FINANCIAL STABILITY REPORT 2024

Financial Services Authority Seychelles

SEYCHELLES FIU

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LETTER OF TRANSMITTAL

Central Bank of Seychelles

P.O. Box 701

Victoria

June 27, 2025

President Wavel Ramkalawan

State House

Victoria

Dear Mr President,

On behalf of the Financial Stability Committee, I have the honour to submit the Second Edition of the Financial Stability Report for the year ended December 31, 2024, in accordance with Section 11 (1) of the Financial Stability Act, 2023.

Yours sincerely,

=

C. Abel (Ms)

Chairperson of Financial Stability Committee and

Governor of Central Bank of Seychelles

ACRONYMS

AI	Artificial Intelligence
AML/CFT	Anti-Money Laundering and Countering the Financing of Terrorism
BCBS	Basel Committee on Banking Supervision
CBS	Central Bank of Seychelles
D-SIBs	Domestic Systemically Important Banks
EOIR	Exchange of Information on Request
ERM	Enterprise Risk Management
ESAAMLG	Eastern and Southern Africa Anti Money Laundering Group
FATF	Financial Action Task Force
FIU	Financial Intelligence Unit
FSA	Financial Services Authority
FSC	Financial Stability Committee
FSR	Financial Stability Report
GDP	Gross Domestic Product
HLA	Higher Loss Absorbency
IAIS	International Association of Insurance Supervisors
ICP	Insurance Core Principles
IDC	Island Development Company
IMF	International Monetary Fund
IOSCO	International Organisation of Securities Commissions
ML/TF	Money Laundering and Terrorism Financing
MOU	Memorandum of Understanding

NA	National Assembly
NAC	National AML/CFT Committee
NGFS	Network for the Greening of the Financial System
NPLs	Non-Performing Loans
NPO	Non-Profit Organisation
NRA	National Risk Assessment
ONRA	Overall National Risk Assessment
PEs	Public Enterprises
PEMC	Public Enterprises Monitoring Commission
PUC	Public Utilities Corporation
RSF	Resilience and Sustainability Facility
ROA	Return on Assets
ROE	Return on Equity
ROI	Return on Investments
SARs	Suspicious Activity Reports
SEYPEC	Seychelles Petroleum Company
SFA	Seychelles Fisheries Authority
SOEs	State Owned Enterprises
SPTC	Seychelles Public Transport Corporation
STRs	Suspicious Transaction Reports
VA	Virtual Asset
VASPs	Virtual Asset Service Providers
US	United States
USD	United States dollar

1 PURPOSE OF THE REPORT

This report is published in accordance with Section 11 (1) of the Financial Stability Act 2023 ('The Act') which stipulates that the Financial Stability Committee (FSC) shall submit a Financial Stability Report (FSR) to the President and the National Assembly (NA), no later than six months after the end of each financial year.

The annual publication of the FSR provides a platform to highlight and discuss key systemic risks[1] to the financial system and enhance accountability and transparency concerning financial stability matters. The FSR is jointly prepared by the FSC, chaired by the Governor of the Central Bank of Seychelles (CBS) and includes members from the CBS, the Ministry responsible for Finance, the Financial Services Authority (FSA), and the Financial Intelligence Unit (FIU).

Pursuant to Section 11 (1) (a), and 11 (1) (b) of the Act, the FSR also includes a summary of activities and recommendations issued by the Committee to any member institution and the gaps identified in skills, expertise, directives, legislation and practices which may negatively affect Seychelles financial stability. Financial stability being a state where the financial system can withstand shocks and imbalances, ensuring the smooth functioning of financial institutions and markets, is an important pre-condition for sustainable growth.

[1] A risk is deemed systemic when it poses a threat to the financial intermediation function of a financial system and may lead to widespread economic disruption.

2 EXECUTIVE SUMMARY

In the local context, financial stability is defined as a condition in which the financial system is able to adequately perform its function of financial intermediation, whilst managing systemic risks effectively and remaining resilient to shocks. Although it is widely accepted that a stable financial system is pivotal for promoting sustainable economic growth, financial stability is also impacted by developments in the real economy.

As a small open economy, Seychelles is innately impacted by global developments. In 2024, the growth recorded by the domestic economy was primarily driven by the performance of the tourism sector and the information and communications sector. Nonetheless, compared to previous year, the tourism sector recorded a modest growth, attributed to challenges posed by external risk factors such as increased geopolitical tensions, slow growth, notably in Europe, and growing competition from regional destinations. Inflationary pressures remained low, however, domestic prices recorded an increase from May 2024, largely due to global trade disruptions and geopolitical tensions, coupled with a weaker domestic currency.

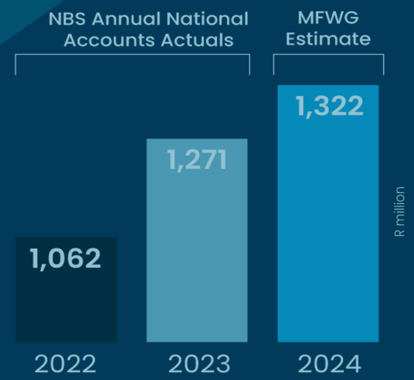
Despite the challenging global and domestic environment, the Seychelles financial sector remained resilient throughout the period under review. The banking sector recorded a robust performance with the industry's asset base continuing on an upward trend, with significant improvements observed in the overall asset quality as indicated by a notable decline in Non-Performing Loans (NPLs). Similarly, the insurance sector remained profitable, although the industry recorded a significant increase in claims lodged, following the disasters of 7th December 2023.

The enactment of the Financial Stability Act in December 2023 mandated the Financial Stability Committee (FSC), with financial stability oversight in Seychelles. Work remained ongoing in building the country's financial stability framework and during 2024, a number of activities were carried out towards this objective. Through its activities, the FSC remained committed towards identifying, assessing and mitigating potential threats to the proper functioning of Seychelles financial system. Against this backdrop, the FSC presents the Financial Stability Report 2024, whereby this edition aims to highlight and discuss financial stability vulnerabilities of the domestic financial system and promote awareness of these pertinent issues.

To safeguard the resilience of the Seychelles financial system and its capacity to withstand ever-increasing risks, it is essential to establish the appropriate regulatory framework at both microprudential and macroprudential level, to facilitate the identification, monitoring and mitigation of systemic risks. As such, to ensure that risks to financial stability are effectively managed, financial regulators need to maintain adequate supervision of entities under their purview and implement robust regulations.

3 HIGHLIGHTS

SELECTED **MACRO-ECONOMIC** INDICATORS



The Finance & insurance activities sector was estimated to have grown by 4 per cent, supported by strong private sector credit growth.

Real GDP of Financial & Insurance activities sector

Source: National Bureau of Statistics (NBS) and Seychelles Macroeconomic Framework Working Group (MFWG)

Credit growth

8.6%

An increase in credit expansion by 5.8% compared to last year

Credit-to-GDP

55% of the economy fueled by credit. GDP outpaced credit growth, reducing the economys credit dependency by 5% compared to last year

Inflation rate

DECEMBER 2024

1.7% (YoY)

0.3% 12-month avg

Total Public Debt-to-GDP

61%

External Debt-to-GDP **31%**

DECEMBER 2024

Monetary Policy Rate

Policy rate was lowered to 1.75% in 2024 and remained unchanged for the rest of the year

CBS **1.75%**

Average Savings Rate (YoY)

1.5%

DECEMBER 2024

Average Lending Rate (YoY)

9.9%

DECEMBER 2024

Exchange rate (Average)

DECEMBER 2024

SCR $ USD **14.79**

SCR € EUR **15.44**

Balance of Payments (Incl Offshore)

DECEMBER 2024

CURRENT ACCOUNT **US$ 160 million**

Deficit of 7.5% of GDP

Foreign Exchange Exposure

Total long position in FX to capital **4.3%**

Total short position in FX to capital **-2.4%**

SELECTED **BANKING SECTOR** INDICATORS

CBS

7 Commercial Banks
- 2 Branches of foreign commercial banks
- 2 Locally owned commercial banks
- 3 Subsidiaries of foreign commercial banks

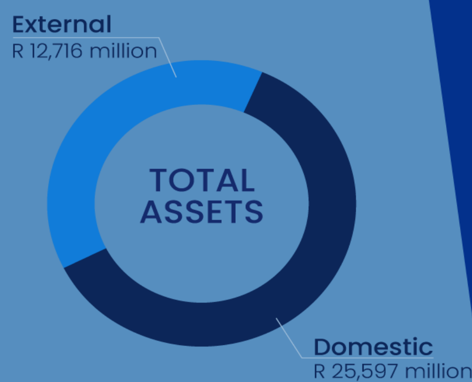
2 Non-Bank Credit Granting institutions (NBCIs)
- DBS and HFC

1 Credit Union

Non-Performing Loans (NPLs) ratio

An overall significant improvement in the asset quality of banks driven by a decline in NPLs.

5.5 %
DECEMBER 2024



Total assets to GDP

The banking sector continued to hold a significant share of financial assets relative to GDP, though declining by 8% YoY.

121%
DECEMBER 2024

Top Five Sectors: Total Loans

- 18% Mortgage
- 16% Private Household
- 11% Tourism
- 8.5% Trade
- 6.9% Building & Construction

Top five sectors: NPLs

- 28% Tourism
- 16% Commercial Development
- 14% Agriculture & Horticulture
- 12% Private Household
- 7.5% Trade

Return on Equity
December 2024

30%

Return on Assets
December 2024

3.1%

Capital Adequacy Ratio

December 2024

20%

Minimum Requirement = 12%

Liquid assets to total assets (Broad)

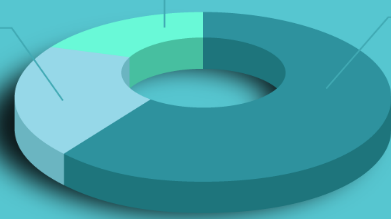
December 2024

Liquid Assets to Total Assets
61%

Disclaimer Data used for the selected banking sector indicators relate to unaudited figures.

SELECTED NON-BANKING SECTOR INDICATORS

FIDUCIARY



No. of active IBCs **49,046**

No. of active trusts **358**

No. of active foundations **758**

INSURANCE

5 Insurance Companies

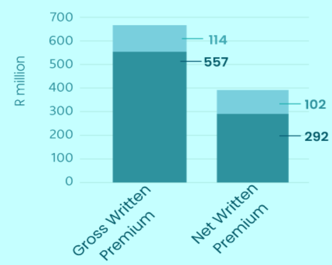
3/5 General

1/5 Life

1/5 Composite

Premiums Written

December 2024



Net Claims Incurred

December 2024

Total Assets

December 2024

General Insurance Business 1.0 R billion

Life Insurance Business 0.76 R billion

Profit / Loss After Tax

December 2024

General Insurance Business 43 R million

Life Insurance Business 23 R million

Technical Reserves

December 2024

2.5 R billion Life Insurance Business

General Insurance Business 447 R million

INVESTMENTS

December 2024

Investment Amount

Life Insurance Business 716 R million

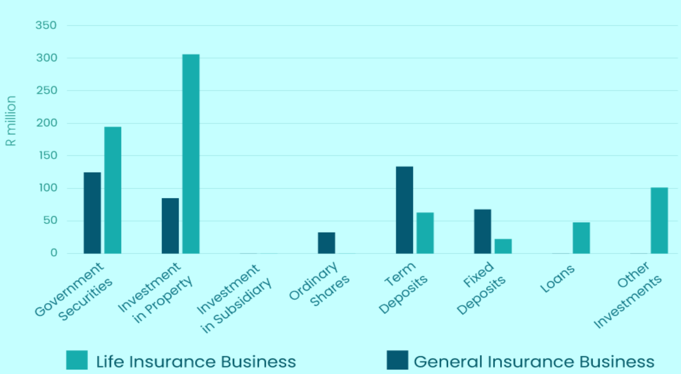
General Insurance Business 453 R million

Return on Investments

Life Insurance Business 30 R million

General Insurance Business 9 R million

Investment Allocation



Key Financial Ratio Indicators

	General Insurance Business	Life Insurance Business
Solvency Ratio	109 %	121 %
Return On Asset ("ROA")	29 %	13 %
Return On Equity ("ROE")	65 %	4 %

Disclaimer: The figures are in IFRS 4 standards. The Analysis is not reflective of final data captured from the insurance industry, due to the figures yet to be audited.

CAPITAL MARKETS

Sector Size/Total Number of Licensees

Total number of licensed entities in the capital markets sector = 214

Licensee	Number
Securities Exchange	2
Clearing Agency	2
Securities Facility	2
Securities Dealer	190
Representative (Securities Dealer)	217
Investment Advisor (company)	2
Investment Advisor (Individual)	0
Representative (Investment Advisor)	2

Total number of licensed companies regulated under the Securities Act, 2007=198

Licensee	Number
Fund Administrator	7
Private Fund	2
Professional Fund	6
Public Fund	1

Total number of licensees regulated under the Mutual Fund and Hedge Fund Act, 2008 = 16

Total Assets

Total Assets for licensees regulated under the Securities Act, 2007

Total Assets (Securities Act Licensees)
US$ **3.8** billion

Total Assets (Fund Administrators)
US$ **4.0** million

Profitability

Licensees regulated under the Securities Act, 2007

Gross profit: US$ **2.1** billion

Net profit: US$ **1.1** billion

Profitability (Fund Administrators)

Gross profit: US$ **775** thousand

Net profit: US$ **-151** thousand (a net loss)

Listings

December 2024

Total Debt Listings: 3

Total Equity Listings: 35

Market Capitalisation

Market Capitalisation is the total value (number of shares multiplied by number of shares) of the companies listed on the Securities Exchanges.

US$ **915** million

Net Asset Value

US$ **466** million

For collective investment schemes

Distribution of clients by continent for the capital markets sector

- North America 8%
- South America 17%
- Africa 32%
- Europe 9%
- Asia 30%
- Australia 4%
- Antarctica 0%

4 MACRO-FINANCIAL OVERVIEW

Macroeconomic stability and financial stability are interdependent. A stable macroeconomic environment provides a solid foundation for financial stability, while a sound financial system contributes to overall macroeconomic stability. For instance, low and stable inflation foster confidence in the domestic currency and financial markets, encouraging investment and lending activities. Similarly, sustained economic growth and low unemployment contribute to stable incomes and repayment capacity, reducing the likelihood of default on loans and other financial obligations. Conversely, financial stability is essential for maintaining the macroeconomic stability of a country. A well-functioning financial system facilitates the efficient allocation of financial resources, which is crucial for economic growth and productivity. Banks and other financial institutions play a pivotal role in intermediating funds between savers and borrowers, supporting investment and consumption activities that drive economic expansion.

4.1 Macroeconomic Overview

4.1.1 International Economic Developments

In 2024, the global economy delivered a relatively stable performance, with output expanding by an estimated 3.3 per cent, continuing the post-pandemic recovery. Inflation declined gradually from multidecade highs as monetary tightening took effect, and labour markets broadly normalised with unemployment rates returning to pre-pandemic levels. However, growth momentum diverged across regions. The United States (US) grew by 2.8 per cent, supported by robust domestic demand and strong private consumption, which exceeded historical averages. In contrast, the Euro area recorded a weaker growth of 0.9 per cent, with domestic demand remaining subdued and energy costs dampening activity, especially in Germany, which saw a contraction of 0.2 per cent. China’s growth reached 5.0 per cent, driven mainly by external demand, while domestic conditions remained fragile due to persistent real estate sector weakness and low consumer confidence (International Monetary Fund (IMF), April 2025).

Despite stable aggregate figures, signs of deceleration appeared in the final quarter of 2024. Real activity indicators such as retail sales and purchasing managers’ surveys showed a slowdown in demand across major economies. Progress on disinflation stalled in many countries, with core goods inflation rising and services inflation remaining elevated. Trade volumes were temporarily supported by a surge in US imports and Chinese exports, likely a result of loading stock in anticipation of impending US tariffs. At the same time, structural vulnerabilities such as rising inequality, high public debt, and weakening productivity, especially outside the US persisted and exposed underlying fragilities. These conditions limited the ability of many Governments to respond effectively to new economic shocks as they headed into 2025 (IMF, April 2025).

Looking ahead to 2025, the global economic outlook has weakened sharply due to escalating trade tensions and heightened policy uncertainty. Global growth is projected to slow to 2.8 per cent, representing a cumulative reduction of 0.8 percentage points relative to earlier forecasts. Advanced economies are expected to grow by just 1.4 per cent, while emerging market and developing economies are forecasted to expand by 3.7 per cent, with sharp downward revisions for countries most exposed to new tariffs imposed by the US Government, such as China. Global inflation is projected to decline to 4.3 per cent in 2025, though at a slower pace than previously expected, with upward revisions for advanced economies. The unpredictability of the new trade regime has undermined business sentiment and investment, contributing to financial market volatility and raising downside risks to growth. With policy buffers strained and long-standing structural issues unresolved, the global economy enters 2025 in a vulnerable state (IMF, April 2025).

4.1.2 Domestic Economic Developments

4.1.2.1 Economic Growth and Real Sector Performance

Seychelles' economic growth was estimated to have remained moderate at 3.0 per cent during 2024, maintaining the momentum from 2023. The growth was mainly on the back of tourism-related activities, supported by a modest increase in visitor arrivals of 0.5 per cent. Additionally, increased data traffic trends and the push for digitalisation has maintained the information and communication technology sector's strong growth trajectory. The construction sector is estimated to have expanded, primarily due to the implementation of a number of tourism-related projects. Resilient growth was also estimated in the finance and insurance activities sector, in line with expansions in credit and output indicators.

In contrast, production statistics suggest slowed economic activity in the manufacturing sector for 2024. The manufacturing of fishery products, namely canned tuna production held steady in comparison to the previous year. Similarly, the manufacturing of beverages remained flat, in light of contractions in the production volumes of beer and stout.

4.1.2.2 Prices and Inflation

As measured by the Consumer Price Index (CPI) compiled and published by the National Bureau of Statistics, the average prices of goods and services recorded a year-on-year increase as of May 2024. As at December 2024, headline CPI rose by 1.7 per cent relative to December 2023. The increase was primarily driven by expansions in the indices of ‘other food’ and ‘non-food items’ by 3.9 per cent and 1.4 per cent respectively, whilst a decline of 0.9 per cent was recorded in the average price of ‘fish’.

The above-mentioned rise in the average prices of goods and services were largely attributed to a combination of factors, including the depreciation of the domestic currency, higher electricity tariffs, and elevated freight costs. On an annual average basis, the Seychelles rupee weakened by 3.7 per cent against the US dollar (USD) in 2024 compared to 2023. Globally, although international food and fuel prices declined year-on-year, the potential disinflationary effect was offset by the aforementioned depreciation of the local currency and increased global freight charges. Additionally, domestic electricity tariffs rose by 64 cents during the reporting period.

The 12-month average inflation rate rose from *negative*1.0 per cent in 2023 to settle at 0.3 per cent in 2024, in line with average price increases in ‘non-food items’ (0.4 per cent) and ‘fish’ (3.6 per cent). Conversely, the ‘other food’ index declined by 0.7 per cent.

Within the ‘non-food items’ category, notable increases were observed in the average prices of ‘housing, water, electricity & gas’ (5.1 per cent), ‘tobacco’ (1.4 per cent), and ‘education’ (1.2 per cent). In contrast, price declines were recorded in ‘recreation & culture’ (3.9 per cent), ‘transport’ (2.8 per cent), and ‘health’ (2.2 per cent). In the ‘other food’ sub-category, average prices of ‘oils & fats’ and ‘food products n.e.c’ decreased by 7.4 per cent and 3.8 per cent, respectively. However, the average price of ‘vegetables’ rose by 2.4 per cent.

4.1.2.3 Public Sector

For the year 2024, the Government’s primary fiscal balance showed a surplus of 3.4 per cent of Gross Domestic Product (GDP), an outcome attributed to favourable revenue streams, coupled with a slight decline in overall spending (excluding interest), largely due to budget under-execution from ‘Wages & Salaries’, ‘Goods & Services’, and ‘Capital projects’. This outturn, combined with the relatively stable exchange rate will translate to a debt stock of about 60.8 % of GDP as at the end of the year. The Seychelles Government, under the agreed Extended Fund Facility, and Resilience and Sustainability Fund programmes with the IMF, remains committed to a resilient fiscal consolidation path with the aim to strengthen public debt sustainability. In addition, reform measures for climate change mitigation and adaptation have been established, and the Government is progressing steadily with the implementation of several related policies.

With the current positive outlook, debt vulnerabilities are expected to reduce in line with the pre-pandemic target of achieving a total public debt to GDP level of about 50 per cent by 2030.

4.1.2.4 Monetary Policy

The primary objective of the Central Bank of Seychelles (CBS) is to promote domestic price stability. The Monetary Policy Rate (MPR) is the key rate used to signal monetary policy stance. It lies at the midpoint of the interest rate corridor whereby, the Standing Deposit Facility (SDF) and Standing Credit Facility (SCF) serve as the floor and ceiling, respectively.

Despite inflation returning to positive territory for most of the year, the average prices of goods and services in year-on-year terms remained below 2.0%. Mindful of external developments and their associated uncertainties, which posed downside risks to domestic economic activity, the CBS recognised the importance of aligning monetary policy to continue providing support to the economy. Therefore, the low inflationary environment provided room for policy measures to further stimulate economic activity. As such, monetary policy conditions remained accommodative throughout 2024.

4.1.2.5 Foreign Exchange Reserves

The stock of gross official reserves held at the Central Bank stood at USD 774 million as at end-December 2024. This was an increase of USD 91 million (or 13 per cent) relative to the previous year. As such, from a financial stability standpoint, the growth in external reserves have helped to reduce the country's inward spillover[2] risks compared to the same period the year before. In terms of reserves adequacy, this was equivalent to 4.0 months of the country's total imports of goods and services compared to 3.5 months in 2023.

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[2] Spillover refer to the cross-border transmission of shocks. These can be global or affect one or more countries and occur through a variety of channels. Spillover can arise from exogenous shocks or, importantly, a country's actual or potential policies (IMF definition).

4.2 Public Debt Overview

Sustainable Government debt is crucial for an economy's financial stability because it ensures that the Government can meet its debt obligations without compromising its ability to fund essential public services and investments. Excessive or poorly managed debt can lead to rising interest rates, inflationary pressures, and potential default, which can destabilise the entire financial system and hamper long-term economic growth. When debt levels remain manageable relative to the country's economic output, it helps maintain investor confidence, keeps borrowing costs low, and reduces the risk of fiscal crises. Sustainable debt also allows for flexibility in responding to economic shocks, enabling the Government to implement countercyclical policies when needed.

4.2.1 Overview of Debt Stock

Seychelles' total debt stock stood at R18,885 million, or 60.8 per cent of GDP at the end of December 2024[3] from 58 per cent at the end of 2023. A 16 per cent rise in external debt to stand at R9,604 million (31 per cent of GDP) was the main driver behind the increase in total public debt. The rise in external debt was on account of a 68 per cent (R80 million) and 20 per cent (1,489 million) in guarantees and central Government external loans, respectively.

As at the end of 2024 total stock of domestic debt stood at R9,281 million (30 per cent of GDP), as compared to R9,193 million (31 per cent of GDP) in the previous year. This was on account of an increase in the stock of domestic securities by 2.3 per cent (R185 million), whilst there was a drop of 14 per cent (R93 million) in the stock of central Government domestic loans and 0.6 per cent (R3.8 million) in Government guarantees.

[3] The figures are provisional and are subject to changes following audit confirmation and revised GDP figures

Table 4.1: Total Debt by residency of creditors

DESCRIPTION	Debt Stock (R millions)	% of GDP
DOMESTIC of which:	**9,281**	**29.9**
GOVERNMENT	8,661	27.9
GUARANTEES	620	2
EXTERNAL of which:	**9,604**	**30.9**
GOVERNMENT	9,407	30.3
GUARANTEES	197	0.6
TOTAL DEBT	**18,885**	**60.8**

Source: Ministry of Finance, National Planning and Trade

Table 4.2: Domestic Debt by Instrument Type (Dec 2024)

DESCRIPTION	Domestic Debt Stock (R millions)	Per cent
LOANS	**833**	**9**
SECURITIES of which:	**8,412**	**90.6**
T-BILLS	2,304	24.8
T-BONDS	5,739	61.8
DEPOSITS	45	0.5
OTHERS	325	3.5
OTHER DEBT LIABILITIES	**35**	**0.4**
TOTAL DEBT	**9,281**	**100**

Source: Ministry of Finance, National Planning and Trade

Focus Box: Public Enterprises (PEs)/State Owned Enterprises (SOEs)

PEs, also known as SOEs can pose significant risks to the economy, particularly when they are not financially sustainable, have weak governance frameworks and limited fiscal discipline. In the event of financial distress, the need for Government assistance can place significant strain on public finances, potentially increasing public debt and consequently impacting macroeconomic stability and essentially the financial stability of the country. The reliance on Government intervention can lead to accumulation of contingent liabilities, increasing fiscal vulnerabilities. Moreover, PEs operating in key sectors can also pose systemic risks through the disruption of essential services. Thus, effective oversight is crucial to mitigating these risks and ensuring sustainable public sector performance.

The Public Enterprises Monitoring Commission (PEMC) is an independent statutory body established under the Public Enterprise Monitoring Commission Act, 2013, with the primary mandate of overseeing the governance, financial performance, and strategic alignment of Seychelles' PEs.

PEMC plays a vital role in promoting transparency, accountability, and operational efficiency across state-owned entities, many of which operate in critical sectors such as utilities, transport, energy, trade, and infrastructure. The Commission ensures the PEs operate in line with sound commercial principles while supporting national development goals.

Through regular performance evaluations, financial reviews, and corporate governance assessments, PEMC provides strategic oversight and policy recommendations to safeguard the financial sustainability of PEs and protect the broader economic interests of the state. PEs in Seychelles are essential pillars of both economic activity and public finance, supporting the Government not only through service provision but also as significant contributors to the Consolidated Fund.

1. Financial Contributions

PEs contribute to Government finances through various direct and indirect channels:

- **Dividends**: Profitable PEs such as Seychelles Petroleum Company (SEYPEC), FSA, Seychelles Fisheries Authority (SFA), and Island Development Company (IDC) remit dividends to the Government, which are recorded as non-tax revenue in the national budget. These payments help fund national development initiatives without increasing borrowing or taxation.

- **Taxes and levies**: Commercial PEs contribute to Government revenue through business-related taxes, such as corporate income tax and other levies paid to the Seychelles Revenue Commission. In strong-performing years, these contributions can represent a significant portion of national revenue. Additionally, Corporations and Regulatory PEs, such as the Property Management Corporation and Seychelles Civil Aviation Authority, while primarily delivering sector-specific mandates under their establishment laws, also contribute to national revenue through employment-related taxes and statutory levies.
- **Subsidy Reductions**: Efficiently managed PEs can reduce their reliance on Government subventions, thus reducing fiscal pressure and allowing funds to be redirected to priority sectors like health and education.

2. Non-financial contribution to the economy

In addition to direct financial contribution, PEs also contribute to the economy in non-financial means including:

- **Quasi-Fiscal Activities**: Many PEs carry out Government-mandated activities (e.g., cross subsidisation amongst commodities by Seychelles Trading Company, subsidised fares by Seychelles Public Transport Corporation (SPTC)) that support social equity but are not always reflected in budget accounts.
- **Employment Generation**: PEs are among the largest employers in Seychelles, providing stable jobs, upskilling opportunities, and pensions (e.g. through Seychelles Pension Fund), thus contributing to social stability (2023: 12 per cent (7,204 employees) of the National workforce).
- **Capital Investment**: Capital Investments made by PEs such as Public Utilities Corporation (PUC), Seychelles Ports Authority, and IDC in infrastructure, energy, and connectivity, enhance long-term productivity and reduce the Government’s direct capital burden and also contribute to larger macro-economic benefits.
- **Access to essential services**: PEs play a critical role in ensuring the widespread availability of essential services such as electricity, water, transportation, and fuel/energy. By delivering these services at affordable and reliable levels, PEs contribute significantly to national development and the well-being of the population.

3. Contribution to GDP

PEs contribute directly to Seychelles' GDP through numerous ways including:

- **Gross Output**: Their revenue from goods and services forms part of the total national output.
- **Value Added**: PEs' operational profits and compensation to employees contribute to the value-added component of GDP.
- **Linkages**: Many private sector firms depend on PE services (fuel, utilities, logistics), so PE performance has multiplier effects on broader economic activity.

4. Fiscal Risks and Impact of PE Failure

Failures of PEs can have wide-ranging and serious negative consequences for the country, economy, Government, and society. These effects go beyond financial losses and can impact national development, public trust, and social equity;

- **Revenue Loss**: Reduced or halted dividends, taxes, and fees can lead to budget shortfalls.
- **Contingent Liabilities**: The Government may be forced to intervene via bailouts, debt servicing, or recapitalisation, putting strain on the Consolidated Fund (fiscal implication).
- **Public Service Disruption**: Failure in monopoly PEs like SPTC, PUC or SEYPEC can disrupt essential services, affecting household welfare and business continuity.

The financial and functional health of PEs is intrinsically linked to Seychelles' fiscal strength and stability, economic growth, and national development objectives. Their contribution to the economy goes beyond dividends—it encompasses employment, infrastructure development, and service delivery. As such, continued PE reform, oversight by PEMC, and alignment with national strategies are critical to ensuring their positive impact is sustained and maximised.

5 BANKING SECTOR

In fulfilling their financial intermediation role, banks face various risks that may affect their operations and overall financial health. Risks that have systemic implications can potentially impact the stability of the financial system and economy. This section highlights key indicators used to assess the overall risk exposure of the banking sector. Regular monitoring of these indicators allows for the early detection of emerging risks, facilitating timely and effective interventions to safeguard financial stability.

5.1 Credit Risk

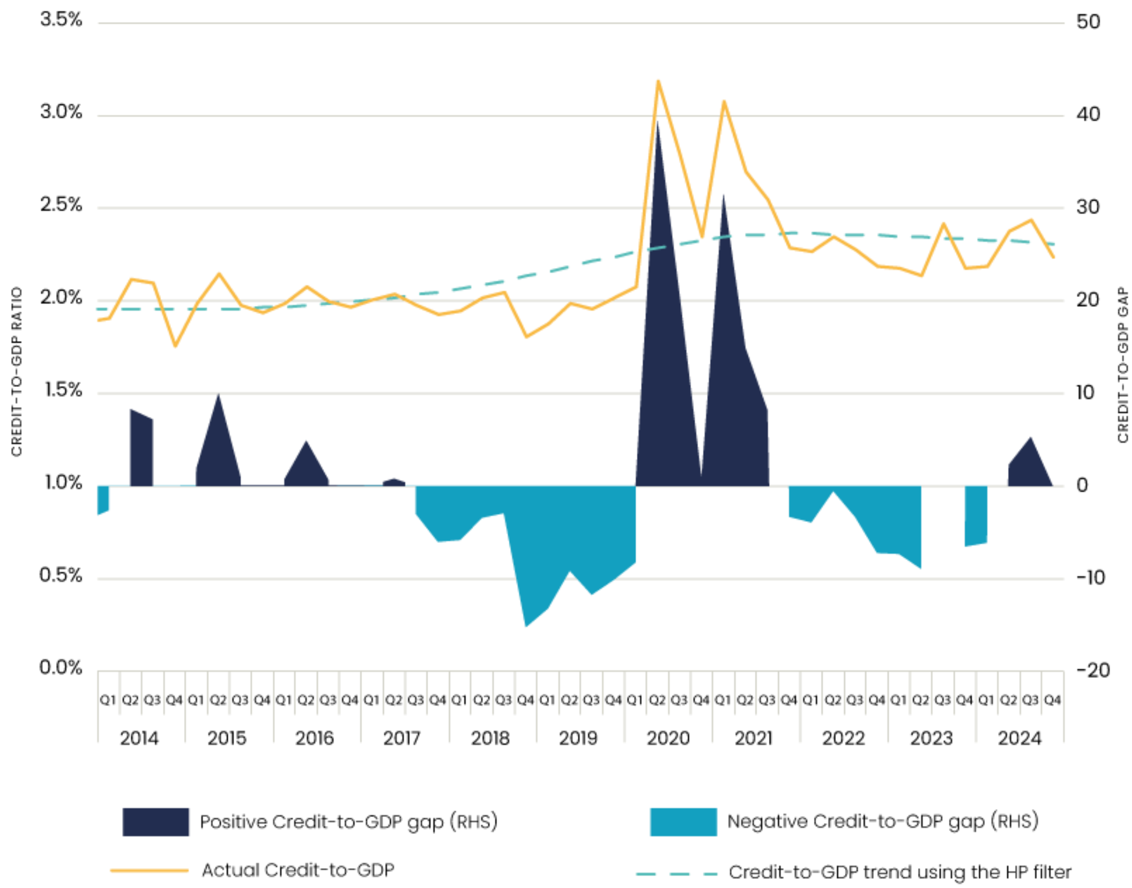
A key measure of financial sector risk arising from the broader economy is the relationship between credit growth and GDP. The credit-to-GDP ratio is widely recognised as an early warning indicator for identifying financial vulnerabilities, particularly the risk of excessive credit expansion. A sustained rise in this ratio may signal excessive credit, which could trigger potential banking crises or financial distress if not properly addressed.

Chart 5.1 illustrates the actual credit-to-GDP ratio together with its estimated long-run trend, derived using the Hodrick-Prescott filter. The chart also shows the credit-to-GDP gap[4]—defined as the difference between the actual ratio and its trend—which serves as an indicator of potential imbalances in the financial system, highlighting periods of excessive or subdued credit growth relative to underlying economic activity.

From 2019 to early 2021, the credit-to-GDP ratio rose sharply, peaking above 3.0 per cent, largely due to pandemic-related credit expansion and Government support measures. This led to positive credit gaps exceeding 40 per cent, signalling a period of elevated credit growth relative to GDP. Between 2021 and 2023, the ratio declined toward its trend, reflecting slower credit growth and a recovering economy. During this phase, the gap turned negative, as a result of tighter lending conditions stemming from banks' risk-averse behaviour and concerns over asset quality—despite an overall accommodative monetary policy stance. In the last two years, the credit-to-GDP ratio has gradually increased, aligning more closely with its long-term trend—signalling modest credit growth and a return to more balanced lending conditions.

[4] Computations are based on quarterly domestic credit and nominal GDP figures.

Chart 5.1: Credit-to-GDP Dynamics and trend derived using the Hodrick-Prescott Filter

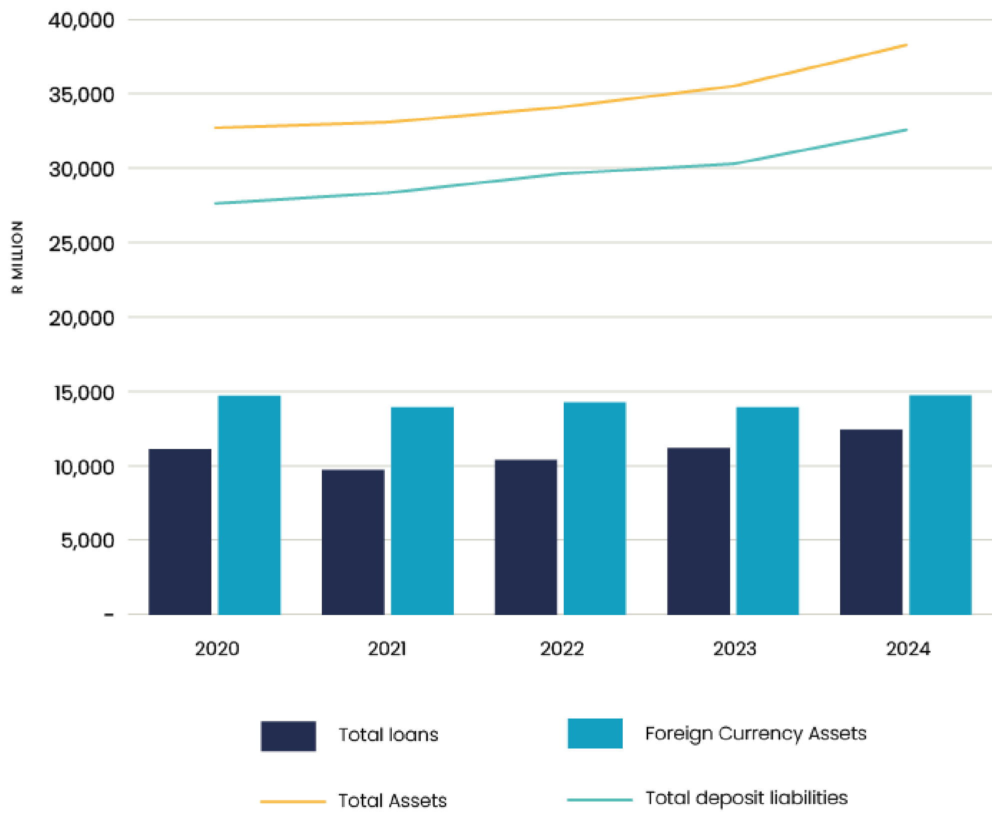


Source: Central Bank of Seychelles

The industry's total asset base stood at R38,310 million at the end of December 2024, representing a year-on-year increase of 7.7 per cent. The expansion in the asset base was primarily driven by an 11 per cent increase in loans and advances. Whilst local currency loans grew by 17 per cent, loans denominated in foreign currency declined by 14 per cent. The drop in demand for foreign currency-denominated loans was largely due to their comparatively higher interest rates. The elevated interest rates on such facilities were influenced by persistently high international interest rates, despite some easing in the latter part of the year as major central banks cautiously began to loosen monetary policy. As a result, the share of foreign currency-denominated loans to total loans fell from 20 per cent in December 2023 to 15 per cent at end-2024.

The growth in the industry's asset base was further supported by a 9.2 per cent year-on-year increase in foreign currency assets, fuelled by higher international interest rates that encouraged increased foreign investments.

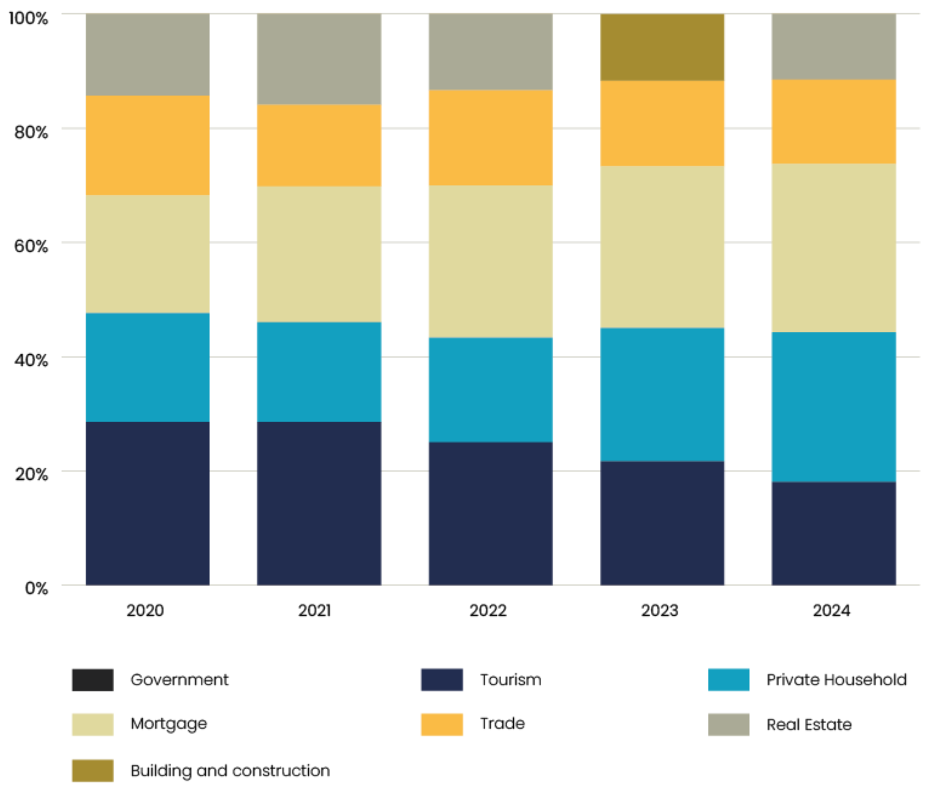
Chart 5.2: Trend in balance sheet items (2020-2024)



Source: Central Bank of Seychelles

Bank lending is increasingly shifting toward consumer loans, as shown by a significant rise in mortgage and household borrowing, whilst there was a decline in credit to the tourism sector. At the end of 2024, the domestic banking sector's highest credit exposure were in the following sectors: mortgage (18 per cent), private household (16 per cent), tourism (11 per cent), trade (8.5 per cent) and real estate (7.2 per cent). Credit extended to the mortgage and private household sectors recorded significant annual growth in 2024, increasing by 16 per cent and 30 per cent, respectively. Mortgage lending reached R2,215 million, while credit to private households stood at R2,039 million. Credit to the trade and building and construction sectors also increased, albeit more modestly, by 4.3 per cent and 2.3 per cent, respectively. In contrast, lending to the tourism sector declined by 7.9 per cent year-on-year, standing at R1,381 million at the end of 2024. To note, the sectoral credit classification is based on the economic activity in which the output will be utilised[5].

Chart 5.3: Top five sectors accounting for total loans and advances (2020-2024)



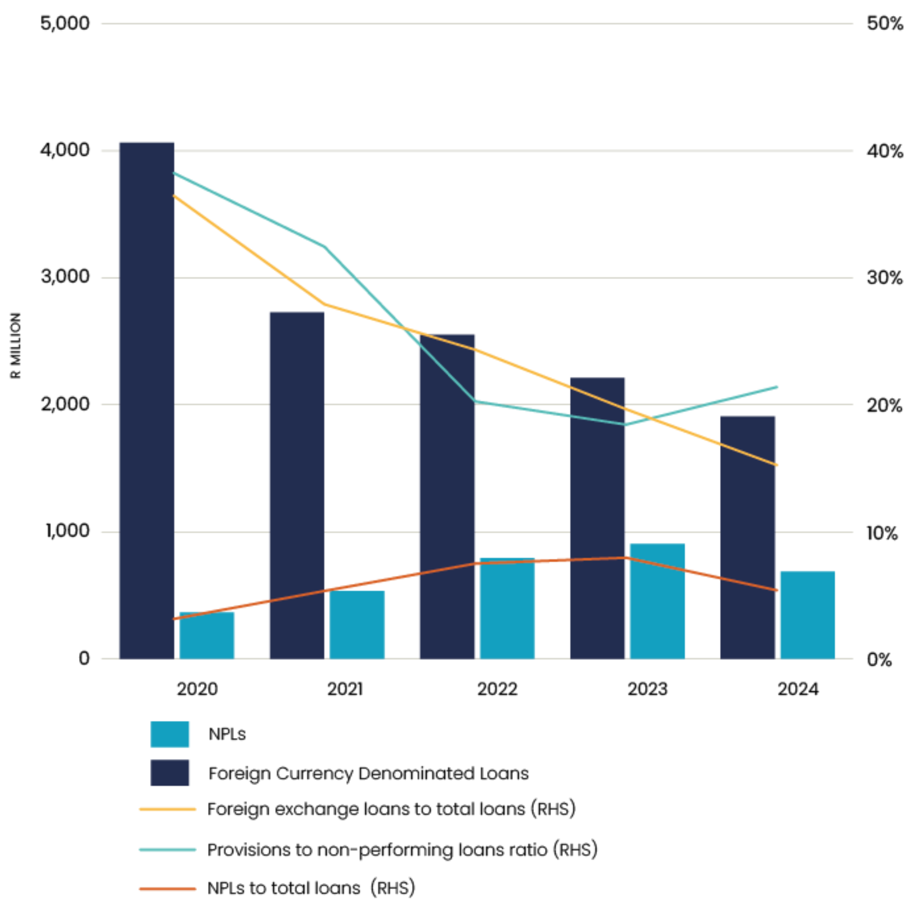
Source: Central Bank of Seychelles

The asset quality of the banking sector, commonly assessed through the ratio of NPLs to total loans, showed marked improvement in 2024. As at the end of December, the NPLs ratio stood at 5.5%; a reduction of 2.6 percentage points from 8.1% at the end of 2023. This improvement was primarily attributed to a 24 per cent reduction in the absolute levels of NPLs driven by loan

[5] The data provided in the CBS Annual Report differs slightly from that of the FSR. For example, the construction of a new tourism project (restaurant or hotel) would be classified under tourism in the FSR, and not under building and construction as would be reported in the Annual Report.

repayments, restructuring and write-offs, whilst total loans and advances recorded an 11 per cent increase. In light of the decline in NPLs, provisions made for such facilities were lower, decreasing from R168 million in 2023 to R147 million in 2024. The improvement in asset quality reflects more prudent credit risk management practices by banks, supported by regulatory recommendations and enforcement actions by the CBS, the supervisory authority, following a horizontal onsite examination of asset quality across the domestic banking sector.

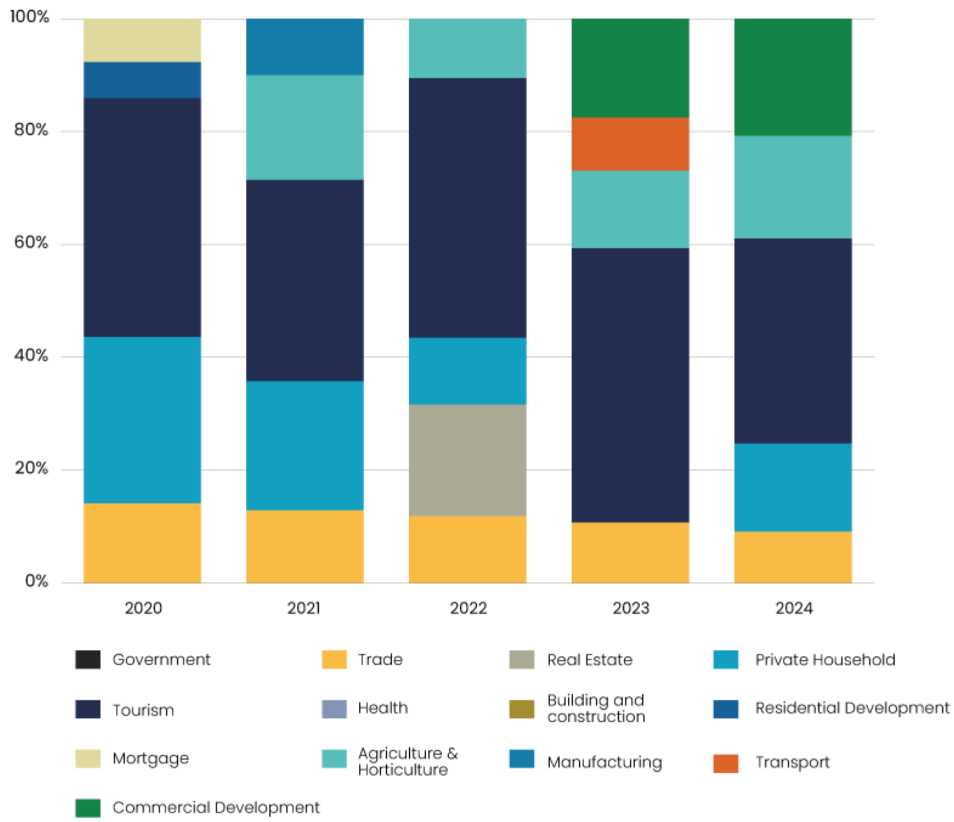
Chart 5.4: Trend in banking sector asset quality



Source: Central Bank of Seychelles

In terms of sectoral exposure, the highest levels of NPLs at the end of 2024 were in the tourism (28 per cent), commercial development (16 per cent), agriculture and horticulture (14 per cent), private household (12 per cent) and trade (7.5 per cent) sectors. Notably, the tourism sector experienced a significant improvement, as both the share and absolute level of non-performing loans (NPLs) declined to R193 million, compared to R338 million at the end of 2023. This improvement was underpinned by a reduction in new credit extended to the sector, as well as the restructuring of a number of existing credit facilities. In contrast, although the share of NPLs in commercial development increased, the actual value fell by 6.3 per cent to stand at R113 million. The agriculture and horticulture sector saw a modest 2.2 per cent increase in NPLs, while the private household sector recorded a substantial rise of 52 per cent compared to 2023. This notable increase in private household NPLs pose a threat to financial stability by weakening bank asset quality and profitability, potentially leading to tighter credit conditions and reduced financial sector resilience. This trend, if not addressed, could amplify economic downturns and pose broader risks to financial stability. The trade sector also showed positive developments, with NPLs decreasing by 13 per cent to stand at R51 million by year-end.

Chart 5.5: Top five sectors accounting for NPLs (2020-2024)

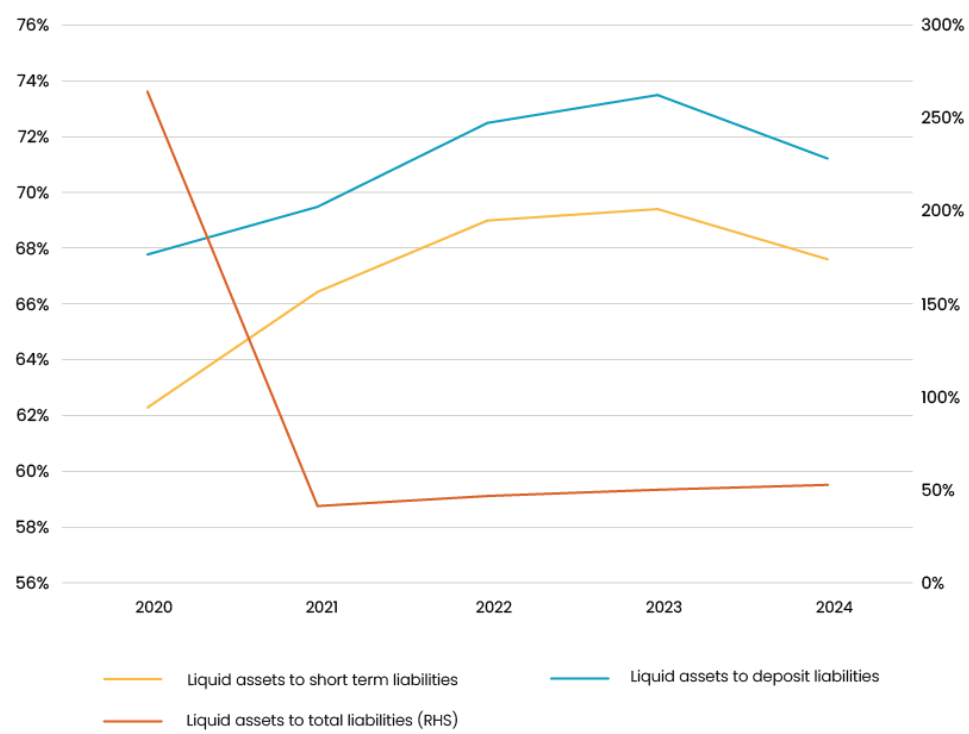


Source: Central Bank of Seychelles

5.2 Liquidity Risk

Two key indicators used to measure liquidity risk within the banking sector are the ratio of liquid assets to total liabilities and the ratio of liquid assets to deposit liabilities. The former is a regulatory requirement[6], that assesses a bank's ability to cover its total liabilities with liquid assets, such as cash, deposits with the central bank and marketable Government securities. As at end-2024, the banking sector's prudential liquid assets to total liabilities ratio increased to 52% compared to 50% in 2023. This improvement reflects enhanced liquidity coverage and continued compliance with the prescribed minimum regulatory threshold of 20%. To note, the elevated ratio observed for the period 2020 was largely attributable to the winding-up of a commercial bank, the availability of Private Sector Relief Credit Line Facilities in aftermath of the COVID-19 pandemic, which commercial banks primarily used to grant credit instead of their own funds.

Chart 5.6: Key Liquidity Ratios



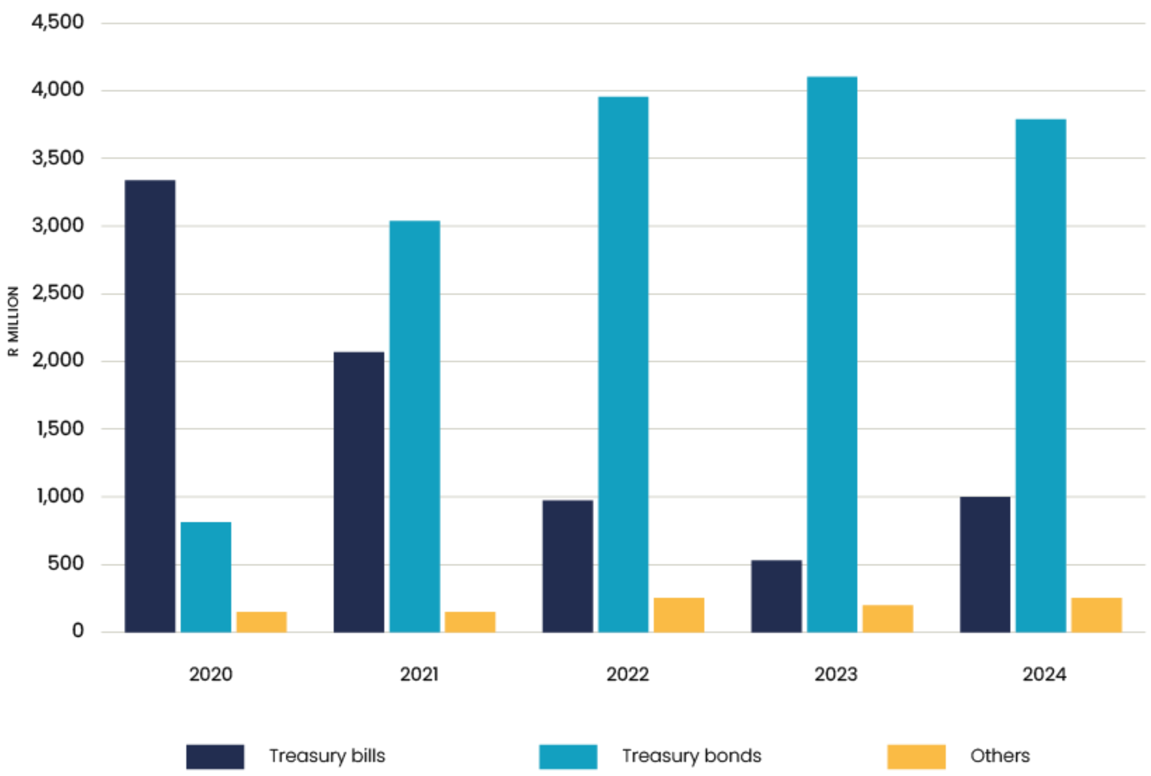
Source: Central Bank of Seychelles

[6] As per the Financial Institutions (Liquidity Risk Management) Regulations, 2009, a bank is required to maintain liquid assets in an amount which shall not, as a daily average each month, be less than 20 per cent of its total liabilities

The liquid assets to deposit liabilities ratio measures a bank's ability to meet its deposit obligations using liquid assets. As at end-2024, this ratio stood at 71%, down from 73% in 2023. While this represents a marginal decline, the ratio still indicates a strong liquidity position relative to deposit liabilities.

At the end of the review period, the banking sector's aggregate holdings of Government securities increased by 4.3 per cent, reflecting the sector's sustained reliance on these instruments as a key component of liquidity management. Banks' holdings of treasury bills increased by 88 per cent, while holdings of treasury bonds declined by 7.6 per cent compared to end-2023. The rise in treasury bills holdings coincided with higher issuance volumes during the year, aligned with the Government's strategy to manage its cash flow requirements. Conversely, the decline in holdings of treasury bonds largely reflects reduced bidding activity by banks, as a result of the prevailing low yields on these instruments.

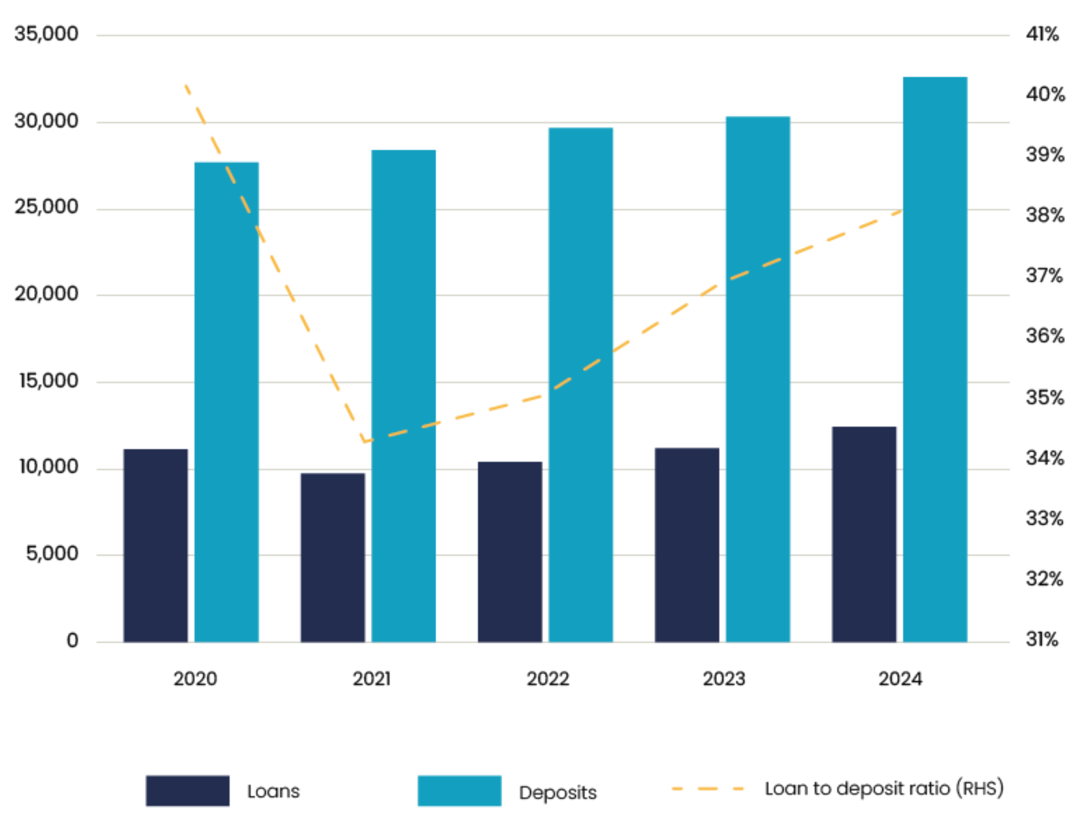
Chart 5.7: Banking sector holdings of Government securities



Source: Central Bank of Seychelles

Another important measure of liquidity is the loan-to-deposit ratio, which reflects the proportion of customer deposits used to fund loans. As at December 2024, this ratio increased to 38% from 37% in the previous year. This marginal rise was due to an 11 per cent growth in loans, which outpaced the 7.5 per cent increase in deposit liabilities. To note, at the end of 2024, the domestic banking sector's asset base was primarily composed of assets denominated in foreign currency, loans and advances and Government securities, representing 33 per cent, 32 per cent and 13 per cent respectively. This composition ensures that depositors' funds are also utilised for investment in liquid assets, which increases a bank's ability to cover unexpected liquidity shortfalls.

Chart 5.8: Loan to Deposit Ratio

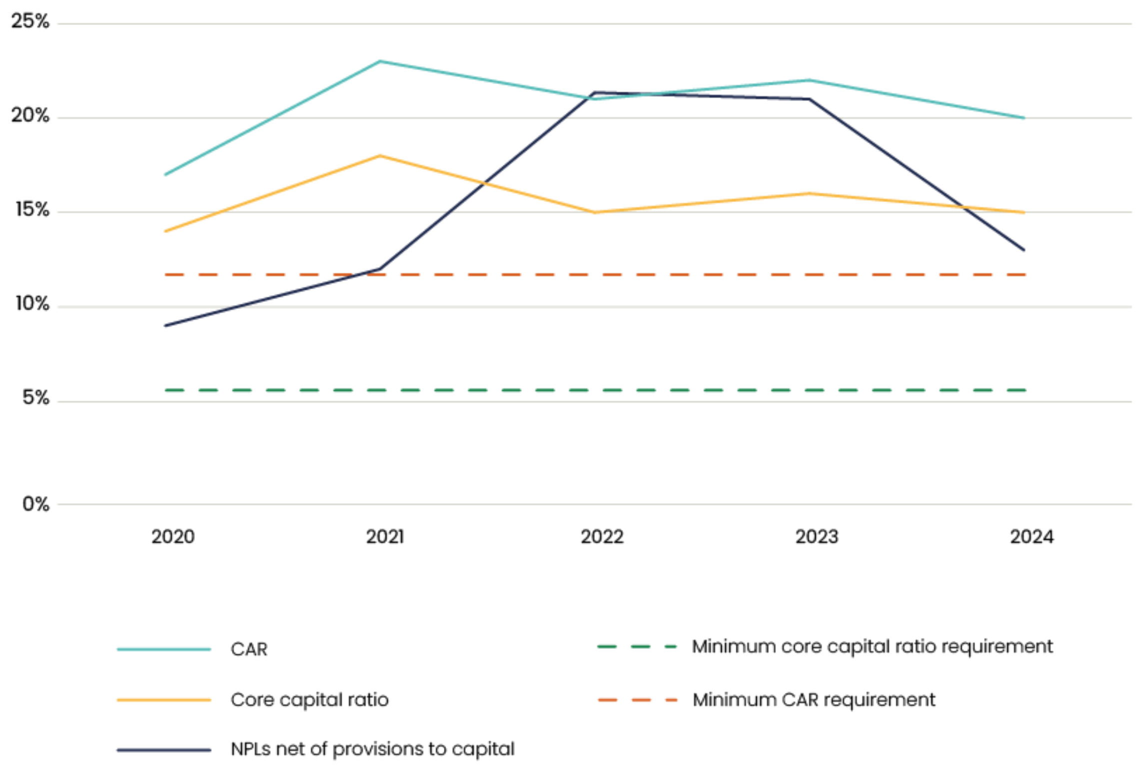


Source: Central Bank of Seychelles

5.3 Soundness of the Banking sector

The Capital Adequacy Ratio (CAR) reflects a bank's ability to absorb losses and remain solvent. A high CAR indicates stronger financial resilience, helping to protect depositors and maintain stability in the banking system. During the period under review, the banking sector remained adequately capitalised with prudential ratios remaining above the minimum regulatory thresholds set by the Financial Institutions (Capital Adequacy) Regulations, 2010, which require a minimum CAR of 12% and a core capital ratio of 6.0%.

Chart 5.9: Trend in solvency indicators (2020 - 2024)



Source: Central Bank of Seychelles

Despite remaining above the regulatory requirement, the industry's CAR declined by 2.0 percentage points to stand at 20% as at December 2024, while the core capital ratio declined by 1.0 percentage point to settle at 15%, at the end of the same period. The decline in both ratios were notable from January 2024, as a result of the transition from Basel I to Basel II computation of capital, with the latter seeking to ensure banks' minimum capital requirements align with inherent risks in their portfolios. This change introduced stricter capital charges for credit and market risks, including foreign currency risk.

The ratio of NPL net of provisions to capital, which peaked at 21% in 2022-2023, dropped to 13% in 2024. This decline was largely attributed to stronger loan recoveries, as banks implemented effective remedial measures recommended by the CBS.

Overall, while the decline in the CAR was expected due to the effect of regulatory changes, nonetheless the sector remained resilient, underscoring its capacity to absorb losses without compromising on financial soundness. Nonetheless, banks must maintain sufficient loss-absorbing capacity without excessively tightening credit conditions, as maintaining such a balance is essential for supporting financial stability and ultimately economic growth. As part of continued monitoring, the CBS plans to assess the implementation of the revised capital requirements in 2025.

Focus Box: Domestic Systemically Important Banks (D-SIBs)

Following the 2008 global financial crisis, the Basel Committee on Banking Supervision (BCBS) introduced new regulations with the aim of addressing gaps highlighted by the crisis and strengthen the global banking system. Thus, in 2010, Basel III was introduced, focusing on capital adequacy and liquidity risk. Moreover, in 2011, the BCBS established a framework to identify Global Systemically Important Banks, requiring them to hold additional capital to prevent systemic failures. The BCBS extended this framework to include D-SIBs, given that domestic banks could also pose significant risks to national economies. As such, the D-SIBs framework identifies banks that have systemic importance in the domestic economy and ensures sufficient capital is maintained to absorb potential losses. Unlike traditional risk-based approaches, this framework focuses on the impact of a bank's failure rather than the likelihood of a bank failure. Moreover, countries are allowed to adapt the framework according to the characteristics and specificities of its jurisdiction, which ensures its policy tools are used appropriately.

Seychelles D-SIBs Framework

Given the critical importance of identifying D-SIBs and tailoring regulatory requirements to allow for targeted measures on institutions with systemic significance, the CBS introduced its D-SIBs framework, which is part of the work towards developing the macroprudential framework. The framework will be operationalised through a phased-in approach to allow institutions adequate time to comply with new regulations, specifically the capital surcharge component, also known as the Higher Loss Absorbency (HLA).

Figure 5.1: Overview of Seychelles D-SIBs Framework

1 Identification of potentially systemic banks

- Initial Assessment - Banks with an asset base of 10% or more of GDP meets the systemic importance threshold and will be assessed as potential D-SIBs.
- Supervisory Judgement - Based on the discretion of the supervisor, exceptions can be made for banks that do not meet the initial threshold. The supervisor takes into consideration other significant factors and such banks are identified as potential D-SIBs.

2 Computation of systemic importance scores

- Following the initial assessment, the systemic score is calculated using the BCBS indicator-based approach, which evaluates a bank's size, interconnectedness, substitutability, and complexity, with each indicator weighted equally.
- Sub-indicators further refine the score, which determines the bank's classification and capital surcharge, known as the Higher Loss Absorbency (HLA).

3 Assigned bucket/capital charge

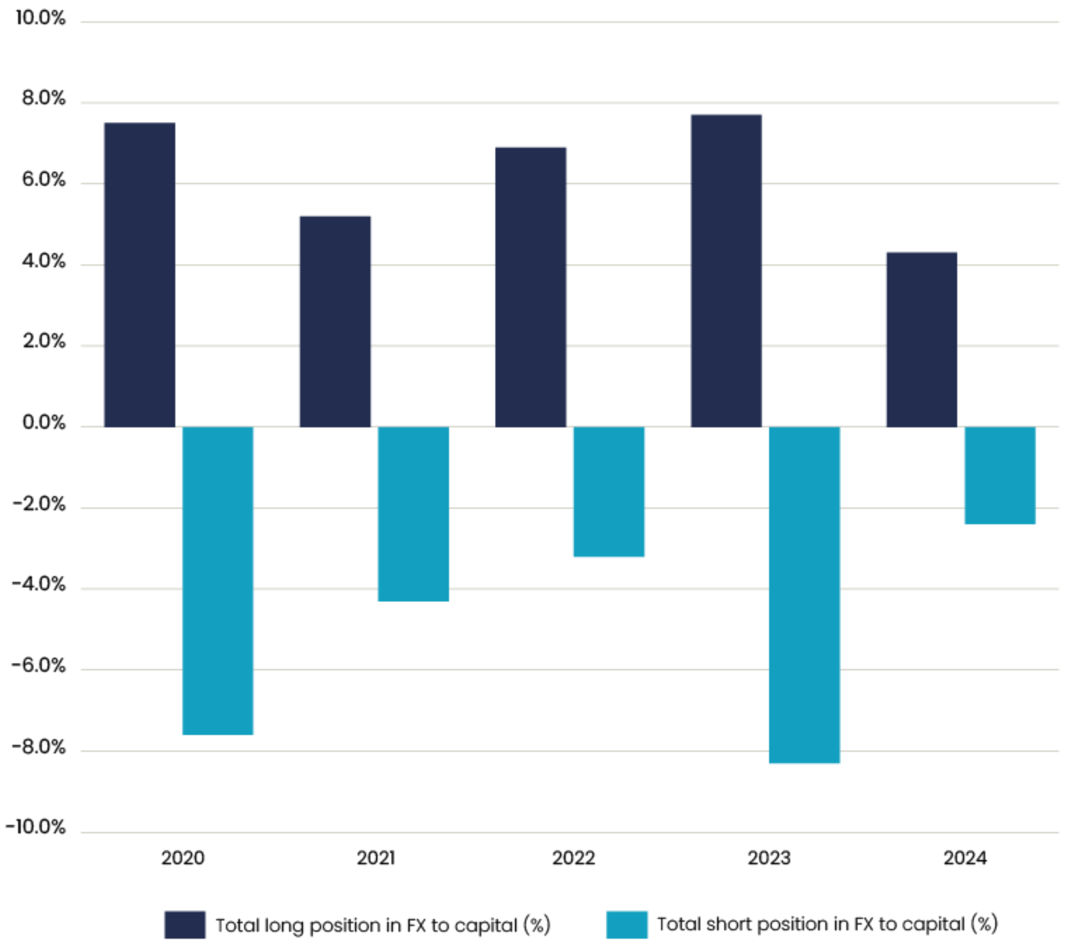
- Banks are classified into buckets based on their systemic score.
- Each bucket determines the required HLA and corresponding supervisory actions.
- The HLA forms part of the Common Equity Tier 1 capital and must be maintained as part of the Capital Adequacy Ratio.

5.4 Foreign Exchange Risk

Foreign currency exposure in the banking sector is assessed using two key indicators, the total long position to capital and the total short position to capital. These ratios, which express foreign exchange (FX) positions relative to regulatory capital, provide insights into the extent of a bank's exposure to FX risk. To minimise such exposures, the CBS has established prudential limits on long and short FX positions through the Financial Institutions (Foreign Currency Exposure) Regulations, 2009, which limits the share of assets and liabilities held in foreign currency.

During the review period, both total long and short FX positions relative to capital remained well below the 30% regulatory threshold. As shown in Chart 5.10, the total long position to Capital ratio decreased from 7.7% in 2023 to 4.3% in 2024, while the total short position to capital ratio from 8.3% to 2.4%.

Chart 5.10: Trend in FX exposure to capital (2020-2024)

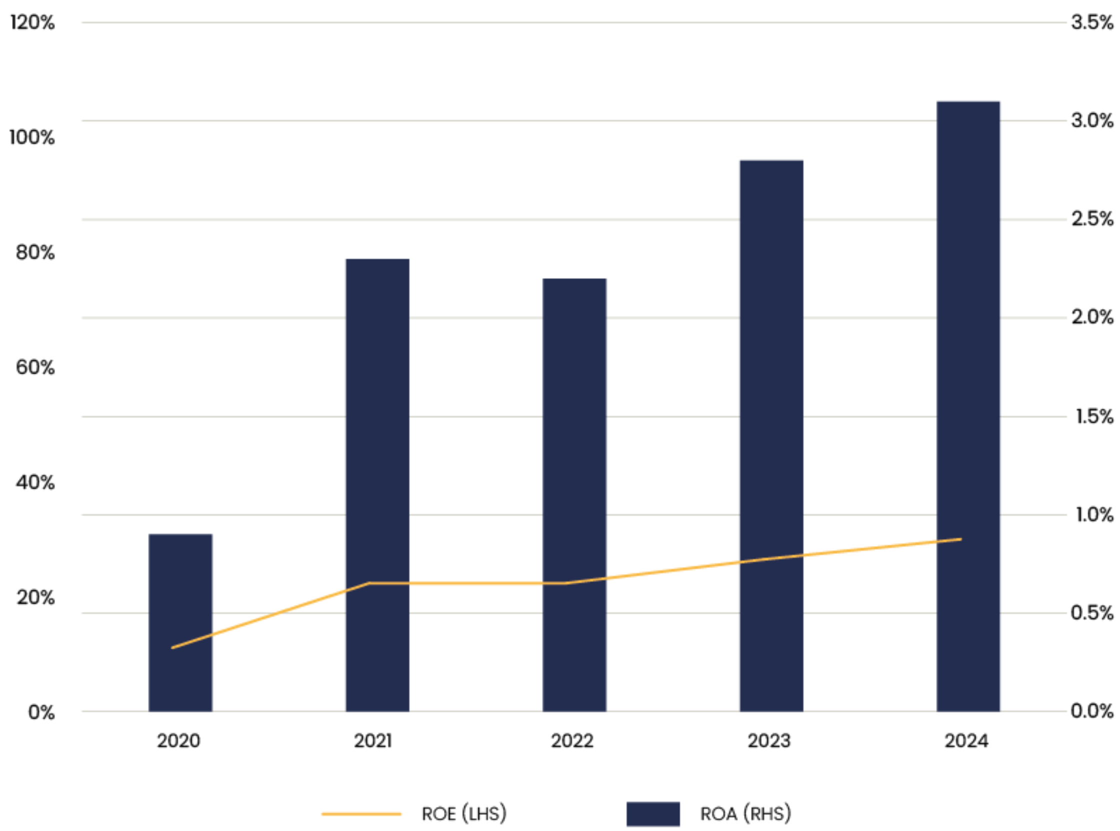


Source: Central Bank of Seychelles

5.5 Profitability

Profitability ratios evaluate a bank's ability to generate income and returns relative to its assets, equity, or capital, providing insight into overall financial performance. Over the past five years, the banking sector observed improvement in both profitability ratios with the industry's Return on Assets (ROA) increasing by 0.3 percentage points to settle at 4.3% at the end of 2024, while Return on Equity (ROE) increased by 2.0 percentage points to settle at 30% at the end of the same period. This increase was primarily driven by higher total income, specifically interest income from loans and advances, and earnings from assets denominated in foreign currency. Additionally, a decline in the operating expenses to gross income ratio from 52.34% in December 2023 to 49.70% in December 2024, indicates that income growth outpaced operating expenses, contributing to overall profitability gains. Higher profitability contributes towards maintaining adequate capital buffers and overall financial resilience.

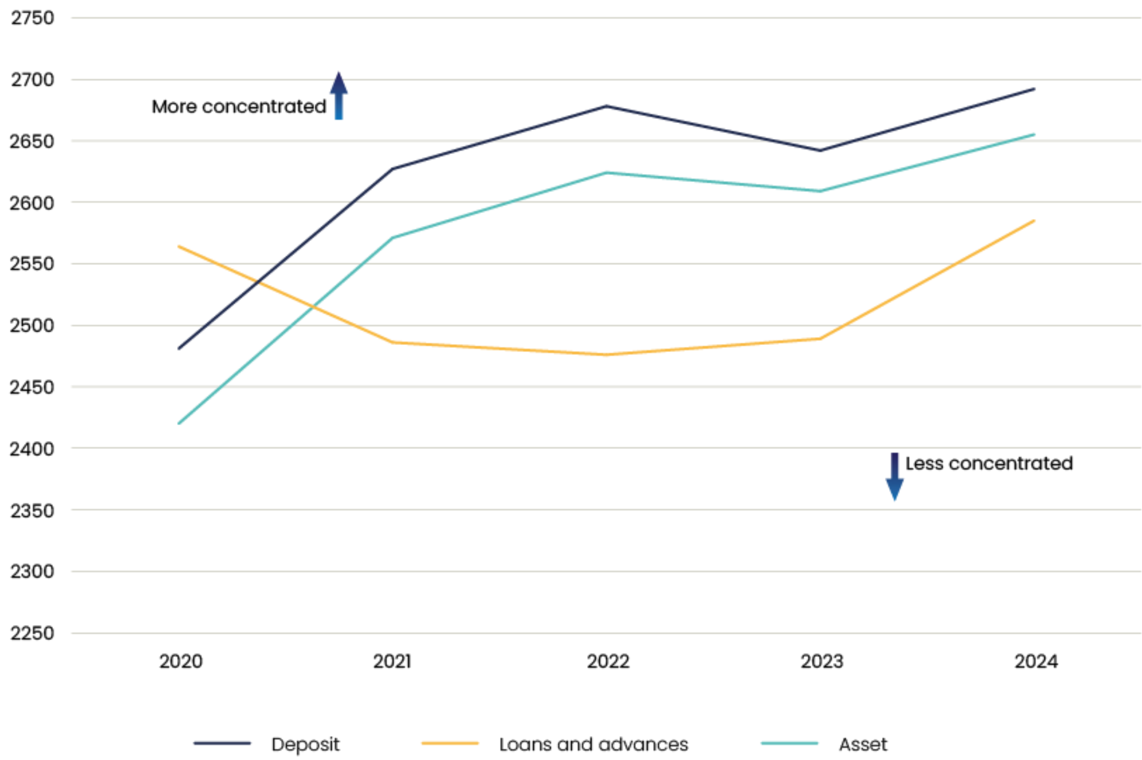
Chart 5.11: Key banking sector profitability indicators (2020–2024).



Source: Central Bank of Seychelles

The Herfindahl Hirschman Index (HHI), a measure of market concentration, was used as a proxy for assessing the level of competitiveness in the domestic banking sector. As at end of December 2024, the HHI for loans and advances, deposits and assets increased by 96, 50 and 46 points to stand at 2,585, 2,692 and 2,655, respectively. An HHI above 2,500 typically indicates a highly concentrated market, implying low competition. This trend has remained consistent over the past five years, with the three largest banks continuing to dominate the industry, collectively accounting for more than 80 per cent of the banking sector's total assets, loans and advances, and deposit base.

Chart 5.12: HHI for the industry's deposit base, loans and advances and total assets (2020-2024)



Source: Central Bank of Seychelles

Focus Box: Artificial Intelligence (AI) in the Banking Sector

Global technological advancements continue to accelerate the adoption of AI across various sectors, including the banking sector. Financial institutions are leveraging AI technologies for the automation of routine tasks such as data entry, compliance checks, fraud detection, credit scoring and personalised financial services, which allows for real-time responses to customer needs and threats. Whilst AI offers significant benefits, it also introduces new risks that could have systemic implications, emphasising the need for authorities to strengthen the regulatory frameworks and highlights the importance for consumer education.

On the domestic front, the CBS is mindful of the increasing risks associated with the use of AI, notably with the continued shift towards digitalising banking services. In this regard, a survey was conducted with the aim of gaining further insight into the extent of AI implementation within the banking sector, including measures established to manage associated risks. Although the result indicated a low level of integration of AI technologies in the sector, the CBS recognises the need to ensure the existing regulatory frameworks are strengthened for the safe adoption of AI in the banking sector. Additionally, with the interconnectedness arising from the use of AI, cooperation amongst regulators will be key in ensuring a coordinated approach is adopted towards supporting the safe integration of AI in the domestic financial system.

6 INSURANCE SECTOR

The Insurance Act, 2008 assigns the responsibility for the regulation of insurance business to the FSA and provides for the licensing and supervision of the following licensees:

- Domestics Insurers
- Non-domestic Insurers
- Insurance Brokers
- Agents
- Sub-agents
- Principal Insurance Representatives
- Insurance Managers
- Reinsurers

Table 6.1: Overview of the number of licences from 2019 to 2024

LICENSES	2019	2020	2021	2022	2023	2024
DOMESTIC INSURERS	6	6	6	6	6	5
NON-DOMESTIC INSURERS	7	6	8	9	9	8
DOMESTIC BROKERS	16	20	24	24	24	25
AGENTS	3	3	2	2	2	2
SUB-AGENTS	47	47	48	44	43	45
INSURANCE MANAGERS	0	0	0	0	0	1
DOMESTIC REINSURER	0	1	0	0	0	0
PRINCIPLE INSURANCE REPRESENTATIVE	1	1	2	2	3	1

Source: Financial Services Authority

Over the past year, the number of licensees that the FSA supervises within the insurance industry has remained constant with the exception of one domestic insurer license which was revoked on February 8th, 2024.

6.1 Financial Performance

During the year 2024, the General Insurance Business had a combined solvency ratio of 109%. The ROA and ROE were recorded at 29% and 65% respectively, whilst the Return on investments came in at 2.0% for all four (4) insurance companies. It is noteworthy that with the December 7th Disaster at the end of 2023 and its aftermath, the claims ratio was collectively 42% with the net profitability ratio estimated to be 15%.

On the other hand, the life insurance business had a combined solvency ratio of 121%. The ROA and ROE were recorded at 13% and 4.0% respectively, whilst the ROI came in at 4.0% for the two (2) insurance companies. This is evident given that there are only two (2) insurers offering life insurance products and there are limited vehicles of investments to generate revenue. The claims ratio was collectively 80% with the net profitability ratio estimated to be 23%, indicating a stable market.

6.2 Systemic Risks

Several risks emanating from the insurance sector were identified as having the potential to impact the broader financial system, during the review period. These risks could undermine the stability and resilience of both the insurance market and the wider financial sector.

6.2.1 Market Risk

Insurers remained exposed to market risk, primarily through fluctuations in interest rates, exchange rates or market price of an invested asset (e.g., equity values[7]). In particular, changes in interest rates exposed insurance companies to interest rate risks. These fluctuations resulted

[7] Equity value constitutes the value of the company's shares and loans that the shareholders have made available to the business.

primarily from the re-pricing or devaluation of assets and liabilities. The insurers may invest in properties to diversify their portfolio, and due to market influence, the value of these properties may drop from their estimated value and invertedly cause the company to incur a loss. Another type of market risk is foreign exchange risk, which originates from insurers' exposure to foreign currency-denominated investments. If an insurer invests in foreign currency stocks, depreciation of the foreign currency in which the stocks are held can affect the gains anticipated from the investment, resulting in financial loss for the insurance company.

6.2.2 Credit Risk

Credit risk persisted as a concern, whereby an insurance company may incur losses from a third party or counterparty failing to make payments when they are due. Instances where policyholders failed to settle premium payments or reinsurers delayed reimbursements, exposed insurers to liquidity strains and profitability pressures. The FSA, as the regulator of the insurance sector, conducted on-going monitoring of financial statements and management accounts along with quarterly reports from the insurers as a means of identifying, assessing, and managing the risks associated with credit exposures. This aligns with the standards set by the International Association of Insurance Supervisors (IAIS) in relation to Insurance Core Principle (ICP) 9 Supervisory Review and Reporting. As per the aforementioned principle, insurance regulators are recommended to use off-site monitoring and on-site inspections to evaluate insurance companies' financial condition, corporate governance framework, overall risk profile, and compliance with relevant legislation and supervisory requirements. Such information allows for effective supervision of insurers and evaluation of growth and deficiencies of the insurance market.

6.2.3 Insurance Risk

Insurance risk, arising from inadequate or inappropriate reinsurance, financial reserves, underwriting, claims management, product design and pricing, remained evident. In terms of product design and pricing risk, this related primarily to the exposure of insurance companies to financial losses arising from the re-pricing or inadequate pricing of certain products. This in turn may have an adverse impact on the gross written premium and overall net profit.

In the most developed insurance markets, insurance pricing has become extremely refined as insurers utilise big data[8] and a variety of predictive analytical scoring models. Big data can be used to benefit customers, for example by allowing more tailored insurance solutions or more accurate risk pricing. In Seychelles, this is a relatively new concept and there is a need for continued financial consumer education, protection, and development of inclusive insurance products.

Another significant insurance risk was underwriting and liability risk, which arose from insurance contracts or what is called ‘insurance policy’ that customers seek to transfer various financial uncertainties to the insurer in exchange for a set of premiums levied by the insurer. As such, underwriting and liability risk was inherent to the insurers’ operations and arose from the selection of risks to be insured. Underwriting risks consist of the perils such as mortality, longevity[9], sickness or disability, fire, weather, collision, etc which are vital to underwriting procedures by the insurer.

6.2.4 Operational Risk

Operational risk continued to be a major area of supervisory focus. This risk is defined as the potential loss due to the failure of people, processes, or systems and has been identified by insurance supervisors as a major cause for the failure of many insurers. As a result, there is considerable research into the appropriate supervisory approaches, namely, enterprise risk management, capital requirements and supervisory review for mitigating operational risk. Enterprise risk management frameworks assess and monitor risk from all sources for the purposes of increasing the insurers’ financial viability. The IAIS ICP 16 Enterprise Risk Management for Solvency Purposes provides guidance for insurance regulators, whereby it requires insurers to establish within its risk management system, an enterprise risk management (ERM) framework for solvency purposes to identify, measure, report and manage the insurer’s risks in an ongoing and integrated manner.

[8] Data sets that are too large or complex to be dealt with using traditional data processing methods.
[9] Duration of an individual life

Sources of operational risk for insurance companies include deficiencies in internal controls or processes, technology failures, human errors and natural catastrophes, which can disrupt an insurer's operations and result in loss of profitability and consumer trust.

Each insurer licensed by the FSA has submitted their respective internal controls procedures and processes manuals in line with the ICP 8 and Code on Risk Management and Internal Controls issued to the industry in 2018. Licensees' adherence to and effectiveness in implementing these controls are verified during off-site and on-site inspections conducted by the FSA.

6.2.5 Liquidity Risk

Liquidity risk was closely monitored during 2024, especially following the 7th December disasters whereby more claims were required to be paid out. This risk originates from the inability of an insurer to access operating funds without incurring unacceptable losses. The failure of a large global reinsurer might have systemic implications for the domestic insurance industry, specifically in accessing required funds to settle outstanding claims.

In the IAIS' principles on capital adequacy and solvency, ICP 10 speaks of the importance of risk management and the need for capital adequacy and solvency regimes to be supplemented by risk management systems. The indicator used to measure the liquidity position of an insurer as per the FSA's early warning test is the Liquidity Ratio, which considers the cash, treasury bills, term deposits and investments of the insurer vis-à-vis their total liabilities. The accepted threshold for the insurer to be deemed liquid is less or equal to 95%, and a ratio below the minimum requirement would indicate that the insurer has liquidity issues.

In 2018, the FSA issued a code on risk management and internal controls to the insurance industry. This code was implemented with the aim of addressing the need for a functioning internal risk management system. It also required insurers to examine the status of their current risk management by setting up appropriate function and processes. The implementation of such measures has allowed the FSA to enhance its on-site and off-site monitoring of its licensees.

6.2.6 Solvency Risk

Solvency risk remained a fundamental concern and refers to the insurer's ability to meet its financial obligations, particularly its ability to cover policyholder's claims and other liabilities as they come due. This is a prominent risk for the insurance sector, given its potential to disrupt the resilience of the insurance industry and compromise policyholders' interests. Measures employed by insurers to mitigate the risk of becoming insolvent, consisted mainly of holding diversified investment portfolios with varying liquidity profiles and maintaining technical reserves and reinsurance treaties to meet any liabilities that they may face. These measures served as safeguards in mitigating the risk posed by such an event.

6.3 Risk Mitigating Measures

To mitigate against such risks, the FSA ensured that insurance companies are adequately capitalised, should such uncertainties materialise. This is monitored through analysis of management accounts and quarterly reporting requirements.

One mitigating measure that the FSA, as the regulator, required from insurers, is to provide actuarial analysis and reports when designing and pricing of products. This ensures that appropriate steps are undertaken to provide customers with valuable products and adequate pricing. Furthermore, insurers are obligated to have appropriate internal controls such as procedure manuals and guidelines in place for underwriters to ensure risk are fairly underwritten so as to mitigate any further risks. This aligns with ICP 8, which requires insurance companies to establish and operate within an effective and documented system of internal controls.

Additionally, as per ICP 17 relating to Capital Adequacy, the supervisor must establish capital adequacy requirements, whereby all insurers must maintain adequate capital reserves to cover potential losses and meet their statutory obligations to policyholders. Through a proactive, risk-based approach of supervising the sector, the FSA conducts off-site data analysis, risk profiling prior to on-site examinations and ongoing monitoring and reviews as applicable. The implementation and effectiveness of these measures are monitored on a monthly and quarterly basis.

7 OTHER RISKS TO THE FINANCIAL SECTOR

In fulfilling their roles as financial intermediaries, banks and non-banks are exposed to numerous risks with the potential to affect their operations and overall financial health. In addition to the specific risks highlighted for the banking and insurance sectors, other risks impacting the financial sector are highlighted in this section.

7.1 AML/CFT Risk

An effective anti-money laundering and countering of terrorism financing (AML/CFT) system is crucial to the financial integrity of a country. An effective AML/CFT regime prevents criminals from utilising banking and other institutions to legitimise illegal funds and supports compliance with international standards and best practices, contributing to the financial integrity of the country.

The National AML/CFT Committee (NAC)[10], established under the AML/CFT Act 2020, is mandated to ensure that policies and measures to combat money laundering and terrorist financing activities are effectively implemented. NAC conducts national risk assessments to form the basis of these policies and measures. Three major national risk assessments were completed between 2022 to 2024; the second overarching National Risk Assessment (NRA) concluded in 2023, the Terrorist Financing risk assessment for the non-profit organisation (NPO) sector concluded in 2023 and the Overall National Risk Assessment (ONRA)) for Virtual Asset and Virtual Asset Service Providers (VA/VASP) concluded in 2022 and refreshed in 2023-2024.

The general NRA which built on the one conducted in 2017, as well as the findings and recommendations of the Eastern and Southern Africa Anti Money Laundering Group (ESAAMLG) in the last mutual evaluation determined that the overall level of risk for Seychelles is that money laundering (ML) risk is medium high and terrorism financing (TF) risk is low. It also noted that most international ML risks are derived from VA/VASP that are legal entities of Seychelles, but

[10] NAC members: a senior official from the Ministry of Finance, a senior official from the office of the Designated Minister, the Director General of the Seychelles Intelligence Service, the Attorney General, the Governor of the Central Banks of Seychelles, the Commissioner of the Seychelles Police the Registrar General, the Commissioner General of the Seychelles Revenue Commission, the Chief Executive Officer of the Financial Services Authority, the Chief Executive Officer of the Anti-Corruption Commission, the Director of the FIU.

operate outside of the jurisdiction. The domestic risks are related to drug trafficking and environmental crimes. NAC, supported by its Technical AML/CFT Committee, has responded to these findings by developing an NRA action plan that addresses the findings of the general risk assessments. NAC receives a report on the progress of the action items on a quarterly basis.

The refreshed (ONRA) for VA/VASPs which substantiated the general NRA, indicated that Seychelles has a very high financial crime risk exposure when it comes to VA products and VASP services, assigning this sector with a "very high" risk rating. A national VA/VASP working group has been constituted to execute the recommended action items identified in the VA/VASP ONRA to improve Seychelles' status. Since setting up of the working group, Seychelles has developed its VA/VASP legislative framework which was enacted in August 2024.

The Terrorist Financing risk assessment for the NPO sector concluded that TF risks in the NPO sector is low and the potential inherent vulnerabilities of NPOs to Terrorist Financing are (1) proximity to communities sympathetic to extremist causes, (2) unregistered NPOs**,** (3) funding from foreign sources**,** (4) unverifiable funding sources, (5) unverifiable controllers of NPOs and (6) foreign infiltration of religious associations. In view that TF risks in the NPO sector is low, the sector is being monitored accordingly. At the same time, understanding that monitoring of TF is an ongoing and evolving process, NAC has approved a policy to guide the country as to when a full re-assessment of the inherent and residual risk is triggered[11].

It is important to note that other than maintaining compliance with the Financial Action Task Force (FATF) standards through the FATF style regional body, ESAAMLG[12], the AML/CFT regime contributes to compliance with other international standards which are vital to the reliability of the country's financial sector. This includes the international standard on tax transparency for automatic exchange of information, and exchange of information on request under the

[11] The triggers are (1) an official assessment significantly changes the current assessment of the TF risk to NPOs, (2) an official publications might include the National Risk Assessment or Terrorist Financing Risk Assessment, the assessment may see the risk as higher or lower than the current report (3) an official assessment significantly changes the assessment of the overall terrorist financing threat in Seychelles, this might be a significant change in the nature of the overall threat, or a change in the assessment in the level of the overall threat, (4) an NPO is proven to be involved in the financing of a terrorist incident in Seychelles or (5) four years has passed since the last full risk assessment.

[12] Seychelles has submitted its final re-rating request for technical compliance and is presently largely compliance or compliant with 35 out of 40 of the FATF recommendation.

supervision of the Global Forum on Transparency and Exchange of Information. Seychelles is scheduled to undergo a review of both standards in 2025.

Central to the AML/CFT system is the FIU. On occasions where, despite the implementation of preventive measures, perpetrators continue to commit financial crimes, the FIU asserts its role as the national centre to receive and analyse any suspicious transactions or activities and disseminate to law enforcement agencies as necessary.

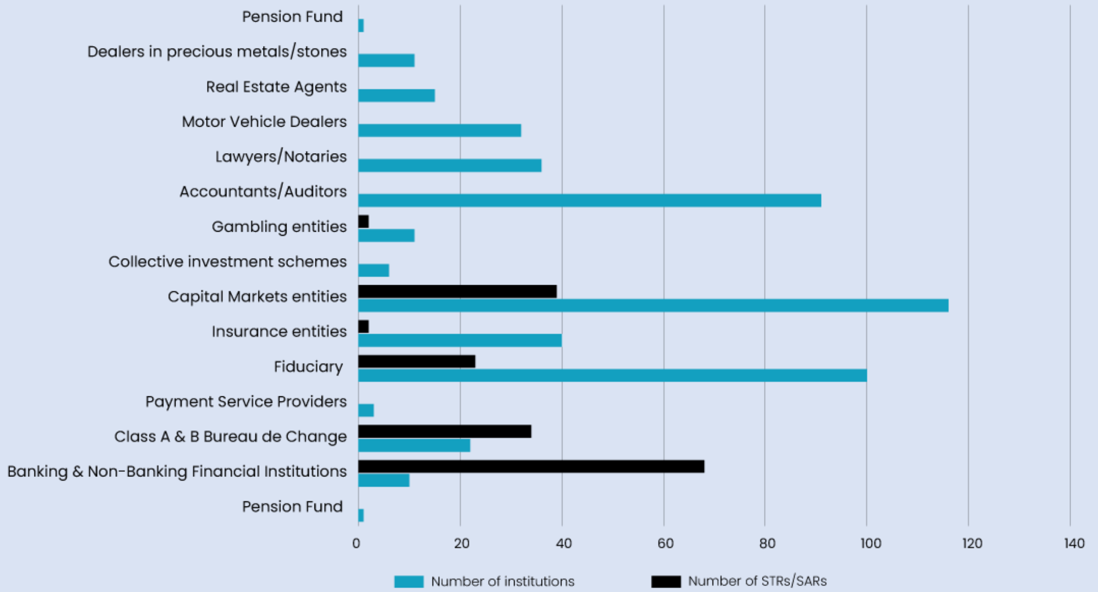
Focus Box: The Financial Intelligence Unit -The national centre for receipt of STRs/SARs

The FIU is the national centre for the receipt, analysis and dissemination of suspicious transaction reports and other information relevant to money laundering, associated predicate offences and terrorist financing.

In accordance with the AML/CFT Act 2020, as amended, during the review period, 544 reporting entities were obligated to submit suspicious transaction reports (STRs) and suspicious activity reports (SARs) to the FIU. The reporting culture is vital in maintaining financial integrity as it enables financial and non-financial institutions to support the fight against financial crimes and generally protect the stability of the financial system by identifying and reporting suspicious transactions and activities which could lead to further investigations.

In 2024, the FIU received a total of 168 STRs, which resulted in 53 intelligence reports that were disseminated to the law enforcement agencies, out of which, 73 per cent were used to start or assist with an investigation. The FIU continues to advocate for a culture where reporting entities consistently reports on STRs/SARs, as failing to do so poses a significant risk to the financial system, potentially supporting illicit activities, being money laundering, terrorism financing, fraud, amongst others, thereby undermining the country's financial integrity and stability.

Chart 9.1: STRs/SARs for the year 2024



Source: Financial Intelligence Unit

7.2 Reputational Risk

In 2024, two significant events occurred within the capital markets sector, which presented certain threats, but also offered opportunities to strengthen existing frameworks and enhance market resilience.

- ***Corporate Bond Default***

A significant event in the second quarter of 2024 was the default of a listed corporate bond, whereby the issuer was unable to honour interest payment to investors, after which, the bond was voluntarily suspended, and no further subscriptions took place. The bond default resulted in confidence risk, which means a loss of trust within the market, particularly among bondholders of the defaulted bond. This event also highlighted vulnerabilities in market governance, investor protection, and operational transparency.

- ***Termination of Membership on Securities Exchange***

Another notable event in the second quarter of 2024 was the voluntary termination of a securities dealer from a securities exchange. This event further increased confidence risk in the market due to poor coordination between the exiting member and the securities exchange, which led to confusion and frustration among investors. Additionally, the event highlighted gaps in consumer education, market transparency, established compliance measures, and post-termination procedures, which contributed to increased reputational threats and instability in the capital markets sector.

During this period, the FSA exercised its regulatory powers as needed to manage the identified risks. Although these events did not affect the broader financial system, they significantly impacted investor confidence and public trust in the sector. Consequently, the FSA recognised the need for stronger efforts in public awareness and consumer education, as well as addressing deficiencies promptly. Additionally, the FSA noted that there should be continuous efforts to refine the capital markets regulatory framework, ensuring it aligns with international standards and best practices, supports sustainable growth, and maintains investor resilience.

Focus Box: Emergence of AI in the Capital Markets sector

The use of AI in the capital markets sector continue to grow rapidly, reshaping areas such as trading, investment analysis, risk management, and regulatory compliance. According to the IMF, a significant increase in AI adoption was observed across financial institutions, highlighting usage of AI in cases such as portfolio optimisation, natural language processing for market sentiment analysis, and AI-driven trade execution. Moreover, regulatory bodies have acknowledged the growing presence of AI, recognising both its potential benefits and the associated systemic risks.

In light of these developments, the FSA is aiming to gain a deeper understanding of the adoption of AI within the sector, the associated risks, and the extent to which firms are prepared to manage these risks. From a financial stability perspective, it is also essential to assess the potential implications and risks of AI technologies due to their growing interconnection across various sectors. As of now, the FSA endeavours to continuously monitor both local and international developments related to the use and emergence of AI in the sector.

7.3 VA/VASPs

Prior to the enactment of the new Virtual Asset Service Providers Act in August 2024, virtual assets driven services in Seychelles were an unregulated activity, presenting substantial risks to the financial stability of the country, especially in light of the growing interconnectedness of the global financial system. The lack of regulatory oversight meant that virtual asset service providers operated with minimal accountability, exposing the financial sector to potential issues such as money laundering, terrorism and proliferation financing, fraud, and market manipulation. This lack of regulation threatened consumer trust, as investors could suffer large-scale losses in fraudulent schemes and risked reputational damage for the Seychelles as an International Finance Centre, since the international community, including global banks and investors, might view Seychelles as high-risk. It also opened the door to contagion effects, where defaults or losses in unregulated virtual asset activities could spill over into the broader financial system. Ultimately, this regulatory gap left Seychelles vulnerable to illicit financial flows, undermining the integrity and stability of its financial ecosystem.

In response to these risks, the Seychelles Government introduced comprehensive legislation in August 2024 to regulate virtual asset service providers. The new law aims to ensure that these entities operate with clear guidelines, requiring licensing and registration, proper compliance with AML standards, and adequate consumer protection mechanisms. Furthermore, the law does not allow the use of virtual assets for effecting payments. By establishing a robust regulatory framework, the law seeks to mitigate risks, enhance transparency, and safeguard the financial system from potential abuse, while still fostering innovation in the rapidly evolving virtual assets space.

7.4 Climate-related Risk

Threat stemming from climate-related risk continue to remain a concern globally and domestically, with efforts intensifying to provide guidance on climate risk management. Although, the development and implementation of policies geared towards the management and mitigation of climate-related risk remains challenging, on the local front, these risks have been assessed to pose major threats to the domestic financial system and the Seychelles economy as a whole. Recognising the importance of addressing such a risk, the Government took the decision to avail of the IMF's Resilience and Sustainability Facility (RSF), in May 2023. The facility aims to strengthen economic resilience and support long-term sustainability, particularly in the context of climate change. As a key stakeholder, the CBS made remarkable progress in 2024, undertaking several key initiatives to implement targeted reforms addressing climate-related financial risks within the banking sector. These efforts lay the groundwork for a more resilient and sustainable financial sector in Seychelles, aligned with the broader objectives of the IMF's RSF and will contribute in the implementation of a framework geared towards monitoring and mitigating climate-related risk.

Table 9.1: Initiatives undertaken towards addressing climate-related financial risks in the banking sector.

INITIATIVES	DETAILS
National Definitions for Sustainable Finance, Climate Finance, Blue Finance and Green Finance	The Cabinet of Ministers endorsed the adoption of national definitions for sustainable finance, climate finance, blue finance and green finance, on **August 21, 2024**. This serves as the first step towards the establishment of relevant strategies, policies and frameworks for the banking sector.

Guidelines on the Effective Risk Management of Climate-related Financial Risks	The CBS prepared a set of guidelines on the Effective Risk Management of Climate-related Financial Risks to assist regulated institutions in strengthening climate risk governance and practices. Aligned with the principles of the BCBS and best practices from the NGFS, the draft guidelines were circulated for stakeholders' consultation in December 2024.
Climate Risk Analysis	In May 2024, with technical assistance of the IMF, the CBS initiated work on integrating climate risk analysis into the macro-prudential stress testing framework to capture the banking sector's exposure to physical climate risks.
Climate Change Technical Working Group	In 2024, the CBS also joined the Seychelles' Climate Change Technical Working Group, which serves as a platform for coordination and collaboration on ongoing national climate change initiatives.

8 LEGISLATIVE AND REGULATORY DEVELOPMENTS

INITIATIVE	STATUS
CBS Act, 2004, as amended	Amendments to the CBS Act 2004, with the aim of strengthening the governance and autonomy of the CBS, was approved by the NA in July 2024. In addition to delivering on its primary mandate of promoting price stability, these amendments were an important step towards providing clarity on the CBS's other objectives which are promoting financial stability and soundness of the country's financial system.
Draft Bank Recovery and Resolution Bill	Significant progress was made as part of ongoing work towards establishing the country's Bank Resolution Framework. An effective bank resolution regime ensures that any failed bank is resolved in an orderly manner without severe systemic disruption or exposing taxpayers to the risk of loss. In September 2024, the policy paper and draft Bill were approved by the CBS Board of Directors, followed by endorsement by the Cabinet of Ministers in October. The draft Bill is expected to be finalised for approval by the NA in 2025.
Virtual Asset Service Providers Act, 2024	Taking into consideration of the increasing risks associated with Virtual Assets (VAs) and the jurisdiction's effort to ensure compliance with the Financial Action Task Force Recommendations 15, the VASP Act, 2024 was enacted in August 2024. The new legislation provides a legal framework for the registration, supervision, and enforcement of VASPs.

Securities Act, 2007, as amended	In line with the FSA's ongoing efforts to strengthen the capital markets sector and align with international and regional standards such as the International Organisation for Securities Commissions (IOSCO) and the Committee of Insurance, Securities and Non-Banking Financial Authorities (CISNA), significant reforms were made to the Securities Act, 2007 and its regulations. These amendments aimed to modernise the legislative framework in line with evolving market practices, enhance consumer protection, mitigate emerging risks, and address regulatory gaps, particularly in relation to the operations and conduct of Securities Dealers. The key amendments included: • At least one fit and proper resident director in Seychelles. • Dual control (4-eyes minimum criterion). • Complaints handling to be conducted in Seychelles. • Amendments to the paid-up capital requirements. • Measures relating to trade names and domains. • Reinforcement of consumer protection measures.

9 ACTIVITIES OF THE FSC

The FSC held five meetings during the year under review, including one ad-hoc session, to discuss and assess potential risks to the country's financial stability. Key concerns included persistent global economic uncertainty, ongoing geopolitical tensions, emerging challenges related to Artificial Intelligence (AI) - driven cybersecurity threats and the increasing frequency of climate-related events and their impact on the financial sector and economy as a whole. On the domestic front, the FSC also raised concerns over the performance of the tourism industry in light of slowdown in visitor arrivals, which was largely attributed to external factors such as geopolitical tensions, coupled with tight financial conditions in key source markets (notably Europe) and growing competition within the region. In response, the FSC emphasised the importance of a coordinated and proactive approach among relevant stakeholders to effectively monitor and mitigate these emerging risks, to safeguard the resilience and stability of the domestic financial system.

Table 8.1: Key deliverables of the 2024 FSC Workplan

FSC Memorandum of Understanding (MOU)	Members of the FSC signed an MOU to formalise the provisions of the Financial Stability Act, 2023. The MOU reinforces their commitment to cooperation, assistance, and information exchange to promote the stability of the financial system.
Publication of Financial Stability Reports (FSRs)	The FSC published the 2022 FSR in May 2024 due to unforeseen delays in data collection and analysis. The Report provided an assessment of the resilience of the domestic financial system against key financial stability risks during the review period. In July 2024, the FSC published the 2023 FSR - the first report published in accordance with the Financial Stability Act, 2023. The aim of the Report was to promote awareness of financial stability and its implications for the country. It also provided an overview of the financial sector's performance, covering both banking and non-banking institutions, as well as the overall economic performance for the year.

	In accordance with section 11(1) of the Financial Stability Act, 2023, a copy of the Report was presented to the President and NA, by the FSC on July 01, 2024 and July 02, 2024, respectively.
Seychelles Financial Stability Policy Strategy	The FSC approved the key pillars of the Financial Stability strategy: *Governance, Financial Integrity, Impact of Technology, Financial Market Infrastructures and Impact of Climate Change.* These strategic pillars reflect the FSC's commitment to strengthening the resilience of Seychelles' financial system and addressing emerging risks and gaps identified within the country's financial and economic landscape.
Financial Stability Awareness Campaign	A Financial Stability Awareness Campaign was launched in the third quarter of 2024, to enhance public understanding and engagement with the 2023's FSR through established communication channels. The focus of the 2023 edition of the FSR, published in July, was to educate and raise awareness on financial stability and its implications for the country.
Skills gap analysis	A skills gap analysis was conducted among the membership of the FSC technical subcommittee to identify key capacity-building priorities and ensure targeted training. This assessment aimed to evaluate existing competencies, pinpoint areas for development, and align training efforts with the evolving needs of the financial sector. By addressing these gaps, the FSC seeks to enhance technical expertise of subcommittee members, strengthen regulatory oversight, and improve overall effectiveness in managing financial stability and emerging risks.

Capacity building	As part of capacity building efforts of the FSC Technical Subcommittee, technical staff from the CBS and FSA participated in the Climate-related and environmental risks Online Course for banking and insurance supervisors offered jointly by the Bank of International Settlement (BIS) and the Network for the Greening of the Financial System (NGFS).. This eight-week online course provided an introduction to climate-related and environmental risks, and covered key supervisory topics, including corporate governance, risk assessment, disclosure, and supervisory tools from a climate and environmental perspective.
Assessment of AI Integration in the Financial Sector	In light of the increasing global use of AI in financial services and the associated rise in cybersecurity threats, a survey was conducted by the FSC Technical Subcommittee to assess the integration of AI within the domestic financial sector. The initial scope focused on the banking and insurance sectors, with other non-bank sectors to be covered at a later stage. The survey gathered insights into the extent of AI adoption, the risk mitigating measures in place, and the level of client awareness regarding the use of AI-enabled services. Findings showed that AI integration remains at an early stage, although several institutions have indicated plans to adopt such technologies in the short to medium term. Additionally, the CBS has implemented an internal AI policy and has been tasked with leading the FSC's efforts to develop sector-wide guidance on the ethical and secure use of AI in the financial sector.

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