



ANNUAL REPORT

The Financial Services Commission has launched its Annual Report 2003 at the opening of the international conference on non-bank financial institutions organized by the IMF and the Commission on the 9th December 2003.

It came as a timely demonstration to regulators in the African and Middle East region and the international community of the Commission's achievements as a unified regulator and commitment to rise to international standards of regulatory practice.

Much of the report focuses on the Commission's regulatory efforts in the areas of licensing, surveillance and enforcement for regulated entities under its remit in the Securities, Insurance and Global business sectors and other Non-Bank Financial Institutions.

It highlights aspects of the macro economic environment in which the non-bank sector operated during the financial year 2003; defines the authority's new regulatory approach and changes that are under way in legislations for the FSC to attain its objectives of becoming an edge regulator respected for its high standard both at home and abroad.

The report also contains an in-depth study on Pension schemes, where Dimitri Vittas, Senior Finance Advisor from World Bank expresses his personal views in relation to the Role of Occupational Pension Funds in Mauritius, and Corporate Social responsibility.

Synopsis

Review of financial markets

Generally the report gives a review of financial markets performance in the insurance, securities and global business sectors. Observations are that although financial markets worldwide have had some difficult years, the non-bank sector in Mauritius has displayed a fair measure of resilience. Notwithstanding a set back in terms of financial flows to the country, "Assets of contractual savings institutions, namely those of the insurance and pension funds industry alone have increased to Rs 59.2 billion representing 42% of the GDP. Stock market capitalization grew by 32.7% to Rs 45.4 billion and market turnover increased by 5.2% to Rs 2 billion; Aggregate turnover of Management Companies operating in the Global Business sector increased by 10%, states the Chief Executive, Iqbal Rajaballee, although aggregate value added increased by a fractional 1.5%."

New Legislations

However, if the industry is to continue to perform well, sensitive and effective regulations are required, and this is what the Commission aims to foster. The Commission will not compromise on the quality of its regulatory standards asserts FSC's Chairman B.R Gujadhur. Indeed, for the past year the Commission has focused considerable effort towards strengthening the quality and appropriateness of its regulations essentially those related to the Conduct of business and prudential regulations. Standards have been built into the

Commission's licensing conditions that should ensure timely, reliable and comprehensive disclosure to the market and investors.

New Insurance and Securities Bills

Significant changes are being brought to the insurance and securities legislations with the introduction of new securities and insurance bills that will enhance regulatory effectiveness without imposing any undue constraints on the industry.

The new Insurance Act to be implemented shortly will focus on specific regulatory issues relating to capital adequacy, solvency, corporate governance and early warning systems and protections of policy holders. Separate draft legislation pertaining to long term and short term insurance businesses are currently under preparation. Other legislations relating to the securities industry and pension reforms are in the pipe-line.

Anti-Money Laundering Laws

AML/CFT regulations have also been reinforced as a move to preserve the integrity of Mauritius as a financial center of clean repute.

New regulations have been issued under the Financial Intelligence and Anti-Money Laundering Act 2002 that require the establishment of adequate internal controls and reporting procedures.

As part of its mandate to suppress financial crimes, the Commission has issued three Codes intended for investment businesses which aim at combating such practices. The new Codes are minima prescriptions and cover customer identification, reporting of suspicious transactions and the need for a Money Laundering Reporting Officer.

Licensees are expected to consider what additional anti-money laundering control measures may be most appropriate for their specific business and are given the freedom to adopt higher standards should they deem it necessary.

FSC's staff has been provided with extensive training to inquire into cases of money-laundering. Moreover, the Commission has established liaison with network of financial regulators abroad, Government authorities to share intelligence on this issue.

Corporate Governance

The FSC has raised awareness on the implications of sound legislations through constant dialogue with the industry. It has promoted, in various forum and seminars, the necessity for firms to adopt and implement sound management principles and good governance. The move was broadly welcomed by the industry and a Corporate Governance Code has been published.

Regulatory Reforms

Beyond the changes introduced through legislation itself, the Commission is putting in place a more proactive mode of regulation that stresses compliance with prudential rules rather than drastic end of line enforcement actions.

A new risk assessment framework is being put into practice that seeks to assess individual firm's financial viability and risk profile. This risk assessment approach will help FSC's surveillance team focus greater attention on firms where problems have been identified and taking effective steps to mitigate any significant risk they may pose to market soundness, investor protection and market confidence.

This approach will help the Commission prevent and deal with problems in a more efficient manner and minimize adverse cross sector impacts in the event of failures.

Finalizing and implementing new rules and new approaches to the regulation of non bank business will be a major undertaking in 2004. The FSC will ensure that its rules keep pace with market developments and meet internationally accepted standards. Work to achieve this objective continues through various international groupings **IAIS***, **IOSCO*** **FATF *** including the IMF.

In a bid to test and improve the quality of its regulatory environment the Commission lent itself to FSAP examination which analyzed the stability of our regulatory structure and the extent of compliance with international standards.

According to the report “Overall the Mauritian financial sector is in good health and short term stability risks are modest”. The report also commended the rigorous standards of financial sector regulation practiced in Mauritius

Staffing

Changing the way to regulate the financial services sector is a major exercise involving adequate human resources and technology. On the staff side the Commission has been able since October 2003 to build up capacity nearly towards its full with an 80 member personnel. However given the novelty of the unified regulatory authority, an intensive program of training and development with/by international regulators is being gradually implemented to help staff acquire the level of experience to help FSC achieve its mission.

Complaints and Enforcement

The necessity to implement both sound regulations and good corporate practices were felt on various occasions where investors and the market suffered a set back as a result of relaxation or weaknesses in internal controls and poor management.

During the year the FSC has had a number of difficult cases to handle in the insurance sector and investigated several allegations of market misconduct, namely fraudulent actions by an insurance company director, and a suspected case of price manipulation in the securities sector. Whilst some cases have been resolved through enforcement actions and court actions, the Commission has found no evidence in the case of the securities industry. Other minor complaints registered have been resolved through constructive discussions.

Conclusion

The Commission’s agenda for change will be a continuing one evolving with the demands of the industry. Some changes have already been made but others will take time to have full effect.

The Commission in its second year of existence looks forward with confidence to the future. Expectations are that the industry will appreciate the full implications of the new regime and the benefit it will bring to all.

Financial Services Commission

Date: Friday, 05 March 2004

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| *IAIS | International Association of Insurance Supervisors |
| *IOSCO | International Organization of Securities Regulators. |
| *FATF | Financial Action Task Force |

