



# FINANCIAL SURVEILLANCE REPORT 2022

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## Purpose of the Report

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

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





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A MODEL CENTRAL BANK DELIVERING PRICE STABILITY AND FINANCIAL SYSTEM SOUNDNESS.

## VISION



## MISSION

TO CONTRIBUTE TOWARDS INCLUSIVE GROWTH AND DEVELOPMENT OF SEYCHELLES.

## OBJECTIVES

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

The other objectives of the Bank are:

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



# OUR PHILOSOPHY

## FINANCIAL SURVEILLANCE DIVISION

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

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This report is also available at: <http://www.cbs.sc/Publications/SupervisionReports.html>





# GOVERNOR'S STATEMENT

2022 was a challenging year on multiple fronts. While it started off with a positive outlook, the invasion of Ukraine by Russia in February notably aggravated geopolitical tensions and heightened uncertainties. In addition, there were supply disruptions and high inflation which posed concerns for policymakers across the globe. The significant rise in inflation necessitated authorities in most emerging markets and advanced economies to tighten their monetary policies. Moreover, the resurgence of new COVID-19 variants towards the end of 2021, prompted countries to maintain or re-instate restrictive measures. Despite the difficult environment, the global economy was estimated to have grown by 3.4 per cent in 2022, a slowdown from 6.0 per cent in 2021.

Amidst the challenging global economic environment, the domestic economy showed a degree of resilience during the year under review. The threat of the evolving COVID-19 pandemic and Ukraine's invasion by Russia did not disrupt the Seychelles' economy significantly. As the vaccination uptake increased and the number of cases recorded locally decreased, the Public Health Authority gradually eased entry requirements into the Seychelles. As of March 15, fully vaccinated visitors no longer required a negative PCR<sup>1</sup> test and subsequently, as of December 01, tourists were not mandated to show proof of COVID-19 vaccination or a negative PCR test upon arrival. This enabled the resumption of various activities and in particular was key to reinforcing growth in the tourism industry. The total number of tourists who visited Seychelles in 2022 expanded by 82 per cent in comparison to the preceding year, albeit still below pre-pandemic outcome.

Domestic economic recovery was evidenced by the growth in real Gross Domestic Product (GDP) in 2022, which was estimated at 8.9 per cent or 6.4 percentage points higher than the outcome for 2021, underpinned by the robust performance of the tourism industry. Consistent with the rise in tourist arrivals, tourism earnings were estimated to have increased by 58 per cent to stand at US\$932 million in 2022. Of note, in June 2022, the Bank published a revised series of tourism earnings, incorporating a new methodology for calculating tourism revenue. The change in methodology provides greater coverage of earnings generated by the industry, including the proportion of foreign exchange kept abroad.

Given the return to normalcy and general improvement in economic conditions, the Bank reconsidered the support measures offered to businesses that were impacted by the COVID-19 pandemic, as part of the Unwinding Strategy – COVID-19 Policy and Relief Measures. Notably, the strategy was initiated in a phased approach whereby as of end-March the Bank closed the access period to the Private Sector (MSMEs) Relief Scheme and Private Sector (Large Enterprises)



Relief Scheme. Other measures that were unwound in 2022 included, non-exhaustively, phasing out of the moratorium and debt restructuring measures; lifting of the relaxation of credit classification requirements as well as reinstating the Minimum Reserve Requirement from 10% to 13%, applicable on rupee-denominated deposits of Other Depository Corporations.

As afore-mentioned, unwinding of the COVID-19 measures coincided with higher economic activity which was reflected in generally better performance of the local banking sector during the year. Although a decline in asset quality (49 per cent increase in non-performing loans (NPLs)) and capital was observed, the banking sector maintained adequate capital and liquidity buffers well above regulatory requirements. Some key highlights of the domestic banking sector's performance throughout the year were as follows:

- Profit After Tax stood at R599 million as at December 2022, representing an increase of R73 million compared to December 2021;
- Capital Adequacy Ratio (CAR) and Core Capital Ratio declined to settle at approximately 21 per cent and 15 per cent, respectively, well-above regulatory requirements;
- Liquidity Ratio stood at 46 per cent as at December

<sup>1</sup>Polymerase chain reaction.



- 2022 compared to 41 per cent for the previous year;
- Total Assets grew by 3.2 per cent to stand at R34,097 million;
- Equity Capital decreased by R11 million to settle at R3,031 million.

Overall, both the banking and non-bank financial institutions remained sound in 2022. An improvement was seen in the Non-Bank Credit Granting Institutions' (NBCIs) performance, marked by an expansion of R75 million (3.2 per cent) in Total Assets, settling at R2,380 million at the end of 2022. In addition, Profit After Tax increased to stand at R48 million in 2022, relative to R34 million at year end-2021.

The higher economic activity also contributed to Fitch Ratings' upgrade of Seychelles' Long-Term Foreign-Currency Issuer Default Rating from 'B+' to 'BB-' with a stable outlook in October. The other factors contributing to the upgrade included the country's declining public debt-to-GDP ratio, improved external position, limited impact on tourism from the conflict between Russia and Ukraine, stable fiscal performance and a firm macroeconomic framework.

As regards legislative developments, the key highlights of 2022 included the enactment of the Financial Consumer Protection Act (FCPA) and the issuance of the National Payment System (Electronic Money) Regulations. The FCPA provides the competent authorities, that is, the Bank and the Financial Services Authority (FSA), with the power to protect the interest of financial consumers, including mechanisms to handle financial consumer disputes fairly, reasonably and effectively. As

for the National Payment System (Electronic Money) Regulations 2022, same was gazetted in December and is aligned with the Bank's initiative to modernise and develop the country's national payment system. It is anticipated that the framework will encourage the adoption of innovative technologies within the national payment system, in line with the National Fintech Strategy and the Government's digital economy agenda.

Furthermore, the Board of the Bank and Cabinet of Ministers approved the policy paper for the introduction of a bank resolution framework as well as the policy proposal for Basel III Definition of Capital. In respect of financial integrity, further amendments were made to the Prevention of Terrorism Act 2004, Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) Regulations 2020 and Prevention of Proliferation Financing Regulations 2021. New regulations were also issued under the AML/CFT Act 2020 and Preventions of Terrorism Act 2004.

To conclude, albeit its challenges, the year under review was marked with promising positive developments. The Bank remained vigilant of developments both globally and domestically for probable risks, and was ready to take appropriate actions, consistent with its core mandates of maintaining price and financial stability. The Bank's staff, Management Team and Board of Directors are key to driving the initiatives and efforts towards fulfilment of the Bank's mandates. I take this opportunity to express my profound gratitude for their diligence, professionalism and unwavering support, which has been instrumental in helping the Bank navigate through yet another challenging year.

**Ms Caroline Abel**  
Governor





# 2022

## AT A GLANCE

### BANKING STABILITY



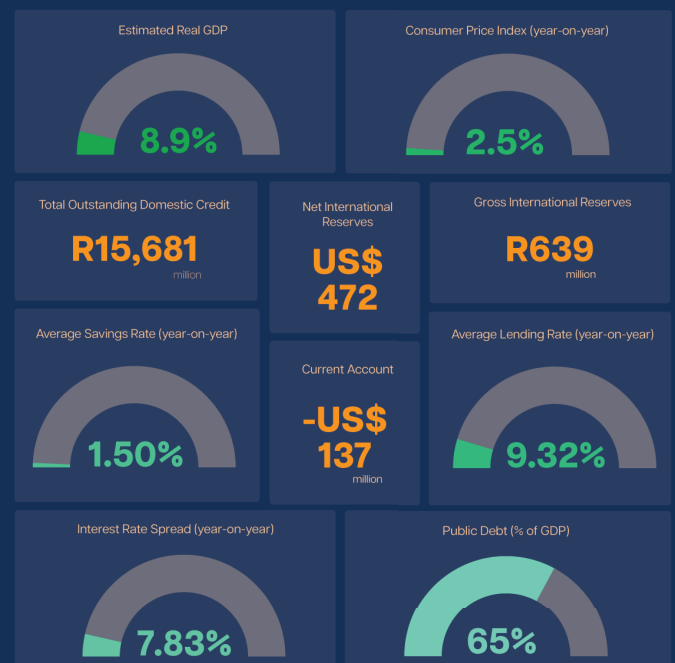
### NON-BANK PERFORMANCE



### PAYMENT SYSTEM



### MACROECONOMIC DEVELOPMENTS





# CHAPTER 1

## HIGHLIGHTS

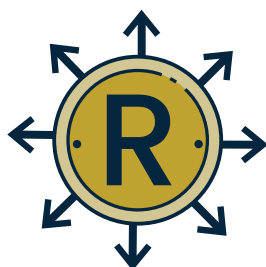
Despite the emergence of new challenges in 2022, there was a pick up in domestic economic activity, which led to notable improvements in the financial sector's performance. On the supervisory front, the Bank pursued several initiatives to ensure the effective and efficient regulation and supervision of entities under its purview.

### Structure of the Financial Sector



In 2022, no new banking or Bureaux de Change (BDC) licences were issued. As such, the total number of licensees remained at eight and 21, respectively. With respect to Payment System Providers (PSPs), one licence was granted during the year under review, bringing the total count to 15 PSPs (13 class A BDCs and two e-money service providers) at year-end. The newly licensed PSP is however, yet to begin operation.

### Financial Inclusion and Market Conduct



Promoting the agenda for the digital economy through various initiatives was the primary focus for 2022. Whilst initial work was being undertaken to enhance the payment infrastructures (such as the introduction of a Real Time Gross Settlement system and a Central Securities Depository, as well as a new core banking system), focus was also on continuously educating customers of their rights and obligations when accessing financial services. In respect of market conduct and financial consumer protection, the FCPA was enacted in May 2022 with a six months transitional period for its full enforcement. The Act provides the Bank and the FSA, as the competent authorities, with the power to protect the interest of financial consumers.

### National Payment System

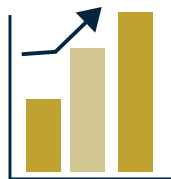


Over the years, the national payment system has seen tremendous development and evolution. Total payment increased throughout 2022 to reach 14 million transactions for a total value of R854,053 million. The main driver for this was an increase in Point of Sale (POS) and Seychelles Electronic Fund Transfer (SEFT) transactions which grew by 34 per cent and 25 per cent respectively. In addition, the issuance of the National Payment System (Electronic Money) Regulations 2022, marked a substantial advancement in the legal framework governing payments system.





## Financial Sector Performance and Soundness



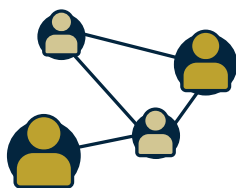
During 2022, the financial sector operated in a more favourable environment. Despite a decline in asset quality which resulted in a rise in the number and value of NPLs, the banking sector maintained its strong performance and generated a profit after tax of R599 million. Likewise, the NBCI and BDC sectors generally recorded improvements in their performance.

## Developments in the Supervisory Framework



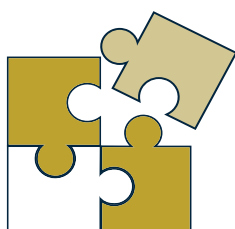
Developments in the supervisory framework focused predominantly on ongoing projects from the previous years. This included the issuance of new legislation, one of which was the FCPA. Most of the other projects remained ongoing and are expected to be finalised during 2023.

## Regional and International Developments & Initiatives



Throughout 2022, the Bank continued to engage in regional and international initiatives, several of which resumed in-person participation. Similar to previous years, these initiatives were mainly in relation to the implementation of Basel standards, Fintech, AML/CFT and bank resolution.

## Issues and Challenges



The financial sector faced a number of issues and challenges during 2022, most of which stemmed from the preceding year. One key challenge was the unwinding of the COVID-19 Policy and Relief Measures whereby the Bank had to determine the appropriate timing for the unwinding process given continued global uncertainties, and an increase in NPLs.

## Outlook



The resilience of the global financial system was put to the test throughout 2022, as increased economic and geopolitical uncertainties threatened financial stability. In terms of the domestic economy, an improvement in the performance of the tourism industry contributed to the country's positive output. However, the risk to financial stability still remained, in light of the increasingly challenging global environment and broader economic concerns.



## CHAPTER 2

# STRUCTURE OF THE FINANCIAL SECTOR

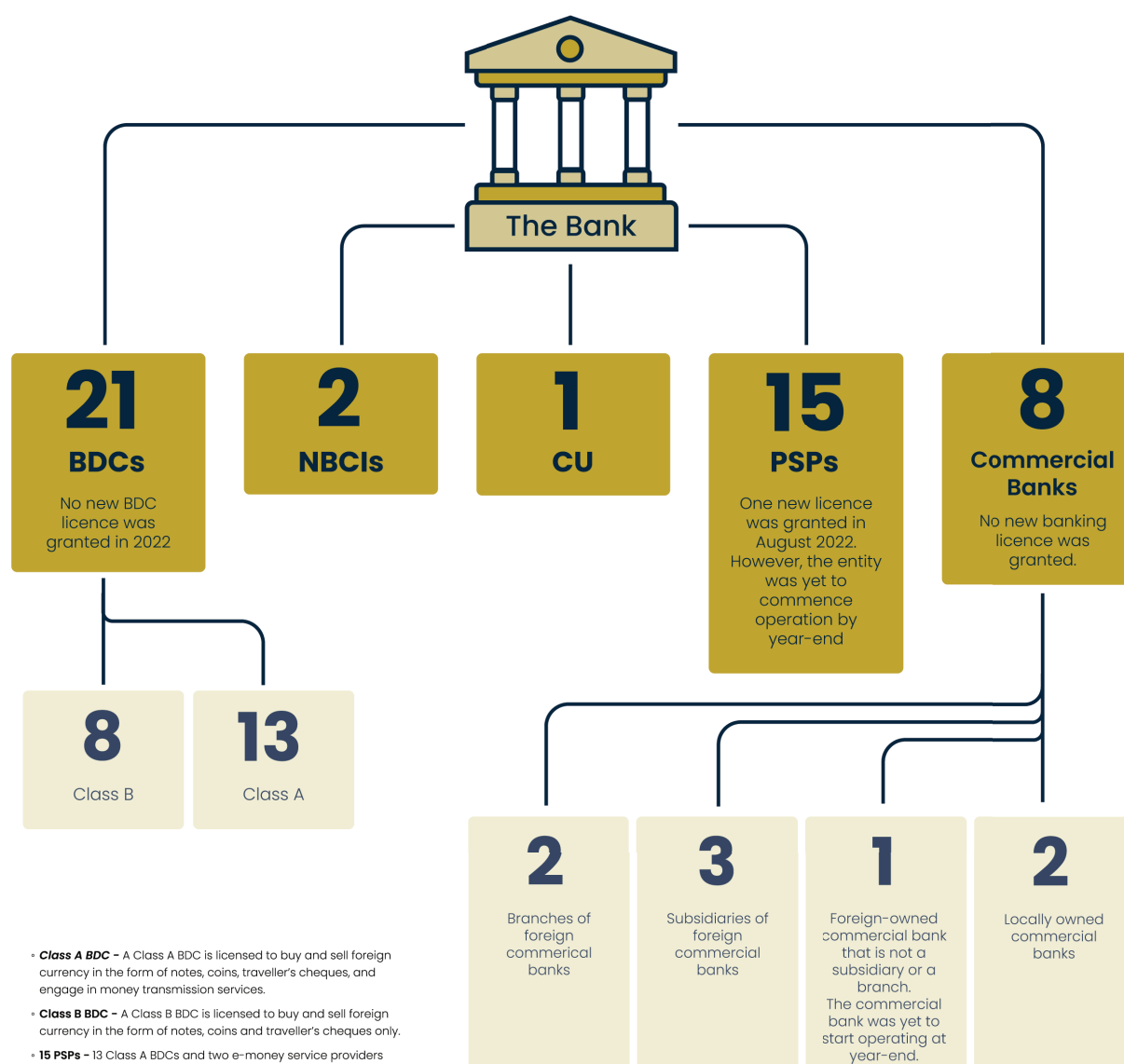
## 2.0 Introduction

The financial sector plays a significant role in the effective operation of the economy. Throughout 2022, Seychelles' financial sector remained fairly consistent in terms of the number of licensed entities under the Bank's purview, despite four licence applications being submitted for consideration.

## 2.1 The Financial Sector

The number of regulated entities under the Bank's purview increased from 33 in 2021 to 34 in 2022, attributable to a PSP licence granted in August 2022. No changes were observed in respect of the ownership structure of commercial banks and NBCIs Development Bank of Seychelles (DBS) and Housing Finance Company Limited (HFCL)<sup>2</sup>.

Figure 2.0: Entities Licensed by the Bank as at the end of December 2022



<sup>2</sup> Seychelles Credit Union (SCU) is 100% owned by its members.





### 2.1.1 Branch Networks

The below table shows the distribution of the branch network of commercial banks and non-bank institutions (DBS, HFCL and SCU) across the three main islands of Seychelles. During the year under review, the total number of branches remained similar to that of 2021.

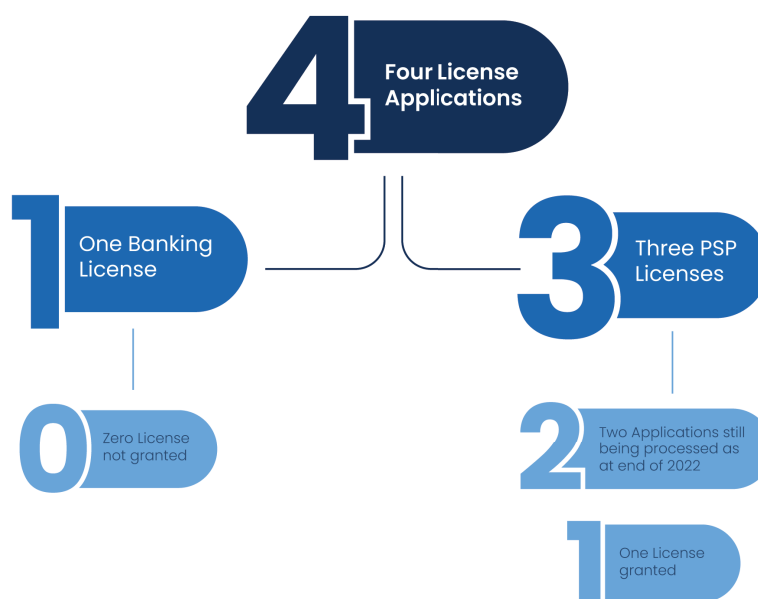
**Table 2.0 Branch Networks**

INSTITUTION NAME	MAHÉ	PRASLIN	LA DIGUE	TOTAL
Al Salam Bank Seychelles Limited (ASBS)	1	0	0	1
Bank of Baroda (BoB)	1	0	0	1
Bank of Ceylon (BoC)	1	0	0	1
Absa Bank (Seychelles) Ltd (ABSA)	6	1	1	8
Mauritius Commercial Bank (Seychelles) Ltd (MCB)	4	2	1	7
Nouvobanq (NVB)	3	1	1	5
Seychelles Commercial Bank (SCB)	4	2	1	7
HFCL	1	1	0	2
DBS	1	0	0	1
SCU	2	1	1	4
<b>Total</b>	<b>24</b>	<b>8</b>	<b>5</b>	<b>37</b>

### 2.2 Market Entry and Licensing

During 2022, four licence applications were submitted, as opposed to 2021 when the Bank did not receive any. Figure 2.1 shows the number of applications received and the status of the applications as at the end of 2022.

**Figure 2.1: Market Entry and Licensing**





## 2.3 Employment Trend

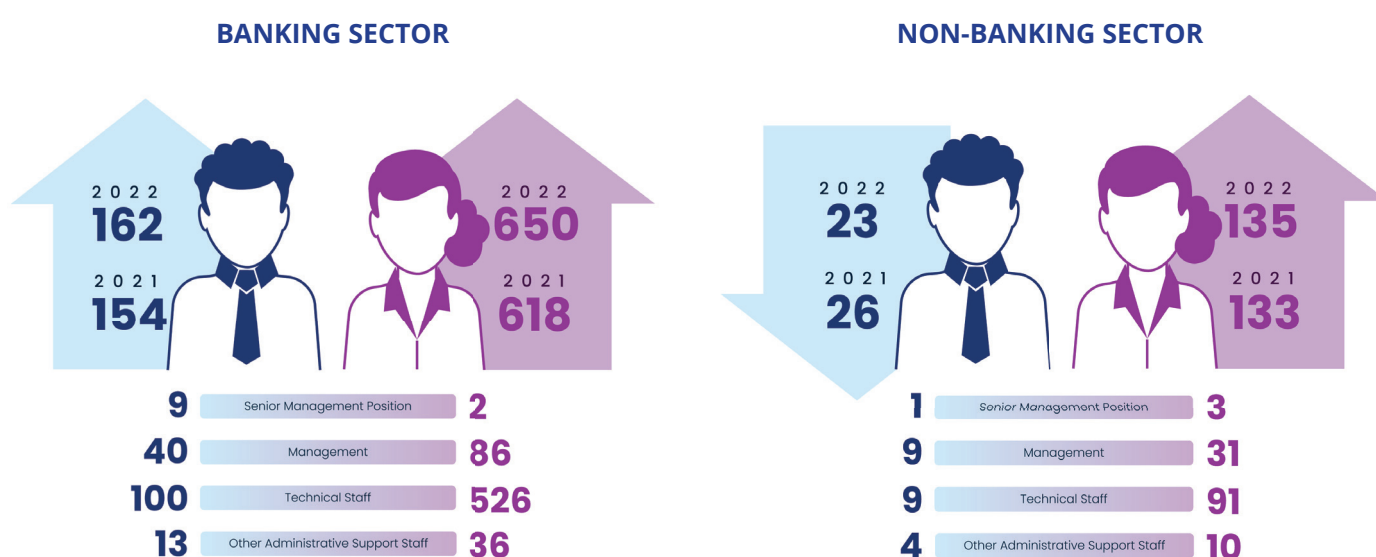
As observed on Table 2.1, the total number of employees within the banking and non-banking sectors<sup>3</sup> stood at 970 by year-end 2022 compared to 931 for 2021. Nevertheless, the composition of the workforce remained mostly unchanged from that of 2021, with the majority being Seychellois, at 98%.

Table 2.1: Employment Trend (2021-2022)

	2021		2022	
	LOCAL	EXPATRIATES	LOCAL	EXPATRIATES
<b>BANKING SECTOR</b>				
TOTAL	748	24	792	20
<b>NON-BANKING SECTOR</b>				
TOTAL	159	0	158	0
GRAND TOTAL	907	24	950	20
	931		970	

For 2022, the workforce of the banking and non-banking sectors comprised of 81% females and 19% males. As illustrated on Figure 2.2, females dominated the workforce in the banking sector at most levels, with the exception of senior management position. With regard to the non-banking sector, females made up 85% of the workforce, being dominant across all levels. A shift in the number of administrative support staff was observed in the banking sector compared to 2021, and this was due to a change in the classification of employees by one of the commercial banks.

Figure 2.2: Role Type by Gender in the Banking and Non-Banking Sectors



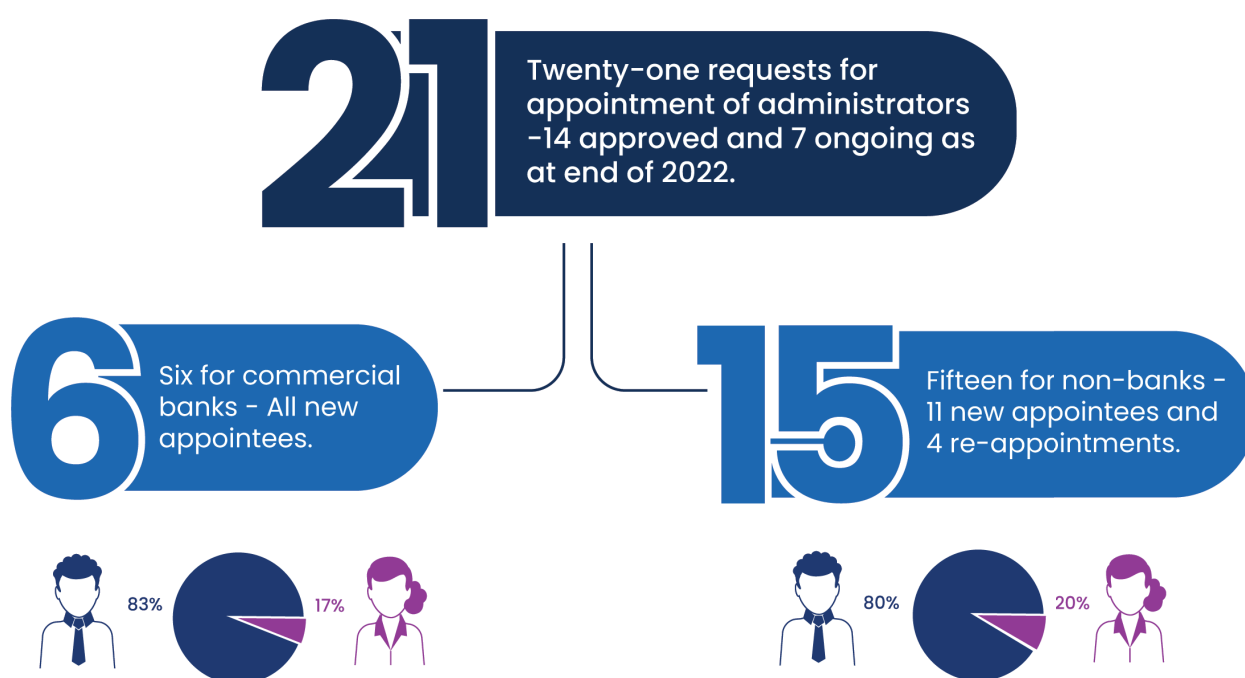
<sup>3</sup> DBS, HFCL and SCU only.



## 2.4 Corporate Governance

By end-December 2022, the Bank received 21 requests for appointment of administrators to the Board of commercial banks, HFCL, PSPs and BDCs, of which 17 were for new appointees and four for re-appointments.

Figure 2.3: Application for Appointment of Administrators







# CHAPTER 3

## FINANCIAL INCLUSION & MARKET CONDUCT

### 3.0 Introduction

Furthering the digital economy agenda was a key highlight during the year under review. Several projects were undertaken, with the focus being on the implementation of new technological infrastructures, disincentivising paper-based payments as well as empowering consumers to understand both their rights and responsibilities from a consumer protection and digital financial literacy standpoint.

As regards market conduct and financial consumer protection, notably, the FCPA was enacted in May 2022. This was a milestone achievement towards ensuring that the interests of financial consumers are protected. Throughout 2022, the Bank continued to work towards the development of secondary legislation to be issued under the FCPA. Efforts to engage with stakeholders and address issues brought to the attention of the Bank were intensified over the reporting period. Further information on financial inclusion and consumer protection initiatives undertaken in 2022 can also be accessed from the Bank's Annual Report<sup>4</sup> for that year.

### 3.1 Financial Inclusion and Policy Developments

#### 3.1.1 Sustainable Finance

The Bank continued to emphasise on sustainable finance by focusing on engagements with local stakeholders. These were in the form of consultations and aimed at assessing existing efforts being undertaken in the country. The stakeholders comprised of:

- Ministry of Agriculture, Climate Change and Environment;
- Department of Blue Economy;
- Department of Tourism;
- Department of National Planning.

Furthermore, in 2022, the Bank joined the Central Banks and Supervisors Network for Greening the Financial System (NGFS) workstreams on Supervision and Monetary Policy as well as the taskforce on Capacity Building and Training. Through these platforms, the Bank will learn from the experience of other central banks in the network, in areas such as:

- The supervision of sustainable products and services in the financial sector;
- The implications of sustainable finance on monetary policy;
- Best practices in building capacity.

These will further assist in formulating appropriate policy decisions in regards to the subject matter.

#### 3.1.2 Financial Consumer Protection

##### 3.1.2.1 Financial Consumer Protection (Complaints Handling) Regulations

Discussions were held with the FSA, as well as with entities under the purview of the two regulatory authorities throughout the year, to finalise the draft policy paper for the issuance of the Complaints Handling Regulations under the FCPA. The aim of the Regulations is to establish standards on the manner in which complaints are handled at the level of the Financial Service Providers (FSP) as well as at the level of the regulatory authorities.

##### 3.1.2.2 Appeals Mechanism

In recognition of the need to strengthen the existing appeals process, a proposal for a new appeals mechanism was approved by the Board of the Bank in February 2022. As per the approved structure, an internal committee will be formed consisting of Senior management, Heads of Divisions/Directors from FSD, Financial Inclusion and Market Conduct Division, Research and Statistics Division and a representative from the Legal Unit. This committee will be responsible to make the initial decision on appealable matters of the Bank. Appeals will then be heard by a committee of the Board comprising of the Non-Executive Directors. It was approved for the procedure to be issued as Rules, and work in that respect remains ongoing.

<sup>4</sup> <https://www.cbs.sc/Downloads/publications/Annual%20Report%202022.pdf>



### 3.1.2.3 Regulations on Debt Recovery for Financial Services Providers

The Bank engaged in several working sessions internally to analyse and develop the different regulatory requirements supporting the objectives of the FCPA. This was with the aim of establishing standards for the debt recovery process by the FSPs including guarantor protection based on the different gaps identified within the market. Subsequent to the working sessions, it is being proposed that a set of regulations regarding the debt recovery process for FSPs is formulated to align with provisions of the FCPA, particularly given the number of complaints recorded in that regard. The regulations are anticipated to be issued in 2024.

## 3.2 Access Indicators

Table 3.0 provides details of the access indicators, on a year-on-year comparative analysis between 2021 and 2022. There was an increase of 24 per cent in the total number of access points for Point of Sale (POS) and ATMs per 10,000 adults at the national level, for the year under review. The growth is as a result of the emphasis placed on the use of Digital Financial Services (DFS) and the various initiatives being undertaken at the Bank and government level towards a modernised and digitalised economy.

**Table 3.0: Access Indicators (2021-2022)**

DIMENSION	INSTITUTION TYPE	INDICATOR	DECEMBER 2021	DECEMBER 2022
ACCESS	COMMERCIAL BANK	Total number of licenced commercial banks	8	8
		Total number of branches	30	30
		Total number of access points (POS) per 10,000 adults at national level	489	606
		Total number of branches per 10,000 adults at a national level	5	4
		Total number of ATMs per 10,000 adults at national level	9	11
		Interoperability of ATMs	100%	100%
		Interoperability of POS Terminals	100%	100%
		Number of deposit accounts per 1,000 adults	1,839	3,116
		Number of loan accounts per 1,000 adults	281	463
	ELECTRONIC MONEY	Total number of accounts	1,827	1,333
		Total number of merchants	43	43
		Total number of mobile money agents per 10,000 adults at national level	17	19
		Total number of agents	108	123
	FINANCIAL SERVICES	Percentage of residential districts with at least one financial service access point	100%	100%
		Percentage of total population living in residential districts with at least one financial service access point	100%	100%



### 3.3 Average Fees and Charges

Table 3.1 outlines the comparison of average charges and fees in some access indicators within the financial system, between 2021 and 2022. To note that there was a general increase – though insignificant – in the average fees and charges relating to access indicators on savings and current accounts. However, there was a slight decrease in the fees charged for the access indicator pertaining to the minimum balance requirement for business current accounts.

In principle, the below-mentioned fees and charges, as a whole, have remained more or less constant.

**Table 3.1: Selected Average Charges (2021-2022)**

ACCESS INDICATORS	FEES AND CHARGES	2021	2022	GROWTH RATE (%) 2021-2022
	<b>ATM CHARGES</b>			
	ATM Usage	No charge	No charge	0.00%
	Issue of first Debit Cards	No charge	No charge	0.00%
	Issue of replacement Debit Cards	R125.00	R118.75	(5.00%)
	<b>INTERNET/MOBILE BANKING CHARGES</b>			
	Monthly Subscription Personal	No charge	No charge	0.00%
	Monthly Subscription Business	R62.50	R62.50	0.00%
	Internal Transfer	No charge	No charge	0.00%
	Transfer of funds to other local banks personal/retail	No charge	No charge	0.00%
	Transfer of funds to other local banks business	No charge	No charge	0.00%
	<b>SAVINGS ACCOUNT</b>			
	Minimum Balance to open account	R750.00	R750.00 <sup>5</sup>	0.00%
	Minimum Balance to earn interest	R1,350.00	R1,528.57 <sup>6</sup>	13.00%
	<b>CURRENT ACCOUNT</b>			
	Minimum Balance to open account (Personal)	R2,487.50	R2,537.50 <sup>7</sup>	2.00%
	Minimum Balance to open account (Business)	R4,214.29	R4,228.57 <sup>8</sup>	0.30%
	Fees for balances below specified amount (Personal)	R67.00	R67.00	0.00%
	Fees for balances below specified amount (Business)	R78.00	R73.33	(6.00%)
	<b>FOREIGN CURRENCY ACCOUNT</b>			
	Minimum Balance to open account (Personal)	US\$1,514.29	US\$1,360.71	(10.00%)
	Minimum Balance to open account (Business)	US\$5,447.17	US\$5,447.17	0.00%
	<b>PAYMENT AND CLEARING CHARGES</b>			
	Bank Cheque (standard 100 pages) (Personal)	R279.89	R303.00	8.00%
	Bank Cheque (standard 100 pages) (Business)	R284.99	R304.02	7.00%
	Fee for stopping payment of cheque	R124.99	R128.13	3.00%

<sup>5</sup>Ranges from R100 to R1,500

<sup>6</sup>Ranges from R100 to R5,000

<sup>7</sup>Ranges from R300 to R5,000

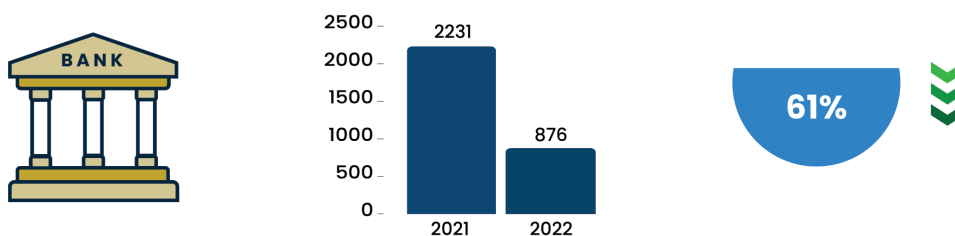
<sup>8</sup>Ranges from R1,000 to R7,500



### 3.4 Complaints Handling

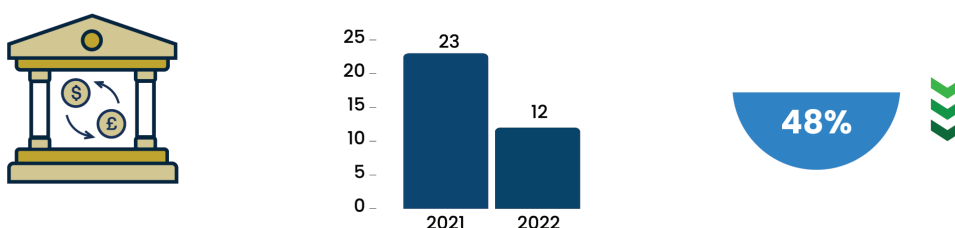
#### 3.4.1 Complaints Lodged at Commercial Banks, Bureaux de Change, Non-Banks and the Bank

##### COMMERCIAL BANKS



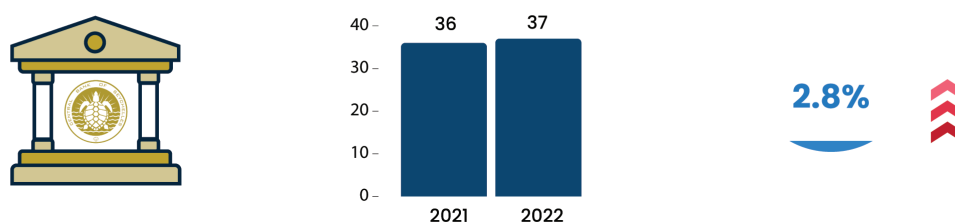
The complaints were mainly related to issues that customers faced when using money transmission services and debit cards.

##### BUREAUX DE CHANGE



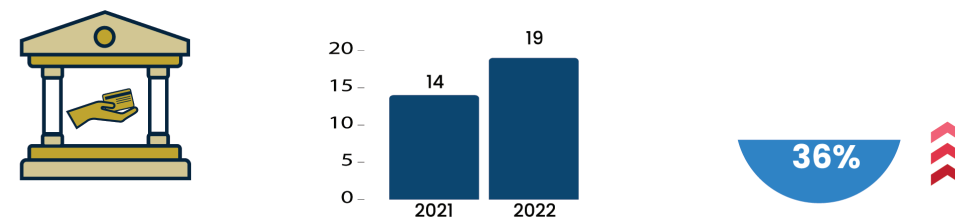
The complaints were mainly related to money transmission services due to delays and failures in transmissions.

##### CENTRAL BANK OF SEYCHELLES



The complaints were mainly related to loans, account opening, and ATMs, which were mostly due to financial services providers applying certain policies and internal processes that affected customers directly.

##### NON-BANKS



The complaints were mainly related to delays in processing loan applications and loan repayment issues in general.





### 3.5 Sustainable Development Goals

#### 3.5.1 Goal 3: Good Health & Well-Being



A healthy population is crucial in achieving sustainable development. Accordingly, policymakers have already begun to move beyond looking at growth and have started to focus on access to health as well as promoting well-being for all age groups, sexuality, gender and ethnicity. As per the 2022 Sustainable Development Goals (SDGs) Report<sup>9</sup> COVID-19 was a leading cause of death and it continued to pose challenges to people's health and well-being globally. This undoubtedly impeded progress in meeting targets under Goal 3.

In the case of Seychelles, as per the Vital Statistics Quarterly Report<sup>10</sup>, deaths recorded in quarter one of 2022 were higher than the number of deaths recorded in quarter one of the previous five years, with diseases of the circulatory system remaining the leading cause of death, accounting for 146 deaths at the end of quarter two of 2022.

Nonetheless, throughout 2022, the local financial services sector continued to show their engagement through the following initiatives, in line with Goal 3:

- Hosting walks and staff sports day to support and promote physical and mental health;
- Conducting blood donation drive, in partnership with the Ministry of Health, to assist in boosting up the blood bank; and
- Setting up billboards aimed at raising awareness on the unhealthy habits that can affect cardiovascular health, in partnership with the Cardiology Unit from the Ministry of Health.

These initiatives contributed towards the attainment of the following targets under Goal 3:

1. By 2030, reduce the global maternal mortality ratio to less than 70 per 100,000 live births; and
2. By 2030, reduce by one third premature mortality from non-communicable diseases through prevention and treatment, and promote mental health and well-being.

#### 3.5.2 Goal 4: Quality Education

Access to quality education is fundamental in creating prosperity. This in turn gives the population the required knowledge and skills to actively contribute to a progressive and resilient society. In that regard, the financial services sector can play a vital role in enabling equitable access to quality education for all. This can be achieved by unlocking the necessary resources to enable investment in quality education.

As part of the Bank's effort to enhance financial literacy in the country, free financial education sessions were offered in the workplace in partnership with other agencies from the sector. The awareness sessions provided an opportunity to educate workers from various organisations on the importance of financial management as well as to enhance their knowledge on cybersecurity, as the country moves forward with the modernisation and digitalisation of the economy. Moreover, as highlighted in previous publications, the Bank continued to offer scholarships annually through the Guy Morel High Achievement Scholarship Programme. For the year 2022, the awardee applied to pursue a postgraduate course in Customs Administration.



In addition, entities in the financial services sector organised, sponsored and donated to various initiatives aimed at improving financial literacy within the community. Some of the initiatives undertaken in 2022 included:

- Contributing towards the National Financial Education Fund;
- Organising awareness workshops aimed at promoting financial education targeted at students and the elderly groups;
- Making financial literacy reading materials accessible on their websites;
- Financing of educational loans;
- Organising outreach activities such as workshops where participants from different age groups learned more about traditional arts; and
- Partnering with UN Youth Seychelles for the Global Money Week awareness campaign in order to educate students on various aspects of the financial services sector.

Accordingly, these initiatives aim to attain three of the targets of Goal 4, namely:

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

<sup>9</sup> <https://unstats.un.org/sdgs/report/2022/The-Sustainable-Development-Goals-Report-2022.pdf>

<sup>10</sup> [https://www.health.gov.sc/wp-content/uploads/VITAL-STATISTICS-REPORT-Q1-2022\\_FINAL.pdf](https://www.health.gov.sc/wp-content/uploads/VITAL-STATISTICS-REPORT-Q1-2022_FINAL.pdf)



# CHAPTER 4

## NATIONAL PAYMENT SYSTEM

### 4.0 Introduction

Throughout 2022, the National Payment System (NPS) functioned smoothly as economic activity picked up and the volume of funds that flowed through the payment system rose steadily. In addition, work progressed on relevant amendments to existing regulatory frameworks whilst new regulations were issued as a means to further develop Seychelles' payments landscape.

### 4.1 Payment System Legal Framework

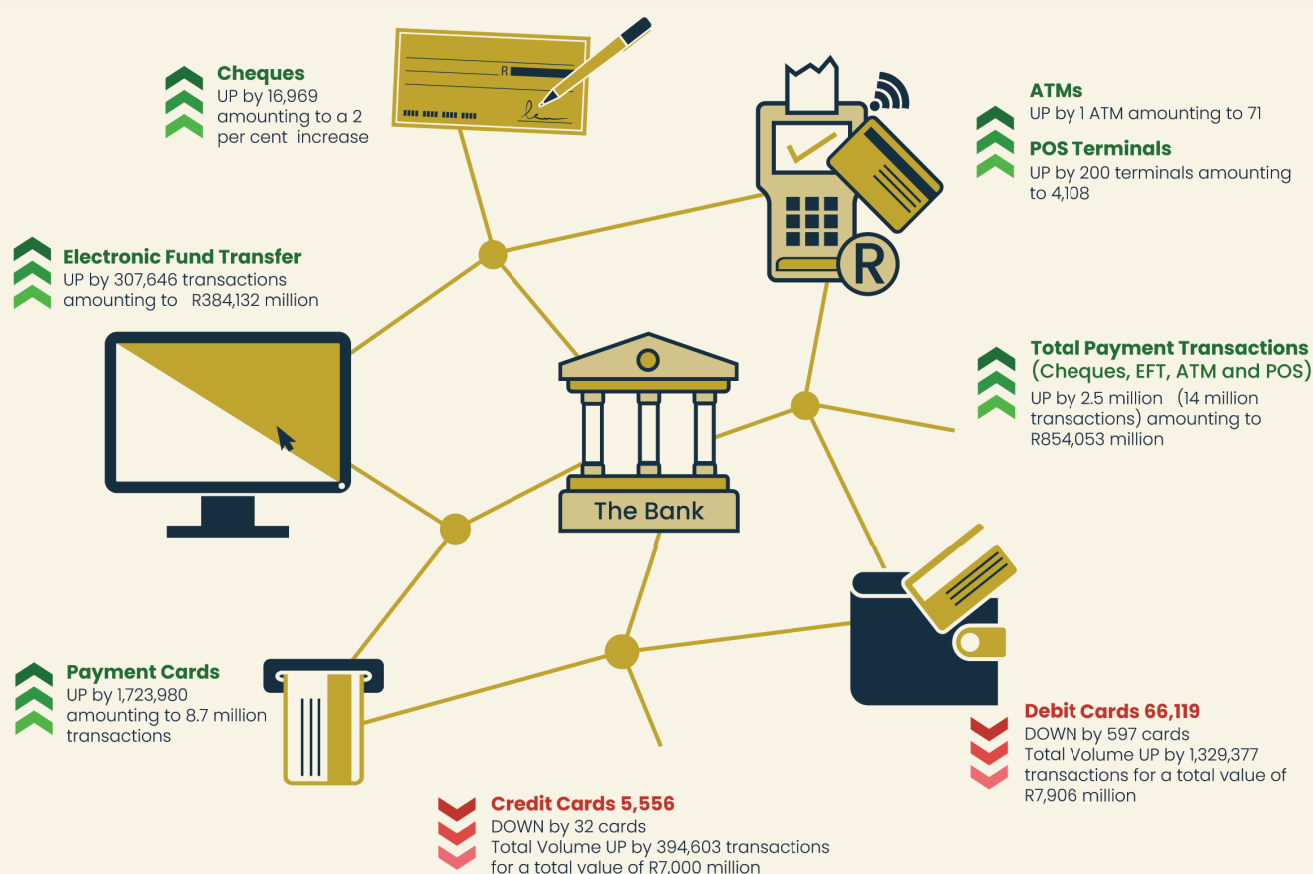
#### 4.1.1 National Payment System (Electronic Money) Regulations

Following the approval of the policy paper for the introduction of e-money regulations by the Board of the Bank in December 2021, the document was endorsed by the Cabinet of Ministers in February 2022. Subsequently, the National Payment System (Electronic Money) Regulations was gazetted in December. Existing PSPs engaged in the provision of e-money services were given a transitional period of six months from the issuance of the Regulations to comply with the new set of regulatory requirements.

#### 4.1.2 National Payment System Act

The Bank finalised the policy paper for the amendments to the National Payment System Act 2014 (NPSA) following stakeholder consultations undertaken during 2022. As part of the consultation process, the Bank engaged with PSPs, operators of payment, clearing and settlement systems, as well as government agencies and the general public. The amendments are expected to be presented to the Board of the Bank for approval and subsequently endorsed by the Cabinet of Ministers in the first quarter of 2023. The amended law is expected to be issued by end-2023.

### 4.2 Performance of the Payment System Streams

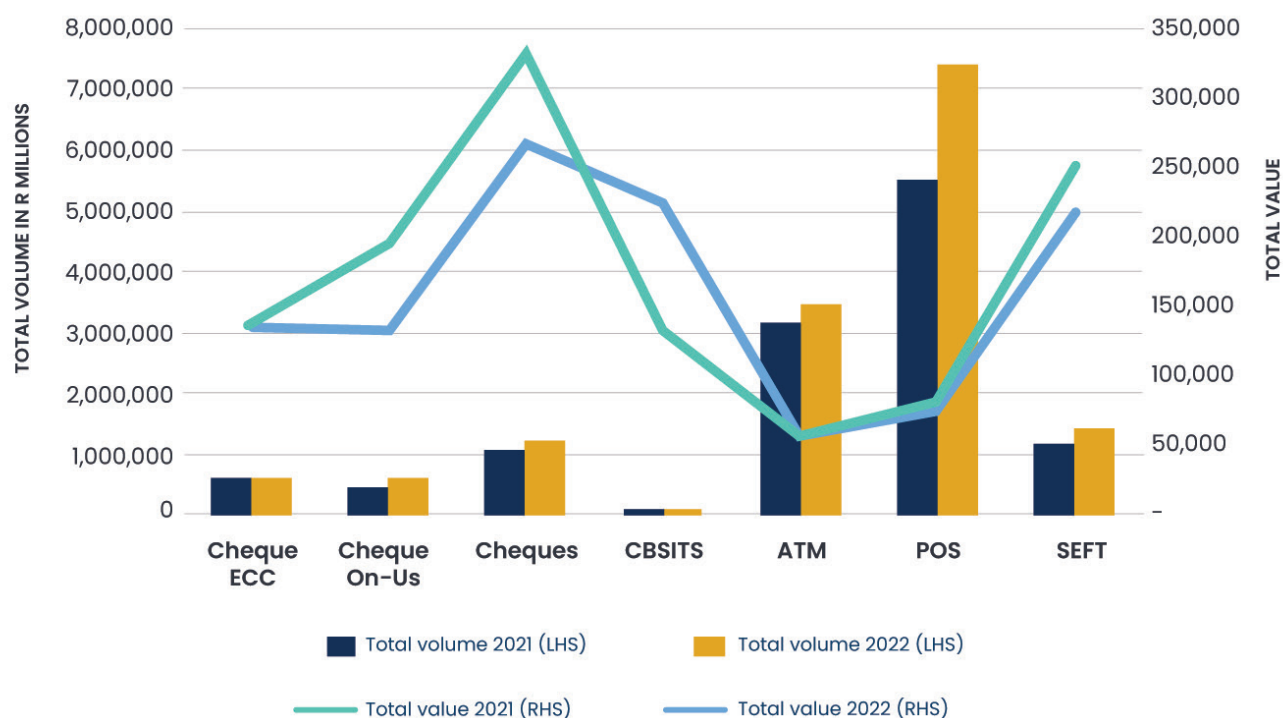




### 4.2.1 Total Payment Transactions<sup>11</sup>

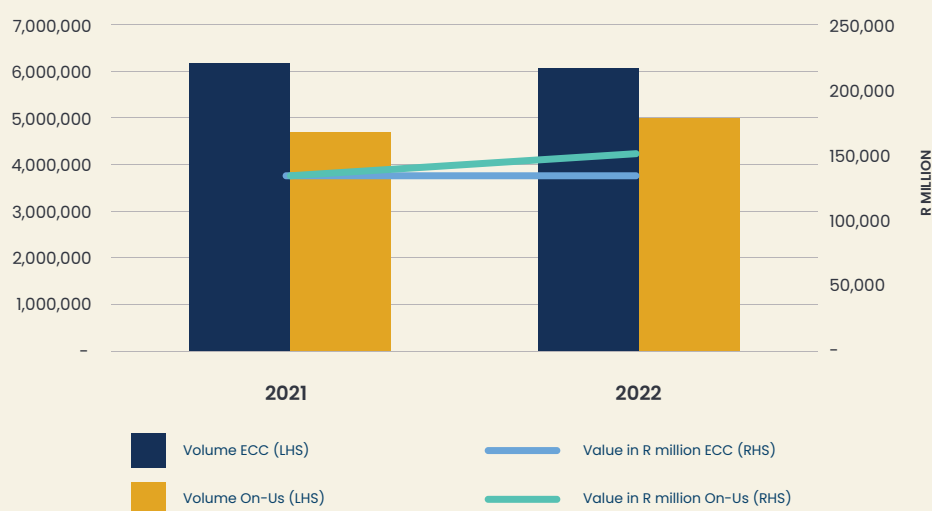
The number of transactions reached 14 million for a total value of R854,053 million in 2022. This was an increase of 27 percent from 2021, mainly attributable to the expansion in POS and SEFT transactions, which saw a 34 per cent and 25 per cent growth respectively.

Chart 4.0: Total Volume and Value of Payment Transactions (2021-2022)



### 4.2.2 Total Cheques Presented<sup>12</sup>

Chart 4.1: Total Volume and Value of Cheques Presented



A 2 per cent increase was recorded in the number of cheques presented in the system in 2022. Of this, 606,376 were through the ECC and 500,632 On-Us Cheques. In terms of value, there has also been an increase from R267,786 million in 2021 to settle at R288,548 million in 2022.

<sup>11</sup> Includes Central Bank of Seychelles Immediate Transfer Service (CBSITS), Seychelles Electronic Fund Transfer (SEFT), Cheques, Automated Teller Machine (ATM) and POS transactions; excludes cash transactions.

<sup>12</sup> Figures are inclusive of Electronic Cheque Clearing (ECC) and On-Us Cheques.

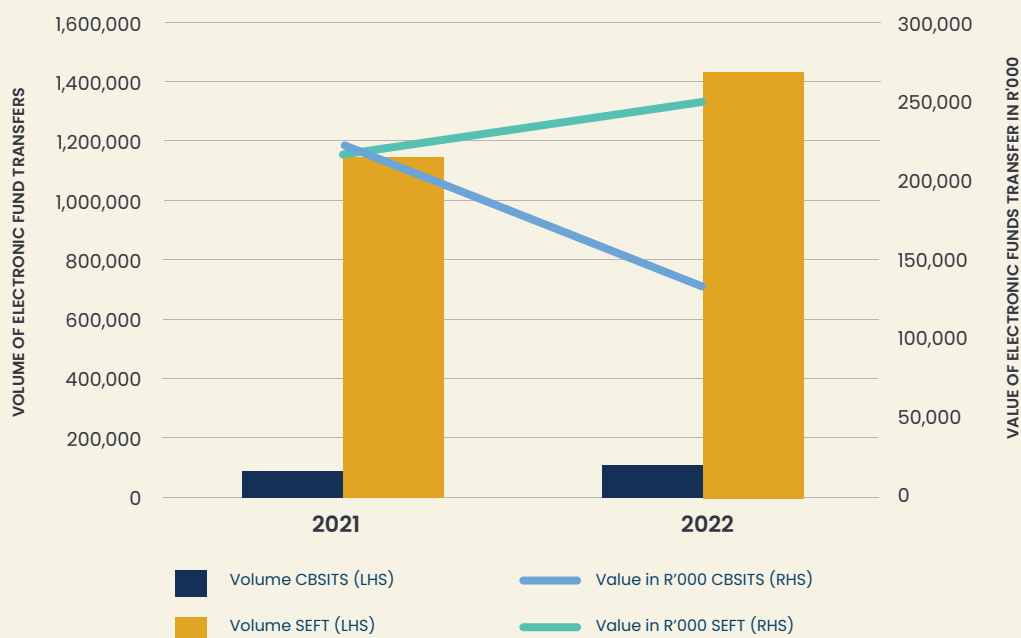




### 4.2.3 Electronic Fund Transfers (EFT)

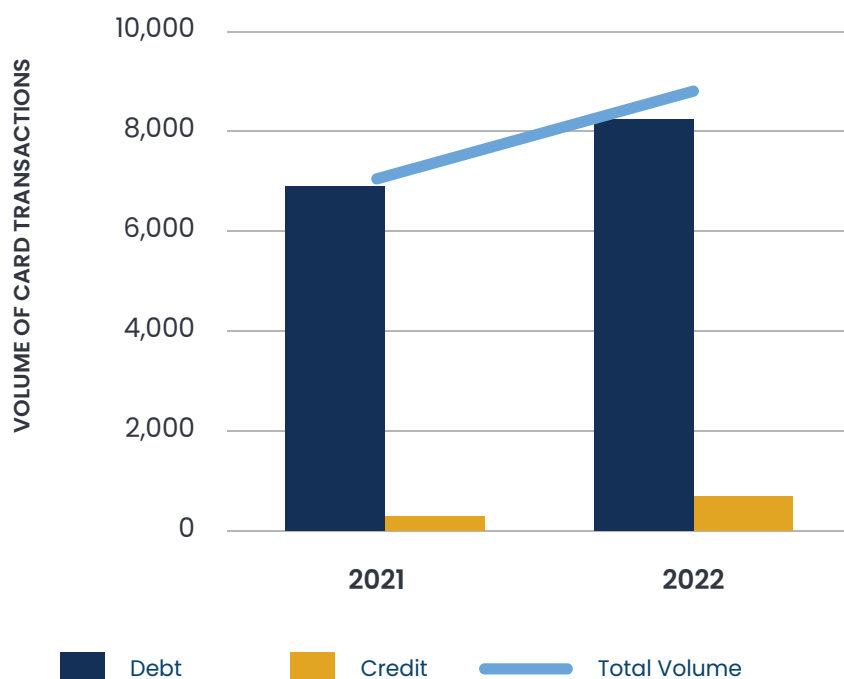
Chart 4.2: Total Electronic Fund Transfers

1,549,247 electronic fund transfers were recorded in 2022, representing an increase of 307,646 transactions from 2021 with the SEFT accounting for the majority of such transfers. As shown on the chart, there was a decrease in the value of CBSITS from 2021-2022, but the increase in the SEFT value led to an overall growth in the EFT channel. The continuous increase in transactions routing through SEFT could be related to the suspension of fees associated to this platform.



### 4.2.4 Payment Cards in Circulation and Card Transactions

Chart 4.3: Total Volume of Card Transactions (2021-2022)



71,675 cards were recorded in circulation throughout the year under review, of which 66,119 were debit cards and 5,556 were credit cards. As at the end of December 2022, the number of card transactions grew by 1.7 million to stand at 8.7 million transactions

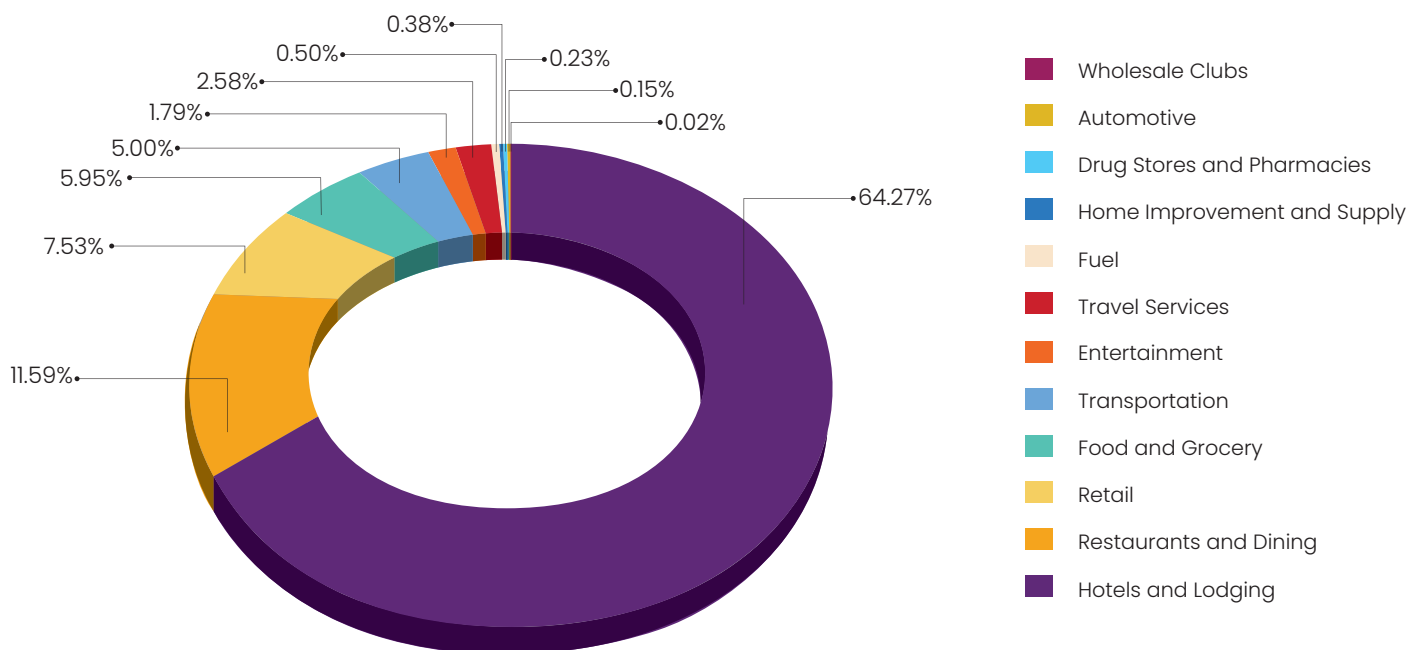
- Debit Card transactions increased by 1,329,377 for a total value of R7,906 million.
- Credit Card transactions increased by 394,603 for a total value of R7,000 million.



The chart below provides an overview of the market segments proportion of total consumer spending on card transactions.

**Chart 4.4 Consumer Spending on Card Transactions**

**Jan-Mar 2022**



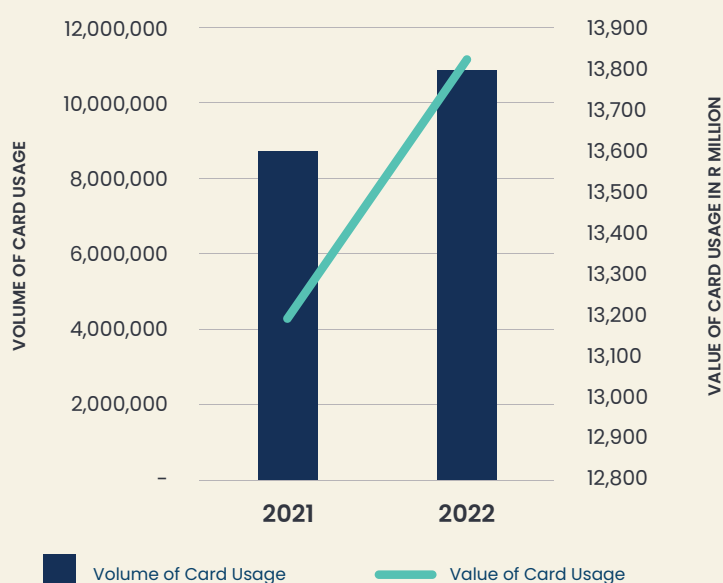
#### 4.2.5 Card Acquiring Infrastructure

**Chart 4.5: Total Volume and Value of Card Transactions on Terminals**

The number of ATMs and POS terminals increased to 71 and 4,108 respectively during the year under review.

In 2022, ATMs and POS terminals recorded 10.8 million transactions. The number of POS transactions increased by 1.8 million whilst transactions on ATMs grew by 263,661. POS transactions, in value terms, stood at R8,223 million and R5,603 million was noted for ATM transactions.

A reduction in the average value of transactions was observed at R1,337 in 2021 to R1,108 in 2022 and R1,838 in 2021 to R1,640 in 2022 per transaction for POS and ATMs, respectively.





# CHAPTER 5

## FINANCIAL SECTOR PERFORMANCE AND SOUNDNESS

### 5.0 Introduction

The improvement in domestic economic activity in 2022 was driven by the robust performance of the tourism industry, and created a favourable environment for the financial sector. The banking sector's assets expanded, with increased credit activity recorded during the year under review. Despite the higher amount of NPLs observed, the banking sector remained profitable, with commercial banks maintaining strong capital and liquidity positions.

There was an improvement in the non-banks<sup>13</sup> performance, marked by an expansion in Total Assets and higher Profit After Tax. However, Loans and Advances declined during the period under review as lending activity slowed down in some non-banks whilst repayments increased.

The sustained inflow of foreign exchange due to the pick up in the tourism industry coupled with the higher demand for foreign exchange in view of the increased economic activity, resulted in the BDC sector achieving a better performance, compared to the previous year.

### 5.1 Key Trends in the Banking Sector

The key movements identified in the banking sector's financials are highlighted on Table 5.0 below.

**Table 5.0 Key Financial Soundness indicators (2021-2022)**

FIGURES ARE IN R MILLION (AUDITED FIGURES)	DEC-21	DEC-22
Total Assets	33,045	34,097
External Assets	10,926 <sup>14</sup>	11,003
Loans and Advances	9,719	10,221
Balances with the Bank	5,411	5,284
Local Investments	5,303	5,851
Balances with other Commercial Banks in Seychelles	158	57
Total Deposit liabilities	28,522	29,816
Equity Capital	3,042	3,031
Total Liabilities	30,003	31,066

<sup>13</sup> DBS, HFCL and SCU.

<sup>14</sup> The figure was adjusted and therefore differs from that published in the 2021 Report.





FIGURES ARE IN PERCENTAGE (%) (UNAUDITED FIGURES)	DEC-21	DEC-22
<b>CAPITAL ADEQUACY</b>		
Capital Adequacy Ratio (CAR)	23	21
Minimum Regulatory Requirement (CAR)	12	12
Core Capital Ratio	18	15
Minimum Regulatory Requirement (Core Capital)	6.0	6.0
<b>ASSET QUALITY</b>		
Non-Performing Loans to Gross Loans	5.5	7.6
Provision as % of Non-Performing Loans	33	20
<b>EARNINGS &amp; PROFITABILITY</b>		
Return on Assets	2.3	2.7
Return on Equity	24.7	30.5
<b>LIQUIDITY</b>		
Liquid Assets to Total Liabilities	41	46
Minimum Regulatory requirement	20	20
<b>SENSITIVITY TO MARKET RISK</b>		
Total Long Position in Foreign Exchange to Capital	5.2	6.9
Total Short Position in Foreign Exchange to Capital	(4.3)	(3.2)
Net Open Position to Capital	0.9	3.7

## 5.2 Performance of the Banking Sector<sup>15</sup>

During the period under review, the banking sector's main balance sheet items indicated varying movements. Nonetheless, the asset-size increased further, similar to the year 2021.

- There was a growth of R1,052 million in Total Assets, which stood at R34,097 million in 2022. The increase was mainly in Local investments (R548 million), Loans and Advances (R502 million), and External Assets (R77 million)<sup>16</sup>. However, the decline in Balances with the Bank (R127 million) limited the expansion in Total Assets.
  - ♦ Total Local Investments rose during the review period to stand at R5,851 million. The growth was due to an increase in investment in Treasury Bonds (T-Bonds), whilst a noticeable decline was observed in the holding of Treasury Bills (T-Bills). This was consistent with the domestic debt restructuring strategy that the government has been implementing since mid-2021, in view of its preference for longer term debt maturities.
  - ♦ Total Loans and Advances stood at R10,221 million, following of a growth in loans denominated in Seychelles rupees by R839 million<sup>17</sup>. Of note, Total Loans and Advances denominated in foreign currencies declined (R175 million) during the period under review. Sector-wise, the increase was more evident in Telecommunications, Computer & Information (R245 million), followed by Mortgage Loans (R175 million) and Trade (R123 million)<sup>18</sup>. The growth in Loans and Advances was mainly due to higher economic activity in the country as a result of the global recovery from the COVID-19 pandemic, renewed optimism in the travel industry and the gradual relaxation of the local health measures<sup>19</sup>. This was also supported by an accommodative monetary policy stance.
  - ♦ External Assets expanded to stand at R11,003 million, mainly attributed to a growth in Balances with Commercial Banks Abroad (R2,153 million). The increase was primarily due to placements abroad, driven by one commercial bank, as new foreign exchange deposits were received. On the other hand, a decline was observed in Securities and Other Investments (R1,978 million), thus reducing the overall growth in External Assets.
  - ♦ There was a decrease of R127 million in Balances with the Bank, as the item settled at R5,284 million at the end of December 2022. This was primarily on account of lower balances that commercial banks held in Standing Deposit Facility (SDF) at the end of the review period, compared to the previous year. Notwithstanding the above, there was a notable increase in the volume and value of SDF over the course of 2022.

<sup>15</sup>Information is based on audited figures.

<sup>16</sup>The External Assets figure was previously overstated by R151 million for the year 2021, whilst the Local Investments were understated by the same figure.

<sup>17</sup>Information is based on unaudited figures.

<sup>18</sup>Information on sectorial distribution and loans in foreign currencies are based on unaudited figures.

<sup>19</sup>This refers to the COVID-19 relief measures implemented by the Ministry of Health.



- Total Liabilities expanded during the review period by R1,063 million to settle at R31,066 million. The increase was mainly from Total Deposit Liabilities. Nevertheless, the overall growth in Total Liabilities was mitigated by declines in Balances due to Other Institutions, amounting to R170 million<sup>20</sup>.
  - ◆ Total Deposit Liabilities expanded by R1,294 million, owing predominantly to Checkable Deposits (R815 million), followed by Time Deposits (R257 million) and thereafter Savings Deposits (R207 million)<sup>21</sup>. In terms of currency denomination, the growth was mainly from local currency deposits which rose by R809 million<sup>22</sup>.
  - ◆ Balances due to the Bank, relating to funds borrowed under the Private Sector Relief Schemes, declined by R156 million. The latter was attributed to repayments effected by commercial banks during the year under review. To note that the Private Sector Relief Schemes were closed at the end of March 2022.
- Equity Capital declined by R11 million to settle at R3,031 million, largely due to a decrease in Other Reserves (R23 million). The contraction in the item was however minimised by an increase in Undistributed Profits (R7.0 million) during the review period.
  - ◆ Other Reserves declined to settle at R268 million, mainly due to revaluation of financial assets by two commercial banks under the IFRS 13.
  - ◆ Undistributed Profits/Retained Earnings grew to settle at R2,211 million, on account of the banking sector's Profit After Tax which was higher by R76 million during the review period, standing at R596 million. This was mainly attributed to the increase in profit from Fees, Commission and Foreign Exchange Dealings. Nevertheless, following the revocation of the Notice<sup>23</sup> issued to commercial banks which suspended the declaration and payment of dividends for the years 2019 and 2020, dividends paid in 2022 amounted to R592 million, mitigating the growth in this component.

### 5.3 Soundness of the Banking Sector<sup>24</sup>

The banking sector's performance remained strong during the period under review, with commercial banks maintaining ample capital and liquidity buffers. Conversely, there was a deterioration in asset quality, compared to the previous year.

- The banking sector's CAR fell by two-percentage points to settle at 21 per cent at the end of 2022. Meanwhile, a three-percentage point decline was observed in the sector's Core Capital Ratio, reaching 15 per cent by the end of the review period. The decline in both ratios were mainly attributed to a growth in commercial banks' risk-weighted assets as a result of an increase in Loans and Advances. A reduction in the banking sector's tier 1 capital was also observed, as accumulated earnings<sup>25</sup> fell following the payment of dividends by several commercial banks. However, the increase in the banking sector's profit for 2022 somewhat mitigated this decline. Despite the downward movement observed in the ratios, all commercial banks were above the minimum regulatory limit of 12 per cent for CAR and 6 per cent for the Core Capital Ratio, throughout the review period.
- As regard the banking sector's NPLs, there was a growth of R260 million or 49 per cent. A rise in NPLs was not observed across the banking sector but rather in two commercial banks, driven mainly by the downgrading of a few large facilities from the same group<sup>26</sup>. This came after the moratorium on loan repayments, and the relaxation in classification and provisioning requirements were lifted. When these measures were put in place, it was assumed that borrowers' repayment incapacity would be temporary. However, with project delays (for completion of buildings) and several businesses still recovering from the impact of COVID-19, the repayment capacity of clients were affected, thus leading to increase in NPLs. As at the end of 2022, the banking sector's NPLs stood at R793 million, whereas the NPLs to Gross Loans Ratio increased by 2.1 percentage points to settle at 7.6 per cent.
- Specific provision as a percentage of NPLs declined by 13 percentage points to settle at 20 per cent as at end-2022. This was mainly as a result of the increase in the banking sector's NPLs, accompanied by a contraction in specific provisions compared to the previous year. While the growth in NPLs led to additional regulatory provisions being made in one commercial bank, the sector's ratio was dominated by the reversal<sup>27</sup> and reductions in provisions<sup>28</sup> recorded in other commercial banks. It should be noted that most of the facilities in NPLs had ample eligible collateral. Therefore, they required minor or no provisions to be made, which largely explain why the growth in NPLs was not proportional to the increase in regulatory provisions.
- In regards to earnings and profitability, as at the end of 2022, the banking sector recorded a Profit After Tax of R599 million. This was a growth of R73 million or 14 per cent compared to the previous year. In terms of Return on Assets (ROA) and Return on Equity (ROE), the items increased slightly by 0.4 percentage points and by 5.8 percentage points, respectively. At the end of 2022, the sector's ROA and ROE stood at 2.7% and 31%, respectively.
  - ◆ There was a growth in the banking sector's Total Income, whereby it increased by R176 million to stand at R1,968 million at the end of 2022. This resulted from a rise in Non-Interest Income by R186 million, on account of an expansion in earnings from Foreign Exchange Dealings (by R128 million) and Fees, Commissions and Charges (by R56 million). Conversely, Interest Income was lower by R9.4 million, relative to 2021. This was due to a decline in income earned from Investments in T-Bills, given the reduction in the volume issued in 2022. Furthermore, Interest Income from Loans and Advances fell due to lower interest rates.

<sup>20</sup>Includes Balances due to Commercial Banks Abroad, Other Commercial Banks in Seychelles and the Bank.

<sup>21</sup>Comparison made is between unaudited figures for the year 2021 and 2022.

<sup>22</sup>Information is based on unaudited figures.

<sup>23</sup><https://www.cbs.sc/Downloads/legislations/2022.07.01%20Revocation%20of%20Notice%20dated%20June%2008%202020.pdf>

<sup>24</sup>Figures are based on unaudited figures.

<sup>25</sup>This is referring to Accumulated Earnings up to the year ended 2021.

<sup>26</sup>Several high-value credit facilities to groups of connected clients.

<sup>27</sup>Reversal of excess provisions made in prior year due to error in reporting on collateral value, driven by one commercial bank.

<sup>28</sup>Reductions in provisions resulted from improvement in the classification of existing NPLs.



- ◆ Total Expenses increased by R17 million, to stand at R1,172 million at the end of 2022. More precisely, the banking sector recorded a growth of R44 million in its Salaries and Allowances, which was partly due to changes in the banking sector's employment trends. However, this was partially mitigated by a decline in Interest Expense on deposits amounting to R36 million, which resulted from a decrease in interest rate on deposit during the review period.
- ◆ Provisions for Loan Losses dropped substantially (by R123 million) in 2022, thereby adding to the banking sector's Profit Before Tax. Nevertheless, this increase was offset by a significant decline of R133 million in Bad Debt Recoveries, driven by one commercial bank. This was as a result of the recovery of a high value facility from one commercial bank during 2021, as compared to minor recoveries during the year under review.
- ◆ At the end of December 2022, a taxation expense of R306 million was recorded, a rise of R77 million, compared to 2021. The increase in this expense further contributed in lowering the banking sector's profit.
- All commercial banks maintained their Liquidity Ratio<sup>29</sup> above the prescribed minimum requirement during 2022, and the aggregate Liquidity Ratio for the banking sector stood at 46 per cent at the end of the review period. This was an increase of 5.4 percentage points compared to the previous period and was mainly attributed to a growth in Liquid Assets, more precisely, an expansion in Balances with Commercial Banks Abroad as noted in section 5.2. The higher Liquidity Ratio in 2022 compared to 2021 indicated that the banking sector had more Liquid Assets to meet its Total Liabilities.
- Overall, no significant changes or movements were observed in commercial banks' Foreign Currency Exposure relative to the previous year. At the end of 2022, the banking sector's Total Long Position and Total Short Position to Capital ratio stood at 6.9 per cent and 3.2 per cent, respectively. All commercial banks were in adherence to the 30 per cent regulatory limit.

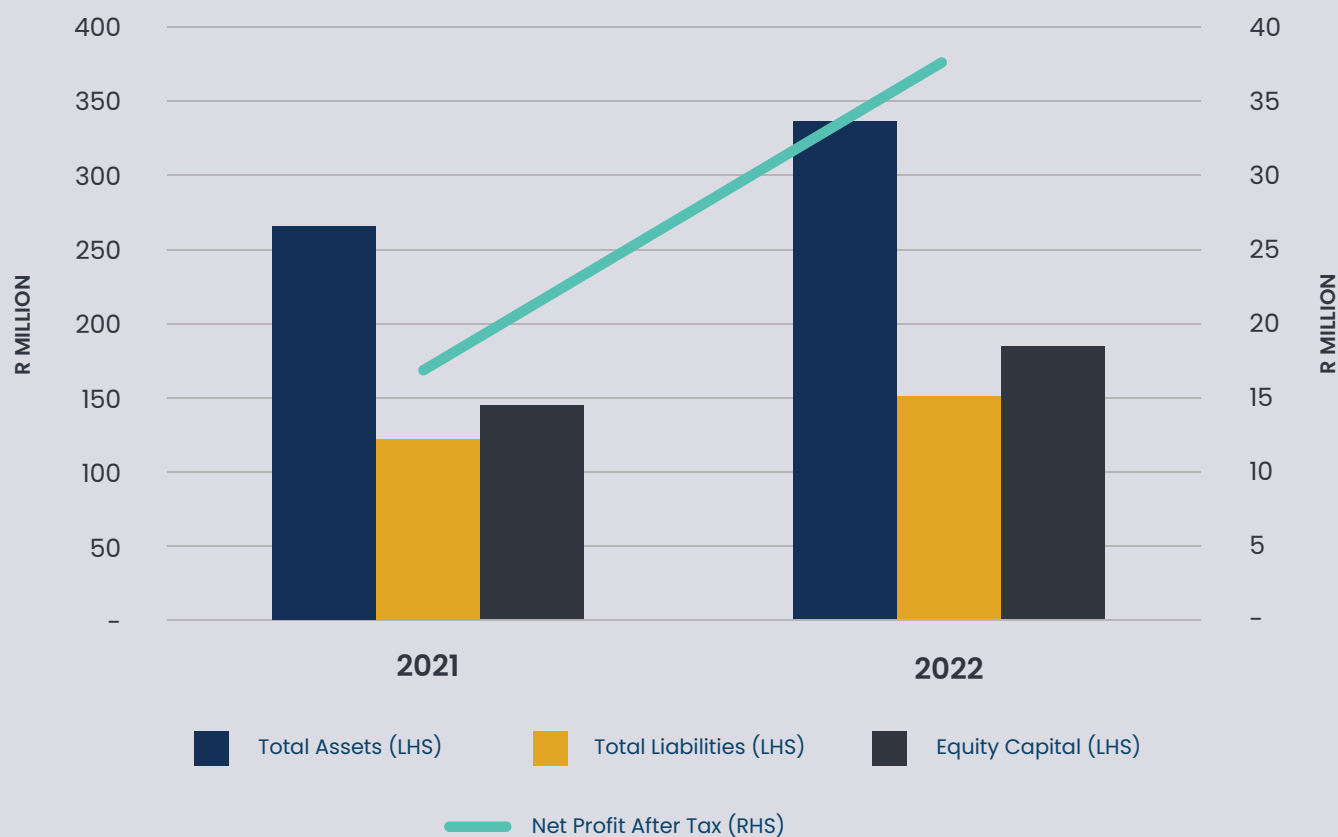
## 5.4 Performance and Soundness of the BDC Sector



<sup>29</sup> As per the Financial Institutions (Liquidity Risk Management) Regulations, this is an average of commercial banks' Liquid Assets to Total Liabilities.



Chart 5.0: Performance and Soundness of the BDC sector (2021-2022)



### 5.5 Non-Compliance to Prudential Requirements as at end of 2021-2022

## 2021

4 BDCs had capital impairment, 1 BDC had liquidity deficiency

## 2022

2 BDCs had capital impairment





## 5.6 Performance and Soundness of NBCIs

There was an improvement in the NBCIs' performance, marked by an expansion in Total Assets and higher Net Profit After Tax in 2022. Meanwhile, Loans and Advances declined during the review period as lending activity reduced in some NBCIs, and repayments increased.

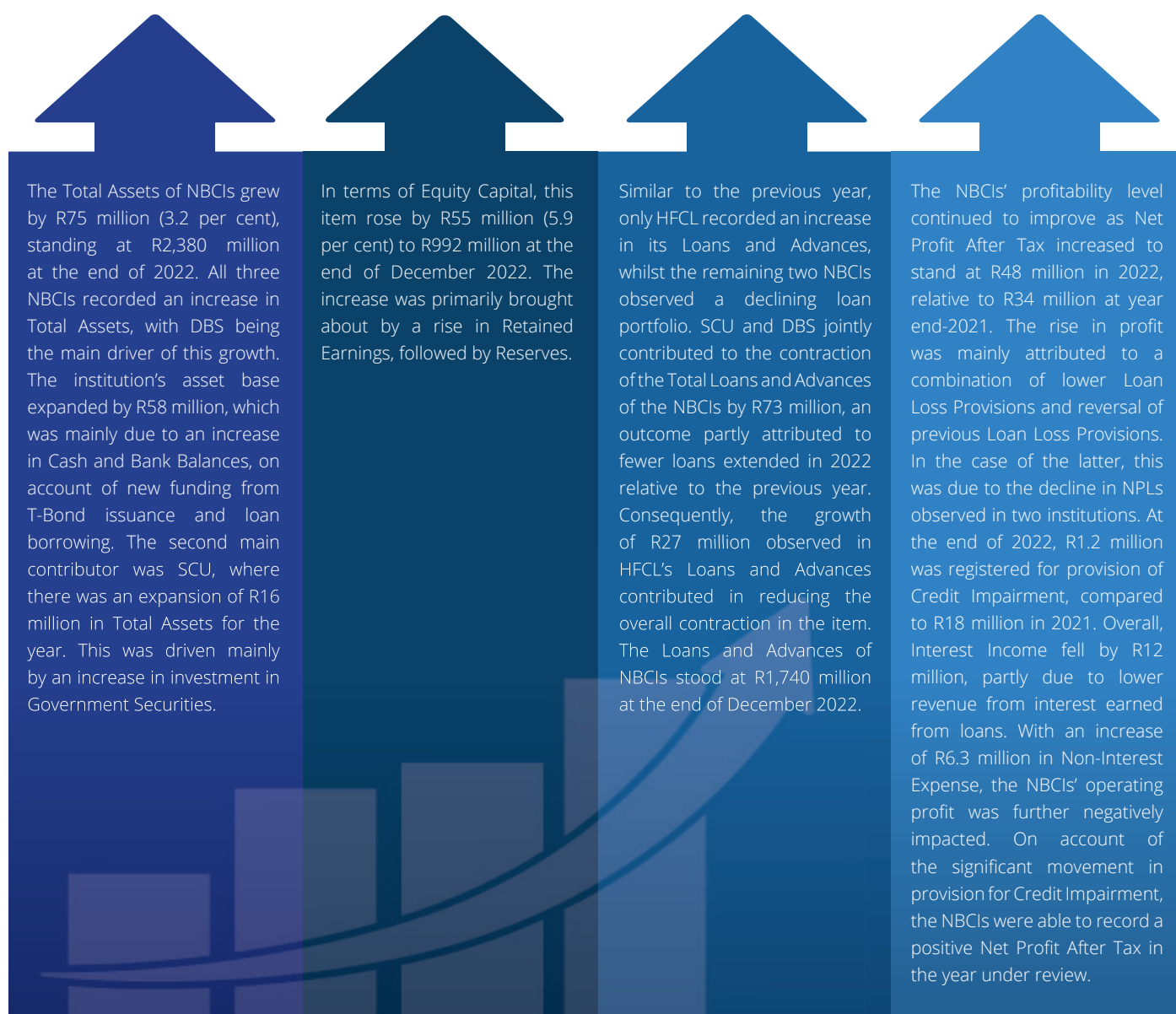
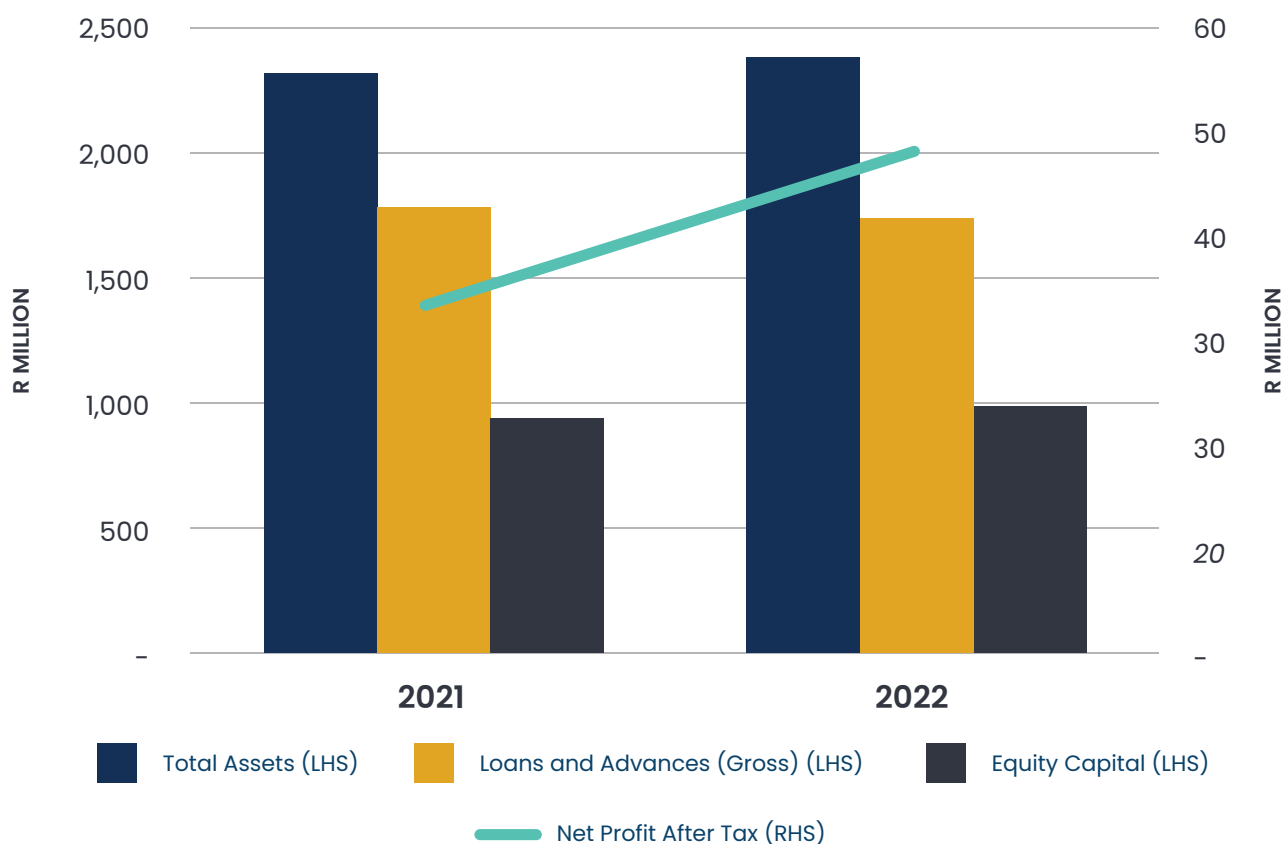




Chart 5.0: Performance and Soundness of the BDC sector (2021-2022)



## 5.7 Examinations and Enforcement Actions

### 5.7.1 Micro-Prudential Supervision

There was one limited scope examination that was initiated at a commercial bank towards the end of the review period, which focused on the bank's risk management and governance practice.

### 5.7.2 AML/CFT Supervision

At year-end, a full scope inspection of a commercial bank which began mid-2022 was finalised and a limited scope inspection of a BDC began. Based on the findings of the completed examination, the Bank issued recommendations for remedial actions with stipulated deadlines. Follow-up reviews will be undertaken thereafter, along with appropriate enforcement actions to ascertain compliance with the AML/CFT requirements.



## CHAPTER 6

# DEVELOPMENTS IN THE SUPERVISORY FRAMEWORK

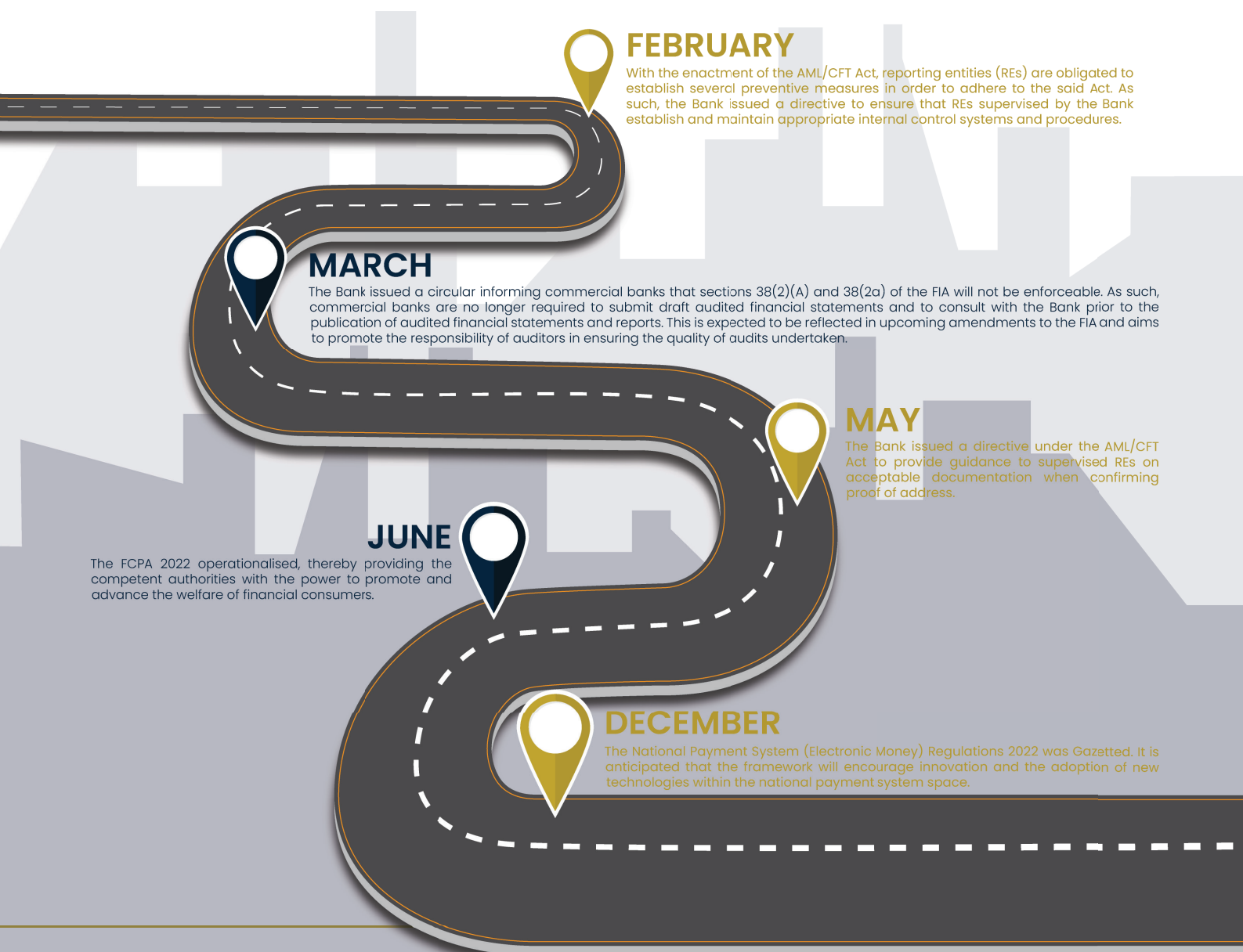
### 6.0 Introduction

In line with its mandate to promote the soundness of the financial system, the Bank continued to pursue initiatives to enhance the effectiveness of the regulatory and supervisory framework. This Chapter presents the main reforms that were effected in 2022 and the status of ongoing projects as at year-end.

### 6.1 Key Reforms

In 2022, the Bank issued new legislation and other pronouncements aimed at strengthening the regulatory framework in line with international standards and best practices. Figure 6.0 highlights the key reforms for 2022.

Figure 6.0: Key Reforms for 2022





## 6.2 Ongoing Developments within the Supervisory Framework

### 6.2.1 Bank Resolution Framework

During the second half of 2022, the Board of the Bank and Cabinet of Ministers approved the policy paper for the introduction of a bank resolution framework. The objectives of the framework are to preserve financial stability, ensure continuity of critical functions, and protect depositors whilst minimising the cost of resolution to the public as a result of bank failure. Work on drafting of the legislation will commence in 2023.

### 6.2.2 Financial Institutions (Capital Adequacy) Regulations

During 2022, the Bank continued to engage with the Attorney General's office on drafting the amendments to the Capital Adequacy Regulations, to incorporate Pillar I of Basel II therein. By the end of the year, the drafting had reached an advanced stage and it is expected to be finalised in 2023.

As regard Basel III Definition of Capital, the policy proposal was endorsed by the Board of the Bank and the Cabinet of Ministers in the second quarter of 2022. The standard, which aims to enhance the banking sector's resilience, will subsequently be included in the Capital Adequacy Regulations.

### 6.2.3 Credit Union Act

Work continued on amendments to the Credit Union Act in 2022, including identification of additional areas for amendment, conduct of research and consideration of appropriate policy positions. The timeframe to finalise the amendments has been extended to 2023.

### 6.2.4 Foreign Exchange Act

In 2022, the proposed amendments to the Foreign Exchange Act was finalised. The amendments will provide for new authorised dealers (credit unions and PSPs) and list the authorised dealers in a Schedule to the Act. It will also enable the Minister responsible for Finance to change the list of authorised dealers by amending the Schedule to the Act. The amendments are expected to be presented to the National Assembly in 2023.

### 6.2.5 International Financial Reporting Standard 9

During 2022, work was initiated to review an existing circular issued by the Bank in 2018 to provide guidance on the requirements of the International Financial Reporting Standard (IFRS) 9 relating to financial instruments. Amendments to the circular will provide additional supervisory guidance on IFRS 9 with the aim of promoting sound and prudent credit risk practices by commercial banks. The circular will be issued in 2023.

### 6.2.6 Sustainable Finance

Given the Seychelles context whereby climate finance, green finance and blue finance are prevalent, it was agreed during 2022 for the Bank to focus on sustainable finance rather than solely on green finance. In that respect, work undertaken in the previous years were reassessed to focus on sustainable finance. Likewise, a policy paper was initiated to define sustainable finance for Seychelles from a central bank perspective as well as a roadmap for sustainable finance for Seychelles. These projects will continue throughout 2023 along with ongoing efforts to build staff capacity.

### 6.2.7 Enhancing Compliance in AML/CFT Requirements

Further work was undertaken in 2022 with regard to enhancing the legal framework of the country pertaining to AML/CFT and improving compliance to international obligations. Amendments were made to the Prevention of Terrorism Act 2004, AML/CFT Regulations and Prevention of Proliferation Financing Regulations. In addition, the following Regulations were issued under the AML/CFT Act, and Prevention of Terrorism Act 2004:

- The Anti-Money Laundering and Countering the Financing of Terrorism (National Risk Assessment) Regulations 2022;
- The Anti-Money Laundering and Countering the Financing of Terrorism (Counter-measures) Regulations 2022;
- The Anti-Money Laundering and Countering the Financing of Terrorism (Cross Border Declaration) Regulations 2022;
- The Prevention of Terrorism (Implementation of United Nations Security) Regulations 2022.

These legislative amendments and enactments supported the work undertaken by the National AML/CFT Committee as well as the Technical AML/CFT Committee. Similarly, they contributed towards the follow-up reports and re-rating requests made to the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG). In that regard, submission was made in September 2022, for upgrades in nine recommendations, being recommendations 5, 6, 7, 15, 19, 25, 28, 33 and 34.



# CHAPTER 7

## REGIONAL AND INTERNATIONAL DEVELOPMENTS & INITIATIVES

### 7.0 Introduction

Throughout 2022, the Bank participated in several regional and international initiatives relevant to its regulatory and supervisory mandate. Bank officials had the opportunity to enhance their knowledge and expertise through these engagements, which provided wider exposure to international regulatory developments. Similar to 2021, the initiatives mostly covered the following areas:

- Basel Standard Implementation
- Fintech
- Resolution
- AML/CFT

### 7.1 In-Person Initiatives

Figure 7.0: Regional and International Initiatives







# CHAPTER 8

## ISSUES AND CHALLENGES

### 8.0 Introduction

Throughout 2022, the financial sector's landscape experienced rapid growth in technological developments, geopolitical uncertainties and renewed lockdowns following the emergence of new coronavirus variants towards the end of 2021. As such, the local financial sector was faced with new sets of issues and challenges, in addition to existing ones, such as cybersecurity, to which it had to respond by adopting and implementing either new measures or effecting relevant amendments to existing ones.

### 8.1 Unwinding of COVID-19 Policy and Relief Measures

As highlighted in preceding financial surveillance reports, an ongoing challenge for the Bank is determining the timing for the unwinding of the various policies and measures adopted during the COVID-19 pandemic. At the start of 2022, the Bank rolled out the Unwinding Strategy – COVID-19 Policy and Relief Measures<sup>30</sup> in a phased approach. One of several policy decisions of the strategy approved by the Board of the Bank was the re-opening of the Private Sector Relief Schemes. To note that after reopening of the Schemes, the commercial banks, DBS and SCU did not receive any new applications. In March 2022, the Bank closed the access period to the Schemes based on assessments undertaken, including analyses on macroeconomic developments as well as potential impact on the banking sector. In June 2022, the Board of the Bank approved the updated Unwinding Strategy – COVID-19 Policy and Relief Measures<sup>31</sup>. Therein, the moratorium and debt restructuring measures were effectively removed in July. As such, commercial banks, DBS and SCU reverted to providing moratorium and debt restructuring as per their internal policies. Notwithstanding the phasing out of the policies and measures, the Bank will adjust its policy measures as appropriate, in line with its mandate to maintain price and overall financial stability.

### 8.2 Increase in Non-Performing Loans

As noted in Chapter 5, whilst the banking sector remained relatively resilient, an increase in NPLs was observed, mainly in two commercial banks, following the unwinding of COVID-19 policy measures relating to credit classification, moratorium and debt restructuring. Higher NPLs can adversely impact on commercial banks' ability to lend and weigh on economic growth.

As such, the Bank needs to ensure close monitoring of NPL trends and its implications on the financial system's asset quality as well as capital positions. Through continued surveillance, the Bank compels commercial banks to have in place adequate lending standards and proper credit risk management which are key to reducing the risk of NPLs. Nonetheless, commercial banks need to remain vigilant and prudent, especially with the uncertain geopolitical tensions and macroeconomic environment.

### 8.3 Cybersecurity

The onset of the COVID-19 pandemic coupled with restrictive measures implemented by the various authorities, have accelerated the digitalisation of banking in recent years. To some extent, it can be argued that this has resulted in boosting economic productivity and providing greater accessibility to digital payment channels. Despite the positive shifts, the global financial sector has experienced an increasing number of frauds and cyberattacks as well as cyberthreats becoming more sophisticated in nature, particularly with the rise of cryptocurrencies. This poses a threat to financial stability and thus makes cybersecurity resilience a top priority for regulatory and supervisory authorities both globally and domestically. Financial institutions and financial market infrastructures are particularly at risk, especially with the increasing move towards e-banking channels, cloud-based software systems and the use of Fintech, which necessitates the importance of having the appropriate legislation and controls in place to manage these upcoming threats and crimes. Accordingly, in the local space, the Cybercrimes and Other Related Crimes Act 2021 came into force at the start of 2022. This provides enforcement measures for such crimes, which if not dealt with appropriately may pose significant risks to financial stability.

The Bank also remained vigilant, whereby cybersecurity-related matters were tabled for discussions in the Cybersecurity Working Group<sup>32</sup>. The Bank will continue in its efforts to strengthen its cybersecurity level through international cooperation and capacity building to assist in adopting, developing as well as implementing best practices and standards for cybersecurity resilience.

<sup>30</sup> [https://www.cbs.lk/Downloads/covid19/PolicyMeasures/Unwinding%20Strategy\\_Abridged%20Version%202022.pdf](https://www.cbs.lk/Downloads/covid19/PolicyMeasures/Unwinding%20Strategy_Abridged%20Version%202022.pdf)

<sup>31</sup> [https://www.cbs.lk/Downloads/covid19/PolicyMeasures/Unwinding%20Strategy%20Updated%20June%202022\\_Abridged%20Version.pdf](https://www.cbs.lk/Downloads/covid19/PolicyMeasures/Unwinding%20Strategy%20Updated%20June%202022_Abridged%20Version.pdf)

<sup>32</sup> Comprises of staff from all commercial banks, HFCL, DBS, SCU and the Bank.



# CHAPTER 9

## OUTLOOK

### 9.0 Introduction

In 2022, aside from the lingering effects of the COVID-19 pandemic, the global economy faced other challenges such as unfavourable geopolitical and economic developments. Although Seychelles generally maintained signs of progress on the economic front, the outlook for 2023 acknowledges the risks presented by adverse developments in the global arena and their potential impact on the jurisdiction.

### 9.1 Banking Sector: Seychelles Bankers Association's Perspective

The banking sector began to recover from the impact of COVID-19 in 2022. One of the main drivers was the constant innovation in the sector, as commercial banks found new ways to make banking easier as well as more accessible to their clients through improved and enhanced digital channels. This trend towards digitisation was further accelerated by the pandemic, as more people began to rely on online banking services in order to limit their exposure to the virus.

In terms of credit distribution, commercial banks continued to prioritise certain sectors, such as mortgage, tourism, private households, building and construction, as well as trade. The commercial banks have historically targeted lending to these sectors on the basis of the potential for higher growth. Nevertheless, commercial banks are mindful of the risk of concentration of lending in these sectors.

Despite signs of recovery, there was indication of financial stress for borrowers given an increase in NPLs, although this was not reflected across all commercial banks. One industry that remained particularly vulnerable in 2022 was the tourism industry. Despite an increase in tourist arrivals and a decline in COVID-19 cases, the industry continued to face economic and geopolitical risks that could have significant consequences for both the industry and the broader economy. Commercial banks are prepared to manage these risks, whether through diversifying their lending portfolios, conducting stress tests, or other measures to ensure financial stability.

### External Economic Environment

The external economic environment plays a significant role in shaping the outlook for the domestic banking sector. The global economy is experiencing a period of uncertainty and volatility, driven by factors such as the lingering effects of the pandemic, as well as geopolitical and trade tensions between major economies. These factors have significant implications for the Seychelles banking sector, both in terms of the risks they pose and the opportunities they present.

One of the key risks that the external economic environment poses for the banking sector is the potential for a global economic slowdown, which can adversely impact tourism and exports, thus earnings for the Seychelles economy. This could lead to a decline in demand for loans and other banking services, as well as increased credit risk for commercial banks. Another related risk is the impact of exchange rate fluctuations which creates challenges for commercial banks in managing their currency risk.

On the other hand, the current external economic environment presents several opportunities for the local banking sector. For example, the ongoing digital transformation in the global economy presents opportunities for financial institutions to innovate and offer new services to their customers. Additionally, increased demand for sustainable and socially responsible investments could create opportunities for the commercial banks to expand their offerings in these areas.

### Outlook for 2023

The banking sector is constantly evolving to adapt to the ever-changing economic environment. The challenges faced by the sector include the impact of the ongoing COVID-19 pandemic, changes in regulatory requirements, increasing competition from new entrants, and technological advancements. However, the sector remains optimistic as well as focused on expanding and improving consumer channels for more efficient banking experiences while offering affordable financial products and services.

One of the areas that the banking sector is keenly monitoring is the tourism industry, which is a critical driver of economic growth in Seychelles. A projected 17 per cent increase in the number of tourist arrivals in 2023 relative to 2022 provides a positive outlook for the banking sector. Commercial banks are likely to leverage this growth opportunity to expand their operations and offer new financial products and services that cater for the needs of the tourism industry.



A key contributor to commercial banks' soundness is continuous investment in more secure and robust consumer channels for a more efficient as well as effective banking experience. These channels include mobile banking, online banking, and other digital banking services that provide customers with the convenience as well as flexibility to access their accounts and transact from anywhere. By offering relevant and affordable financial products and services, commercial banks can maintain customer loyalty and satisfaction while ensuring a healthy financial position.

Conclusively, the banking sector is cautiously optimistic about its future prospects despite ongoing challenges. By remaining focused on expanding and enhancing consumer channels as well as offering relevant and affordable financial products and services, the Seychelles Bankers Association is confident that the banking sector is well-positioned to adapt to the ever-changing economic environment and remain competitive in the long run.

### 9.3 Financial Stability: Central Bank of Seychelles' Perspective

#### *Assessment of Global Financial Stability*

The resilience of the global financial system was tested throughout the year under review, with high risks to global financial stability driven by increased economic and geopolitical uncertainties. The higher than anticipated inflation coupled with tightened financial conditions dominated the global economic landscape, with Russia's invasion of Ukraine further weighing down the economic outlook. As the global economy continued on the path to recovery from the pandemic, central banks were faced with the challenge of normalising monetary policy at an accelerated pace to try to contain inflation whilst providing support for economic recovery. The spill-over effects from the Russia-Ukraine war further exacerbated existing vulnerabilities and given its proximity, countries in Europe were more directly impacted, specifically in the energy market.

#### *Assessment of Domestic Financial Stability*

The performance of the tourism industry maintained an upward trend throughout 2022 contributing to the country's positive economic output, albeit uneven across sectors. Despite concerns over downside risks to the tourism industry posed by the war in Ukraine, sustained increases were observed in visitor arrivals supporting the rebound in the tourism industry. As a net importer, the domestic economy remained vulnerable to external developments notably high and volatile commodity prices, tighter monetary conditions globally and geopolitical tensions. As such, to continue supporting the local economy, the Bank maintained an accommodative monetary policy stance during 2022.

As global and domestic economic recovery continued, there was an increasing need to phase-out the various support measures put in place during the pandemic, as an over-reliance on such measures could increase underlying macro-financial vulnerabilities. Considering the aforementioned, at the start of 2022, the Bank employed its unwinding strategy in a targeted approach with the aim of promoting economic viability.

The pandemic provided impetus for the country's move towards digitalisation seeing an increase in technological developments as well as a surge in the use of digital payments. Whilst essential for growth and development, there are nevertheless risks of criminal activities in the digital space that need to be appropriately legislated, alongside the adoption of appropriate internal control frameworks and user education initiatives. Correspondingly, the Cybercrimes and Other Related Crimes Act 2021 came into force at the start of 2022 and aims to promote financial stability by providing enforcement measures for such criminal actions that may pose risks to financial stability. Environmental and climate-related risks continue to persist as a source of financial stability risk and remains an area of prioritisation both globally and domestically.

#### *Outlook for 2023*

Risks to financial stability remain present within an increasingly challenging environment both globally and domestically. Key central banks have continued to accelerate the normalisation of their monetary policy in a race to keep the soaring inflation from becoming entrenched. As a consequence, financial conditions in most regions will remain tight, further intensifying the slowdown in global economic growth. On the local front, the increasing gap between international and domestic interest rates may encourage capital outflows and increase the risk of dollarization. The geopolitical tensions as a result of the war continue to have adverse impact on the food and energy markets as prices remain volatile. These factors may further increase domestic inflationary pressures through the import channel.



# ANNEX

## List of Abbreviations

Absa Bank (Seychelles) Limited	ABSA
Alliance for Financial Inclusion	AFI
Africa Training Institute	ATI
Al Salam Bank Seychelles Limited	ASBS
Anti-Money Laundering and Countering the Financing of Terrorism	AML/CFT
Automated Teller Machines	ATMs
Basel Committee on Banking Supervision	BCBS
Basel Core Principles	BCPs
Bureau de Change	BDC
Bank of Baroda	BoB
Bank of Ceylon	BoC
Capital Adequacy Ratio	CAR
Central Bank of Seychelles Act, 2004 as amended	CBSA
Central Bank of Seychelles Immediate Transfer Service	CBSITS
Credit Unions	CUs
Development Bank of Seychelles	DBS
Digital Financial Services	DFS
Eastern and Southern Africa Anti-Money Laundering Group	ESAAMLG
Electronic Cheque Clearing	ECC
Electronic Fund Transfer	EFT
Financial Consumer Protection Act 2022	FCPA
Financial Institutions Act, 2004 as amended	FIA
Financial Services Authority	FSA
Financial Stability Institute	FSI
Financial Services Providers	FSPs
Financial Surveillance Division	FSD
Financial Technology	Fintech
Gross Domestic Product	GDP
Housing Finance Company Limited	HFCL
International Monetary Fund	IMF
Monetary Authority of Singapore	MAS
Mauritius Commercial Bank (Seychelles) Ltd	MCB
Non-Bank Credit Granting Institutions	NBCIs
Network for Central Banks and Supervisors for Greening the Financial Systems	NGFS
Non-Performing Loans	NPLs
National Payment System Act 2014	NPSA
National Payment System	NPS
Nouvobanq	NVB
Point of Sale	POS
Payment Service Providers	PSPs
Polymerase chain reaction	PCR
Private Sector Relief Scheme	PSRS
Reserve Bank of Fiji	RBF
Reporting Entities	REs
Return on Assets	ROA
Return on Equity	ROE
Southern African Development Committee	SADC



Subcommittee of Banking Supervision	SBS
Seychelles Commercial Bank	SCB
Standing Deposit Facility	SDF
Sustainable Development Goals	SDGs
Seychelles Credit Union	SCU
Seychelles Electronic Funds Transfer	SEFT
Seychelles Rupee	SCR
Treasury Bills	T-Bills
Treasury Bonds	T-Bonds





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