5. Non-Bank Financial Intermediaries

5.1 Non-Bank Deposit-Taking Sector

NBDTIs mainly mobilise deposits and grant leasing and loan facilities to individuals and corporates and, as at end-September 2014, there were eight such institutions in operation.[4] The sector has remained stable and sound since the August 2014 FSR and registered steady growth in activities from the previous year. Total assets of NBDTIs represented 5.8 per cent of total banking sector assets as at end-September 2014, slightly up from 5.6 per cent in the corresponding period of 2013.

Balance Sheet Structure

Total assets of NBDTIs went up by 11.7 per cent as at end-September 2014 compared with 13.5 per cent in the corresponding period of 2013, mostly on account of a lower growth in loan facilities than in 2013 (Chart 5.1). The slowdown in the expansion of loan facilities largely reflected a lower rate of growth in credit extended to the personal sector. In contrast, leasing facilities grew by a higher rate of 12.6 per cent compared with 9.2 per cent as at end-September 2013. At 73.6 per cent, loan and leasing facilities represented the most important share of total assets of NBDTIs.

On the liabilities side, deposits made up 60.1 per cent of the total and recorded lower growth of 7.5 per cent as at end-September 2014 compared with 12.0 per cent in the corresponding period in 2013. The slower pace of deposit growth was mainly due to lower source of funds mobilised by three institutions in the sector.

Liquidity

NBDTIs remained relatively liquid during the period under review, with liquidity ratios above the statutory minimum of 10 per cent. The ratio of liquid assets to total assets fell slightly to 12.8 per cent as at end-September 2014, from 12.9 per cent a year ago. However, the liquid assets to total deposits ratio increased to 21.3 per cent, from 20.7 per cent as at end-September 2013, as a result of higher growth in liquid assets relative to the growth in deposits (Chart 5.2).

Chart 5.1: Y-o-y Growth of Total Assets and Deposits

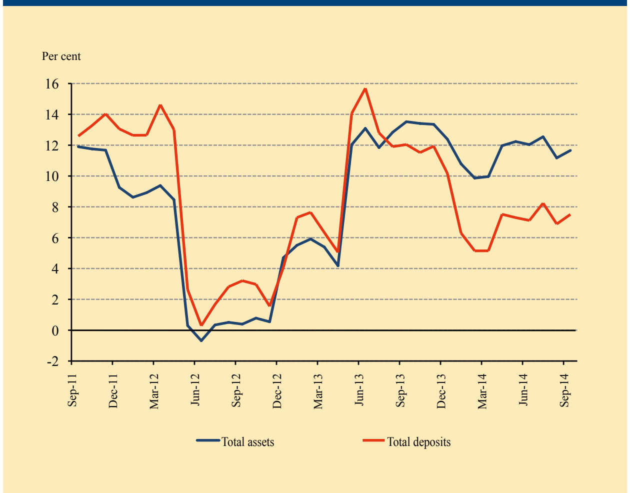
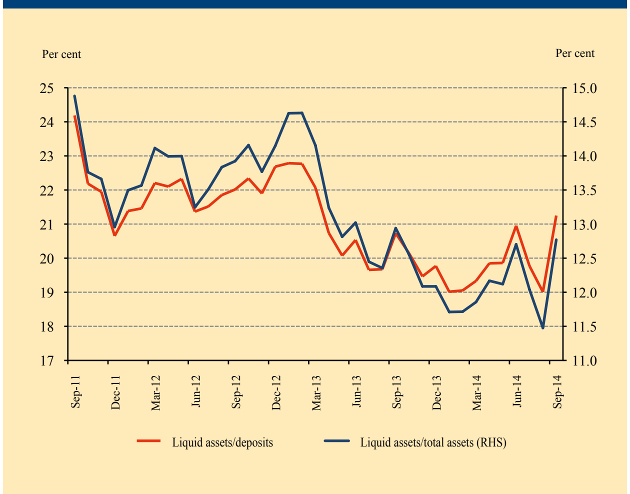


Chart 5.2: Liquidity Indicators of NBDTIs



[4] *The Mauritius Civil Service Mutual Aid Association Ltd; Mauritius Housing Company Ltd; Mauritian Eagle Leasing Company Limited; SICOM Financial Services Ltd; AXYS Leasing Ltd; Cim Finance Ltd; Finlease Company Limited; and La Prudence Leasing Finance Co. Ltd.*

Capital Adequacy

The NBDT sector is considered as sound since institutions are well-capitalised, with an aggregate capital adequacy ratio (CAR) of 26.9 per cent as at end-September 2014 compared with 25.7 per cent a year earlier. This level of capitalisation is high enough to enable NBDTIs to weather moderate shocks to their balance sheets and absorb losses that may result from NPL. Assets of NBDTIs remained concentrated in the 50 per cent and 100 per cent risk-weight buckets, which as at end-September 2014, accounted for 47.6 per cent and 21.7 per cent, respectively, of total NBDTIs' assets (Chart 5.3). The 50 per cent risk-weight bucket relates mainly to loans granted to civil servants, while the 100 per cent risk-weight buckets include finance leases and operating leases of Rs5 million or more. Other assets included in this risk category comprise mortgage loans, finance and operating leases; premises, real estate, furniture, fixtures, equipment, vehicles and other fixed assets including capital works in progress (excluding operational leases); and all other assets not elsewhere specified (excluding intangible assets deducted from capital).

Sectoral Credit and NPL

As at end-September 2014, credit granted by NBDTIs accounted for 15.7 per cent of total private sector credit extended by banks and NBDTIs. Credit was mainly channelled to the personal and construction sectors, which represented 64.6 per cent and 14.9 per cent, respectively, of total NBDTIs' credit. Traders, manufacturing, tourism and financial and business services sectors were allocated 2.8 per cent, 2.7 per cent, 1.7 per cent and 1.4 per cent, respectively, of the total credit by NBDTIs. Credit extended by NBDTIs grew by 18.7 per cent as at end-September 2014, from 15.7 per cent a year earlier.

Asset quality of NBDTIs improved further, with the overall ratio of NPL to total credit declining to 4.8 per cent as at end-September 2014, from 5.1 per cent a year earlier. Among the key sectors, only the traders sector recorded an increase in the NPL ratio, while the remaning other sectors registered a drop in their NPL ratios compared to the corresponding period of 2013. In the construction sector, despite the decline, the NPL ratio remained the highest among all sectors, at 21.1 per cent. The personal sector, which claims the largest share of NBDTIs' credit, registered the lowest NPL ratio, at 0.5 per cent (Chart 5.4). Although loan loss provisioning increased over the year, the coverage ratio fell to 43.6 per cent, from 44.5 per cent as at end-September 2013, due to a higher rise in NPL relative to total provisions made.

Chart 5.3: Risk Diversification Matrix of NBDTIs

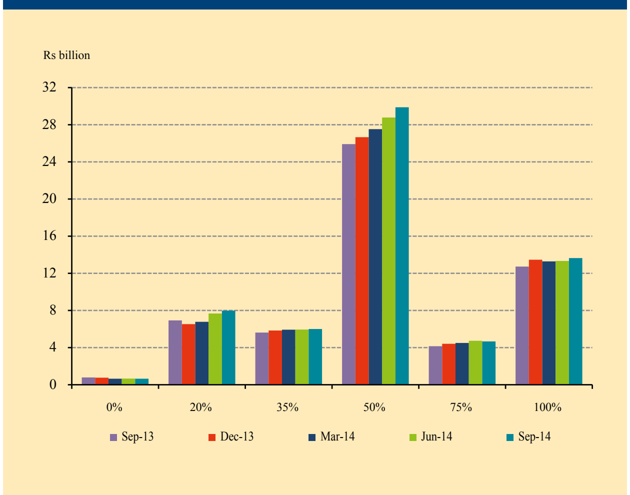
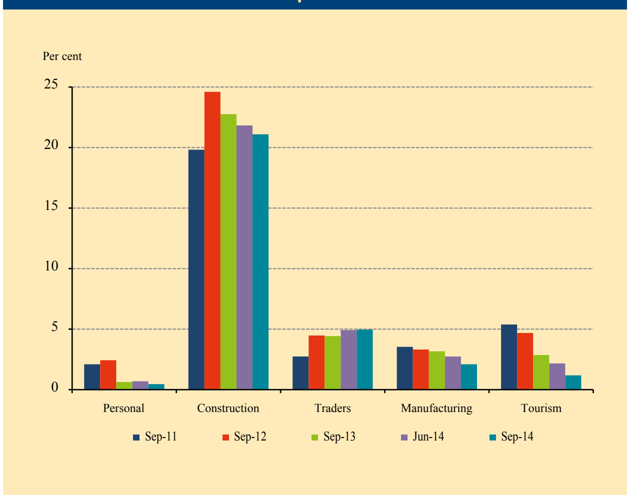


Chart 5.4: NPL as a ratio of Sectoral Credit in Key Sectors



5.2 Insurance Sector

Global Trends in Insurance Industry

Across the world, the performance of the insurance sector (i.e., general and long-term insurance) has remained somewhat under stress given global market trends. According to the IAIS Global Insurance Market Report (GIMAR) 2014[5], in addition to the global economic factors confronting global (re)insurers, such as weak economic growth levels and low interest rates, (re)insurers are also contending with declining premiums and investment yields. Global premium growth was modest in 2013, having been on a declining trend since at least 2007. Underwriting profitability in non-life insurance is stable, being supported by benign claims trends that enable insurers to release loss reserves. For life insurers, low premium growth and low interest rates in particular form a challenging business environment. Concurrently, the (re)insurance sector as a whole experienced declining investment yields.

A potential area of growth for the insurance industry is the exposure to longevity risk. Longevity risk is the risk of paying out pensions and annuities for a longer time period than expected. In the past, life expectancy has often increased by more than expected, challenging holders of longevity risk which include governments, pension funds and some life insurers themselves. Total longevity risk is significant when measured from a financial perspective, with each year of life expectancy adding about 3-4 per cent to the present value of liabilities of a typical benefit pension fund. Estimates of the global amounts of annuity and pension-related risk exposures range from US$15 to US$25 trillion. Hence, risk holders will have to pay over an additional US$450 billion to US$1 trillion in aggregate for each year that longevity is underestimated. The uncertainty of these liabilities has been crystallized in a low interest rate environment, creating financial motivation for risk transfer.

Domestic Insurance Sector: Trends and Outlook

During 2013/14, insurance companies invested most of their funds in local assets and cash holdings. Insurers licensed to carry on general insurance business tend to adopt conservative investment portfolio mainly in cash and near liquid assets due to the short-tailed nature of their business. It is observed that, on average, only 5 per cent of total assets are invested overseas with the insurer having the largest investment overseas standing at 13 per cent. According to Section 7 of the Insurance Regulations 2007, an insurer shall at all times keep at least 50 per cent of its investment in Mauritius, and may invest outside Mauritius an amount not exceeding 50 per cent of its technical provisions relating to insurance business in Mauritius.

In the insurance sector, a main source of credit risk relates to individual company's exposure to reinsurance. Insurance companies are exposed to possible default of its reinsurers for the latter's share of insurance liabilities and refunds in respect of claims already paid by the insurers. As at 31 December 2013, receivables from reinsurers stood at 21 per cent of total assets for the general insurance industry but was negligible as a proportion of total assets for the long term insurance industry. Insurers reported that the claims history is closely monitored to identify potential deterioration in refunds being made by reinsurers. Credit risk originating from insurance contract holders outside Mauritius is considered minimal due to the limited volume of non-Mauritian policies issued.

The FSC issued important insurance legislation in 2014 with the view to ensuring proper business accountability and quality control in local insurance businesses (Box III).

There are several ways in which the insurance and banking sectors can be interlinked. In Mauritius, based on latest available statutory returns (for 2013), local insurance companies held Rs10 billion in terms of cash and deposit at banks and have invested Rs5 billion in the equity of local banks. Insurance companies

[5] *http://www.iaisweb.org/News/Global-Insurance-Market-Report-GIMAR-962.*

had bank overdraft and loans amounting to Rs280 million and Rs613 million, respectively. According to section 20 of the Insurance Act, an insurer shall not, without the approval of the FSC, (a) mortgage, charge or otherwise encumber its assets; (b) directly or indirectly borrow any asset; (c) by means of any surety, give any security in relation to obligations between other persons except where the security is provided under a guarantee policy which the insurer is authorized to issue under its licence.

Box III: Mauritius - Developments in Insurance Legislation

As part of its Fair Market Conduct programme, the FSC issued the Competency Standards ('Standards') on 27 October 2014.

The competence of the licensee, being one of the elements of the fit and proper requirements, is assessed with regard to the licensee's education and qualifications together with relevant experience.

The Standards focus on the competence element of the fit and proper requirements and formalise the minimum competence in terms of specific technical knowledge and skills that licensees need to have. The Standards provide an indication to the licensees on how to demonstrate and maintain competence.

The Standards aim at ensuring that consumers of financial services benefit from professional conduct on the part of licensees.

The Standards are defined in terms of:

- the minimum technical competencies to demonstrate competence;
- the minimum qualifications, training and experience requirements to demonstrate competence;
- the minimum Continuous Professional Development requirements to maintain competence.

The Standards have become effective as from 01 January 2015.

5.3 Pensions Industry[6]

Insured Pension Schemes

The financial performance of Insured Pension Scheme was on the upturn over 2012-13. The Value under Fund Management of Insured Pension Schemes witnessed a 20 per cent increase over 2012-13, reaching Rs29.83 billion in December 2013. A similar upsurge was observed for Employee Contributions increasing from Rs121.70 million to Rs205.79 million, thus rising by 69 per cent. An increase from Employer Contributions was also noted over 2012-13, amounting to Rs574.35 million in December 2013, representing an increase of 37 per cent. A comparable growth of 23 per cent was recorded for Total Pension Turnover in December 2013 reaching Rs1.54 billion.

Superannuation Funds

The value of Funds under Management for Superannuation Funds PSM experienced a 15 per cent increase for the quarter ended December 2012-13. The funds reached Rs7.97 billion whilst those under the management of insurers contracted by 21 per cent, reaching Rs2.98 billion. Employee contributions for PSM rose by 11 per cent reaching Rs35.14 million while that of insurers contracted by 10 per cent, reaching Rs23.93 million. Employer contributions grew by 4 per cent for PSM, reaching Rs128 million, and

[6] *Source: FSC Mauritius Annual Statistical Bulletin 2014.*

fell by 13 per cent for insurers to Rs52.84 million. Benefit payments for PSM rose by 11 per cent and stood at Rs59.20 million, while that of insurers rose by 288 per cent to Rs31.4 million.

5.4 Reinsurance[7]

According to the IAIS Global Insurance Market Report (GIMAR) 2014, global growth of gross written premiums in the reinsurance sector largely follows premium trends in primary insurance. Correspondingly, premium growth in reinsurance declined over the last couple of years. Reinsurance premiums grew by nominal 1.3 per cent in 2013, after 2.6 per cent in 2012, compared to an average 11.1 per cent per year for the years 2000-13. Reinsurance premium growth rates are affected by the weakness of the global economy and soft market conditions, among other things.

Investment returns in the domestic reinsurance industry remain weak. In 2013, the investment yield - that is, ratio of total investment income to total investment - was at an estimated 3.1 per cent, from 3.4 per cent in 2012, compared to an annual average of 4.2 per cent for the years 2000-13. The average ROE of the reinsurance industry in 2013 was 10.1 per cent compared with 9.3 per cent recorded in 2012. In concurrence with a decline in the combined ratio from 93.9 per cent in 2012 to 91.4 per cent in 2013, investment return remained weak at an estimated rate of 3.1 per cent in 2013 compared to an annual average of 4.2 per cent for the years 2000-13.

In Mauritius, general insurers widely make use of reinsurance business infrastructure (Table 5.1 and Chart 5.5). Over the past 5 years, insurers have reinsured on average 38 per cent of their gross premium, of which the largest share of reinsurance was effected for the two segments Engineering and Property for respective proportions of 83 per cent and 76 per cent of their gross premiums. The status of credit ratings revealed that 78 per cent of the premium reinsured was effected with reinsurers bearing high credit ratings (reinsurers rated 1 or above B+) which contribute to mitigate counterparty risk in the portfolio of insurance companies. Accordingly, 50 per cent and 44 per cent of the premiums were reinsured with A.M. Best and Standard and Poor's, while the remaining 6 per cent were reinsured with Fitch and other unrated credit rating agencies.

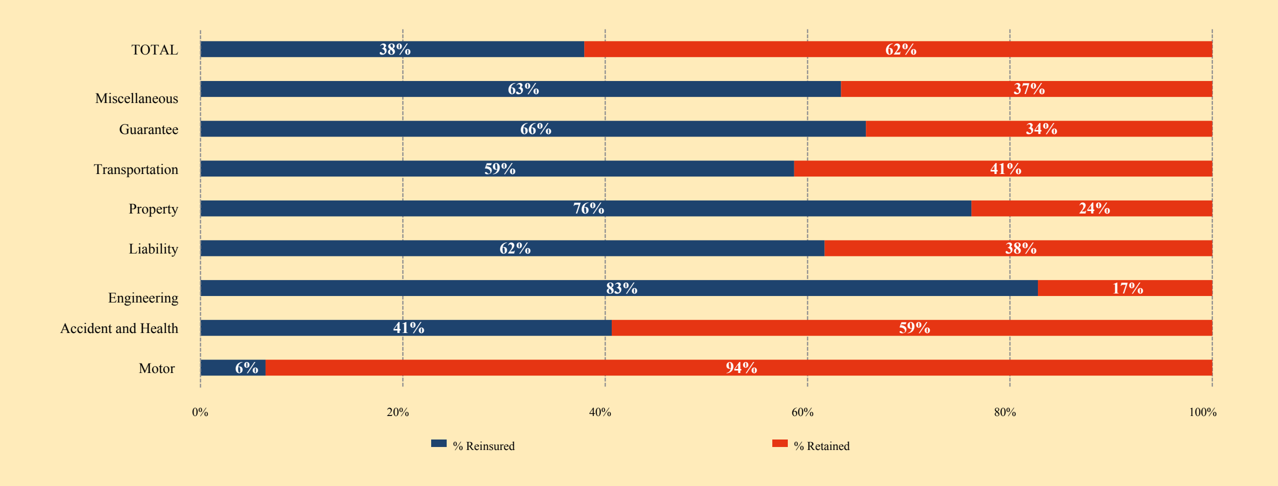
Table 5.1: Reinsurance Statistics in 2013

Rating Range[8]	No. of Reinsurers	% of Market Share
1	493	78%
2	36	6%
3	107	17%
Total	**636**	**100%**
Credit Rating Agency	**Amount Reinsured** *(Rs million)*	**% Reinsured**
Standard and Poor's	1,167.0	44%
Fitch	84.2	3%
AM Best	1,324.8	50%
Unrated	90.7	3%
Total	**2,666.7**	**100%**

[7] *Source: FSC Statutory Returns.*

[8] *Insurance (General Insurance Business Solvency) Rules 2007, http://www.fscmauritius.org/media/80510/insurance__general_insurance_business_solvency__rules_2007.pdf.*

Chart 5.5: General Insurance - Reinsurance Ceded in Mauritius



Source: FSC Mauritius Annual Statistical Bulletin 2014.