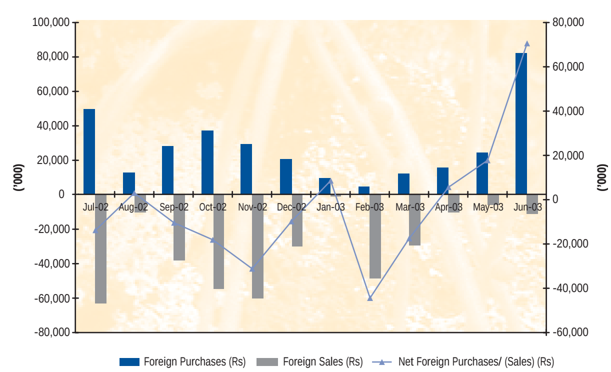
Chart 5: Trends in Listed Debentures



Foreign Investment

As indicated in Chart 6, foreign portfolio investment slowed down considerably with disinvestment by foreign investors registering net sales of Rs 323 million during the fiscal year 2002/2003. However foreign investors came back to the market in May and June 2003 when purchases of securities exceeded sales significantly.

Chart 6: Foreign Investment (2002-2003)



Market Capitalisation

The market capitalisation of the period under consideration increased from Rs 34.2 billion at the beginning of the fiscal year to Rs 45.4 billion at the end of the period, representing an increase of 32.7%. A sectoral breakdown of the market capitalisation demonstrated that the Banks and Insurance sector led the other sectors in the overall increase experienced by the market. The market capitalisation of the sector increased from Rs 9.9 billion to Rs 15.8 billion, representing a 60% increase whilst the other sectors registered a modest increase.

In terms of percentage share of total market capitalisation, most of the sectors experienced a slight increase as indicated in Charts 7 & 8.

Chart 7: Share of Market Capitalisation (End June 2003)

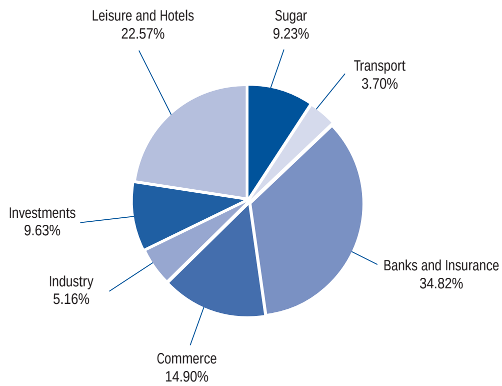
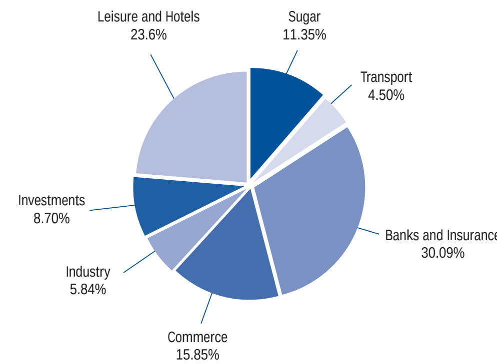


Chart 8: Share of Market Capitalisation (Beginning July 2002)



Turnover and Volume

Total turnover for the period under consideration amounted to over Rs 2 billion compared to Rs 1.9 billion last year. The increase in total turnover is mainly due to an increase in the Bank and Insurance and the Investment sector's turnover by 75.6% and 38.8% respectively.

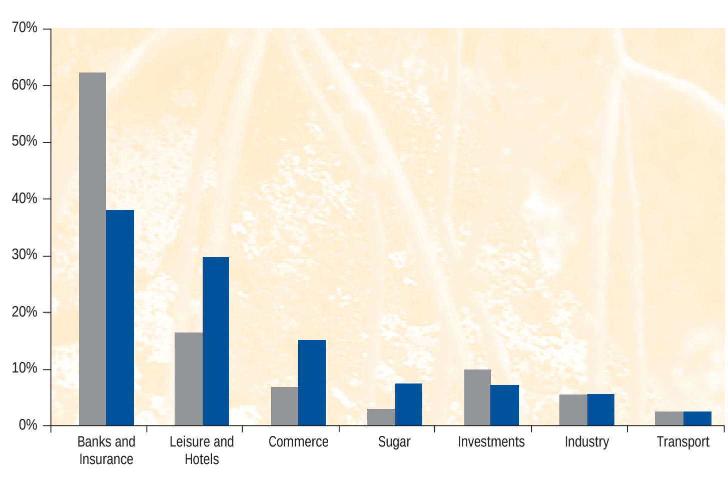
Total volume of shares transacted for fiscal year 2002/2003 was 128.3 million against 142.9 million in 2001/2002, registering a decrease of 11.4%. The increase in turnover is therefore only a result of rise in prices and is not an increase in real terms. Chart 9 compares the share of total market turnover by economic sectors for the periods 2001-2002 and 2002-2003.

Annex 6 highlights changes in equity trading on the Official Market for fiscal year 2002/2003 and the previous corresponding period.

The Over-The-Counter Market (OTC)

Seventy-three companies were quoted on the OTC market as at the end of June 2003 compared to 72 for the corresponding period last year. Five companies, namely Constance Hotels Services Ltd, Mauvilac & Co Ltd, Margarine Industries Ltd, Paper Converting Ltd and SIT Land Holdings, were introduced to the market whilst four companies were withdrawn. The Caudan Development Ltd was admitted to the Official Market.

Chart 9: Share of Total Market Turnover (%)

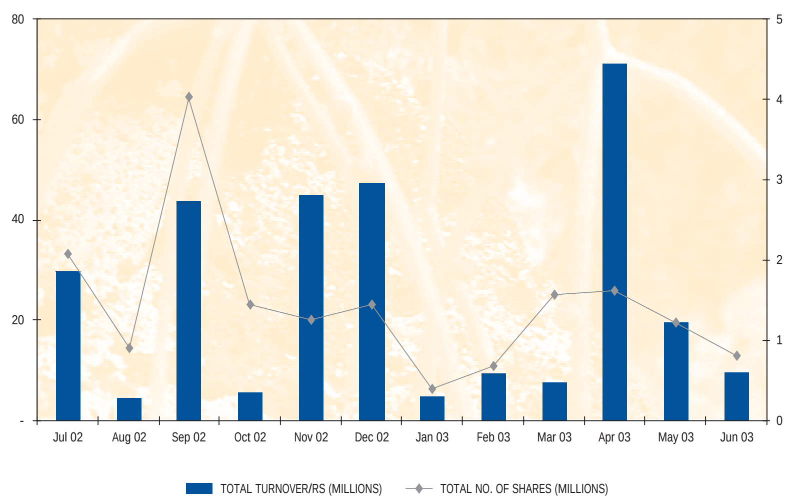


For the period under review, the turnover amounted to Rs 299.5 million compared to Rs 783 million for the last fiscal year which showed a decline of 61.7%. The first half of the fiscal year accounted for nearly 65% of the total turnover. Total volume traded for the period amounted to 17.5 million shares with an average of 1.5 million shares per month.

The substantial transaction effected in April 2003 was due to Maurilait Production Ltd purchasing 250,000 of its ordinary shares from a large shareholder, representing nearly 40% of its issued share capital.

The OTC market trends are highlighted in Chart 10.

Chart 10: OTC Market Trends (2002-2003)



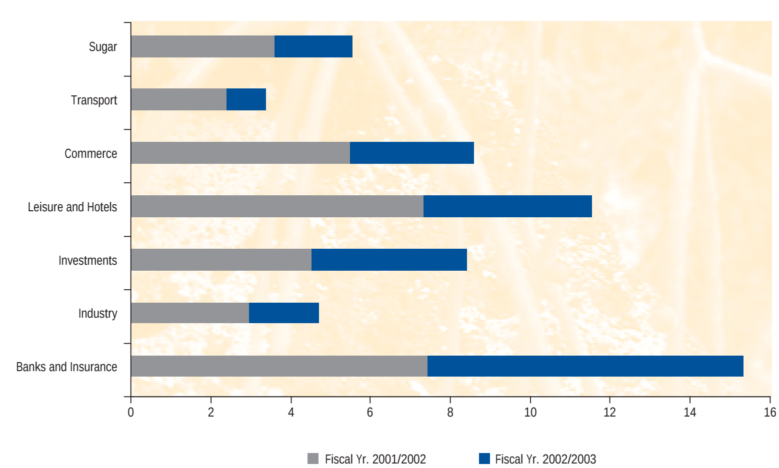
The factors upholding the market were
1) A cut in the interest rate ;
2) An overall improvement in some major listed companies' performance

Observers commented that the gradual pick up of the market might have been largely due to the cut in the interest rate announced by the Central Bank and an overall improvement of some major listed companies' performance. Amid turbulence in the financial sector lately, the market seemed set for steady growth and increased activity sustained by investors seeking better returns.

Liquidity

The turnover ratio of each sector is demonstrated in Chart 11 below for the period under consideration and the corresponding previous year. The overall turnover ratio for the fiscal year 2002/2003 was 4.48 against 5.65 for the previous corresponding period.

Chart 11: Turnover Ratio by Sector (%)



Market Outlook

Paradoxically, whilst other comparable Stock Exchanges experienced a downturn in their market activity, the Exchange not only showed signs of recovery but also steadily moved upward during the fiscal year under consideration. After the first semester, the market rallied and took in its stride timid investors who were on the side lines. The market ended on a positive note with the all share index standing at 486.56 points up by 33% when compared with SEMDEX at the beginning of the fiscal year.

CORPORATE DEVELOPMENTS

OFFICIAL MARKET

Caudan Development Ltd

- In July 2002 the Listing Committee granted in July 2002 its approval for the listing of 819,520,000 ordinary shares of CDL on the Official List of the Exchange. Prior to this, CDL shares were quoted on the Over The Counter Market.

- 2 million fully paid ordinary shares of CDL were made available through the Exchange at an indicative price of Rs 0.80 per share on its first day of trading.

Mauritius Union Assurance Ltd

- In July 2002, MUA proceeded with a Bonus Issue of 2,080,000 of its ordinary shares in the ratio of one new share for every four shares held by its shareholders.

- MUA 10% Secured Debentures 2000-2002 of Rs 1,000 each were redeemed in full on maturity in December 2002.

New Mauritius Hotels Ltd

- NMH 10% Secured Debentures 2000-2002 amounting to Rs 750 million were redeemed at their full nominal value of Rs 1,000 each on maturity.

- At a Special Meeting in September 2002, shareholders of NMH approved a restructuring plan for the acquisition by NMH of all the shares it held in Grand Baie Hotels Ltd, Royal Gardens Ltd, Maunex (Mauritius) Ltd, Imperial Ltd, Beachcomber Ltd, Plaisance Catering Ltd and Beachcomber Boutiques Ltd in exchange for shares in NMH.

- 60,641,552 new ordinary shares of NMH were issued and listed on the Exchange in the context of the restructuring.

- Dealings in NMH shares were suspended on the Exchange for a few days to allow the company to issue its new shares to the respective shareholders of the seven offeree companies.

Grand Baie Hotel Ltd

- Following the takeover of GBH by the New Mauritius Hotels Ltd, GBH could not satisfy the listing requirement of 25 per cent shares in public hands.

- In February 2003, the Stock Exchange of Mauritius Ltd, with the approval of the Listing Committee withdrew GBH from the Official List of the Exchange.

Sun Resorts Ltd

- The 10% Secured Debentures of Sun Resorts Ltd were redeemed on maturity at their full nominal value of Rs 1,000 each in July 2002.

- In December 2002, Sun Resorts Ltd entered into a contract with Kerzner International Ltd to form a new management company, One & Only (Indian Ocean) Management Ltd, for the purpose of developing and operating resort hotels in the Indian Ocean region.

- Sun Resorts Ltd would initially own 20% of One & Only (Indian Ocean) Management Ltd and the ownership would gradually increase to 50% by 2009.

Finlease Ltd

- The 10.5% Secured Debentures 1999-2002 of Rs 1,000 each that were issued by Finlease Ltd were redeemed in full on maturity in December 2002.

State Bank of Mauritius Ltd

- SBM proceeded with a share buy back of 38,250,000 of its shares on the Official Market of the Exchange.

- The number of shares represented 10% of the issued share capital of SBM.

- The shares purchased had been kept as Treasury Shares by SBM.

Harel Frères Ltd

- Harel Frères Ltd acquired 25.5% interest in Sucrivoire S.A, a company in Côte d'Ivoire, which produces some 50% of that country's sugar.

- The 2003 financial results of Sucrivoire could be adversely affected as Côte d'Ivoire experiences political instability.

- Harel Frères Ltd's investment in Sucrivoire S.A was valued in its books at Rs 175 million.

Mauritius Breweries Ltd

- In October 2002, MBL agreed in principle to initiate a restructuring scheme of its shareholding whereby Phoenix Camp Minerals Ltd would become a wholly owned subsidiary of MBL.

- The restructure would, according to the Directors of MBL, improve shareholders' value and strengthen the enlarged company in the market of beverages in Mauritius and in the region.

BNPI Leasing Ltd

- Barclays Bank Plc acquired all the shares of the BNPI Leasing Ltd in October 2002.

- The transaction formed part of a global agreement between BNPI and Barclays over the banking and leasing businesses of BNPI in Mauritius.

- The company is now known as Barclays Leasing Ltd.

- Barclays had undertaken to guarantee payment of the principal and interest on debentures that were issued by BNPI Leasing Ltd on their due dates.

British American Insurance (Mtius) Ltd

- In March 2003, the merger between British American Holdings (Malta) Ltd [a 100% subsidiary of BAI (Mtius)] and Globe Holding Ltd was completed.

- BAI (Mtius) has now, through this merger, acquired shares in a diversified financial services group and localized the operations of its Maltese branch which is now a stand-alone insurance company authorized to carry on life insurance business in Malta.

- In March 2003, shareholders of BAI (Mtius) approved a reorganisation plan for the BAI Group of companies which led to a separation of the insurance and financial services activities of BAI (Mtius) from the other activities of the Group and created a new holding company known as British American Investment (Mtius) Ltd.

- The reorganisation was implemented through a reverse take-over whereby shares of the new holding company BA Investment (Mtius) Ltd were offered to acquire all the shares of BAI (Mtius).

- 91,099,397 shares of British American Investment (Mtius) Ltd of Rs 1 each were admitted to the Exchange in June 2003 following the reorganisation and trading in those shares on the Exchange commenced in early July 2003.

Mauritius Commercial Bank Ltd

- MCB finalised a strategic partnership in January 2003 with the Société Générale Group - the sixth largest banking group in the Euro Zone – for its banking subsidiary, Banque Française Commerciale Océan Indien (BFCOI). The activities of BFCOI in Reunion, Mayotte and Paris were concerned by that arrangement.

- In January 2003, MCB approved the setting up of a fully owned equity fund for an initial amount of Rs 1 billion to enable it to be more active in the investment sector. MCB also decided to proceed with a bonus issue amounting to Rs 2,330,310,240 which was allotted in the proportion of four shares for every share held.

- MCB announced a share buy-back scheme of 43,693,317 shares in January 2003 to be purchased over a period of eighteen months starting on 17th June 2003.

- The constitution of MCB was amended in January 2003 to allow an increase in the ceiling up to which any single shareholder can own shares in MCB, from 2.5% to 3.5% of total issued capital.

- Following allegations of major financial irregularities at the MCB, the FSC and other regulatory authorities monitored the situation closely. Several meetings were held between the regulatory authorities and the MCB in view of the situation to protect investors and depositors and to maintain a fair, transparent, informed and orderly market. An internal investigation was carried out by the MCB. The Central Bank appointed an international consultant to probe into the whole affair.

United Basalt Products Ltd

- In June 2003, UBP made an announcement to its shareholders about a Special Meeting to be held in July 2003 to authorize a Bonus Issue of 4,418,340 ordinary shares of Rs 10. The Bonus Issue would be effected in the proportion of one new ordinary share for every four shares held.

- The new 4,418,340 ordinary shares have been approved in principle by the Listing Committee for listing.

OVER THE COUNTER MARKET

Union Flacq Sugar Estates Ltd

- In December 2002, FUEL made an offer for the acquisition of 100% of the ordinary share capital of Compagnie Sucrière De Bel Etang Et De Sans Souci Ltd and Compagnie Sucrière De Queen Victoria Ltd, both quoted on the Over The Counter market.

- This Scheme of Arrangement was finalised by way of newly issued shares of FUEL, based on an independent valuation of the above companies.

Compagnie des Villages de Vacances de L'Isle de France Limitée

- In June 2003, COVIFRA proceeded with a Bonus Issue of 11 shares for every one share held by its shareholders. 24,420,000 new shares were issued for the purpose of the Bonus Issue.

- COVIFRA subsequently proceeded with a Rights Issue of 9 shares for every 8 shares held after the Bonus Issue. 29,970,000 new shares were issued for the purpose of the Rights Issue.

REGULATORY OPERATIONS

LICENSING

During the year under review the FSC renewed the licence of 11 Stockbroking Companies, 23 stockbrokers and 2 Dealer's Representatives. The licence of one Stockbroking Company was not renewed by the FSC in December 2002 as it was in breach of Stock Exchange Regulations by employing only one stockbroker. The Stockbroking Company was given sufficient time to employ another stockbroker. As the company did not remedy the situation the FSC issued a cease to trade order on the Stockbroking Company on 31st January 2003 forbidding the company from dealing on the Stock Exchange forthwith. The Stockbroking Company remedied the situation the next business day, that is 3rd February 2003, by employing a new stockbroker to whom a licence was issued.

The cease to trade order on the Stockbroking Company lasted only one business day.

COMPLIANCE

In May 2003, the FSC issued the Code on the Prevention of Money Laundering and Terrorism Financing intended for investment businesses. The Code came into effect on 2nd May 2003 from which time Stockbroking Companies were required to obtain records that enable them to identify their clients before engaging in a business relationship. The FSC embarked on a compliance-testing regime for Stockbroking Companies. During the months May-June 2003, on site compliance testing was carried out on four Stockbroking Companies. The exercise was primarily aimed at increasing the awareness of licensees concerning regulations and compliance obligations. It brings the FSC and licensees closer in maintaining a stable and transparent market.

MARKET SURVEILLANCE & INVESTIGATIONS

The FSC continued to perform on line surveillance of trading on the stock exchange. All abnormal movements of prices of securities or unusual trading of securities detected were enquired into.

There were allegations that there were cases of insider trading in the shares of a listed blue chip company prior to the publication of its proposed reorganisation and corporate actions at the end of January 2003. Allegations were also made to the effect that there was price manipulation of the same company following information made public in the second week of February 2003 that the company was subject to a serious case of financial irregularities.

An investigation was carried out to check whether there had been any malpractices in the dealing of the shares. No evidence was found that could establish any case of insider trading or market manipulation.

SUSPECTED CASE OF PRICE MANIPULATION

In June 2003 the CDS reported to the Commission that the buyer and seller of shares of a listed company was the same person. The person was convened to the FSC and he was requested to furnish explanations. He explained his actions and highlighted that there was no fraudulent intent on his part to abnormally or artificially raise the share price of the listed company.

The FSC warned the person involved that any recurrence would be treated as malpractice.

COMPLAINTS

A complaint was made against a fund manager on the products that he offered to a client. The FSC followed the matter closely and gave the two parties to the contract the chance to solve the dispute. However, as both parties continued to defend their respective positions, the complainant was invited to file an appropriate complaint with the FSC otherwise the case would be dropped. As the complainant did not respond the case was dropped.
A complaint was received from a shareholder of a company quoted on the OTC market to the effect that there were price manipulations on the trading of a company and that his family was being prevented from acquiring shares in the company.

The complainant further alleged that the whole procedure surrounding a rights issue prior to the company's admission to the OTC market was carried out contrary to the interest of minority shareholders.

An enquiry was carried out by the FSC and no evidence of market manipulation on the shares of the OTC company was found.

Furthermore, from the enquiry it seemed that there was an internal conflict within the company and the complainant was advised to consult his legal adviser to consider taking legal action.

UPDATE ON STOCK EXCHANGE OF MAURITIUS LTD

A Committee was set up by the SEM to ensure that its regulatory and operational structure is fully compliant with the World Federation of Exchanges (WFE) requirements and principles.

The SEM finalised the Capital Adequacy requirements for Stockbroking Companies and proposals which are under consideration by the regulator.

The SEM set up a working committee with the Financial Services Promotion Agency (FSPA) to consider what changes might be made to attract funds operating in the Global Business Sector domiciled in Mauritius to be listed on the Stock Exchange.

The SEM was involved in the second phase of the project for the setting up of a regional stock exchange in the Central African Region and will also assist in the third phase which consists of the actual setting up of the market infrastructure that will begin shortly.

As a member of the Committee of SADC Stock Exchanges, the SEM is actively making contributions in consolidating and improving its operational and regulatory framework to match IOSCO and WFE principles with a view to:

- Setting the stage for a harmonized stock exchange environment within SADC and
- Rendering SADC stock exchanges compliant with international standards and more attractive to potential investors

The SEM was involved in the creation of a Pan African Board for cross linking various Exchanges in the sub-Saharan region.

UPDATE ON CENTRAL DEPOSITORY SYSTEM

Following a willingness by the market to rationalise orders of a single client for the same security during a particular trading session, the CDS submitted a request to the FSC to that effect. After consideration, the FSC approved the request of the CDS for the consolidation of contract notes in July 2002.

The regulatory return submitted by CDS with regard to the Financial Resources Requirements (FRR) demonstrated that all participants' Adjusted Liquid Capital was higher than their Total Risk Requirements during fiscal year 2002/2003.

An audit of the CDS IT security was carried out by external consultants to check the system in place.

In order to facilitate the settlement of securities for Global Business Companies wishing to be quoted on the OTC in a currency other than Mauritian Rupees, the CDS devised a system that enables investors to settle their transactions in the local currency. Foreign investors do not require permission from the authorities to deal in the Global Companies' shares quoted on the OTC market.

The CDS is involved in the setting up of a regional Stock Exchange in the Central African Region and is providing technical assistance to the institutions concerned.

The CDS is spearheading the setting up and implementation of an Automated Trading System and a Central Depository and Settlement System at the Nairobi Stock Exchange in Kenya.

UPDATE ON STOCKBROKING COMPANIES

The FSC survey was conducted on the 11 registered Stockbroking Companies. All 11 Stockbroking Companies responded to the Survey.

The reported asset base for the year 2002 was Rs 438 million out of which Rs 319 million was attributed to investments in shares and debentures by one Stockbroking Company. Total income for 2002 amounted to Rs 58 million representing a drop of 9.6% over the previous year. Salaries and expenses accounted for 43% and 21% of the total expenses respectively in 2002. Five Stockbroking Companies made losses in 2002 causing the total profit before tax to reduce to Rs 29.6 million compared to Rs 35 million in 2001. The value added by the eleven Stockbroking Companies amounted to Rs 42 million in 2002, representing a decrease of 12% over the previous year.

Stockbroking business remains quite concentrated with three Stockbroking Companies leading the sector. The 3 Stockbroking Companies account for 80% of the total income in 2002 whilst the largest Stockbroking Company generated 87% of the total profit before tax in 2002. As regards the level of transactions effected, the bulk of the business is carried out by the two leading Stockbroking Companies.

UNIT TRUSTS

On 11th June 2003, The Penny Yield Fund was authorized by the FSC in accordance with section 3 of the Unit Trust Act 1989 as amended. The Fund was constituted as a sub-fund under The Penny Unit Trust, a unit trust established in 1994 pursuant to a Trust Deed executed between Multipliant Management Company Ltd and The Anglo-Mauritius Assurance Society Ltd, the proposed trustee.

The Fund was established as an open ended collective investment scheme in Mauritius with the objective to endeavour to yield 1% above the savings rate offered by commercial banks in Mauritius, over any given financial year. There was an initial offer for subscription of a minimum of 3 million units at Rs 10 per unit.

The fund was authorised to be managed by the Multipliant Management Company who had been granted in June 2003 an approval under section 14 of the FSD Act 2001 to provide investment management services to funds under The Penny Unit Trust.

The Fund carries the tax benefits normally enjoyed by other similar investment vehicles. It has an indefinite life and approved by unit holders but may be terminated by either (a) a decision of the Manager or Trustee, (b) a decision by unit holders or (c) a decision by the FSC.

PRIVATE EQUITY FUNDS

The establishment of Equity Funds was enabled by Government following its intention to invest substantially in the equity of enterprises in the priority sectors through the setting up of a one billion rupee Equity Fund. At the same time, measures were taken to encourage equity participation in private enterprises through Private Equity Funds. This move was initiated essentially to create an environment where equity capital would be injected into enterprises in key sectors by providing them with the necessary support to renew equipment and technology.

The setting up of an equity fund, must, in accordance with the Income Tax Act 1995, be approved by the FSC under the provisions of the FSD Act 2001. Its establishment and operation shall presently be governed by the provisions of the FSD Act 2001 in accordance with international best market practices and appropriate prudential controls, pending the enactment of specific legislation.

FSC AUTHORISATION POLICY

The FSC, when considering an application to operate a private equity fund, will have regard to the overall application and in particular the protection of public interest and the good repute of Mauritius as a sound financial services centre.

Emphasis is placed on the profile of the fund's promoters and/or shareholders. The FSC will review the track record of the promoter who would be expected to demonstrate relevant experience operating equivalent funds. However, where evidence of a track record is not available for the promoters, the experience of directors and other persons involved may be taken into account.

The FSC will also give due regard to the risk profile and sophistication of the investors investing into the fund. If the fund is targeted towards sophisticated investors or institutional investors, the FSC may rely on adequate disclosure.

The applicant must satisfy other essential criteria:

(i) All persons associated with the fund, must satisfy the "fit and proper" test. This test is described in the FSC's "Guide to Fit and Proper" where the different elements of this test, namely, competence, integrity and solvency, are described.

(ii) The applicant must carry on its business in accordance with the laws and all relevant regulation and guidelines

(iii) The applicant must demonstrate an acceptable history of sound business conduct.

Because of the unique characteristics of Private Equity Funds, additional reporting requirements are needed. However an objective valuation of private equity investments is more difficult to compute than public traded securities where there are well defined prices. The FSC therefore encourages potential applicants to adopt standards and guidelines which are internationally recognised.

OTHER NON-BANK FINANCIAL INSTITUTIONS

NBFIs LICENSED UNDER SECTION 14 OF THE FSD ACT

Prior to the enactment of the Financial Services Development Act 2001 (FSD Act), some NBFIs such as Insurance Companies, Insurance Brokers, Stockbroking Companies and Management Companies were regulated and supervised by specific regulatory authorities set up under relevant legislation. On the other hand, regulation of the different types of pension funds registered in Mauritius remains fragmented among several laws and tax regulations. At the moment pension funds are not supervised. This situation is expected to change in the near future with the introduction of a comprehensive pension fund legislation which will consolidate and modernise the current regulatory framework.

Section 14 of the FSD Act gives the necessary powers to the FSC to license certain NBFIs which are not, at present, covered by any specific legislation. The activities are listed in Part II of the first schedule and comprise:

- Asset management
- Collective investment schemes
- Custodial services
- Factoring business
- Financial services providers and intermediaries
- Investment advisory services
- Leasing business
- Mortgage finance
- Retirement benefits schemes
- Services provided by a qualified trustee under the Trusts Acts 2001

The above list depicts quite an extensive range of non-bank financial business activities to be licensed under Section 14 of the FSD Act. Given the broad and complex nature of financial services, the FSC tries to accommodate as much as possible the requests of different non-bank financial business activities wishing to be licensed under Section 14 of the FSD Act

Since its inception in December 2001, the FSC has been licensing under Section 14 of the FSD Act a number of NBFIs, both existing entities and newly set-up companies to carry out specific financial business activities – this is indicated below and the information is as at end September 2003:

No.	Name of NBFI	Activities	Date of Licence
1	SICOM Financial Services Ltd	Leasing	29 January 2002
2	GML Trésorerie Ltée	Treasury management to network companies	9 July 2002
3	Bacon Woodrow & Legris Ltd	Actuarial consultancy services	5 December 2002
4	Ecocredit Ltd	Credit financing	5 December 2002
5	Feber Associates Ltd	a) Investment & pension fund management	10 December 2002
		b) Actuarial and related services	20 December 2002
6	Hong Kong Shanghai Banking Corporation	Custodial services	18 December 2002
7	Capital Asset Management Ltd	Investment management	20 December 2002
8	Galileo Portfolio Services	Administrator and transfer agent	6 May 2003
9	Long Investment (Mauritius) Ltd	Authorisation to distribute investment products	8 May 2003
10	MCB Investment Management Company Ltd	Fund management	9 May 2003
11	SIC Fund Management Ltd	Investment management	29 May 2003
12	Confident Asset Management Limited	Discretionary asset management	4 June 2003
13	La Prudence Leasing Finance Co. Ltd	Leasing	3 July 2003
14	Pension Consultants and Administrators	Pension funds administration	8 July 2003
15	I & P Management (Indian Ocean) Ltd	Investment management	17 September 2003

The majority of the activities of the NBFIs licensed under Section 14 relate to financial service providers. It is to be noted that 3 of the licensed companies prior to being licensed by the FSC, were operating under the former Pioneer Financial Services Development Scheme (PFSDS), and thus were classified as Tax Incentive Companies under the Income Tax Act 1995.

In 1998, the Government had introduced the PFSDS as a means to promote certain non-banking financial services and included the following activities:

- Actuarial services and related activities
- Investment management, pension fund management, investment advice and portfolio and asset management
- Treasury management within the same group
- Lease financing
- Equity fund management

The licensed NBFIs which operated under the former PFSDS continue to benefit from the incentive tax rate of 15% despite the revocation of the scheme. To enable companies falling under the former PFSDS to continue to be classified as Tax Incentive Companies, they should apply for a licence from the FSC under Section 14 of the FSD Act.

In order to encourage the further development of NBFIs, the last national budget (2003 - 2004) announced that all NBFIs licensed under Section 14 of the FSD Act will be classified as Tax Incentive Companies and thus taxed at 15% as provided for under the Finance Act 2003.

Amongst the list of NBFIs licensed under Section 14 of the FSD Act only three entities have been newly set up, namely GML Trésorerie Limitée, SIC Fund Management Ltd. and I & P Management (Indian Ocean) Ltd.

LICENSING & REGULATORY PRINCIPLES FOR LICENSED NBFIS

The FSC has begun to implement a risk-assessment and prudential approach to the regulation of all licensed NBFIs. This new approach integrates and simplifies the different approaches adopted by the former individual regulators. The approach seeks to identify and focus regulatory attention on institutions and activities that are likely to pose the greatest risk to market confidence, and to act upon them in an integrated manner so as to minimise spill over effects in the event of failure or collapse of any licensed entity. The integrated regulatory approach facilitates the coordination of the supervision of licensed entities with multiple authorisations operating in various sectors of the NBFI sector. The prudential regulatory approach involves the imposition of prescriptive rules or standards governing the behaviour of NBFIs. These rules are directed at specific areas of concern such as minimising the risks associated with the business activity of the licensed NBFIs.

Prior to licensing any NBFI, the FSC ensures that the applicant fulfils certain prudential requirements and conditions of operations:

- Imposing “fit and proper” criteria on directors, management, and staff;
- Requiring professional qualifications or accreditation of staff and management;
- Requiring the establishment of ongoing regulatory tools such as appropriate compliance systems, internal control measures and continuous internal audit;
- Minimum capital requirements and capital adequacy requirements;
- Establishing mechanisms to ensure good corporate governance and fiduciary responsibility;
- Setting up procedures to comply with the Financial Intelligence and Anti-Money Laundering Act 2002 and the Prevention of Terrorism Act 2002;
- External audit of operational procedures and risk management systems.

"FIT AND PROPER" CRITERIA

The 'fit and proper' test is applied for both board and senior management level and the FSC may reject an application in a case where the applicant or director's record does not satisfy the criteria. In certain cases, such as investment management and advisory services, the "fit and proper" test is also extended to specialised staff to ensure that the NBFI has the necessary skills base to manage the risks to which the latter may be exposed.

CAPITAL REQUIREMENTS

As part of its licensing regime, the Commission lays down two forms of capital requirements: a minimum capital and a capital adequacy requirement depending on the nature of activities and risks involved. The capital adequacy is used mainly in cases where unexpected losses may be incurred by those institutions which may not be able to honour its promises. This feature is common in leasing companies which are also involved in deposit-taking.

DISCLOSURE AND REPORTING

The FSC requires two types of disclosures as part of its licensing requirements: disclosure of specified information to the Commission and disclosure of certain information to the clients of the licensee. Disclosure to the Commission is a result of either statutory requirements or licensing conditions. Disclosure to the public/clients is motivated by the FSC's duties to protect consumers of financial services.

NBFIs, which are engaged in activities such as pension administration, are required to provide their clients with adequate information about their own structure and operations and to provide periodic statements of accounts to clients on a regular basis. Other disclosures cover material information so that consumers are duly informed about all issues that are relevant.

GOVERNANCE ISSUES

The governance provisions which are applied by the FSC to its licensed entities attempt to regulate the internal structures, controls and procedures of those institutions, as well as to ensure prudence and to minimise conflict of interest while at the same time protecting the interests of consumers of their services.

The Commission requires in several cases that an external audit of its licensees' operational procedures, activities and risk management system be carried out by a qualified independent expert and to submit such report to the Commission annually or more frequently as the case may be.

The FSC also requires that licensees apportion responsibilities among their managers, directors and partners in a manner which will not cause any conflict. Emphasis is laid down on the independence of management. Segregation of companies' assets from those of the clients is an important governance issue which is imposed as part of licensing conditions.

SURVEILLANCE

The FSC, in addition to establishing rules of behaviour, monitors the licensee's compliance with the laws, codes and licensing conditions. This is presently done through off-site monitoring. The latter involves a review of information and other data submitted to the Commission in accordance with the laws and the licensing conditions of the NBFI.

The FSC will shortly extend off-site inspections to Section 14 licensees with a view to monitoring their compliance with the governance and conduct principles laid down in their licensing conditions. These licensees are required to design and implement a clear set of policies aimed at prudential management of their financial and operational risks while maintaining ongoing internal control and external audit systems. The FSC will have to ensure that these systems have effectively been set up and implemented.

FSC SURVEY RESULTS

The FSC Survey which was carried out in early 2003 for the period 2001-2002 revealed a number of interesting developments and trends on the following NBFIs:

- Investment Managers
- Asset Managers
- Venture Capital Companies
- Pension Administrators and Actuaries
- Leasing Companies
- Credit Finance Companies

INVESTMENT, ASSET MANAGERS, VENTURE CAPITAL COMPANIES, PENSION ADMINISTRATORS AND ACTUARIES

The Survey targeted 11 investment management and asset management, 1 venture capital company, 2 pension administrators and 1 actuary licensed under Section 14. The 15 companies together had an asset base of Rs 860 million in 2002 representing an increase of 82% over the 2001. 88% of the total assets are attributed to the largest investment management company which is a parastatal institution.

Total income for 2002 amounted to Rs 161 million representing an increase of 24% over the previous year. 41% of this income was generated by the largest investment management company. Financial expenses and salaries accounted for 35% and 23% of total expenses respectively in 2002. Total profit before tax for 2002 stood at Rs 11.7 million, out of which Rs 10.7 million was generated by the largest investment management company. Five of the companies made losses in 2002 causing the total profit to decrease by 62% compared to last year. The value added for the 15 companies amounted to Rs 46.5 million in 2002 representing a decrease of 15% over the previous year.

Out of the 15 companies, 7 were licensed by the FSC under section 14 of the FSD Act The 11 investment/asset managers and 1 venture capital company had Rs 6.9 billion of funds under their management in 2002. Altogether they managed some 87 investment schemes out of which 33 were close-ended and 22 were pension schemes. The 2 pension administrators and 1 actuary together managed 38 pension schemes with an aggregate fund value of Rs 4 billion.

LEASING COMPANIES

12 companies are currently involved in leasing business, amongst which 2 have been licensed by the FSC under Section 14 of the FSD Act, and 10 have been authorised by the Bank of Mauritius to transact in deposit-taking business. All the 12 leasing companies have submitted their returns for the Survey.

On the basis of the information submitted, the total asset base for the leasing companies in 2002 was Rs 7.1 billion compared to Rs 6.7 billion in 2001. 71% of the total assets in 2002 were concentrated in net investments in finance leases, whilst 65% of the total liabilities were borne by long term interest bearing borrowings.

Total income for 2002 amounted to Rs 2 billion, representing a 15% increase over the previous year. 83% of the income in 2002 was generated by lease rentals whilst 64% of total expenses were concentrated in capital repayment of leases. Despite 2 leasing companies generating losses, total profit before tax for 2002 for the 12 companies was Rs 208 million, representing an increase of 12% over the previous year. Value added in the leasing sector amounted to Rs 237 million in 2002 thus indicating an increase of 13.6% from the previous year.

Business in the leasing sector remains very concentrated with 4 companies leading the sector. Thus, in 2002, assets of the 4 largest leasing companies represented 82% of the total asset base of the sector, whilst 87% of the total income and 88% of the total profit before tax were generated by these same 4 companies. An analysis of the information obtained on the type of business of leasing companies reveal that the majority of lease contracts made relate to the trade and transport sectors.

Leasing companies in Mauritius have been set up as subsidiaries of major banks, insurance companies and conglomerates as a means to service customers of their parent companies and to offer a one-stop-shop service to existing clients for insurance and mortgage loan products. Based on the above financial results, prospects for the leasing sector look good in the years ahead and will follow international market trends as demand for lease financing continues to increase with the expansion of business for small and medium enterprises.

CREDIT FINANCE COMPANIES

Three companies have been identified being involved in credit finance activities in Mauritius, amongst which one has obtained a licence from the FSC under section 14 of the FSD Act.

The total asset base for these 3 companies amounts to Rs 696 million in 2002 compared to Rs 655 million in 2001. In 2002, accounts receivable constitute 88% of total assets, whilst short term secured loans constitute 38% of total liabilities. Total income for 2002 stood at Rs 168 million representing a 6.4% increase over the previous year. Financial expenses and salaries make up 36% and 26% respectively of total expenses.

Total profit before tax stood at Rs 37.3 million in 2002 compared to Rs 36.8 million in 2001. Value added for this sub-sector is calculated to be Rs 71.2 million in 2002 compared to Rs 69.9 million in 2001.

The total client base for the 3 credit finance companies stood at 127,984 in 2002. The value of credit finance provided in 2002 by the 3 companies stood at Rs 606 million and the bulk of the turnover was generated under the Hire Purchase Act.

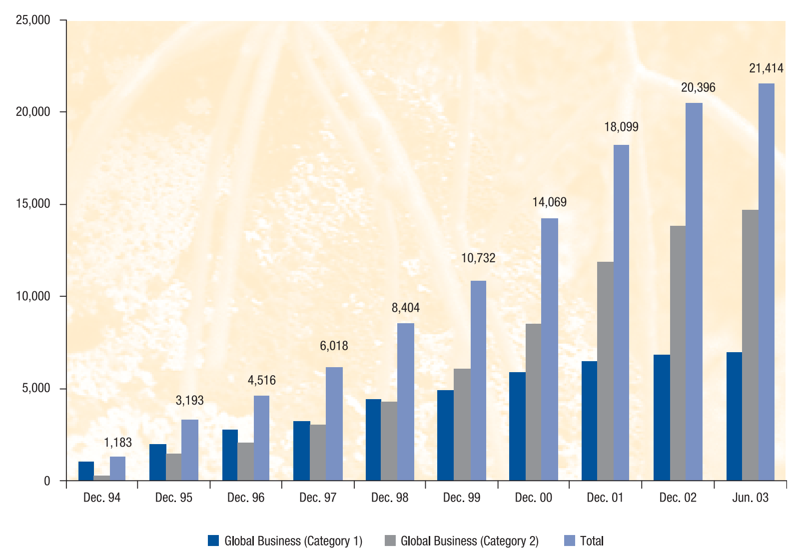
GLOBAL BUSINESS ACTIVITIES

OVERVIEW

Like the year that preceded it, the year under review has been marked by factors that militate against new enterprise. Weakening economies and declining markets in the global business environment have influenced the Global Business Sector's potential for development. Other international events have also had an effect – including the uncertainty during the year about the ruling of the Indian Supreme Court on the validity of the Tax Residence Certificates (TRCs) issued to Global Business Companies Category 1 (GBC 1) by the Commissioner of Income Tax. This uncertainty was dispelled on 8th October 2003 with the publication of the ruling made by the Indian Supreme Court which has upheld the validity of the TRCs issued to GBC 1 companies. The ruling reaffirms the benefits of the Mauritius – India Double Taxation Avoidance Treaty and will no doubt provide a strong boost to direct investments into India through the Mauritius route.

In light of the fact that the concept of "Global Business" is relatively new, there might be value in restating that the change of terminology to GBCs from the "Offshore Companies" that were at the core of the "offshore regime" is not merely a cosmetic or a semantic change. Rather, it represents a material part of the re-engineering process that the financial services sector in Mauritius went through to help achieve certain mid-term objectives - including value addition and greater substance. These terms will recur as the developments in the non banking financial services sector are described in the paragraphs that follow.

Chart 1: Evolution in Registration of GBC 1 & GBC 2 1994 - 2003



GROWTH IN THE NUMBER OF COMPANIES LICENSED

While it is not possible to know how much business might have been attracted had other conditions prevailed, we know from the figures below the number of GBCs licensed in Mauritius has been affected by external economic events. Chart 1 below plots the growth in the number of Global Business Category 1 and Global Business Category 2 licensees over the last decade. The figures quoted are as at end December because historically, this has been used as the reference date.

In short, the figures indicate that between December 2001 and December 2002, there was a composite growth rate of 12.7% in the number of licences issued. More specifically, the growth of Global Business Category 1 licensees ("GBC 1") was 5.6% and the growth of Global Business Category 2 licensees ("GBC 2") was 16.5%.

In the period under review (1 July 2002 till 30 June 2003), aggregate growth was 10.7% - which reflects the effects of the downturn in the global economy described at the outset.

Table 1: Analysis of Annual Applications Approved in Period Under Review				
Type	**30 June 2003**	**1 July 2002**	**Change**	**% Change**
GBC1's	6,847	6,546	301	4.6
GBC2's	14,567	12,803	1,764	13.8
Total	21,414	19,349	2,065	10.7

We believe that it is overly simplistic to interpret one statistic (such as the number of companies licensed) as an indication of success or otherwise. The attributes of success for an international financial services centre are more complex than any single measure can describe. We believe that other factors – such as substance, value added and the quality of business - are more significant to our medium/long term aspirations.

Additional information (see below) indicates that despite fewer licences being issued, additional value has been added this year – demonstrating that these are not mutually exclusive events. The FSC believes this is a significant positive factor.

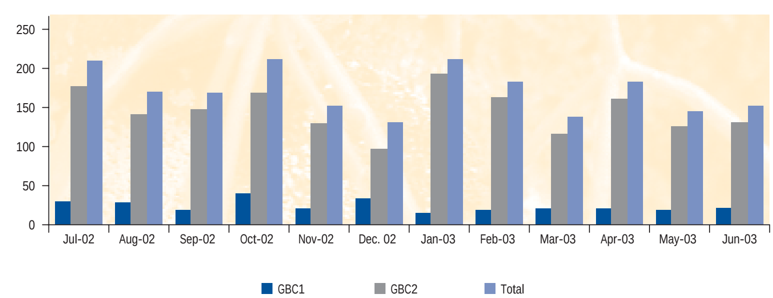
The figures between July 2002 and June 2003 reflect the situation that prevails in other established jurisdictions that have adopted similar strategies concerning quality and where emphasis is placed on substance over form. Meanwhile, the figures compare favourably with the experience of yet other jurisdictions whose figures indicate a 50% decline over the past two years.

In the short term, increasing quality may lead to slower growth in the number of licences in issue but in the medium to long term, the aspiration for quality may lead to increased substance and value added.

ANALYSIS OF LICENCE APPROVALS

Chart 2 indicates the number of applications (for a licence to conduct qualified global business) - which were approved.

Chart 2: Monthly Applications of GBC 1 & GBC 2



ANALYSIS OF ACTIVITIES

Charts 3 & 4 respectively analyses the activities carried out by the 301 GBC 1 and the 1,764 GBC 2 that were licensed in the period under review. The FSC Survey provided results on the breakdown of activities of GBC 1 that were licensed by the FSC as at 31 December 2002 (4,763 GBC 1 representing 71% of the total licensed GBC 1) – this is depicted in Chart 5.

Chart 3: Breakdown of Activities of GBC 1 (2002-2003)

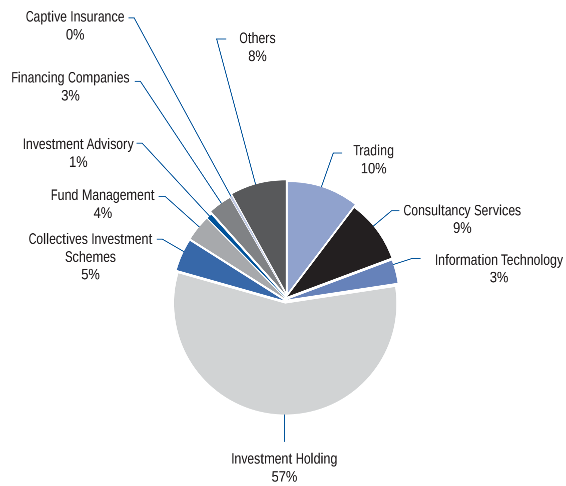


Chart 4: Breakdown of Activities of GBC 2 (2002 - 2003)

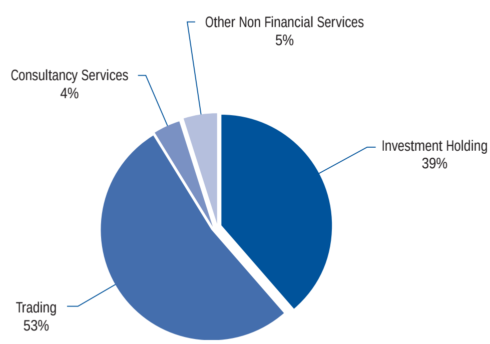
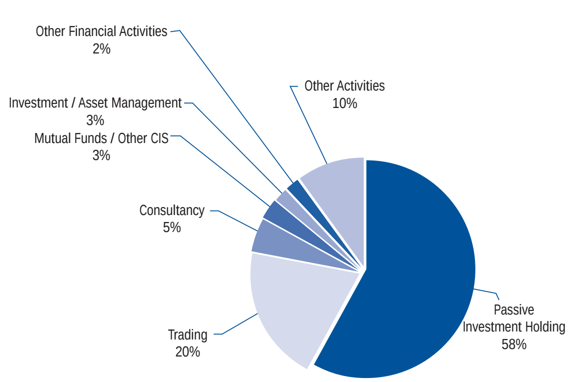


Chart 5: Breakdown of Activities of GBC 1 (Cumulated as at 31 December 2002)



Charts 6 & 7 respectively display the target country of investment by licensed GBC 1 and the origin of the beneficial owners of GBC 1 for the period under review. The geographic breakdown is well distributed among the different countries.

Chart 6: Analysis of Countries in which Investment is Planned by GBC 1 Licensees

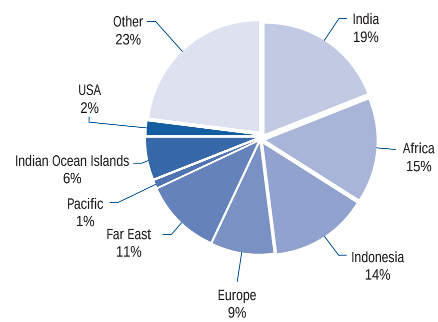
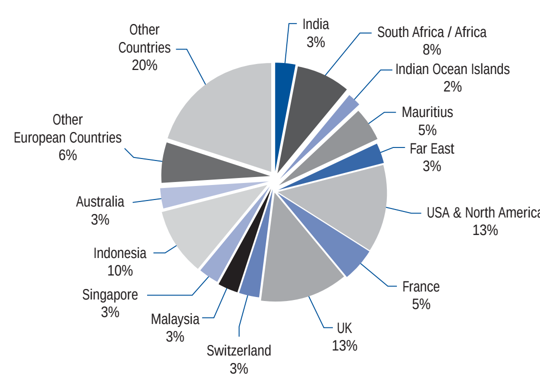


Chart 7: Geographical Origin of Beneficial Owners of GBC 1 Licensed



MANAGEMENT COMPANIES (“MCS”)

Management Companies are classified as Financial Service Providers. They play an important intermediary role in the Global Business sector. More specifically, MCs are primarily involved in the formation and administration of Global Business Companies conducting (or intending to conduct) any Qualified Global Business from within the financial services sector in Mauritius.

MCs once licensed may offer a range of services that include: processing applications for GBC 1 and GBC 2; providing company secretarial services; preparation of accounts; providing registered office facilities, acting as corporate trustees and providing resident directors. MCs may also establish Nominee Shareholding Companies.

As at 30 June 2003, there were 104 Management Licences in issue – which represents an increase of 10 in the absolute total as at July 2002. Table 2 below indicates the number of MCs and Corporate Trustees that were licensed at the end of the period under review and compares the figures with those that obtained twelve months before.

Table 2: Registration of MCs

Type	30 June 2003	1 July 2002
Management Companies	82	75
Corporate Trustees	23	19
Total	105	94

ANALYSIS OF AUDITED ACCOUNTS OF MCS

MCs may choose whatever financial year-end best suits their needs. Accordingly, MCs do not all have the same financial year ends – but all are obliged to submit their annual audited accounts within six months of the end of the financial year to which the accounts relate. As part of the FSC's “Off-Site Compliance” the audited accounts of all MCs were once again reviewed for the financial year ending 2002. For the purposes of the analysis of the accounts, the cut off date was 31 December 2002.

Out of a total of 79 MCs that were licensed as at 31 December 2002, 4 were newly licensed, 3 were in the process of winding and 2 MCs failed to submit accounts, thus reducing the number of “active” MCs to 70. Table 3 below analyses the operational level of MCs for the years 2001 and 2002.

Table 3: Analysis of Operational Level of MCs

	2002	2001
No. MCs on FSC register as at 31/12/02	79	76
No. MCs obliged to submit accounts	75	75
No. MCs submitting accounts on time	70	71
No. MCs failing to submit accounts on time	5	4
No. MCs newly licensed	4	1
No. MCs in process of winding	3	2
No. inactive MCs	2	1
No. “active” MCs	69	73
No. loss making MCs	17	24

Table 4: Summary of Financial Results of MCs’ Audited Accounts

	2002	2001*
No. MCs represented	70	73
Turnover (US$ million)	32.619	29.641
Profit Before Tax (US$ million)	9.383	10.480
Value Added (US$ million)	15.809	15.564

* Figures have been revised on the basis of accounts submitted during the course of the year.

Table 4 indicates that in 2002, aggregate turnover increased by 10% and aggregate value added increased by 1.5%. Although this figure is small, it is a positive sign. Profit before tax decreased by 10% and 17 MCs generated losses (compared to 24 in the previous year). The decrease in the number of loss making licensees is a welcome sign per se. Ordinarily, it might be assumed that a decrease in the number of licensees would in turn dampen profitability but in fact, the decrease in profit before tax can be attributed to the financial performance of one licensee – which reported a variance of US$ 1.3million between last year and the period under review. This particular situation aptly demonstrates the potential effect of one set of results. More generally, despite this particular set of figures, the rather difficult trading conditions and the lower number of licences issued, the Global Business sector has managed to increase turnover and value added by transacting higher quality business and by creating more substance.

The analysis carried out indicates that the ability to generate meaningful levels of profit depends (inter alia) on critical mass. The figures show that 12 MCs generated 99.8% of aggregate profit. Of the remaining 58 MCs, 41 produced an aggregate profit of US$ 1,606,033 and 17 produced an aggregate loss of US$ 1,582,413. The importance of critical mass of “businesses” should not be overlooked by future applicants for MC licences - who must demonstrate in their respective Business Plan that they will be able to accumulate the necessary mass within an acceptable time frame.

Table 5: Concentration of MCs Business		
	2002	2001
MCs representing sample:	10	10
% total MCs	14%	14%
Value of aggregate turnover (US$ million)	20.785	19.916
% aggregate turnover	64%	67%
Value of aggregate profit before tax (US$ million)	9.029	9.110
% aggregate profit before tax	96%	87%
Value of aggregate value-added (US$ million)	12.517	11.492
% aggregate value-added	79%	74%

Table 5 discloses data relating to the aggregate turnover, profit before tax and value added for the 10 largest profit-generating MCs. The results indicate that the business of MCs remains highly concentrated. It is observed that 14% of MCs generated 64% of the turnover, 96% of the profit before tax and 79% of the value added in 2002. Clearly, most of the business is being transacted by only 10 MCs – with the smaller companies facing reduced critical mass and profitability.

RESULTS OF FSC SURVEY ON MCS

Full background information on the Survey – including a description of the methodology is described in Annex 1 The Financial Service Providers operating in the Global Business sector were targeted in the Survey, namely MCs, Corporate Trustees and Captive Managers.

In total, only 38 MCs responded to the Survey – which included 9 of the 10 largest MCs (in terms of income). It is regrettable that there was less than a full response. The results are summarised below – starting with a summary of the financial performance of respondents – described in Table 6.

Table 6: Summary of Financial Performance of 38 MCs as per Survey			
	2002	2001	% Change
Income (US$ '000)	24,752	23,688	4.5%
Total Expenses (US$ '000)	18,127	16,376	10.7%
Salaries	4,386	3,617	21.3%
Professional Fees	1,467	1,413	3.8%
FSC Fees	1,370	1,677	(18.3%)
Financial Expenses	1,169	1,078	8.4%
Taxation	1,106	1,107	(0.1%)
Marketing Expenses	638	523	22.0%
Rent	139	100	39.0%
Other Expenses	7,852	6,961	12.8%
Profit Before Tax	7,731	8,321	(7.1%)
Value Added	12,117	11,938	1.5%

The changes in income, profit before tax and value added – all follow the same trends that the review of the audited financial statements led us to expect. The figures for 2002 show an increase of 4.5% in turnover, a decrease of 7.1% in profit before tax and an increase of 1.5% in value added.

The results of the Survey indicate that 147 people are directly employed by GBC 1 operating in Mauritius - of which there are 60 with a Physical Establishment (PE) in Mauritius. Further, there are 52 GBC 1 that either deal with residents of Mauritius - or that have a Mauritian shareholding (Mauritian Participation - MP). There are 24 GBC 1 that have both a Physical Establishment & Mauritian Participation.

With regards to funds under management, 15 MCs manage some US$12 billion worth of funds channelled through GBC structures administered by MCs. On the basis that the sample responding to the Survey is less than all MCs, the total value of funds under management may be much larger. As a measure of comparison, some US$ 6.6 billion are channelled through mutual funds and other CIS while over US$13 billion are classified as "Portfolio Investments in the Form of Equities, Short-term and Long-term Debt" *(Source: Coordinated Portfolio Investment Survey 2002).*

CORPORATE TRUSTEES

Of the 22 Corporate Trustees that were licensed by the FSC as at 31st December 2002, 11 responded to the Survey – of which 9 provided data for 2002. The asset base for 8 of the Corporate Trustees was US$ 1.6 million in 2002 (US$ 1.5 million for 9 of the Corporate Trustees in 2001). Total income generated by the 9 Corporate Trustees in 2002 amounted to US$ 190,946 (US$ 149,415 in 2001). Total profit before tax in 2002 was US$ 121,747 (compared to US$ 67,861 in 2001). Since no Corporate Trustee employs staff directly, we have interpreted value added to be the same as profit before tax. It is to be noted that in general, Corporate Trustees and the respective MC to which each is related, share the services of staff employed by the MC.

With regard to the spread of business, one Corporate Trustee generates 44% of the aggregate income and 57% of the aggregate profit before tax is attributable to this same single Corporate Trustee.

The Survey results indicate that 4 Corporate Trustees have US$ 320 million of funds under their trusteeship in aggregate. Further, 6 Corporate Trustees manage and administer 60 Trusts.

Corporate Trustees have an important role to play in the Global Business sector and the figures indicate something of the potential returns that are available,

CAPTIVE MANAGERS

The results of the Survey indicate that of the 6 licensed Captive Managers, 2 are not operational. The asset base of the 4 "active" companies in 2002 was US$ 269,691 in aggregate. They generated total income of US$ 88,664 and aggregate profit before tax of US$ 47,048. Data for 2 of the Captive Managers indicated that total premiums under management amounted to US$ 60.5 million in 2002 while total claims paid reached US$ 5.6 million.

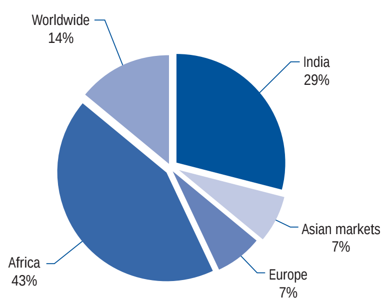
According to FSC's records, there were 13 Captive Insurance Companies, 4 Insurance Companies, 2 Re-insurance Companies, 2 Brokerage Companies and 4 agents on the register at the end of the reporting period.

COLLECTIVE INVESTMENT SCHEMES

At the end of the period under review, the total number of licensed Collective Investment Schemes (CIS) had increased by 14 to reach a total of 271 (which total excludes those CIS already wound up or in the process of being wound up). Table 7 analyses the structure adopted by each CIS that has been licensed during the period under review, whilst Chart 8 indicates their geographic distribution. It is observed that investments into Africa through CIS represent the most important share. The aggregate Net Asset Value of all the CIS licensed by FSC stood at US$ 6.6 billion as at 30 June 2003.

Table 7: Analysis of CIS by Type	
Structure	**No of CIS**
Open Ended Investment Companies	7
Closed Ended Investment Companies	4
Protected Cell Companies	1
Venture Capital/Private Equity	2

Chart 8: Geographic Analysis of CIS Investment



REGULATION

The Commission's functions are statutorily stated in section 6 of the Financial Services Development Act (FSD Act"). One of the functions is to *"…license, regulate, monitor and supervise the conduct of business activities in the financial services sector…"*. The FSC's role as regulator of NBFIs requires the Commission to *"…establish norms and standards…[and to]…take measures for the better protection of consumers of financial services…"*.

In pursuit of these objectives, the Commission oversees all practitioners in the sector - to ensure compliance with the law, their licence conditions and with the prevailing regulations. The Commission also focuses its attention on the manner in which licensees conduct their business. This is achieved in part by the establishment of "rules" designed to ensure that risks are managed appropriately and that shocks concerning unforeseen circumstances, are minimised. The "rules" are frequently in the form of Guides and Codes and include information we hope will assist Licensees to understand their regulatory obligations and how those obligations might be satisfied. This is an on-going process and new Guides and Codes are issued from time to time. In compiling the information that we include in the Codes and Guides, the Commission pays close attention to how the subject matter is treated in other financial services centres.

In particular, we believe that good licensing decisions mean fewer regulatory problems later. Accordingly, we exercise great care before we license an applicant.

LICENSING POLICY

Licensing not only involves understanding the business for which the applicant hopes to be licensed but also ensuring that only bona fide applicants are licensed. Section 14 of the FSD Act requires the Commission to be satisfied that an applicant for a licence is "fit and proper" before issuing a licence. Consequently, in assessing applicants, the Commission pays particular attention to their Competence, Integrity, and Solvency. In order to assist all those who may be affected by these provisions, the Commission has published a "Guide to Fit and Proper" (see below).

However, an effective supervisory framework means not only having adequate regulation and guidelines in place but also ensuring compliance with the law, licence conditions and with the relevant rules and regulations. The Commission checks the extent to which Licensees adhere to the rules by means of Compliance Tests.

COMPLIANCE TESTING

There are at least two ways to test compliance with the law, licence conditions and with on-going obligations. These are described below:

(a) Off-Site Compliance

The Commission ensures that licensees have complied with their licensing and on-going obligations (particularly that of financial soundness) by monitoring the statutory filings that licensed companies submit. In particular, the Commission examines the financial statements and annual reports of licensees to test solvency, to verify disclosures made and to ensure that no activity is being undertaken about which the Commission is unaware.

Last year, the Commission expanded its off-site compliance activities to include a detailed analysis of the audited accounts submitted by MCs (under section 24 of the FSD Act). The review of the audited accounts has been a very fruitful exercise not only for regulatory purposes but also in providing useful information for market policy and for statistical and comparative purposes.

(b) On-Site Compliance

On-Site compliance testing is an extremely important part of the Commission's supervisory work. It is only by visiting a MC's office and by considering the procedures in operation there that the Commission can accurately assess the MC's conduct of business.

The Commission's on-site compliance testing regime became operational on 6 January 2003 with the adoption and issue of the "Guide to Compliance". In September 2002, the Commission invited a small number of MCs to take part in a pilot scheme – the results of which were used to refine the testing process. Since the official launch of the compliance testing regime, the Commission has conducted 12 compliance and inspection visits. (Inspections are specific and unplanned). They are undertaken where a problem or potential problem has arisen and are unannounced. Compliance visits are standard, pre-planned and on-going. They apply to all Licensees as part of the normal regulatory process). In accordance with the procedure described in the Commission's Guide to Compliance, the date of the visit is agreed with the MC in advance (to allow the Principals of the MC to make preparations for the visit). Some two weeks before the visit begins, representatives of the MC are invited to a preparatory meeting to discuss the objectives of the visit, the preparatory work to be completed by the MC, the on-site work program, the methodology, confirmation of the date of the visit and to deal with any questions that the MC may have. The on-site compliance testing is usually carried out by two to three Examiners and headed by a Senior Member of the Commission. The visit comprises interviews with senior staff of the MC, Directors, Compliance Officer and the Money Laundering Reporting Officer. Compliance is tested by taking a representative sample of the whole population of client files under the management of the MC.

After reviewing the files in the sample, the examiners compile a report that focuses on major areas where weaknesses have been observed and the frequency of weaknesses within each major area. The major areas may include (but are not limited to) Unsatisfactory Know Your Customer Checks, Unsatisfactory Due Diligence on Introducer and Introduced Business, Lack of Oversight in respect of the Client's Conduct of Business, Unsatisfactory Compliance with Statutory Documents and Filing Requirements, Regulatory Issues, Staff Issues and "Other" Significant Issues. For the sake of confidentiality, the client files selected in the sample for review are not named in the working papers or in the Report that follows the visit - but are simply identified with a number. The findings in the report are categorised as (i) Observations (ii) Recommendations (iii) Requirements. The Report in its draft form is submitted to the MC for comments on the accuracy of the factual statements it includes. The report may contain an action plan and a time-table to address and remedy weaknesses identified in the report. A follow up visit may be undertaken after the action period is over to ensure that remedial action has been taken.

ENFORCEMENT

Compliance testing sometimes results in the issue of letters to licensees who have failed to meet the regulatory and prudential standards demanded by the provisions of the law and/or their licensing conditions. To date, the Commission has recorded breaches in the records of the companies concerned and sanctions have been taken when the Commission's warnings have not led to the required results. All breaches are serious but those breaches which are least serious are normally dealt with internally. Naturally, breaches affect the Commission's ability to confirm to third parties – as we are sometimes asked to do – that a licensee is in good standing. If more serious breaches arise, they will be dealt with through the Court.

CONSULTATION

In last year's Report, the Commission described a number of consultation exercises that were initiated in respect of global business.

Consultation - Application Forms and Guides (to the application process)

One consultation exercise concerned new application forms that were necessary (primarily) to accommodate the new Global Business regime. As a result of the consultation undertaken, new procedures concerning licence application forms and new forms per se, were introduced.

Consultation - Guide to Fit and Proper and Personal Questionnaire Forms

The "Guide to Fit and Proper" (the Guide) mentioned above, was also subject to consultation. The purpose of the Guide was to explain both how the Commission interprets this criterion and how it will be applied in practice – which applicants and licensees need to know because they will be tested against these criteria continuously. The Commission issued the "Guide to Fit and Proper" in due course. Paragraph 10 of the Guide referred to the collection of the information considered necessary to enable FSC to determine whether an applicant is "fit and proper". The Commission's intention was to use a "Personal Questionnaire" (PQ) Form for this purpose. An appendix attached to the Consultation Paper described the type of information that FSC envisaged asking applicants to provide. Two Personal Questionnaire Forms – the first for Category 1 Global Business Companies, Management Companies and for other applicants under s 14 of the FSD Act and the second for Category 2 Global Business Companies were compiled and discussed. The Consultation process ended on 30 June 2003. The Commission met subsequently with the Association of Management Companies ("AOMC") to provide further clarification about the Personal Questionnaire (PQ) and to discuss the comments made by the AOMC. The final version of the PQ forms will be published in the near future.

It is important to emphasise that applicants and licensees must satisfy the "Fit and Proper" criteria both at the time the application for a licence is submitted - and on an on-going basis thereafter. Accordingly, we recommended that the Guide is referred to on a continuous basis.

Consultation - Managed Operations

Managed Operations may be defined as MCs operated by an existing MC that is itself already licensed and operating in Mauritius.

The Commission has received an increasing number of applications for licences to operate as "Managed Operations". In view of the growing interest, the Commission issued (March 2003) a Consultation Paper on this subject. A large number of comments and views were received as part of that process – all of which have now been considered. In the near future, the Commission hopes to be able to publish its views on "Managed Operations".

Consultation - Dormant Companies

All registered or incorporated companies (whether domestic or a Global Business Company) may apply under section 294 of the Companies Act 2001 ("the Act"), to be declared "dormant". There is a variety of reasons why a Company might want to be declared "dormant" - for example to protect the company's name or to remain in readiness for a future project, or to hold an asset or an intellectual property. Several GBC1s resolved to apply for dormancy status under the Act – and this has given rise to a number of prudential and regulatory issues.

To address these issues, the Commission issued a Consultation Paper (CP 203). The object of the Consultation Paper was to identify some of the issues that arise where the applicant for dormancy status is a licence holding Company.

The Consultation process ended on 21 March 2003. In the near future, the Commission hopes to be able to publish its views on "Dormant Companies".

ANTI MONEY LAUNDERING AND TERRORIST FINANCING

A comprehensive update on Anti Money Laundering and Terrorist Financing is described further in this Report - but so far as these matters impinge upon Global Business, the FSC has ensured that as new information has been made available by the United Nations Security Council Sanctions Committee on proscribed persons, that licensees are updated. The Commission has requested all its licence holders to examine closely their records and to report any possible links between their client companies and listed terrorist organisations and individuals. No report of dealings with any of the proscribed persons has been received. This process will continue and the onus is on licensees to conduct this type of checking on an on-going basis – without being prompted by the Commission.

We note that some licensees who have been inspected on-site have been able to demonstrate that they are carrying out continuous reviews of their records.

CONCLUSION

During our second year of operation, the FSC has made important advances in meeting the functions delegated to it under the FSD Act. This has meant the introduction of new rules in response to on-going changes in the global business environment. These new requirements have been the subject of much debate – both formally and informally – and as a result of the consultation process, we believe that the final product is better than it would have been without that debate.

The Commission maintains a constant dialogue with licensees – by which means we make every effort to explain our objectives and to assist operators to adapt any changes in the Global Business environment.

Conscious of the need to compete effectively in the global environment, the Commission has been encouraging MCs to consider their portfolio of services and how they are provided. The examination of the MCs' accounts has been instructive in this regard. For its part, the Commission is considering other developmental opportunities. In this respect, the implications of vehicles such as Limited Partnerships are being examined.

Meanwhile, the Securities Bill and the Collective Investment Schemes Bill when enacted, will put Mauritius on a par with other jurisdictions and will therefore contribute to the generation of more investment business.

Even though trading conditions were difficult globally in the year under review, the Global Business sector has moved forward in terms of substance, quality and value added. We believe this augurs well for the future.

Accordingly, the FSC in general, and staff dealing with Global Business matters in particular, anticipate further advancement - which will contribute to further development of the Global Business activity in the coming year and beyond.

UPDATE ON AML/CFT

BACKGROUND

The FSC believes that the future success of Mauritius - as a leading centre for the provision of financial services - depends (inter alia) upon the maintenance of its reputation of probity. That being so, the Commission considers that all Licensees in Mauritius should avoid exposure to any relationship that involves the proceeds of either crime or terrorist financing (the predicate offences of "Money Laundering").

"Money Laundering" is a generic term used to describe any process that conceals the origin of the proceeds of crime in such a way that the proceeds appear to have derived from a legitimate source.

The FSC believes that the key to the prevention of money laundering and terrorist financing by Licensees is the implementation of and adherence to effective 'Know Your Client' (KYC) and vigilance procedures. In addition to reducing the risk of exposure to money laundering and terrorist financing, effective KYC practices also protect Licensees against a range of other potentially damaging risks including reputational risk, legal risk and the risk of regulatory sanction.

As well as being committed to preventing the exploitation of the financial services industry in Mauritius by money launderers and terrorist financiers, the FSC wishes to play its part in preventing arbitrage between the anti money laundering laws and practices of different jurisdictions. Mauritius fully supports international and regional initiatives to prevent money laundering and combat terrorist financing.

As part of that process, and also as part of the process of protecting Mauritius from persons who might try to use this jurisdiction for the purposes described above, the FSC issued three Codes on this subject in April 2003. There are separate Codes for Management Companies, Investment Businesses and for Insurance Entities – all based on the principles described above.

The Code on the Prevention of Money Laundering and Terrorist Financing for Management Companies was completed first – and was issued for Consultation between 29 November 2002 and 20 December 2002.

The respective Code on the Prevention of Money Laundering and Terrorist Financing for Investment Businesses and for Insurance Entities were completed around the same time. A "Consultation Workshop" was organised over two days in March 2003. All three Codes were issued on 18 April 2003 and became effective on 2 May 2003.

THE CODES

The Codes encapsulate what are internationally accepted best practice criteria. These include the Financial Action Task Force's (FATF) Forty Recommendations on the Prevention of Money Laundering, the FATF's Eight Special Recommendations on Terrorist Financing and the Paper published by the Basel Committee on Banking Practice on Customer Due Diligence, (which has been endorsed by the FATF).

THE KEY PRINCIPLES

The Codes are a statement of the minimum criteria that will be utilised by the FSC in the exercise of its regulatory powers when considering the conduct of business by Licensees.

STATUS

Non-compliance with the Codes will be regarded as non-observance of a Code under the Financial Services Development Act 2001 ("the Act") and may result in revocation of any Licence issued under the Act.

KNOW YOUR CLIENT ("KYC")

The KYC principle is the foundation upon which internal systems of anti money laundering control must be built. To be effective, KYC procedures must extend beyond client identity and should be regarded by Licensees as a principle that can assist in the recognition of the risks inherent in client relationships.

VERIFICATION OF IDENTITY OF CLIENT

The Codes impose an obligation upon Licensees to verify the identity of Applicants for Business and any Principals thereof.

RELIANCE UPON ELIGIBLE OR GROUP INTRODUCERS

The Codes introduce the concept of "Eligible or Group Introducer" - upon whom it will be permissible for Licensees to rely to provide certified copies of documentary evidence of identity of Applicants for Business and the Principals thereof. The ultimate responsibility remains with the Licensee.

VERIFICATION OF IDENTITY FOR EXISTING CLIENT RELATIONSHIPS

In recognition of the risks inherent in existing client relationships involving principals that have not been identified by Licensees, the Code imposes a requirement for Licensees to verify the identity of all existing Applicants for Business and the Principals thereof within 24 months of the issuance of the Codes. As many of the duties of Licensees in relation to the proper discharge of their functions as trustees and company directors require them to "know their clients", the FSC anticipates that compliance with this requirement by Licensees will be achieved relatively quickly.

REASONABLE MEASURES TO PREVENT MONEY LAUNDERING

The Commission expects all Licensees to implement reasonable measures to prevent both themselves and their services from being used to launder property. To this end, the FSC prescribed within the Codes some of the measures that it expects Licensees to put into place in the exercise of their regulatory functions. The measures are not exhaustive and each Licensee is expected to consider what additional anti money laundering control measures may be appropriate for its business.

The point should be made that the measures prescribed represent minima. If Licensees decide to adopt even higher standards (e.g. by requiring new clients to have utility bills certified by a legal practitioner – which FSC understands is a practice that is growing in usage), the decision to do so is for the Licensee alone. However, in the ordinary course of affairs, the Commission does not regard this as necessary.

REGULATIONS

In June 2003, Regulations made by the Minister under section 35 of the Financial Intelligence and Anti-Money Laundering Act 2002 were published in Government Notice 79 of 2003.

The Regulations (inter alia) include provisions that prohibit fictitious accounts and that require identity to be established and verified in the manner prescribed. The Regulations also require the establishment of internal controls and reporting procedures – which include the need to appoint a Money Laundering Reporting Officer. The Regulations describe the need to implement enhanced due diligence procedures with respect to persons and business relations and transactions carrying high risk and with persons in jurisdictions that do not have adequate systems in place against money laundering and financing of terrorism. Finally, the Regulations contain rules concerning the retention of records.

REVIEW OF THE FORTY RECOMMENDATIONS

At the end of its Plenary Meeting in June 2003, the FATF issued a revised version of its Forty Recommendations. These revised Forty Recommendations now apply not only to money laundering but also to terrorist financing. The main changes included:

1. "countries must make all serious offences predicate offences to the crime of money laundering";
2. expanded due diligence for financial institutions;
3. refined measures to apply to higher risk customers (correspondent banks and politically exposed persons) and transactions;
4. application of anti money laundering procedures to services and professions that are non-financial (including casinos, estate agents, accountants, lawyers and trust and company service providers);

5. introduction of "…key institutional measures, notably regarding international cooperation…;
6. measures to improve transparency on beneficial owners of companies and trusts;
7. application of anti money laundering procedures to financiers of terrorism;
8. shell banks are prohibited;
9. countries are permitted to allow their institutions to rely on intermediaries or other third parties to perform some elements of the customer due diligence process or to introduce business.

Source: "New Anti-Money Laundering Standards Released"; www.oecd.org; 20 June 2003.

MEMBERSHIP OF THE EGMONT GROUP

Lastly in this respect, the FSC is pleased to record that Mauritius' Financial Intelligence Unit (FIU) was admitted to membership of the Egmont Group of Financial Intelligence Units in July 2003.

INFORMATION TECHNOLOGY

INFORMATION TECHNOLOGY VEHICLE FOR THE FINANCIAL SERVICES INDUSTRY

VISION AND OBJECTIVES

The Mauritian Government has set a new vision to turn Mauritius into a "Cyber Island" and to make the information and communications technology industry (ICT) the fifth pillar of the economy. The ICT sector is expected to create new opportunities as well as new avenues for sustainable economic development, additional wealth creation and employment prospects. The Mauritian government has demonstrated its full commitment towards achieving these objectives.

LEGAL INFRASTRUCTURE

The Government has passed the Electronics Transactions Act, Information and Communication Technologies Act 2001, and the Computer Misuse and Cybercrime Bill to provide the legal infrastructure for ICT development. The physical infrastructure is currently being set up in Ebene, near the centre of the country, in the form of a "Cyber City" to provide office facilities for those who intend to operate IT services in Mauritius.

INFORMATION TECHNOLOGY IN THE FINANCIAL INDUSTRY

Information technology is central to the financial services industry. IT is not about cutting cost; it is more about providing information to run the business better. Information technology is playing a key role in improving the competitiveness of financial services organisations. By leveraging information technologies, financial organisations have been able to increase their ability to respond to customer demands and to changing market conditions. It has also enabled companies to stay at par even or to move ahead of competition and have given them the opportunity to enhance operating revenue. Practical benefits include: reduced operating expenses, higher competitive advantage, better market positioning, shorter lead times, entry into new businesses and improved internal controls. The Mauritian financial service providers have recognised the potential and there have been landmark changes in the way financial systems operate.

IT AND THE STOCK EXCHANGE

In January 1997, the Stock Exchange of Mauritius implemented the Central Depository System (CDS). The CDS provides a centralised depository, clearing and settlement services for the Mauritian equity and debt markets. The CDS is an online computer system accessible by stockbroking companies through a secure network. The setting up of CDS has reduced the inherent risk of error, loss and fraud that is associated with the potential for manipulating original paper certificates. CDS has also improved the efficiency of clearing and settlement of trades and provides statutory guarantee for confidentiality of the identity of investors and information about their accounts. Furthermore, the CDS ensures that stock exchange transactions are cleared and settled in line with G-30 and other international standards.

The decision taken in 2001 to automate the Stock Exchange trading system was prompted by the need to develop a more efficient and transparent trading system and to improve the quality and flow of stock market information. Set up at the end of June 2001, SEMATS puts an end to the floor-based open-outcry system that had been in use since the inception of the Stock Exchange in 1989. SEMATS constitutes a state-of-the-art electronic trading system built on third generation technology and designed for first class order-driven equity and debt markets. This has been a landmark innovation in the way trading is done by providing a flexible and more user friendly interface for the investors. Trading in securities is conducted through dedicated trading workstations located at stockbroking firms and linked by communication lines to the SEM trading engine. SEMATS has also enhanced transparency, liquidity and fairness for the benefit of investors and can accommodate different types of financial instruments. They can be processed through continuous trading or auction method. SEMATS operates on a price-time priority, which allows a security to be purchased from the lowest offerer and sold to the highest bidder.

One key feature of SEMATS is that it provides a sophisticated electronic surveillance tool that enables the surveillance staff of the Stock Exchange to take all necessary steps to safeguard the integrity of the market and maintain an even playing field for investors.

Furthermore, FSC conducts remote surveillance of the market through a dedicated terminal via a secure connection to the surveillance system. This allows FSC to conduct real time supervision of trading on the market enabling early detection of irregular activities. In certain specific circumstances the SEMATS allows the suspension of trading of a security and market halts.

By the very nature of its operations, SEMATS has to offer a continuous and efficient service to all its stakeholders. Accordingly, the SEM has put in place a Disaster Recovery Plan (DRP), which includes back-up server for failures on the main trading server and a backup site in case of a major disaster at the SEM's site. The procedures are tested three times a year by simulating disasters.

INFORMATION SECURITY IN THE FINANCIAL SERVICES INDUSTRY

Together with the enormous potential for improving the benefits of information and communication technology through interconnectivity, IT development brings with it issues and problems such as security and confidentiality of transactions and infringement on personal privacy. Organisations need to be aware that their information system and networks are exposed to a growing number and a wider variety of threats and vulnerabilities than ever before. It is becoming clearer that organisations need to develop a culture of security and have a greater awareness and understanding of security issues both internally and externally.

Some examples of common threats to information systems are errors and omissions; fraud and theft, sabotage, loss of physical and infrastructure support, malicious hackers, industrial espionage and malicious code, impersonation, denial of service attacks. Furthermore, organisations should be aware that there is now greater emphasis on financial mismanagement and reporting which has prompted the need to have standards that ensure high quality data and accounting accuracy.

Entities licensed by the FSC should aim to adopt the following principles as prescribed by OECD guidelines for the security of information systems and networks in their effort to enhance the existing security measures they are taking:

1. **Awareness:** Organisations should be aware of the need for security of information systems and networks and what they can do to enhance security. Risks could be external as well as internal and an awareness of the system configuration and availability of updates against known vulnerabilities are important.

2. **Responsibility:** All organisations are responsible for the security of their information system and networks. They are accountable in a manner appropriate to their individual roles.

3. **Response:** Organisations should act in a timely and cooperative manner to prevent, detect and respond to security incidents.

4. **Ethics:** Organisations should recognise that their action or inaction may harm others and therefore strive to develop and adopt best practices and promote conduct that recognises security needs.

5. **Democracy:** The security of information system and networks should be compatible with the essential values of a democratic society i.e. taking into consideration the free flow of information, confidentiality of information and communication, the appropriate protection of personal information, openness and transparency.

6. **Risk assessment:** Organisations should conduct risk assessments i.e. identify threats and vulnerabilities encompassing internal and external factors such as technology, physical and human factors, policies and third-party services with security implications. Risk assessment allows the determination of the acceptable level of risk and assists the selection of appropriate controls to manage the risk of potential harm to the information depending on its nature and importance.

7. **Security design and implementation:** Security should be incorporated as an essential element of information systems and networks. The focus should be the design and adoption of appropriate technical and non-technical safeguards and solutions to avoid or limit potential dangers.

8. **Security management:** Organisations should adopt a comprehensive approach to security management. Security management includes forward-looking responses to emerging threats and address prevention, detection and response to incidents, system recovery, ongoing maintenance, review and audit.

9. **Reassessment:** Organisations should review and reassess the security of information systems and networks, and make appropriate modifications to security policies, practices, measures and procedures.

Hence, senior management of organisations should know that they are responsible for ensuring that a security strategy exists and ensure that adequate resources are devoted to it.

IT @ THE FINANCIAL SERVICES COMMISSION

At the level of the FSC, massive investment has, over the past years, been made in the area of ICT. The FSC understands the strategic and pervasive nature of the ICT which has evolved from being a business resource to that of being an environment. The Commission has invested in a state-of-the-art networked environment, running about sixty workstations. This is expected to double in the coming year.

The Financial Services Commission has been among the first institutions to subscribe to Microsoft Open Subscription License Agreement in 2001 in order to ensure full software licensing compliance. This has enabled each member of staff of the FSC to have the latest Microsoft office automation software on their desktop. An intensive and ambitious training programme has also been developed by the Commission on information technology and on the application of these different tools. These programmes are conducted both at external training centres and at an internal level. This IT training program forms part of the Corporate Strategy of improving the skill sets of all the employees.

Moreover, the Commission has also built a sophisticated and cost effective IT infrastructure when it started its operation in its new office at the Harbor Front Building. A fully equipped computer room was set-up with structured cabling, networking and telecommunications equipment and UPS facilities. The Commission has an ADSL, IP over frame relay, leased line connectivity and a number of ISDN and analogue lines for its telecommunication needs. There are two main servers catering for the database and file management system operating on Sun Solaris and Windows 2000 Platforms respectively. The IT set-up provides for Internet, email, antivirus, document management, and database and accounting application facilities.

The IT setup is built around a need for reliable and secure environment within the office so as to protect the computers, the information they process and related technology resources. The objective is to maintain a high level of confidentiality in the way the Commission operates and handles information. Confidentiality is a crucial element in the operation of the Commission, and requires that private or confidential information is not disclosed to unauthorised individuals. The network and files system have been designed to segregate access based on user roles and sensitivity of information processed. The Commission has developed IT Security Standards, Guidelines, and Procedures based on the BS 7799 Information Security Management System. Best practices in backup procedures have been adopted and an offsite backup strategy is in place. The system has also made provisions for contingency planning and high availability features to assure that systems work promptly and ensure continued operations through tested recovery mechanism. The Commission's approach has been to develop an effective, overall security strategy in selecting cost-effective controls to meet such requirements.Computer security at the FSC is periodically reassessed and it is an integral element of FSC's management process.

IT Plan 2003-2005

A review of IT Needs of the Commission has been made and an IT Plan 2003 – 2005 has been prepared. A number of projects have been proposed and are currently in the pipeline. These include:

- **Consolidation of the IT infrastructure:** The existing set-up has to be modified to take into consideration the future needs of the Commission in terms of scalability, security and higher computing capabilities.

- **Enforcement of the contingency planning, security strategy and offsite backup:** The existing contingency plan must be improved to ensure continued business operations in view of the new vulnerabilities detected.

- **Development of a web portal:** To provide comprehensive information on the financial services for its stakeholders including the public; about the various rules, regulations, and guides.

- **Creation of an integrated database on the financial services:** To help in the analysis, regulations and supervision of the financial sector with generation of statistical reports internal and external use.

- **Online Consumer education / Complaints:** Consumer education and complaints are important components of the Commission's strategy and the web provides an additional but more efficient and cost effective channel for its implementation.

- **Support services applications:** Auxiliary software applications like accounting and payroll packages to support the core business operations.

In short, the objective of the Commission's ICT strategy is to prioritise technology projects to improve communication and coordination across the various functions of the Commission thus enabling knowledge creation towards better regulation and supervision. The Commission is committed to the adoption of leading edge technologies to help coordinate and improve its business responsiveness to the demands of the various stakeholders. The end objective being a more productive mindset in a technology based working environment.

AUDIT COMMITTEE REPORT

REPORT OF THE AUDIT COMMITTEE TO THE FINANCIAL SERVICES COMMISSION

REPORT FOR THE YEAR ENDED 30 JUNE 2003

The Audit Committee (the Committee) established by the Financial Services Commission (the Commission) on 11 November 2002 consists of three non-executive Commission members, namely Mr Yon Yan Pat Fong (Chairman), Mr Radhakrishna Chellapermal, and Dr Jawaharlall Lallchand. The Secretary of the Commission, Mr R. Sokappadu acts as secretary of the Committee meetings.

1. TERMS OF REFERENCE

The Committee, under its written charter, is to evaluate the effectiveness of the system of internal control, to ensure that the Commission is conducting its affairs in compliance with the principles of good governance and standards of best practices, and to ensure that the financial disclosures made by management in its financial reporting reasonably reflect the results of its operations, plans and commitments.

2. RESPONSIBILITIES OF MANAGEMENT, EXTERNAL AUDITORS AND THE COMMITTEE

Management has the primary responsibility for the Commission's financial statements and the reporting process, including the system of internal controls. The external auditors are responsible for performing an independent audit of the Commission's financial statements in accordance with auditing standards and to issue a report thereon. The Committee's responsibility is to monitor these processes.

3. ACTIVITIES OF THE COMMITTEE

For the year under review, the Committee met on four occasions and the following main issues were dealt with and recommended to the Commission for action.

(i) Management letter from the external auditors on the financial statements for the period 1 August 2001 to 30 June 2002 was considered. It was agreed that an adequate operational, administrative and accounting manual be put in place and an internal auditor be appointed to monitor compliance as part of operational risk management.

(ii) Budget estimates for 2003/2004 prepared on an accrual basis were tabled. Forecasted financial statements for 2002/2003 were compared with budget estimates for 2002/2003 in order to explain material variances. The estimates for 2003/2004 and the quantum of annual contribution to capital budget were then recommended to the Commission for approval.

(iii) The Committee carried out a tender exercise for the appointment of external auditors over the next two years and recommended to the Committee the re-appointment of Messrs Chokshi & Chokshi, Chartered Accountants.

(iv) Draft financial statements of the Commission for the year ended 30 June 2003 were tabled. Accounting issues relating to revenue recognition, fair value determination and related party transactions were discussed with the external auditors in order to ensure that the accounts comply with International Accounting Standards.

4. CONCLUSION

In reliance on the reviews and discussions with management and external auditors referred to above, the Committee is satisfied with the quality of financial reporting and recommends that the Commission approves the audited financial statements for the year ended 30 June 2003 for inclusion in the Annual Report 2002-2003 of the Commission.