3. Domestic Macroprudential Assessment

Growth in the domestic economy remained vulnerable to subdued and uncertain economic conditions in Europe in 2013H1, with a prolonged downturn in the euro area posing the main downside risk to the growth outlook. Domestically, Government pursued a prudent fiscal policy and public debt is on a sustainable trajectory. Excess liquidity conditions in the money market exerted downward pressure on interbank interest rates and yields on government papers although increases were noted towards the end of 2013H1. The Bank's intervention on the foreign exchange market contributed to contain rupee volatility. Private sector credit growth has increased and overall asset quality is relatively sound. However, the credit off-take in some sectors amid lacklustre activity creates some financial stability concerns and requires close monitoring of the level of NPL. Though they faced a difficult economic environment, banks remained sound, profitable, well-capitalised and are assessed to be resilient to a range of shocks to their credit portfolios. According to the FSC, the insurance sector performed relatively well in 2012 and has adequate buffers to withstand shocks that might affect its soundness. The payment systems operated efficiently, with no major downtime. Overall, financial stability risks are assessed to be contained.

3.1 Domestic Economy

The domestic economy remained vulnerable to economic developments in its main trading-partner countries. Nevertheless, diversification efforts away from the traditional European markets and consolidation of new sectors have contributed in mitigating the adverse impact of reduced demand from Europe. The economy recorded a y-o-y growth rate of 3.7 per cent in 2013Q1 compared to 3.1 per cent in 2012Q1, with *'manufacturing'*, *'financial and insurance activities'*, *'wholesale and retail trade'*, *'information and communication'* and *'professional, scientific and technical activities'* contributing the most to output growth. In June 2013, Statistics Mauritius revised downward its growth projection for 2013 to 3.3 per cent. Looking forward, the main downside risk to domestic growth outlook remains a prolonged downturn in the euro area.

3.1.1 External Vulnerabilities

External shocks are likely to impact on economic activity, financial markets and fiscal policy of small open economies, thereby having significant financial stability implications. There do not seem to be undue pressures emanating from external sources at this juncture (Box II).

Box II: External Indicators

		Mar-12	Mar-13
		Rs million	
Gross External Debt [1]	as at end	45,046	50,533
External Debt Service	year ended	7,191	6,624
Exports of Goods	year ended	75,002	82,318
Exports of Goods and Services	year ended	171,933	182,850
Imports of Goods and Services	year ended	216,505	228,484
Gross Official International Reserves [2]	as at end	80,821	98,149
GDP at market prices	year ended	327,350	348,759
Broad Money Liabilities	as at end	321,028	348,246

Box II: External Indicators (Continued)

Indicators	Mar-12	Mar-13
	Per cent	
I. Solvency		
Gross External Debt/GDP	13.8	14.5
Gross External Debt/Exports of Goods	60.1	61.4
Gross External Debt/Exports of Goods and Services	26.2	27.6
External Debt Service/Exports of Goods	9.6	8.0
External Debt Service/Exports of Goods and Services	4.2	3.6
II. Reserve Adequacy		
Reserves/Imports of Goods and Services	37.3	43.0
Reserves/ Broad Money Liabilities	25.2	28.2
Reserves/Gross External Debt	179.4	194.2

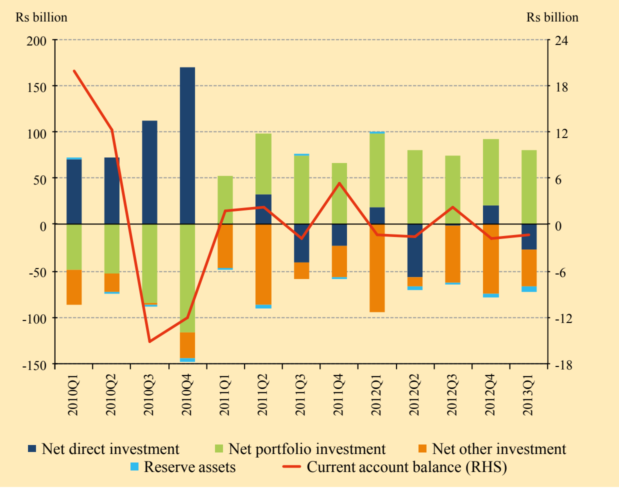
[1] *Gross external debt outstanding as at end of period comprises general Government, public corporations, monetary authorities and private sector.*

[2] *Gross Official International Reserves as at end of period comprise gross foreign assets of the Bank of Mauritius, reserve position in the IMF and the foreign assets of Government.*

Balance of Payments

The current account deficit, inclusive of cross-border transactions of GBC1s, worsened in 2013Q1 to reach Rs6.9 billion compared to Rs4.2 billion in the corresponding period of 2012. As a percentage of GDP at market prices, the current account deficit stood at 8.2 per cent, up from 5.3 per cent in 2012Q1. Over the year to 2013Q1, the merchandise trade deficit narrowed by 11.5 per cent to Rs15.2 billion while the services surplus witnessed a sharp decline of 36.3 per cent to reach Rs6.1 billion. Net income receipts amounted to Rs2.1 billion whereas the current transfers account recorded a lower surplus of Rs0.1 billion. The current account deficit remained financed by net financial flows, mainly portfolio investment which, inclusive of GBC1s cross-border transactions, posted higher net inflows of Rs80.2 billion in 2013Q1. This more than offset net outflows in direct investment and other investment (Chart 3.1). Excluding cross-border transactions of GBC1s, non-residents' direct investment in Mauritius, net of repatriation, amounted to Rs2.2 billion in 2013Q1, up from Rs1.4 billion in 2012Q1.

Chart 3.1: Financing of the Current Account



The persistently high current account deficit, which implies reliance on foreign capital flows to finance net payments to non-residents, constitutes an important source of vulnerability for the domestic economy. The 2013 IMF Article IV Mission has underscored the need to reduce the large current account deficit through reforms aimed at increasing national savings and enhancing the competitiveness of the economy.

Reserve Adequacy

Adequacy of reserves is an important parameter in gauging the ability of a country to absorb external shocks. This was highlighted in the IMF Staff Report for 2013, which noted that the Bank of Mauritius should continue to maintain adequate levels of international reserves given the exposure of the country to natural disasters and its status as an international financial centre. Following the implementation of the ORR programme as from June 2012, gross official international reserves increased by 21.2 per cent y-o-y to an equivalent of Rs105.0 billion as at end-June 2013, representing 5.6 months of import cover based on the value of imports of goods *f.o.b* and non-factor services in 2012 (Chart 3.2).

External Debt

The gross external debt of the country, comprising general Government, public corporations, monetary authorities and private sector debt, rose by 12.2 per cent, from Rs45,046 million as at end-March 2012 to Rs50,533 million as at end-March 2013, driven mainly by an increase in central Government and public enterprises external debt. As a percentage of GDP, gross external debt increased from 13.8 per cent as at end-March 2012 to 14.5 per cent as at end-March 2013. Solvency indicators with regard to gross external debt do not seem to have unduly deteriorated over the year to March 2013 (Box II).

Central Government external debt as a percentage of GDP increased slightly from 9.3 per cent as at end-March 2012 to 10.5 per cent as at end-March 2013. It is, however, projected to grow steadily to reach 11.7 per cent, 13.9 per cent and 14.3 per cent as at end-December 2013, 2014 and 2015, respectively, in line with the Government's strategy to shift towards more foreign financing and concomitantly lengthen the maturity profile of its debt. As at end-March 2013, central Government external debt was mostly denominated in two of the most liquid and largest reserve currencies, that is, the US dollar and euro (Chart 3.3).

As at end-March 2013, around 74 per cent of central Government external debt was based on floating interest rates while 21.8 per cent carried a fixed interest rate and 4.2 per cent was interest free. Government external debt is not expected to be subject to major interest rate risks in the short- to medium-term given that accommodative monetary policies are projected to be maintained for some time to support growth in advanced economies. The debt-service ratio for the country is forecast to hover in the range of 3.4 per cent to 5.0 per cent between 2013 and 2015.

3.1.2 Total Public Sector Debt

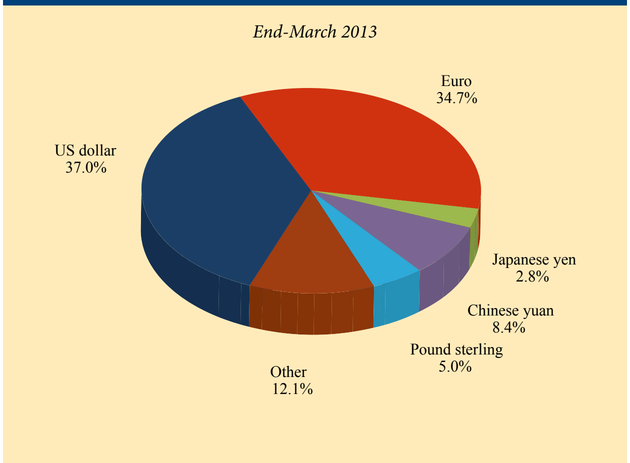
Government has pursued its efforts towards fiscal consolidation to improve debt sustainability. The budget deficit, which stood at 1.8 per cent of GDP in 2012, is expected to increase to 2.2 per cent in 2013, largely on account of the salary review in the public sector. It is, however, projected to resume its general downtrend to reach 1.7 per cent of GDP in both 2014 and 2015. The primary balance was in surplus in 2012, representing 1.2 per cent of GDP and is expected to remain in surplus in 2013 through 2015, fluctuating between 0.7 per cent and 1.4 per cent.

Public sector debt, comprising debt of general Government and public enterprises, stood at 57.9 per cent of GDP as at end-March 2013. It is expected to decrease slightly to 56.5 per cent as at end-December 2013 and further down to 55.8 per cent and 54.1 per cent in the subsequent two years.

As a result of the various measures taken to lengthen the maturity profile of Government debt and reduce the rollover risks and costs associated with debt management, long-term domestic debt (by original maturity) as a proportion of total domestic Government debt increased from 43.8 per cent as at end-March 2012 to 50.9 per cent as at end-March 2013.

Chart 3.2: Gross Official International Reserves and Import Cover

Chart 3.3: Currency Composition of Central Government External Debt



According to a Debt Sustainability Analysis released in the IMF Article IV Consultation report of April 2013, the debt outlook for Mauritius is broadly positive. Both domestic and external debt are on sustainable trajectories and debt dynamics are resilient to several shocks. The need for some fiscal consolidation over the medium term, in an endeavour to mitigate debt vulnerabilities, was highlighted in the report. However, the country is well-placed to meet its statutory debt ceiling target of less than 50 per cent of GDP by 2018.

3.2 Financial Markets

3.2.1 Money Market

Banks' excess reserves increased to an average of Rs3.9 billion during 2013H1, from Rs3.1 billion during 2012H1, led by additional deposits of public fund with banks and net intervention by the Bank on the domestic foreign exchange market to smooth out volatility in the exchange rates and to build up foreign exchange reserves under the ORR programme (Chart 3.4). In an effort to bring down excess reserves, the Bank undertook a net issue of Bank of Mauritius securities for a total nominal amount of Rs12.4 billion.

While transactions on the interbank money market went up slightly to Rs134.1 billion in 2013H1 compared to the preceding year, short term money market rates maintained a downward trend for most of this period before picking up in June 2013.

Interbank interest rates ranged between 1.20-2.00 per cent until May 2013 but moved higher to a range of 1.20-4.00 per cent in June 2013. Overnight interbank interest rates fluctuated between 1.20-2.35 per cent while interest rates on short notice and term facilities ranged between 1.30-4.00 per cent. The weighted average interbank interest rate ranged between 1.36-2.73 per cent during 2013H1 compared to a range of 1.55-2.50 per cent during the corresponding period of 2012.

Excess liquidity in the money market continued to influence the weighted yields at primary auctions. The overall weighted yield on Government of Mauritius Treasury Bills declined from 3.44 per cent as at end-June 2012 to 2.72 per cent as at end-June 2013 while that on Government of Mauritius Treasury Notes declined from 5.01 per cent to 3.78 per cent over the same period.

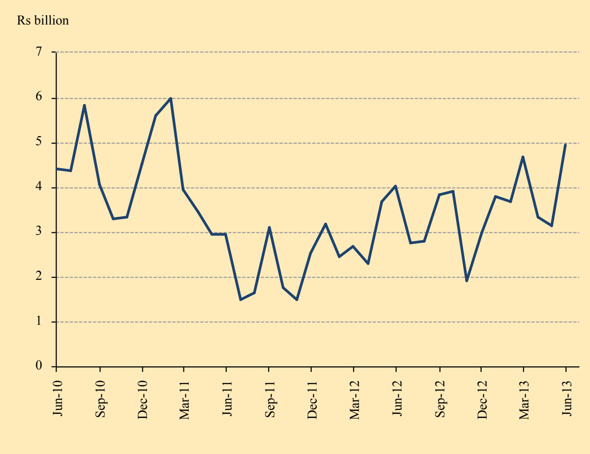
3.2.2 Foreign Exchange Market

The evolution of the rupee exchange rate continued to reflect the movements of major currencies on international markets as well as domestic demand and supply conditions. According to the IMF Article IV Consultation report of April 2013, the rupee exchange rate was broadly in line with fundamentals and the Bank's sterilised interventions to smooth out fluctuations of the rupee had proved to be effective.

At the start of 2013, the rupee appreciated vis-à-vis the US dollar given the broad-based weakness of the US currency on international markets. It reversed gear thereafter as the US dollar regained ground and moved within broad ranges till the end of 2013H1. Conversely, the rupee initially depreciated against the euro, which was supported on international markets, but subsequently recouped some of its losses. The rupee appreciated quite significantly against the Pound sterling during the period under review as the British currency remained on the defensive amid a weak economic backdrop.

Overall, during 2013H1, the weighted average dealt selling rates of the rupee, which are derived from transactions of US$30,000 and above or equivalent, depreciated against the US dollar and euro by 1.40 per cent and 0.35 per cent, respectively, but appreciated against the Pound sterling by 4.30 per cent. On a nominal effective basis, as measured by the MERI1 which uses the currency distribution of trade in its weight calculation, the rupee appreciated by 0.47 per cent during 2013H1 (Chart 3.5).

Chart 3.4: Banks' Monthly Average Excess Reserves



3.2.3 Stock Market

The performance of the domestic stock market improved markedly during 2013H1, with a significantly higher market turnover and stronger level of foreign investment. The turnaround in sentiment, which was in line with the optimism in world equity markets, came even as domestic GDP growth projections were successively revised downward. The SEMDEX rose by 10.5 per cent over the semester, largely driven by increase in the hotel and national airline stocks as well as the banking stocks. The SEM-7 also picked up by 11.5 per cent during 2013H1 (Chart 3.6). Net foreign investment on the domestic stock market remained positive during 2013H1, with net inflows of Rs796.5 million recorded principally in the '*banks, insurance and other finance*' and '*leisure and hotels*' sectors (Chart 3.7).

The market price-earnings (PE) ratio rose from 11.30 as at end-December 2012 to 13.38 as at end-June 2013, mainly as a result of a significant increase in the PE ratio of the '*leisure and hotel*' category, from 16.81 to 27.37. Other categories, namely '*banks, insurance and other finance*', '*sugar*', '*investments*', '*commerce*' and '*industry*', also registered increases in their PE ratios.

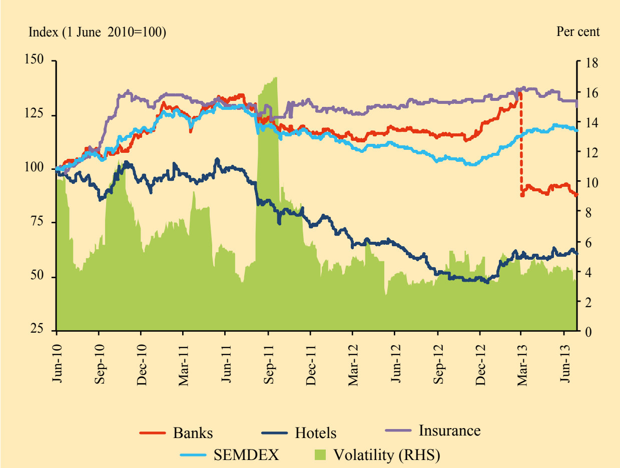
3.3 Credit Growth and Credit Risks

3.3.1 Total Credit

With loans and advances accounting for around 62 per cent of banks' total assets, credit risk is one of the most important factors taken into consideration when assessing risks to financial stability in Mauritius. Close monitoring of credit, especially at sectoral levels, as well as the level of NPL is therefore undertaken as part of the Bank's macro-prudential surveillance of the financial system. Recently, increases in private sector credit growth in some sectors as well as NPL have raised some concerns.

Total credit growth fell to 8.8 per cent as at end-March 2013, from 12.8 per cent a year earlier, reflecting sharp deceleration in credit extended outside Mauritius to 4.8 per cent, from 17.0 per cent as at end-March 2012 (Chart 3.8).

Chart 3.6: SEMDEX and Share Price Indices



Note: State Bank of Mauritius Ltd carried out a share split in the ratio of 100 shares for every one share held as from 1 March 2013.

Source: Stock Exchange of Mauritius.

Chart 3.5: Exchange Rate Movements

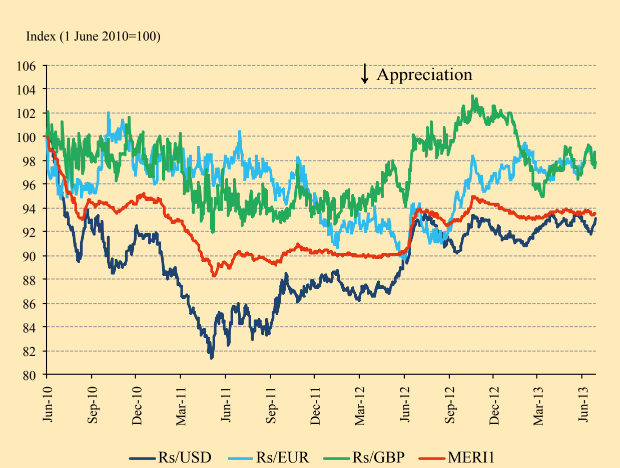
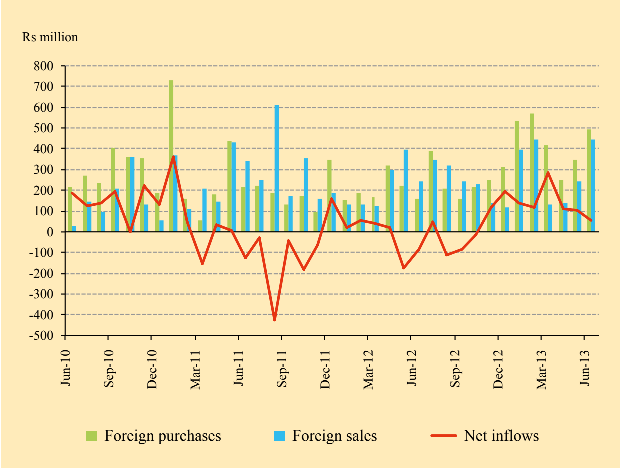


Chart 3.7: Foreign Investment on the SEM



In contrast, growth of credit extended to the private sector in Mauritius increased to 13.1 per cent as at end-March 2013 compared to 8.5 per cent a year earlier. As a result, private sector credit increased by 1.9 percentage points to 49.8 per cent as a ratio of total credit and by 4.3 percentage points to 73.9 per cent as a share of GDP at market prices. With growth in private sector credit mostly rising since early 2012, the private sector credit to GDP gap[1] has remained on an upward trend (Chart 3.9).

Credit Quality

Partly reflecting the subdued economic and business environment during the year to end-March 2013, the ratio of NPL to private sector credit in Mauritius rose to 5.2 per cent and the ratio of NPL to credit extended outside Mauritius increased to 1.9 per cent. Overall, the share of total NPL to total credit went up over the year to stand at 3.3 per cent as at end-March 2013. Although the level of NPL still implies relatively good asset quality in the banking sector as a whole, the rise in NPL over the year raises some concern and warrants close monitoring (Table 3.1).

Matching the growth in the total amount of NPL on private sector credit during the year, specific provisions on NPL rose by 36.8 per cent during the same period. The coverage ratio, that is, the ratio of specific provisions to NPL continued to rise and reached 47.7 per cent as at end-March 2013, which is considered as reasonable buffer against losses that may be incurred in the short- to medium-term (Chart 3.10).

Chart 3.8: Y-o-y Credit Growth

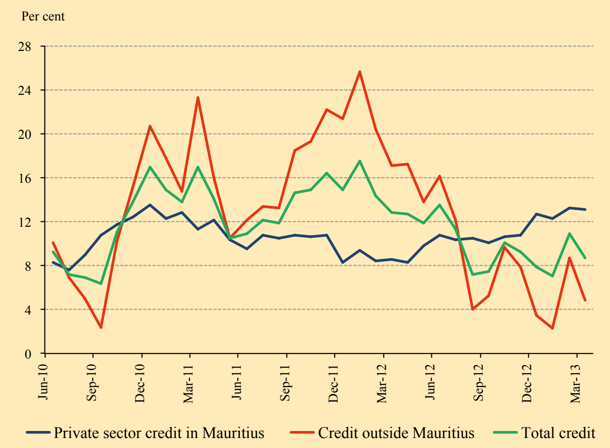


Chart 3.9: Private Sector Credit to GDP Gap

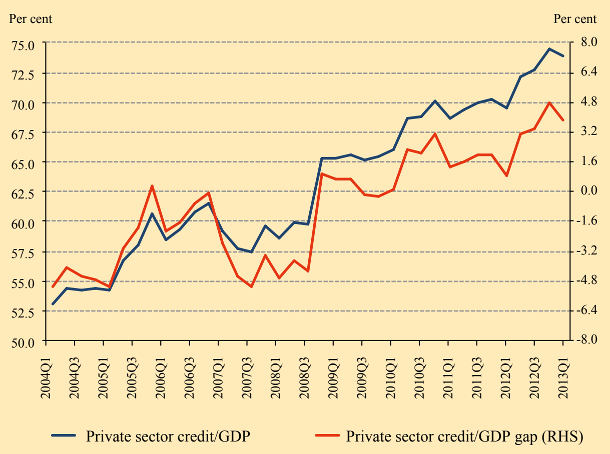


Table 3.1: NPL of Banks

	NPL as a percentage of private sector credit	NPL as a percentage of credit outside Mauritius*	Total NPL as a percentage of total credit
Mar-09	4.5	1.5	2.4
Mar-10	4.6	1.2	2.3
Mar-11	4.9	0.7	2.4
Mar-12	4.8	0.8	2.6
Jun-12	5.4	2.9	3.1
Sep-12	5.3	1.9	3.1
Dec-12	5.1	1.7	3.1
Mar-13	5.2	1.9	3.3

* *Including Global Business Licence Holders (GBLH).*

[1] *The credit to GDP gap is the percentage deviation between the credit to GDP ratio and an estimate of its trend.*

3.3.2 Household Sector Credit

Growth of banking sector credit to households was rather robust, with a monthly average y-o-y expansion of more than 16 per cent since the last FSR. The sustained growth in household credit was driven by higher credit expansion for consumption purposes which increased by 17.2 per cent as at end-March 2013 compared to 6.0 per cent in the corresponding period of 2012. Despite an increase in the volume of residential building permits to 1,724 in 2013Q1, from 1,367 a year earlier, credit extended for housing purposes, which account for 62.2 per cent of total household credit, registered lower growth of 17.1 per cent compared to 23.8 per cent a year ago. Credit to households accounted for 26.4 per cent of total private sector credit as at end-March 2013 compared to 25.5 per cent as at end-March 2012. As a percentage of GDP, household credit increased gradually over the past years to reach 19.5 per cent as at end-March 2013 (Chart 3.11).

As an indicator of the quality of household debt, the NPL ratio resulting from credit extended to the '*personal*' sector showed some improvement as it declined from 10.3 per cent to 9.8 per cent over the year to March 2013. Given its increasing share in banks' balance sheets, the evolution of household credit, if sustained, needs to be monitored for an early detection of any risk to financial stability. It is important to ensure that households are not over-leveraged. Meanwhile, a stress testing exercise shows that banks would be able to withstand a 10 per cent increase in NPL of total household credit as at end-March 2013 with a reduction in the capital adequacy ratio (CAR) from 17.0 per cent to 16.5 per cent.

3.3.3 Corporate Sector Credit

Credit to the corporate sector expanded by 11.2 per cent as at end-March 2013 compared to growth of 8.5 per cent in the corresponding period of 2012, but fell from 72.3 per cent to 71.1 per cent as a percentage of total private sector credit.

Credit remained concentrated in five main sectors of the economy, which accounted for around 80 per cent of total corporate credit. The largest share of corporate credit was extended to the '*tourism*' sector, which made up 24.5 per cent of total corporate credit outstanding. Credit extended to '*traders*', '*construction (excluding housing loans)*' and '*financial and business services*' represented 16.4 per cent, 15.0 per cent and 14.6 per cent, respectively, of total corporate credit (Chart 3.12).

Chart 3.11: Household Credit

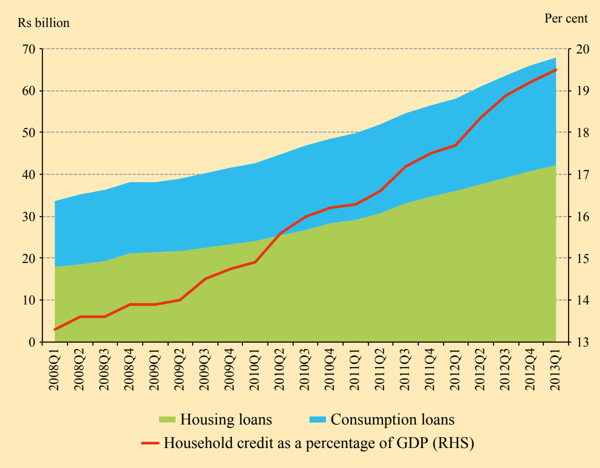


Chart 3.10: NPL and Coverage Ratio

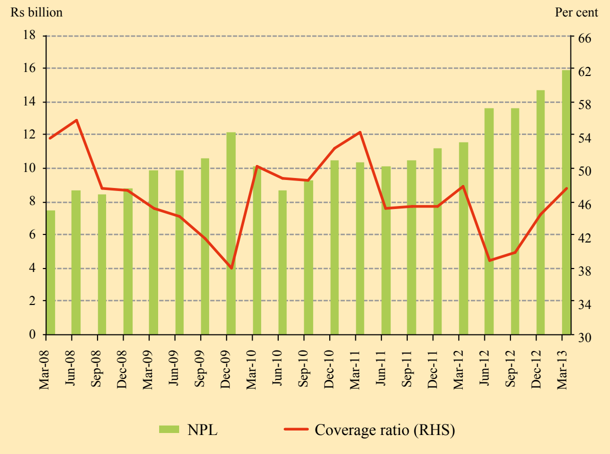
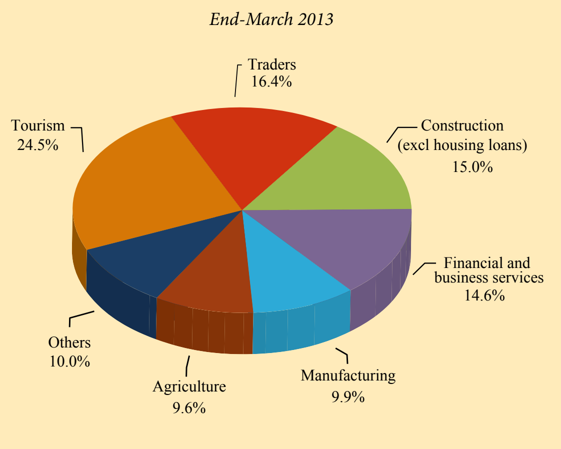


Chart 3.12: Sectorwise Distribution of Credit to Corporates



The share of credit to the *'manufacturing'* sector fell steadily over the past years and represented less than 10 per cent of total corporate credit as at end-March 2013.

Growth in credit extended to the *'tourism'* sector picked up to 6.7 per cent as at end-March 2013 compared to 4.7 per cent in the corresponding period of 2012. Similarly, growth in credit to the *'financial and business services'* and *'traders'* sectors also increased to 9.7 per cent and 14.9 per cent, respectively, compared to 2.2 per cent and 7.5 per cent. In contrast, *'manufacturing'* sector credit contracted by 0.8 per cent as against growth of 6.4 per cent a year earlier (Chart 3.13).

The rapid increase in credit to *'construction (excluding housing loans)'* was sustained during the period under review and, although a drop in the pace of y-o-y growth to 21.0 per cent was noted in 2013Q1, it still remained above that of other key economic sectors. The growth in credit was largely driven by advances to commercial and residential property development segments. Credit extended to commercial property development, which accounted for the largest share of the property development segment, grew by 20.5 per cent, y-o-y, as at end-March 2013 compared to growth of 63.3 per cent recorded a year earlier. Credit extended for residential property development also maintained a downward trend, albeit at a slower pace than in the commercial segment. As at end-March 2013, growth of 15.3 per cent was recorded as against a contraction of 8.0 per cent a year earlier (Chart 3.14).

Some corporates in Mauritius, especially in the export-oriented sectors that derive a major share of their revenues in foreign currencies, also borrow in foreign currencies to finance their operations. As at end-March 2013, credit extended in foreign currency constituted around 20 per cent of total corporate credit. Sectors that held an important share of outstanding foreign currency loans were: *'transport'* (40.5 per cent), *'tourism'* (35.6 per cent) and *'manufacturing'* (21.5 per cent). Risks from foreign currency borrowing are considered to be rather contained given that foreign currency loans are generally matched with foreign sources of income.

Some sectors witnessed a deterioration in asset quality (Charts 3.15 and 3.16). The *'construction'* sector recorded the largest increase in NPL over the year to end-March 2013, with its NPL ratio rising from 5.4 per cent to 7.9 per cent. The level of NPL in this sector requires close monitoring as the credit off-take, amid lacklustre construction activity, may create financial stability

Chart 3.13: Evolution of Credit to Corporates

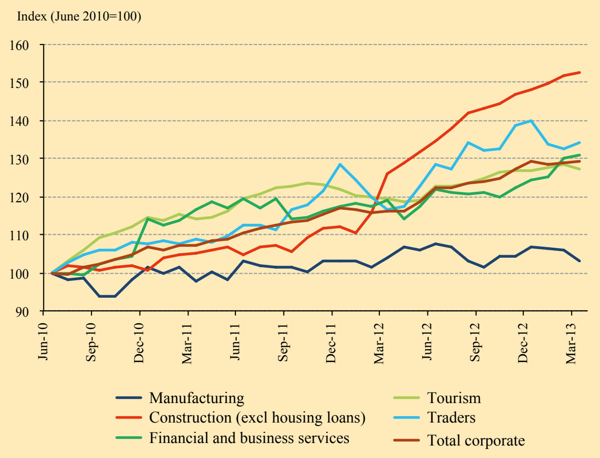


Chart 3.14: Y-o-y Growth of Credit to the Construction Sector

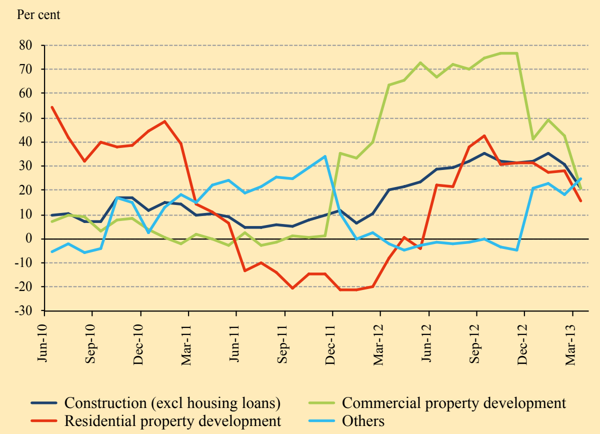
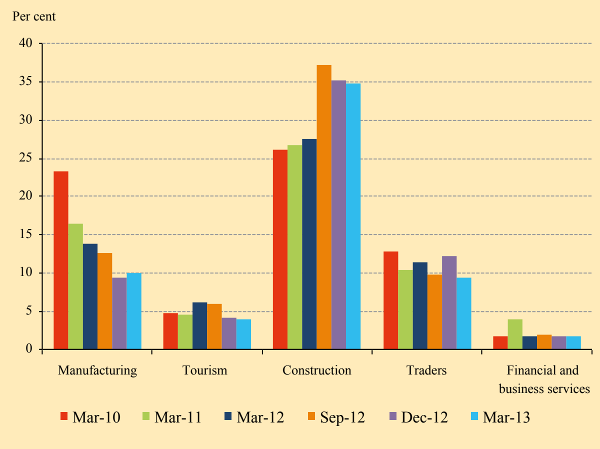


Chart 3.15: Sectoral NPL to Total NPL



concerns. Although the NPL ratio was rather unchanged at 8.7 per cent in the *'manufacturing'* sector, it increased from 5.5 per cent to 6.8 per cent in the *'export-oriented enterprises'* sub-sector. In the '*tourism*' sector, the NPL ratio remained below 2 per cent. The Bank is closely monitoring the evolution of corporate balance sheets with rising private sector debt with a view to better assess any potential impact on financial stability should some large players face increased difficulties in terms of their debt repayment capacity.

3.3.4 Concentration of Credit

Large credit exposures refer to total exposures to a customer or a group of closely-related customers that are above 15 per cent of the capital base of a bank. The overall credit concentration in the banking sector - measured by the ratio of aggregate large exposures to the capital base of all banks - dropped from 232.0 per cent as at end-March 2012 to 182.3 per cent as at end-March 2013, indicating that banks are presently operating well below the prudential limits imposed on aggregate large credit exposures (Table 3.2).

As at end-March 2013, large exposures represented 25 per cent of total private sector credit, and a granular analysis indicates that credit exposure to the ten largest borrowers increased from 36 per cent to 39 per cent (Table 3.3). The relative increase in credit exposure to the ten largest borrowers warrants close monitoring of the evolution of credit extended to these conglomerates as the latter may be engaged in inter-related economic activities.

3.3.5 Cross-Border Activities of Banks

The banking sector derives a major proportion of its foreign currency funds from abroad in the form of deposits and borrowings that are used to finance global business activities. Credit risks linked with cross-border activities of banks may be gauged by the amount of credit granted outside Mauritius, the geographical region where the borrowers reside and the expected level of impairment arising from these exposures. As at end-March 2013, cross-border sources of funds grew by 18.9 per cent to constitute 28.2 per cent of total banking sector liabilities whereas cross-border uses of funds expanded by 2.2 per cent and represented 55.7 per cent of total banking assets.

Chart 3.16: NPL as a percentage of Sectoral Credit

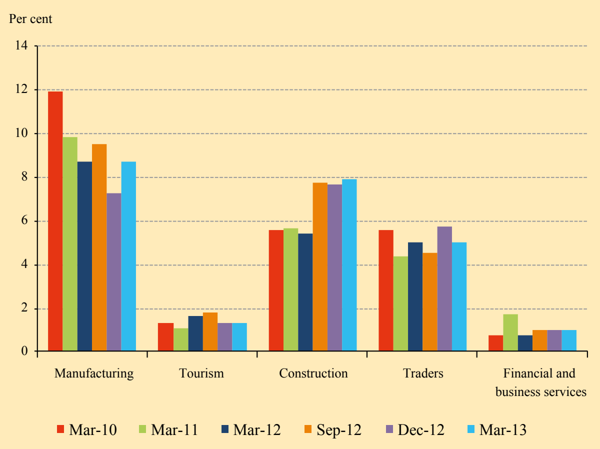


Table 3.2: Credit Concentration Risk

	Aggregate large exposures to capital base (Per cent)	Aggregate large exposures to total credit (Per cent)
Mar-09	211	26
Mar-10	209	26
Mar-11	200	23
Mar-12	232	29
Jun-12	233	29
Sep-12	229	30
Dec-12	200	26
Mar-13	182	25

Table 3.3: Exposure of Banks to Ten Largest Borrowers

	Ten largest borrowers (Rs million)	Ten largest borrowers to total large exposures (Per cent)	Ten largest borrowers to total capital base (Per cent)
Mar-12	65,248	36	83
Sep-12	78,680	37	92
Dec-12	77,417	39	85
Mar-13	69,679	39	73

Among the sources of cross-border funds, deposits registered a robust growth rate of 41.9 per cent as at end-March 2013 compared to 10.2 per cent as at end-March 2012 while borrowings from abroad grew by 1.0 per cent, significantly down from growth of 29.5 per cent recorded a year earlier. Europe continued to be the most important source of cross-border deposits and borrowings although funds mobilised from Asia and America have increased. In contrast, the relative importance of Africa has somewhat diminished (Chart 3.17).

As at end-March 2013, loans, placements with banks abroad and investments represented 49.9 per cent, 37.4 per cent and 11.6 per cent, respectively, of the uses of cross-border funds. Banks were exposed to the tune of Rs272 billion to borrowers outside Mauritius. Loans were mainly extended to Asia, in particular India, which has a Double Taxation Avoidance Agreement with Mauritius. With regard to placements with banks abroad, Europe and America together accounted for 70.2 per cent of the total. The share of placements in the African continent increased substantially to 15.9 per cent (Chart 3.18).

Impairment in Cross-Border Loans

Risks to the domestic banking sector soundness arising from cross-border loans are considered to be contained given that the level of impairment across regions is relatively low. Excluding GBLH, the ratio of impaired loans to total cross-border loans was 0.6 per cent in Asia, 0.7 per cent in Europe and 1.6 per cent in Africa as at end-March 2013.

Chart 3.17: Cross-Border Deposits and Borrowings

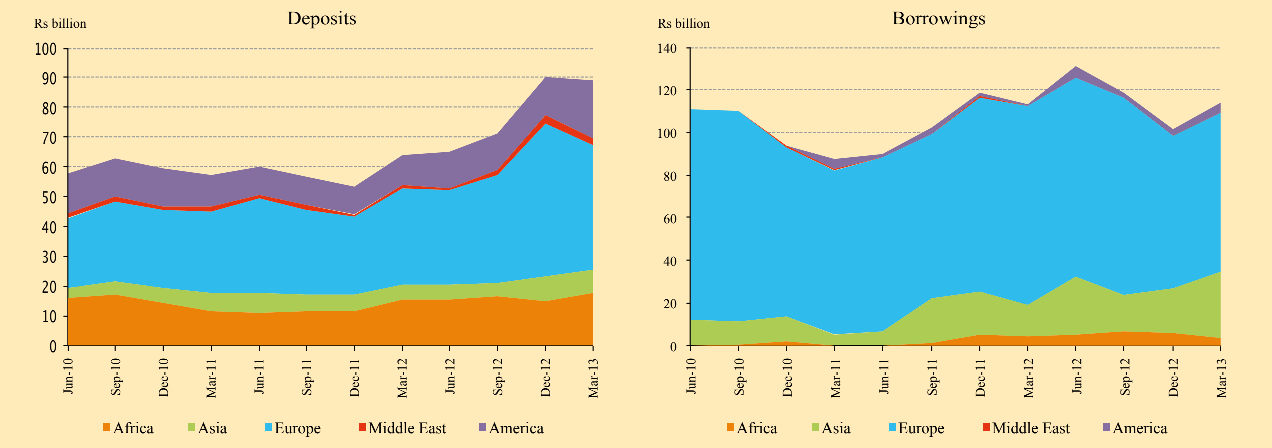
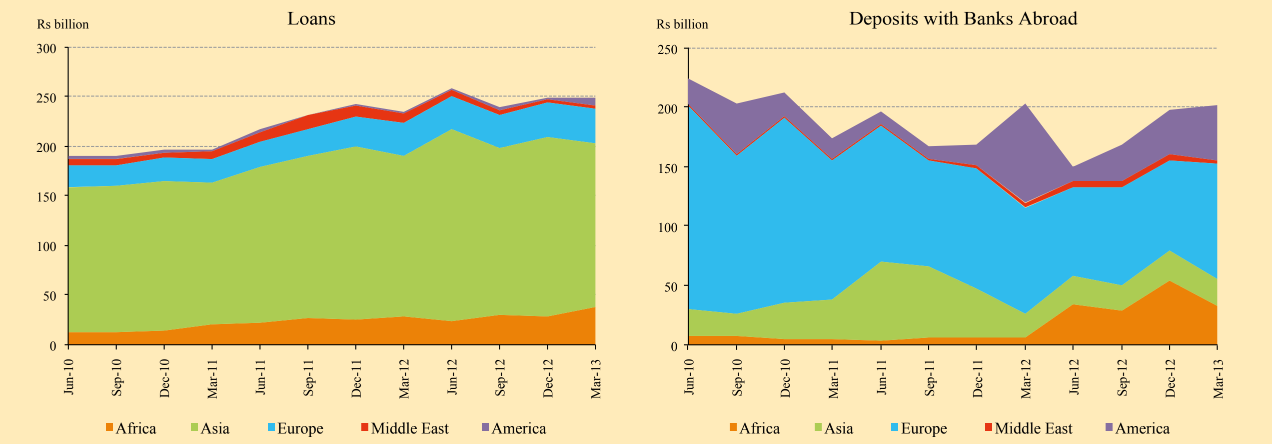


Chart 3.18: Cross-Border Loans and Deposits with Banks Abroad



3.4 Banking Sector

3.4.1 Balance Sheet Structure and Risk Profile

Though banks in Mauritius faced a difficult economic environment, activity in the sector continued to expand, albeit at a slower rate. Aggregate banking sector assets grew by 7.1 per cent as at end-March 2013 compared to a growth of 10.8 per cent a year earlier. The decline in growth was largely driven by a sharp deceleration in Segment B[2] assets, which more than offset growth in Segment A assets. Segment A and Segment B assets grew by 13.1 per cent and 3.5 per cent, respectively, compared to growth of 7.0 per cent and 13.2 per cent recorded over the year to end-March 2012 and constituted 60.1 per cent and 39.9 per cent, respectively, of total assets (Chart 3.19).

As a percentage of nominal GDP at market prices, total banking sector assets increased to 291.1 per cent as at end-March 2013, from 276.2 per cent a year earlier. Both Segment A and Segment B assets rose as a percentage to GDP over the year.

Segment A assets were mostly made up of advances (64.8 per cent) while Segment B assets were mainly constituted of advances (59.9 per cent) and balances with banks (34.8 per cent) (Chart 3.20).

Asset Diversification

The asset diversification matrix for the banking sector over the year to end-March 2013 showed that banks have maintained a major proportion of their assets in the 100 per cent and zero per cent risk-weight buckets while they increased the share

Chart 3.19: Banking Sector Assets

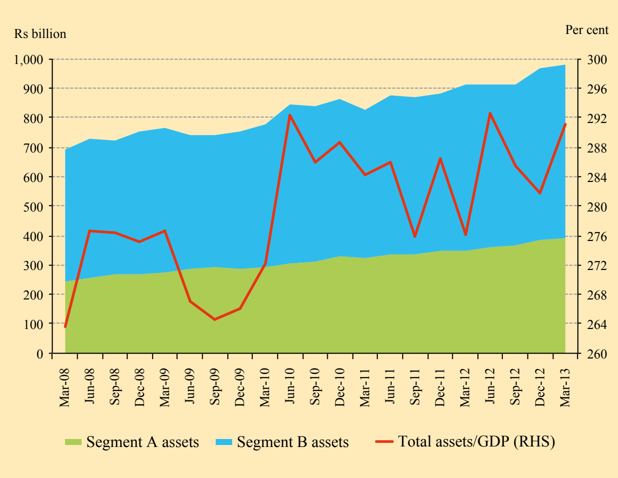


Chart 3.21: Asset Diversification Matrix

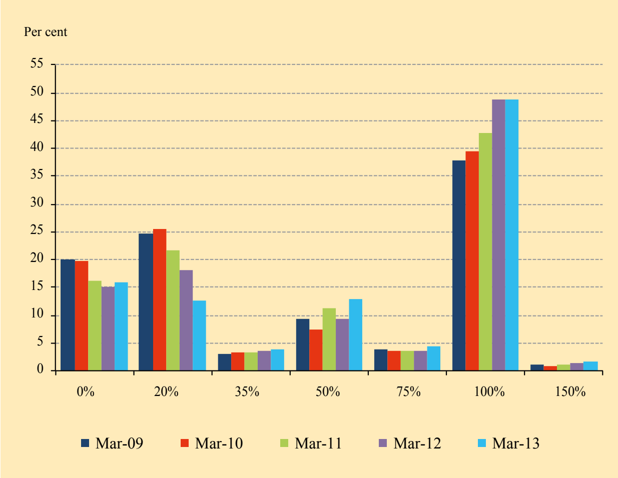
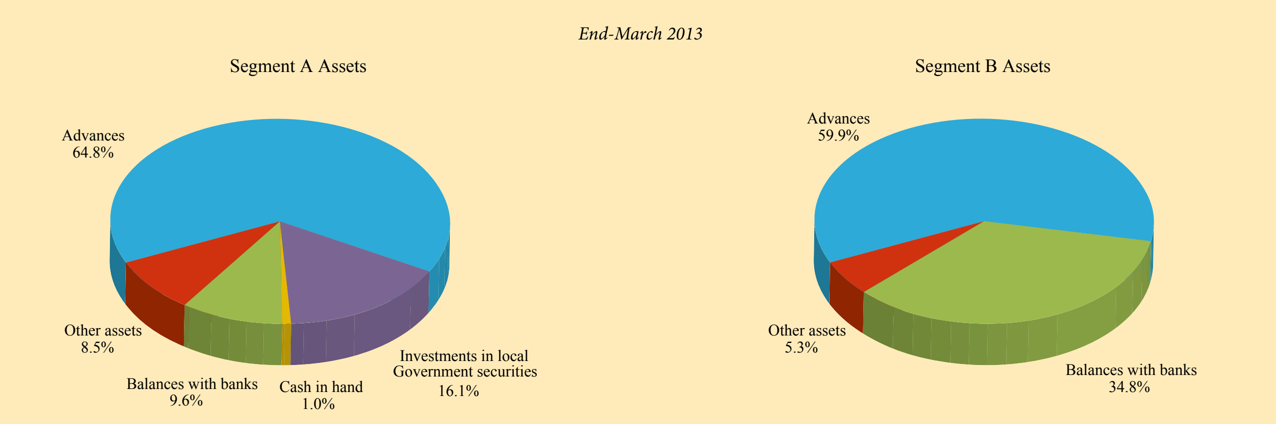


Chart 3.20: Components of Banks' Total Assets



[2] *Segment B activity relates to provision of international financial services that give rise to foreign source income. Segment A activity refers to all banking activities other than Segment B activities.*

of assets held in the 50 per cent risk-weight category. Overall, 77.7 per cent of total assets were held in these three risk-weight buckets. In recent years, the share of assets held in the 20 per cent risk-weight category has fallen markedly to stand at 12.5 per cent as at end-March 2013 (Chart 3.21).

3.4.2 CAMEL Rating

The latest CAMEL rating of banks as at end-December 2012, published in June 2013, indicated an overall improvement. The composite ratings of five banks were upgraded compared to end-June 2012 while one bank was downgraded. The remaining fourteen banks maintained the same ratings (Table 3.4). As such, fifteen banks were assigned a 'satisfactory' rating and five banks were classified in the 'fair' category. Based on the CAMEL ratings, the banking sector is considered to have maintained its stability and soundness as at end-December 2012.

3.4.3 Market Concentration

Over the past five years, the Herfindahl-Hirschman Index (HHI)[3] for total deposits and total assets has continued to trend downward, reaching 1,150 and 1,068, respectively, as at end-March 2013 and indicated an improvement in market concentration within the moderate band (Chart 3.22). This improvement has been reflected in banks' extension of credit to the private sector. A comparison of private sector credit distribution using a Lorenz curve, which plots the distribution of private sector credit against the total number of banks, shows that 77.8 per cent of total private sector credit was extended by four banks as at end-March 2013 compared to 87.1 per cent five years ago (Chart 3.23). Smaller banks are increasingly extending credit to the private sector and, with new entrants, competition in the banking sector is expected to improve further.

Table 3.4: CAMEL Rating

Bank	Jun-12	Dec-12	Change
ABC Banking Corporation Ltd	3+	3+	↔
AfrAsia Bank Limited	2-	2+	↑
Bank of Baroda	2+	2+	↔
Bank One Limited	2-	2-	↔
Banque des Mascareignes Ltée	3-	3+	↑
Barclays Bank PLC	2-	2-	↔
Bramer Banking Corporation Ltd	3+	3+	↔
Century Banking Corporation Ltd	2-	3+	↓
Deutsche Bank (Mauritius) Limited	2+	2+	↔
Habib Bank Limited	2-	2+	↑
HSBC Bank (Mauritius) Limited	2+	2+	↔
Investec Bank (Mauritius) Limited	2+	2+	↔
Mauritius Post and Cooperative Bank Ltd	3+	3+	↔
P.T Bank Internasional Indonesia	2-	2+	↑
SBI (Mauritius) Ltd	3+	2-	↑
Standard Bank (Mauritius) Limited	2-	2-	↔
Standard Chartered Bank (Mauritius) Limited	2-	2-	↔
State Bank of Mauritius Ltd	2+	2+	↔
The Hongkong and Shanghai Banking Corporation Limited	2+	2+	↔
The Mauritius Commercial Bank Limited	2-	2-	↔

[3] *The HHI is a measure of market concentration and indicates the level of competition among firms within an industry. An HHI lying in the range of 0-1,000 generally shows low market concentration, while an HHI above 1,800 is associated with high concentration.*

3.4.4 Regulatory Capital

The level of capitalisation of banks in Mauritius remained comfortably above the current regulatory minimum of 10 per cent, standing at 17.0 per cent of risk-weighted assets as at end-March 2013 compared to 16.0 per cent a year earlier. A few banks withstood some losses on their credit exposures to corporates outside Mauritius during the period under review, helped by their relatively sound capital position.

Over the year to end-March 2013, risk-weighted assets increased by 14.3 per cent to Rs559.4 billion, driven mainly by balance sheet expansion. The regulatory capital of banks concurrently rose by 21.4 per cent to Rs95.0 billion through retention of earnings and new capital injection in a few banks (Table 3.5).

The aggregate Tier 1 capital ratio rose to 15.5 per cent as at end-March 2013, from 14.4 per cent as at end-March 2012. Tier 1 capital remains the main component of banks' capital and comprises mainly common equity, which has the highest loss-absorbing capacity.

Moreover, as an indication of the relative strength of individual banks' capital position, the dispersion of total assets by Tier 1 capital shows that, in aggregate, 70.0 per cent of total assets of the banking sector were held by banks having Tier 1 capital ratios of more than 10.0 per cent as at end-March 2013 (Chart 3.24).

Chart 3.23: Distribution of Private Sector Credit

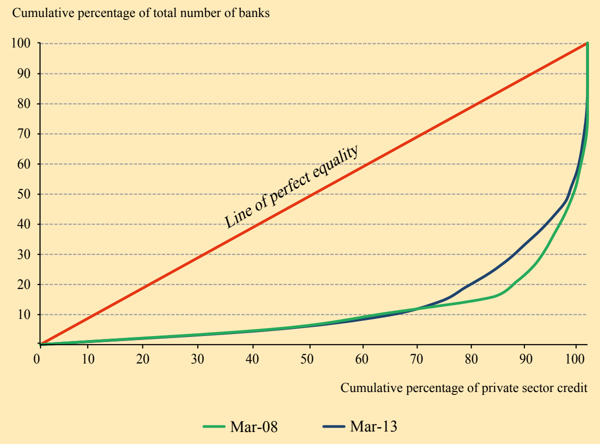


Chart 3.22: Herfindahl-Hirschman Index

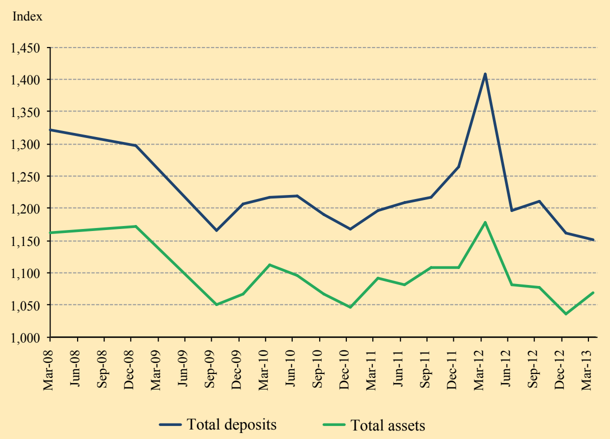


Chart 3.24: Dispersion of Total Assets by Tier 1 Capital

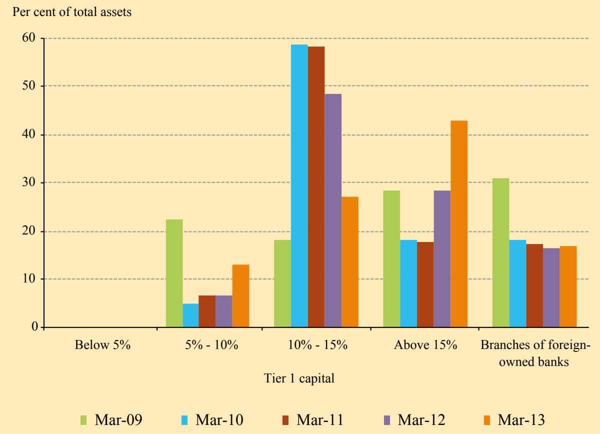


Table 3.5: Components of Capital Base and Risk-Weighted Assets

	Mar-09	Mar-10	Mar-11	Mar-12	Mar-13
Total capital (Rs billion)	59.7	62.1	72.5	78.3	95.0
Tier 1 capital (Rs billion)	52.1	53.8	63.1	70.7	86.6
Tier 2 capital (Rs billion)	7.5	8.3	9.4	7.6	8.4
Risk-weighted assets (Rs billion)	350.1	372.3	420.0	489.4	559.4
Tier 1 capital ratio (Per cent)	14.9	16.7	15.0	14.4	15.5
Capital adequacy ratio (Per cent)	17.0	14.5	17.2	16.0	17.0

Note: Figures may not add up to total due to rounding.

Progress in the implementation of Basel III is on-going. Following the issue of a *Consultative Paper on the Implementation of Basel III in Mauritius* in October 2012, a draft *Guideline on the Scope of Application of Basel III and Eligible Capital* has been issued in May 2013 for further consultation with the industry.

Box III: Regulatory Initiatives

While focusing on strengthening capital requirements at the consolidated level, the post-crisis international reform proposals aim at reducing the complexity of structures to enable the efficient resolution of financial institutions without having recourse to taxpayers' money. In this connection, the Bank has examined the corporate structure of banking groups in Mauritius, particularly with regard to concerns arising from contagion risks.

Some banks operating in Mauritius are organised under the Bank-Subsidiary model whereby they act as parent of all subsidiaries of the group. Considering the key risks posed by such a model, banks concerned have been directed to simplify their structures and separate banking from non-banking activities. This measure seeks to limit the risks of contagion to the banks, enhance market discipline and transparency and ensure that bank management focuses its attention on the core business of banking. It is expected that such a measure will benefit depositors and shareholders, and strengthen the financial system as a whole by minimising potential vulnerabilities from contagion; it is an essential part of the Bank's on-going reform initiative to strengthen the domestic banking sector. The re-organisation of the structure of the two largest banking groups in Mauritius is progressing satisfactorily.

In addition to the above, the Bank has examined the branch-form presence of foreign banks compared to locally-incorporated subsidiaries of foreign banks. On balance, it was viewed that the subsidiary model has explicit advantages over the branch model. In this perspective, the Banking Act 2004 was amended in April 2013, with the introduction of a new section (32A). This section, *inter-alia*, enables a bank to restructure its business with the approval of the Bank, and is in line with the Bank's objective to protect affiliates of cross-border banks operating in the Mauritian jurisdiction from any potential problem affecting their parents in their home country and thereby reducing financial stability risks. Further to this amendment to the law, one branch of a foreign bank (Barclays Bank PLC, Mauritius Branch) transferred the whole of its undertaking to a locally-incorporated bank (Barclays Bank Mauritius Limited).

Leverage

Leverage, a measure of resilience that does not use weights to determine risks, remained almost unchanged over the past years as most banks have maintained a reasonable balance between the size of their balance sheets and their equivalent in terms of total risk-weighted assets. The leverage ratio of the banking sector (excluding branches of foreign-owned banks operating in Mauritius) increased marginally by 76 basis points over the past twelve months to 5.7 per cent as at end-March 2013 (Chart 3.25).

3.4.5 Financial Performance

The banking sector remained profitable despite a decline in the level of pre-tax profits - measured as the sum of pre-tax profits for the preceding four quarters - from Rs16.9 billion as at end-March 2012 to Rs14.3 as at end-March 2013. The reduction in profits was mainly due to a fall in the profitability of a few foreign-owned banks conducting mainly global business activities. Movements in the level of pre-tax profits were uneven across the banking sector as some domestic-owned banks recorded improved profitability.

Components of Revenue and Expense

Net interest income, which remains the major source of banks' income, rose by Rs3.2 billion during the year ended March 2013 to Rs21.1 billion (Chart 3.26). As a percentage of total assets, net interest income increased slightly to 1.7 per cent as at end-March 2013, from 1.6 per cent as at end-March 2012. The rise in net interest income was driven mostly by higher interest earnings on domestic banking activities relative to cross-border activities of banks.

Net fees and commission income have been steady over the years. As at end-March 2013, net fees and commission income increased by 3.7 per cent to Rs5.3 billion and represented 0.4 per cent of total assets.

Net trading income dropped by 79.0 per cent to Rs1.0 billion. The fall in the fair value of some assets, which were marked-to-market, contributed towards the decline in net trading income. The latter represented 0.1 per cent of total banking sector assets as at end-March 2013 compared to 0.4 per cent as at end-March 2012.

Other income increased by Rs0.3 billion over the period under review to Rs2.8 billion, mainly on account of higher dividend income. It rose to 0.3 per cent of banks' total assets as at end-March 2013.

With regard to expense, impairment charges increased by Rs1.8 billion during the year ended March 2013 due to a rise in bad and doubtful debt. This increase concerned only a few banks and did not have any system-wide implication given that credit losses were related to a few corporates overseas. Adequate provisions have been made by banks to contain the losses. Net impairment charges represented 0.3 per cent of total assets as at end-March 2013.

Non-interest expense of banks, which represented 1.3 per cent of the total assets as at end-March 2013, rose by Rs1.1 billion to Rs12.5 billion on account of higher personal expenses and depreciation of fixed assets.

Return on Assets and Return on Equity

The annualised return on assets (ROA) for the banking sector, as measured by the ratio of pre-tax profit to average assets, decreased to 1.2 per cent as at end-March 2013, from 1.5 per cent as at end-March 2012 (Chart 3.26). During this period, the performance of domestic-owned banks, which derive a larger proportion of their revenue from activities conducted locally, was steady while the performance of foreign-owned banks worsened.

The decline in the profitability of banks has contributed to a fall in the level of pre-tax return on equity (ROE), as measured by the ratio of pre-tax profit to average equity, from 20.3 per cent as at end-March 2012 to 15.3 per cent as at end-March 2013. The reduction in the ROE was, however, not generalised across the banking sector as some banks achieved a higher ROE. As at end-March 2013, 44.5 per cent of total assets of the banking sector (excluding branches of foreign-owned banks) have contributed to generate a ROE of more than 20 per cent (Chart 3.27).

Chart 3.25: Leverage Ratio

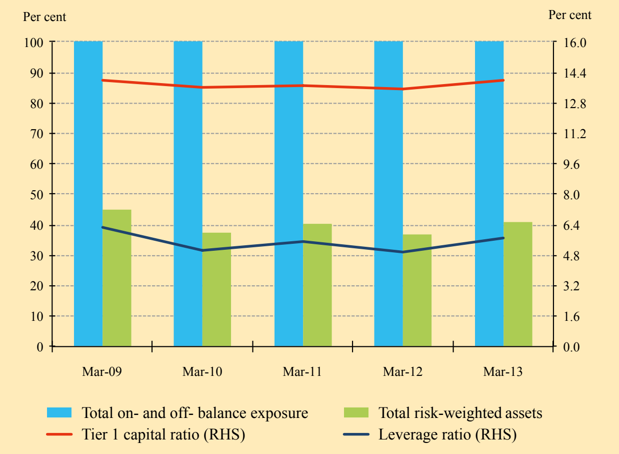
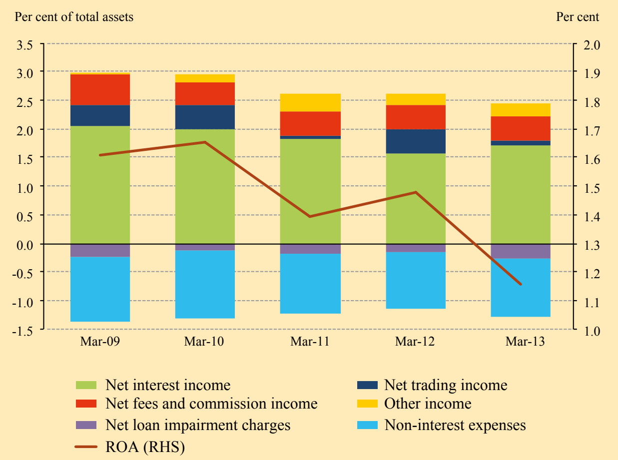


Chart 3.26: Components of Revenue and Expense



3.4.6 Funding and Liquidity Risks

Conditions in the wholesale funding market have improved internationally as market sentiment recovered. In Mauritius, banks have operated in a favourable and stable funding environment for most of the past years. Funding and liquidity risks remain relatively low as both domestic-owned and foreign-owned banks have maintained access to their main sources of funding, both locally and abroad.

Domestic-owned banks continued to source most of their funding from customer deposits, which are generally considered as a stable source of funding. Deposits from resident and non-resident customers accounted for 75.8 per cent of banks' total liabilities as at end-March 2013. Because of the prolonged period of low interest rates in major international markets, domestic-owned banks may find it more attractive to finance their global business operations from wholesale funding derived from abroad. Borrowing from banks, mainly from banks abroad, increased by 230 basis points to 5.0 per cent of total liabilities. Other sources of funding as a percentage of domestic-owned banks' total liabilities were: shareholders' fund (11.8 per cent), deposits from banks in and outside Mauritius (1.2 per cent), subordinated debt (0.6 per cent), interbank loan (0.3 per cent) and others (5.4 per cent) (Chart 3.28).

The principal source of funding of foreign-owned banks (including subsidiaries and branches of foreign-owned banks) operating in Mauritius remained the deposits from resident and non-resident customers that represent around two thirds of their funding. Foreign-owned banks continued to finance a large proportion of their global business operations from wholesale borrowings from parent banks and related entities. As at end-March 2013, borrowings from banks on the part of foreign-owned banks declined by 120 basis points to 17.2 per cent of total liabilities. Other funding sources as a percentage of total liabilities were: shareholders' fund (9.7 per cent), interbank loan (1.1 per cent), subordinated debt (0.7 per cent) and others (5.0 per cent) (Chart 3.29).

Growth in private sector credit in Mauritius has continued to outpace growth in resident customer deposits for the past years. The difference between deposits from resident customers and private sector credit - a measure of the funding gap that needs to be filled in from wholesale funding and other sources - shows that surplus fund in the domestic banking

Chart 3.27: Dispersion of ROE by Total Assets

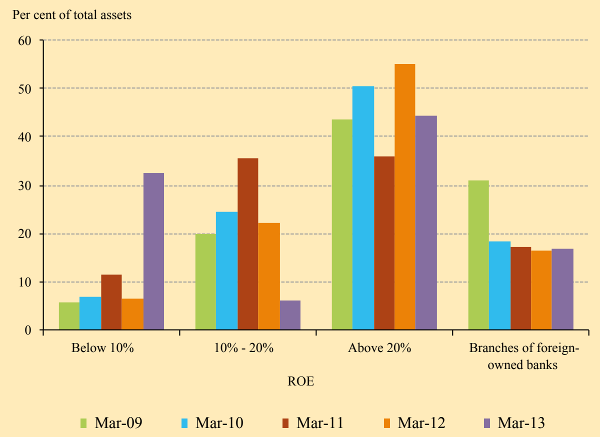


Chart 3.28: Components of Liabilities of Domestic-Owned Banks

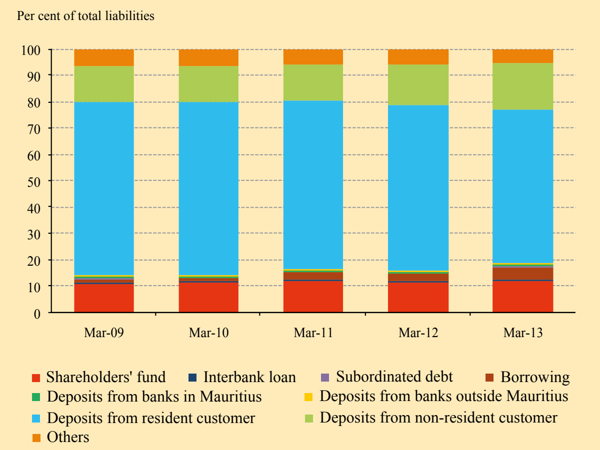
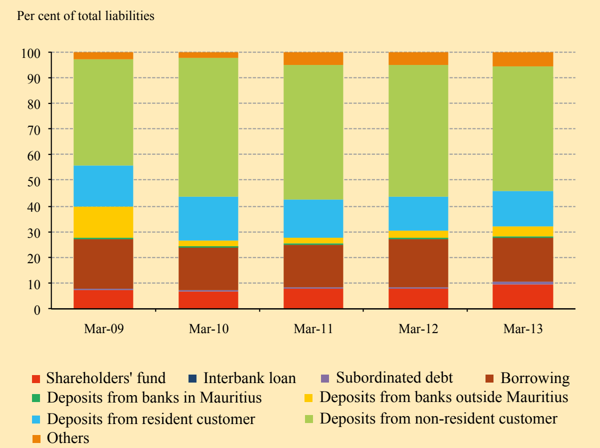


Chart 3.29: Components of Liabilities of Foreign-Owned Banks



sector as a percentage of total liabilities has declined by 310 basis points over the past four years, from 8.5 per cent as at end-March 2009 to 5.4 per cent as at end-March 2013 (Chart 3.30). While the funding gap does not create immediate concerns for financial stability, its decreasing trend indicates that it may represent a potential area of risk over the longer term.

Banks engaged in cross-border activities manage their funding and liquidity risks across currencies cautiously by matching, to a large extent, most of their liabilities with assets in the same currency and maturity range. Banking regulation does not permit individual banks to run an overall net foreign exposure position of more than 15 per cent of Tier 1 Capital with a limit of 10 per cent for each currency. As at end-March 2013, foreign currency deposits, which represented 42.8 per cent of total liabilities of the banking sector, rose by 2.0 per cent to Rs419.0 billion.

As at end-March 2013, demand and savings deposits accounted for 61.4 per cent of total deposits while time deposits, which represent a more permanent source of funding, accounted for the remaining 38.6 per cent of total deposits. The maturity pattern of time deposits has remained stable, with customers having a broad preference for shorter maturities, typically six months or less (Chart 3.31).

Since demand and savings deposits have no contractual maturity and customers may withdraw funds on request, there is a risk that a significant portion of such deposits is withdrawn within a short period of time in response to any adverse development affecting banks. Hence, in order to meet their obligations, banks in Mauritius hold a reasonable proportion of liquid assets to manage liquidity risk. As at end-March 2013, the ratio of liquid assets to total deposits stood at 31.0 per cent, down by 1.0 percentage point compared to end-March 2012. The three main components of liquid assets as at end-March 2013 consisted of deposits with banks abroad (70.4 per cent), Government securities (17.7 per cent) and balances with the Bank of Mauritius (7.8 per cent).

A reverse stress test conducted on data as at end-March 2013 indicated that most banks would, on average, be able to sustain a drawdown in demand and savings deposits of more than 15 per cent without having recourse to liquidity-injecting operations by the Bank of Mauritius. Moreover, system-wide risk arising from interbank contagion would be limited by the relatively

Chart 3.31: Components of Total Deposits

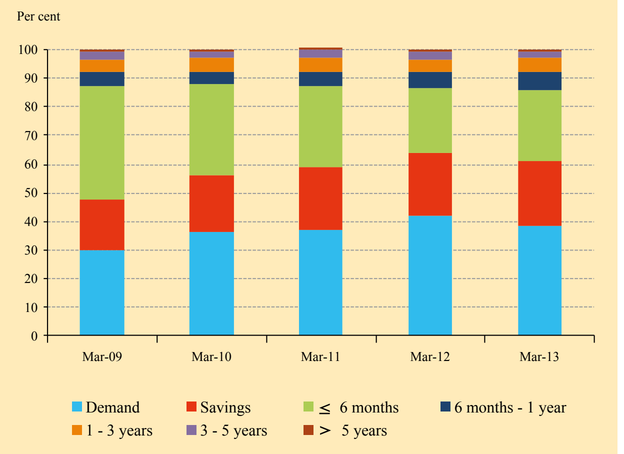
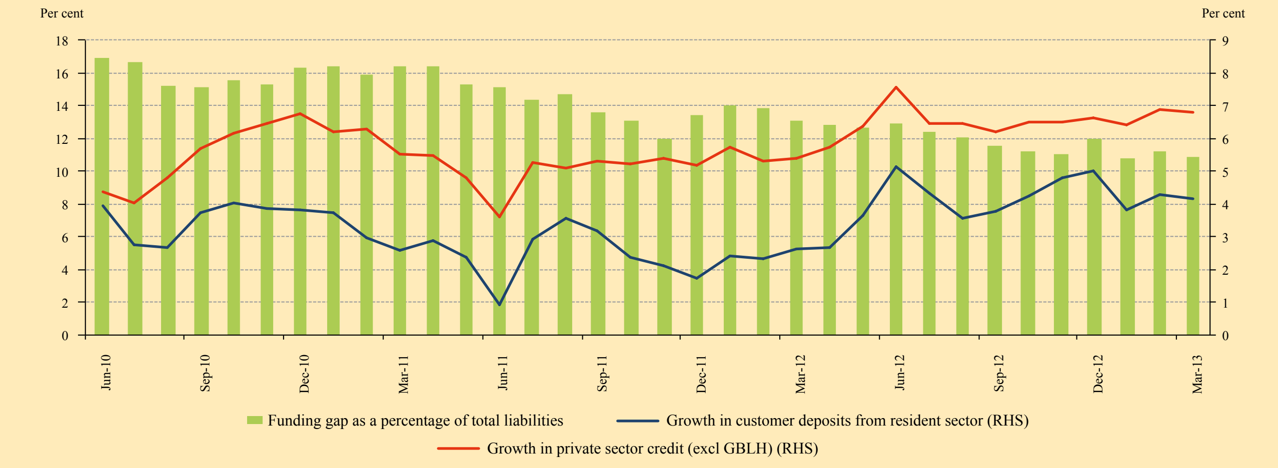


Chart 3.30: Y-o-y Growth in Private Sector Credit and Deposits from Customers



small amount of interbank loans. Overall, with adequate levels of capital and a strong liquidity and funding position, the banking system is expected to be able to cope with periods of market stress.

Stress Testing

As at end-March 2013, the distribution of credit exposure in key sectors was generally concentrated among banks with CAR of above 12 per cent (Chart 3.32). A stress test was conducted to assess the ability of banks in absorbing possible shocks on their credit portfolio in the event of a general weakening in economic activity causing 10 per cent of the loan portfolio in key sectors and 5 per cent of the loan portfolio in the remaining sectors to become impaired as at end-March 2013.

The size of the impact of the shock varied among banks, depending on the composition and quality of their portfolio and the amount of capital they hold to withstand the shock. Results concluded that banks (excluding branches of foreign-owned banks) would generally be resilient to the adverse shock affecting key sectors, with banks' CAR dropping from 15.5 per cent to 12.7 per cent as at end-March 2013 (Chart 3.33). Overall, the banking sector is assessed to withstand the impact of the specified shock.

Stress tests carried out by the IMF during the 2013 Article IV Mission also indicated that the Mauritian banking system is well-capitalised and resilient against credit risk and external shocks.

Chart 3.32: Bankwise Distribution of Credit by CAR

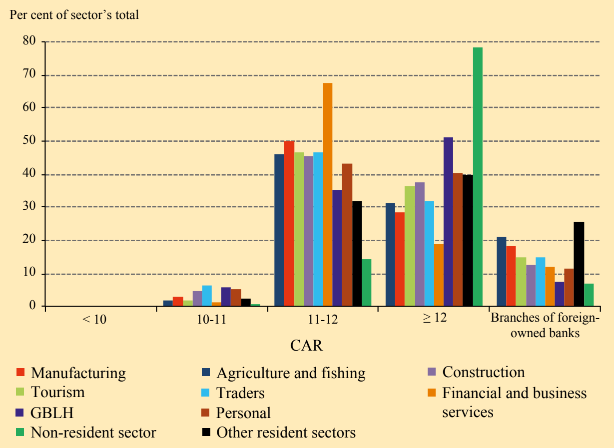
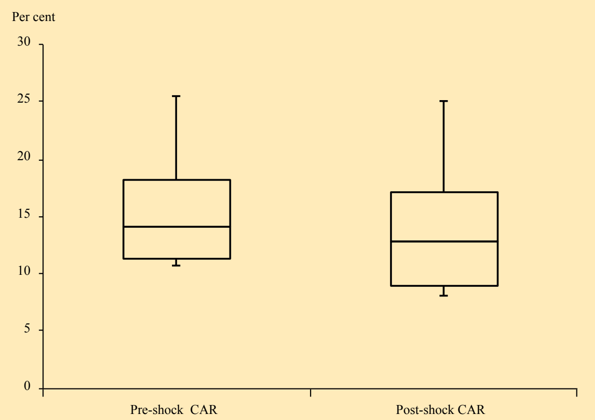


Chart 3.33: Bankwise Distribution of CAR



Box IV: Alleged Financial Scams

In light of the recent financial scams, the Bank conducted several special on-site examinations at banks and is investigating other entities which might be involved. The Bank has requested banks to be more vigilant in applying "Know Your Customer" procedures and conducting due diligence processes. Banks have also been requested to strengthen their compliance function to avoid recurrence of such situations. The need for enhanced on-going monitoring of bank accounts and strengthening of the anti-money laundering monitoring system has also been underscored.

Assistance of the IMF and the Reserve Bank of India has also been sought to enhance the legal framework, including the banking laws, to deal with Ponzi schemes and other financial scams and develop new parameters for generation of alerts on such fraudulent schemes. The Bank is also pursuing its financial literacy programme with the aim of increasing awareness of the public on financial matters.

3.5 Non-Bank Deposit-Taking Sector

The activities of NBDTIs in Mauritius mainly comprise the mobilisation of deposits and extension of leasing and loan facilities. As at end-March 2013, there were eight NBDTIs in operation, representing around 5 per cent of banking sector assets and accounting for around 15 per cent of GDP. Activity in the sector continued to increase during the period under review and was largely supported by growth of total credit.

Balance Sheet Structure

NBDTIs' assets grew by 5.4 per cent as at end-March 2013 compared to 9.4 per cent in the corresponding period of 2012, largely driven by a fall of 13.2 per cent in leasing facilities that was partly offset by a rise of 4.5 per cent in loans. As at end-March 2013, leases and loan facilities accounted for 71.4 per cent of the total assets of NBDTIs. On the liabilities side, deposits, which accounted for 64.1 per cent of the total, registered lower growth of 6.3 per cent as at end-March 2013 compared to an increase of 14.6 per cent recorded a year earlier (Chart 3.34).

Liquidity

NBDTIs have remained relatively liquid during the period under review, with a liquidity ratio above the statutory minimum of 10 per cent. As at end-March 2013, the liquid assets to total assets ratio and the liquid assets to total deposits ratio stood at 14.2 per cent and 22.1 per cent, respectively, and remained almost unchanged compared to the corresponding period of 2012.

Profitability

The NBDT sector proved to be resilient and profitable in 2012, with net profit increasing by 18.4 per cent compared to 20.3 per cent in 2011. Reflecting improvement in financial indicators, NBDTIs' ROA increased to 3.2 per cent in 2012, from 2.7 per cent in 2011, while their ROE improved from 16.0 per cent in 2011 to 17.9 per cent in 2012 (Chart 3.35).

The major sources of NBDTIs' interest income are derived from the extension of loans and leases while interest expense arises mainly on deposits. During the year 2012, interest income contracted by 0.3 per cent as against an expansion of 6.7 per cent in 2011. Interest expense declined by 5.2 per cent in 2012 compared to a contraction of 0.6 per cent in 2011. Consequently, growth of net interest income fell from 19.7 per cent to 7.1 per cent over the same period (Chart 3.36).

Chart 3.34: Y-o-y Growth of Total Assets and Deposits

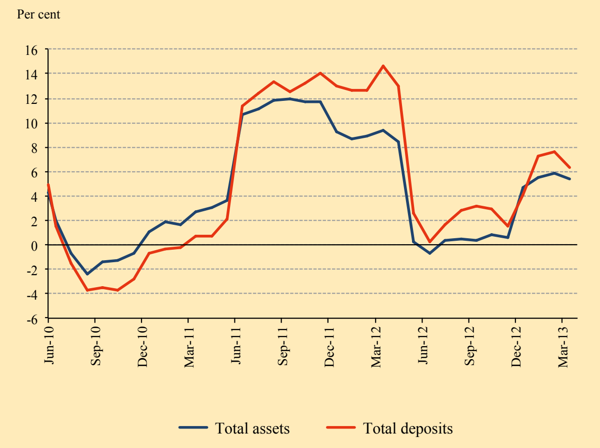


Chart 3.35: ROA and ROE of NBDTIs

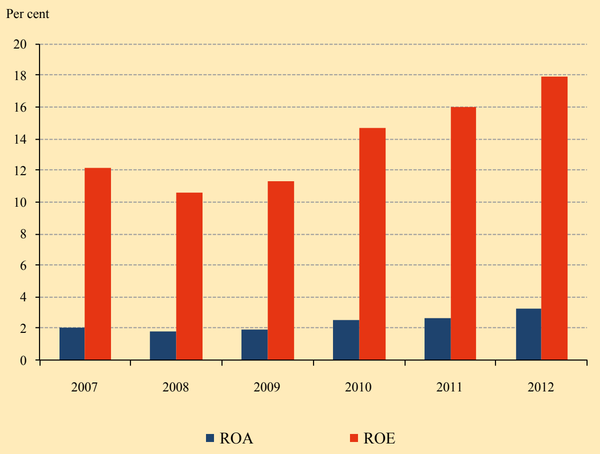
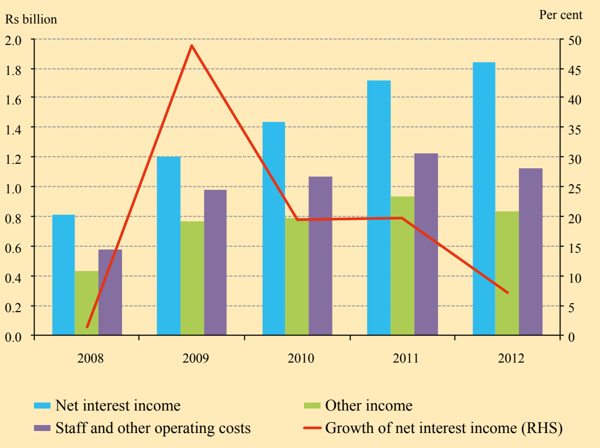


Chart 3.36: Revenue and Expense of NBDTIs



Capital Adequacy

The sector is considered as sound as NBDTIs are well-capitalised, with a CAR of 24.3 per cent as at end-March 2013 compared to 21.8 per cent as at end-March 2012. NBDTIs parked a major portion of their assets in the 50 per cent and 100 per cent risk-weight buckets, which as at end-March 2013 accounted for 43.2 per cent and 23.9 per cent, respectively, of total NBDTIs' assets.

Sectoral Credit

NBDTIs' credit to the private sector represented 13.6 per cent of total private sector credit as at end-March 2013. Credit was channelled mainly to the *'personal'* and *'construction'* sectors, which accounted for 64.8 per cent and 17.7 per cent, respectively, of total NBDTIs' credit. Credit to the *'manufacturing'*, *'tourism'* and *'financial and business services'* sectors collectively accounted for around 6 per cent of total NBDTIs' credit (Chart 3.37).

Growth of credit extended by NBDTIs fell to 7.3 per cent as at end-March 2013, from 10.6 per cent in the corresponding period of 2012. Credit extended to the *'personal'* and *'tourism'* sectors increased over the year to end-March 2013 while credit extended to *'construction'*, *'manufacturing'* and *'financial and business services'* declined over the same period.

Asset quality improved, with the overall ratio of NPL to total NBDTIs' credit standing at 5.5 per cent as at end-March 2013 compared to 7.2 per cent registered in the corresponding period of 2012. Congruent to trends in the banking sector, *'construction'* recorded the highest NPL ratio of 23.9 per cent as at end-March 2013. The *'personal'* sector, to which the largest share of NBDTIs' credit is channelled, recorded NPL ratio of 0.8 per cent. NBDTIs improved their capacity to absorb losses as their coverage ratio increased from 38.5 per cent to 45.7 per cent over the year to end-March 2013 (Chart 3.38).

3.6 Insurance Sector

Insurance penetration[4] in Mauritius was estimated at 6.0 per cent of GDP in 2012. According to latest data available from the FSC, total assets for the life insurance industry increased by 10.0 per cent y-o-y to Rs92.6 billion in 2012. Total net premiums were up by 7.1 per cent to Rs13.5 billion. For the general insurance business sector, total assets and total net premiums increased by 6.4 per cent and 5.7 per cent y-o-y to Rs12.4 billion and Rs3.9 billion, respectively.

The ROA and ROE for the life insurance industry increased noticeably to 92.9 per cent and 9.9 per cent, respectively, in 2012 compared to 54.9 per cent and 5.8 per cent in the previous year (Chart 3.39). The improved performance of the long-term insurance segment was driven by higher returns on securities, an increase in underwriting income and a significant decline in the expense ratio (Chart 3.40).

Chart 3.37: Distribution of Credit to Key Sectors

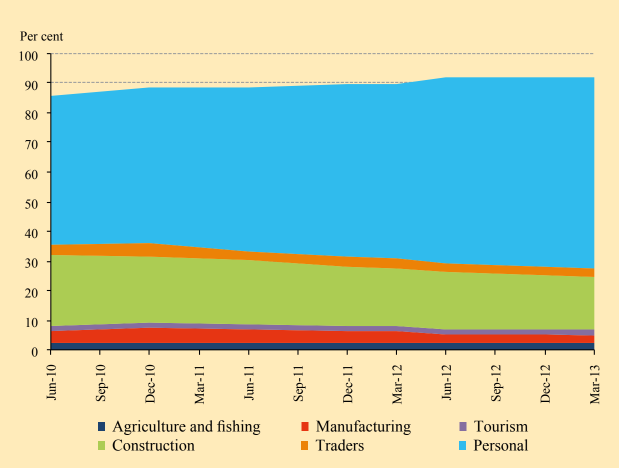
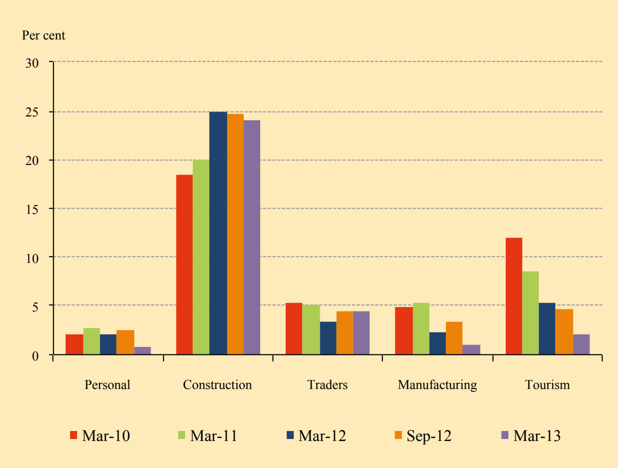


Chart 3.38: NPL as a Ratio of Sectoral Credit



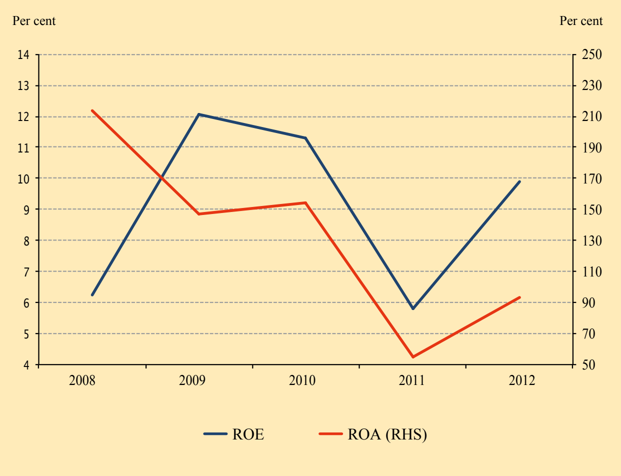
[4] *Penetration is defined as nominal premium volume divided by nominal GDP.*

For the general insurance business sector, the ROA and ROE worked out to 8.4 per cent and 20.1 per cent, respectively, in 2012, down from 10.0 per cent and 22.2 per cent in 2011 (Chart 3.41). Against the backdrop of the prevailing low interest rate environment, investment income dropped substantially for general insurers. It was, however, offset by an increase in underwriting income, resulting in a further improvement in the combined ratio, expressed as a proportion of total revenue over net earned premium, to 84.0 per cent in 2012 compared to 87.2 per cent in 2011 (Chart 3.42). A combined ratio of over 100 per cent indicates that insurers need to increase reliance on investment income to cover underwriting losses.

Latest available data indicate that both the general and long-term insurance industries were solvent in 2012. The average solvency ratio for general insurance improved from 257.9 per cent in 2011 to 318.5 in 2012, and for life insurance, rose from 144.9 to 181.7 over the same period. According to the FSC, the insurance sector as a whole is considered to be well-capitalised and to have adequate buffer to withstand shocks that might affect its soundness. Insurance companies that operate with weak solvency margins are being closely monitored.

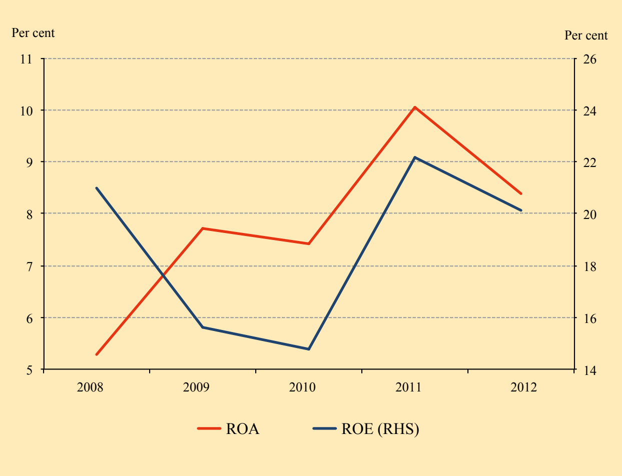
Overall, the insurance sector has performed relatively well in 2012 and has displayed stability and soundness. Following the flash flood of 30 March 2013, most of the big general insurers are expected to recover over 70 per cent of the insured claims from their reinsurers. Hence, claims net of reinsurers are not expected to impact the underwriting profit of the industry in 2013.

Chart 3.39: ROE and ROA for Life Insurance



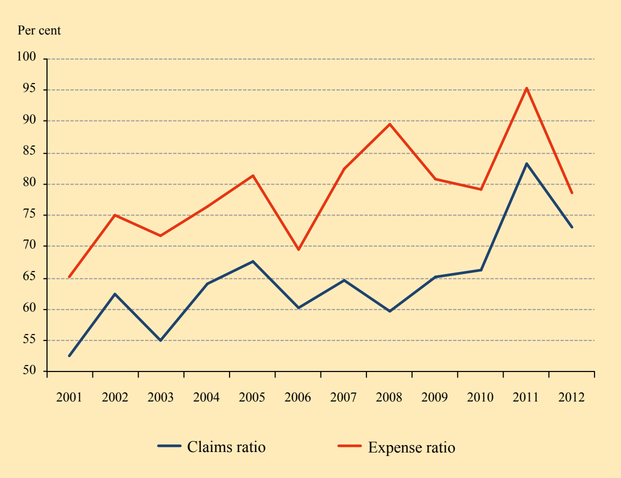
Source: Financial Services Commission.

Chart 3.41: ROE and ROA for General Insurance



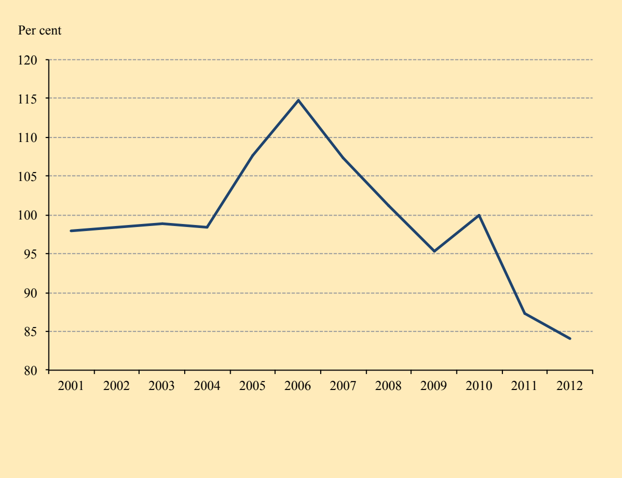
Source: Financial Services Commission.

Chart 3.40: Life Insurance Claims and Expense Ratios



Source: Financial Services Commission.

Chart 3.42: General Insurance Combined Ratio



Source: Financial Services Commission.