



May 2002
IMF Country Report No. 02/98

Gabon

ROSC | Reports on the Observance of Standards and Codes

- [Banking Supervision](#)
Basel Committee, Core Principles for Effective Banking Supervision
- [Monetary and Financial Policy Transparency](#)
International Monetary Fund, Code of Good Practices on Transparency in Monetary and Financial Policies
- [Insurance Regulation](#)
International Association of Insurance Supervision, Insurance Core Principles

These reports are based on the analysis and findings of the FSAP and have been extracted from the FSSA.

Where provided, responses from the country's authorities are included.

The views expressed in these documents are those of the staff team and do not necessarily reflect the views of the country's government or of the Executive Boards of the IMF and World Bank.

Section II. Financial Sector Summary Assessments

- This section contains the summary assessments of the standards and codes that were performed in the context of the Gabon FSAP. The standards that were assessed were (i) the *Basel Core Principles for Effective Banking Supervision (BCP)*; (ii) the IMF's *Code of Good Practices on Transparency in Monetary and Financial Policies (MFP Transparency Code)*; and (iii) *IAIS Core Principles for Insurance Supervision (ICP)*. These assessments were used in the formulation of the overall assessments of financial stability.
- The assessments were prepared by Alain Laurin (World Bank) and Marcel Maes (formerly Belgian Banking Commission)—*Basel Core Principles for Effective Banking Supervision*; Gregorio Impavido (World Bank)—*IAIS Core Principles for Insurance Supervision, and MFP Transparency—Insurance Supervision*; and Karl Driessen (IMF)—*MFP Transparency Code*, on the basis of information provided by the authorities and subsequent discussion.
- Since Gabon belongs to regional organizations that are responsible for monetary policy (BEAC), banking supervision (COBAC), and insurance supervision (CRCA), the assessments evaluated the practices of these agencies as they apply to Gabon. Overall, the transparency practices are observed to satisfactory degree, however, the authorities recognize there is room for improvement, and are working to upgrade practices in most areas in which shortcomings were observed.



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Banking Supervision

Basel Committee, Core Principles of
Effective Banking Supervision

I. CORE PRINCIPLES FOR EFFECTIVE BANKING SUPERVISION

A. General

1. This assessment of the adherence of prudential and banking supervisory standards applicable in Gabon to the Twenty-Five Core Principles for Effective Banking Supervision established by the Basel Committee was carried out from February 7 to 17, 2000 and updated in May-June 2001. It falls within the framework of Financial Sector Assessment Program jointly conducted by the International Monetary Fund and the World Bank. The Central African Banking Commission (COBAC) and its Secretariat General (SGCB) were the main counterparty agencies for this assessment.
2. The assessment is primarily based on published laws and regulations, as well as information obtained in discussions with banking supervisors and COBAC commissioners. It is important to note that the mission also had access to all information, internal memoranda, inspection reports and manuals of procedures, with no restrictions whatsoever, under the terms of professional confidentiality to which SGCB agents are bound. The Secretary General of COBAC and his collaborators expressed their views in a spirit of openness and transparency, which, by all accounts, allowed the mission to examine the entire nexus of problems faced by COBAC and its secretariat.
3. The assessment of compliance with each of the Core Principles follows a qualitative approach. The assessment method consists of examining the degree of compliance with each of a principle's relevant criteria.
4. The legal and regulatory framework and the actual implementation of banking controls appear to comply, either specifically or on the whole, with the Core Principles. The COBAC instituted a program to modernize the supervisory system after the first appraisal mission. Several regulations were amended at this time, including regulations on creditworthiness and exposure diversification. Among regulations currently in the pipeline, the draft regulations on internal controls and the role of auditors are of particular interest. Actual implementation of these two regulations will clearly have a positive effect on the internal operations of banks and thereby on the security of bank transactions within CEMAC. However, given the delays in implementing these regulations, it should be emphasized that the current assessment does not exclusively reflect major efforts to modernize the supervisory system. Notwithstanding the difficulty of implementing the regulation on internal controls, both for banks and for supervisors, particularly insofar as SGCB staffing has not been upgraded as much as needed, it is clear that SGCB and COBAC will endeavor to verify actual implementation of this regulation with their customary rigor. All things considered, a future updating of this report, for example in connection with an FSAP for another member country of CEMAC, should logically reflect full compliance with several principles.

B. Institutional Setting—Overview

5. COBAC is the institution responsible for prudential supervision of banks, based on on-site and off-site controls, and is also charged with defining the regulatory framework. Established in 1992 at a time when many banking systems in the subregion were in deep crisis, COBAC was handed most of the responsibilities earlier held by governments, whose role was thus significantly reduced. Although COBAC is an independent institution in the legal sense, its secretariat has almost no administrative autonomy. Indeed, the Bank of Central African States (BEAC) provides all of COBAC's physical resources, a situation which has not proven favorable to COBAC insofar as its current staffing is inadequate to meet the scope of its mission.

C. Main Findings

6. The most striking weaknesses of the supervisory system relate to off-site controls, which are insufficiently developed, and human resources, which are in a state of decline in relation to COBAC's needs. Inadequate staffing, a persistent problem for several years despite a recent build-up, is likely to undercut the effectiveness of the supervisory system, particularly insofar as reforms that are now being introduced (internal bank ratings, regulations on internal controls and auditors, etc.) will require more intensive monitoring by supervisors.

7. Despite the progress yet to be made in order to raise the quality of the supervisory system to the level required for full compliance with the Basel standards, COBAC and its secretariat (SGCB) possess a number of strengths. First, their staff is well qualified and their management team is eager to modernize the supervisory system in accordance with international standards and follow the example of the best practices in effect in other jurisdictions. Second, COBAC is a respected institution that is capable, as a result of its supranational status, of resisting pressures to which the Union's individual member countries may be subjected.

8. The banking crises that have plagued many countries of the subregion in recent years have had the effect of absorbing a major share of SGCB's resources and attention. Despite the extra efforts required to manage these crises, SGCB has attempted to modernize its oversight tools and the regulatory framework. Thus, SGCB has upgraded the information system that banks must follow, has instituted internal bank ratings and has succeeded in shortening the interval of routine, on-site audits to two years. However, the additional staffing recently approved by the Bank of Central African States (BEAC) remains inadequate for maintaining the quality of oversight of banking organizations alone. It is quite obvious that SGCB staffing needs to be further strengthened if COBAC's scope of responsibilities is to include, on an ongoing basis, oversight of microfinance activities (see below).

9. Implementation of the regulations on internal controls and auditors, as well as the plan to publish the ratings assigned to banks, will place heightened responsibilities on SGCB. First of all, these initiatives will significantly increase the workload of supervisors, particularly in view of the numerous actions that banks must accomplish in order to comply with the very stringent regulation on internal controls. In addition, the greater involvement of auditors in the

supervisory system will require closer and more frequent contact with this profession. Finally, publishing the banks' ratings and making the supervisors' work more transparent will require that SGCB and COBAC formalize their analyses and decision-making process. If greater transparency – in itself a laudable objective – is not accompanied by efforts to streamline internal procedures, then the credibility and even the impartiality of COBAC's decisions could be called into question.

Objectives, Autonomy, Powers, and Resources (CPI 1)

10. Regarding clear responsibilities and objectives of bank supervision agencies (CP 1.1), the laws and regulations are satisfactory in this regard. Nevertheless, there is no mechanism for periodically assessing the way in which COBAC and SGCB carry out their activities, to provide an independent judgment of the quality of oversight and the adequacy of resources.

11. Despite the recent staff build-up, the inadequate material resources available to COBAC are likely to compromise efforts to meet the objectives assigned to banking supervisors, hence not meeting principle 1.2 of “adequate resources”. This situation is likely to deteriorate further as new responsibilities in the area of oversight over microfinance activities are handed to COBAC.

Licensing and Structure (CPs 2–5)

12. Some institutions that specialize in microfinance activities collect deposits without receiving a license (CP 2). The laws and current practices are consistent with the requirements of CP 3, except with respect to the licensing of members of boards of directors, and processing delays. Beyond the regulatory dimension, it can be strongly argued that COBAC does not pay sufficient attention to how institutions are governed. It is regrettable that the composition of a bank's board of directors and the presence of independent board members should be considered as secondary matters. Nevertheless, the regulations on internal controls, which will involve profound changes in the internal operations of banks, should go a long way toward rectifying these weaknesses.

Prudential Regulations and Requirements (CPs 6–15)

13. On the whole, the prudential system of risk coverage has been substantially improved and the new regulation should have the effect of strengthening the capital adequacy of banks (CP 6). In addition, the weightings that have been assigned are intended to more accurately reflect the scope of the risks faced by banking organizations, based on the quality of the bank's counterparts and the nature of its operations. Also, a prudent decision was made to retain a weighting of the public debt that takes into account the macroeconomic position of member countries, as well as differentiation of the risks facing banking organizations based on their internal ratings. However, time limits imposed on banks for compliance with the new capital rules are relatively long. It can also be argued that the capital ratio level is insufficient in view of the broad range of risks that banks face, including operational risk, and risk of concentration (“granularity”).

14. There is a lack of required formalization of loan distribution and monitoring practices and procedures (CP 7), which is only partially offset by the on-site work of inspectors. Given COBAC's limited resources and the resulting insufficient frequency of inspections, it would be prudent to correct this deficiency, which should happen through enforcement of the regulation on internal controls. Yet verifying implementation of the regulation on controls will significantly increase the workload of SGCB, whose staff is already stretched thin.

15. COBAC has reduced the maximum limit for risk concentration (CP 9) from 75 percent to 45 percent, and has made transparent the conditions under which COBAC may grant exemptions. Although the regulations in effect deviate somewhat from international practices in this area, it should be recognized that, in the case of CEMAC banking systems, excessive concentration of exposures is simply a reflection of insufficiently diversified economies.

16. Draft regulations on internal controls are not sufficiently specific about the need for loans to related parties (CP 10) to be granted only at arm's-length with respect to interest rate terms.

17. SGCB is of the opinion that it is not necessary to develop a specific system that focuses on market risks (CP 12), since banks are not exposed to market risk at this point. However, in the view of the assessors, regulations on internal controls should be sufficient to effectively address all banking risks to which banks operating in the CEMAC countries are exposed, including foreign exchange risk.

18. Given the high levels of operational and macroeconomic risk, against which it is currently not required to hold capital (CP 13), and in the absence of any mechanism for accurately calculating the risks that result from operational risk (fraud, weak management, judicial rulings, etc.), prudence would suggest that the capital ratio should be raised by several points over the standard of 8 percent which the Basel Committee views as a minimum.

19. The draft regulation on internal controls (CP 14) imposes very stringent requirements with respect to technical matters (measuring and monitoring of risks, security, information systems, etc.), business management (involvement of directors and managers) and relations with auditors and supervisors.

20. No laws or regulations have been enacted in the area of "know your customer" and money laundering (CP 15). No recommendations have been given to banks concerning accurate identification of their clients and any abnormal transactions, nor concerning statements they could make if they should become suspicious about the nature of transactions performed for clients.

Methods of Ongoing Supervision (CPs 16–20)

21. Most of COBAC's resources are allocated to oversight of banks that are experiencing difficulties, hence its focus on on-site supervision. As a consequence, COBAC has not been able to develop off-site supervision of the same quality as its on-site supervision, nor a system to monitor comments or injunctions with the necessary intensity. COBAC has no programs or

procedures for maintaining contact with bank management outside on-site supervision. The spacing of on-site supervisory missions and the deficiencies in ongoing supervision mean that COBAC is not always able to monitor developments in banking operations as they occur, particularly insofar as its jurisdiction encompasses a large geographic zone. Current practices in the area of collecting, reviewing and analyzing prudential reports and statistical returns are good, particularly in the wake of recent improvements in the banks' reporting system. In addition, COBAC has tightened its approach toward institutions that submit their data late, and is quick to impose monetary sanctions. Currently, COBAC does not rely on external auditors to validate supervisory information. However, SGCB has developed a specific draft regulation on the activities of external auditors in order to increase their contribution to the supervisory system.

Information Requirement (CP 21)

22. Current weaknesses on obtaining a true and fair view of the financial condition of the bank are being addressed in new draft regulations, principally by increasing the role of external auditors in this regard. COBAC has no role in setting banks' publishing requirements. As a result, banks publish information that is inconsistent and that fails to meet international standards.

23. This is all the more necessary because banks may have a tendency to build up minimum provisions whereas the actual circumstances of their debtors might justify additional efforts.

Formal Powers of Supervisors (CP 22)

24. Although the regulations are in general compliance with the requirements of Principle 22, in practice, however, COBAC has been lenient in situations where an institution's financial condition or management methods might have justified more vigorous action, particularly in the event of repeated or even intentional violations of laws and regulations and basic professional standards. In addition, COBAC does not always take timely action in imposing necessary corrective steps; the deadlines set for corrective action by COBAC may appear excessively long.

Cross-Border Banking (CPs 23–25)

25. Most principles in these areas are not applicable. However, COBAC intends to conclude agreements with supervisory authorities of other countries that are similar to the one signed with France.

Medium-term challenges

26. Among the main medium-term challenges, the following can be highlighted:

- SGCB's staffing resources are inadequate. Even though the restructuring of banking systems is well under way, this should not be an argument for refusing to upgrade SGCB personnel, thereby compromising the preventive mission on which COBAC

must now concentrate. Approval and subsequent implementation of several regulations of a qualitative nature over the coming months (internal controls, auditors, etc.) will make it necessary to strengthen both the controls themselves and the monitoring of controls. In particular, it will be advisable for SGCB to focus its efforts on strengthening ongoing off-site supervision.

- COBAC’s authority is likely to be extended to include oversight of certain microfinance institutions in the subregion. In light of the staffing problem mentioned above, it is of critical importance that COBAC not be weakened by having the scope of its activities expanded without the necessary additional resources being allocated.
- While reducing the interval for on-site audits (two years instead of three) is laudatory, COBAC should make every effort, given its limited resources, to tailor its on-site audits more effectively to the risk profile of banks. Progress in the area of internal controls and better cooperation with auditors should translate into gains in productivity.
- Achieving greater market discipline requires that COBAC pursue a policy of gradual tightening of controls over entities in breach of the regulations, after an initial period of educational outreach. The decision to publicize COBAC’s rulings as widely as possible is highly commendable, especially insofar as few countries around the world have taken the initiative to provide detailed information on subjects deemed sensitive.

D. Recommended Next Steps

27. Table 6 summarizes some of the principal recommendations that would increase compliance with the Basel Core Principles.

Table 6. Recommended Action Plan to Improve Compliance of the Basel Core Principles

Reference Principle	Recommended Action
1.1	The appropriate bodies of the Union could provide for assessments of the oversight process at regular intervals, targeting both COBAC and other bodies responsible for prudential supervision.
1.2	It would be useful to increase COBAC’s operational capacities so that COBAC can maintain the quality of bank supervision. And it would be appropriate for BEAC to adopt and implement a strategic plan covering a three-year period, after which the resources of the General Secretariat would be adjusted in line with its workload, unlike the present situation. Finally, an arbitration mechanism for settling any conflicts between BEAC and SGCB should logically be set up. This role could be assigned to the regional ministerial committee. The above-mentioned strategic plan should remedy the imbalance in the age and skills pyramid by instituting regular recruitment, for example on a yearly basis, instead of occasional waves of recruitment.

Reference Principle	Recommended Action
9	In view of the recommendations of the Basel Committee (Basel 2), COBAC would be well advised to set a specific capital charge for banks that have concentrations of exposures within their portfolios. Banks should be required to set internal limits of maximum exposure and determine the particular conditions for monitoring their exposure. The draft regulation on internal controls could include a section dealing specifically with management of the most significant exposures, especially those that exceed the regulatory thresholds.
10	SGCB should consider more explicit wording in the draft regulations on internal controls to prohibit lending on off-market terms.
14	The regulation on internal controls stipulates that banks may be subject to sanctions if the provisions of the regulation are not met. Given the scope of the changes that banks will need to make, it would be advisable for COBAC to define more precisely the steps that banks must accomplish on a priority basis and within what time frame. If no such clarification is provided, it is highly probable that the positive effects expected from implementation of this regulation will be slow in coming. Given the specificity of internal control systems, SGCB will most likely need to explain to banks on an individual basis the objectives to be met in this area.
16	COBAC should impose severe sanctions on banks that intentionally and sometimes repeatedly violate the regulations and the principles of good management. COBAC should take a more directive role with respect to minimum requirements. The qualitative minimums that COBAC considers indispensable should be indicated in writing and distributed to banks.
17	As part of the regulation on internal controls, COBAC could require that banks take the initiative to report their own violations; also, it could impose sanctions in the case of serious violations.
19	The draft regulation on cooperation with external auditors should contain more detailed provisions (budget review, access to working papers, compulsory review of a portion of the portfolio, etc.) to exploit this collaboration fully.
21	Since the monetary authorities, who hold jurisdiction in these matters, have taken no steps to subject banks to publishing standards, it would be logical for the national monetary authorities to delegate this responsibility to COBAC. Other improvements in new draft regulations on tightening the links between auditors and supervisors relate to rules on the classification of risks and provisions: auditors should express their opinion not only about adherence to the rules but also about the merits of the case.

E. Authorities' Response

28. The authorities were in broad agreement with the assessment. Some of the shortcomings the assessors had found were based on the fact that although new regulations had been adopted, they were still in implementation phase. It was hoped that at a future date these principles would receive a more favorable evaluation. They noted they had recently adopted several measures that materially addressed other important issues raised in the assessment, which would increase compliance with the Core Principles.



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ROSC | Reports on the Observance of Standards and Codes

Monetary and Financial Policy Transparency

International Monetary Fund, Code of Good Practices on
Transparency in Monetary and Financial Policies

II. CODE OF GOOD PRACTICES ON TRANSPARENCY IN MONETARY AND FINANCIAL POLICIES

A. Banking Supervision

General

29. This assessment of the transparency practices in the area of banking supervision was performed in the context of the FSAP for Gabon. It is based on an earlier assessment performed in the context of the Cameroon FSAP (February/March 2000), and on discussions with the authorities. The assessment was based on the Code of Good Practices on Transparency in Monetary and Financial Policies (MFP Transparency Code).

Institutional and market structureXoverview

30. The regional banking commission COBAC (Commission bancaire de l’Afrique centrale) is one of the principal institutions of the Central African Economic and Monetary Community (CEMAC—Communauté Economique et Monétaire de l’Afrique Centrale), which was established by treaty in 1998. COBAC was created in 1990 by moving and strengthening the banking supervision functions performed until that time by the central bank BEAC; it is currently located in Yaoundé (Cameroon), but its move to Libreville (Gabon) has been approved. The main regulatory authority is contained in a 1992 convention harmonizing bank regulation in the region. There are over 30 active banks under COBAC’s jurisdiction, operating in six countries. In addition, COBAC is involved in the liquidation of several banks.

Main findingsXsummary

31. For the four broad areas covered in the Code of Good Practices on Transparency in Monetary and Financial Policies (clarity of roles, responsibilities, and objectives; the process for formulating and reporting of policy decisions; public availability of information; and accountability and assurances of integrity), COBAC overall demonstrates a fairly high degree of transparency. Since the MFPT assessment performed in the context of the Cameroon FSAP, COBAC has continued extensive consultation with the financial profession on proposed regulations; in addition, the Secretary General is now also invited to participate in meetings of Heads of State.

32. **Clarity of roles, responsibilities and objectives:** The roles, responsibilities and objectives of the COBAC are clearly defined in its founding convention. Paramount is the task of ensuring that credit institutions observe the relevant legislative and regulatory provisions, and applying the relevant penalties for nonobservance. In addition, the COBAC oversees the operating conditions for credit institutions, their financial soundness, and the code of ethics for the industry. In addition, the relationships with associated agencies—the central bank and national authorities—is clear.

33. **Open process for formulating and reporting of policies:** Similarly, COBAC has an open process for formulating and reporting financial policy decisions. The current practice of

organizing consultations prior to substantive technical changes in the structure of financial regulations, which has been used among others to develop new licensing, capitalization and provisions regulations, could be formalized.

34. ***Public availability of information on financial policies:*** COBAC has an appropriate range of publications. However, some of these publications have been issued with lengthy delays, and thus have not been very useful as a means of providing the public with timely information. To avoid unnecessary delays, COBAC should establish firm deadlines for its bulletin and annual report. The upcoming move to new headquarters could provide an opportunity to improve its public information services. Also, the prompt introduction of its internet site, envisaged to be hosted by the BEAC, has the potential to upgrade transparency practices greatly.

35. ***Accountability and assurances of integrity by financial agencies:*** COBAC displays overall observance of the Code with regard to accountability and public assurances of integrity. Its president, who is also Governor of the BEAC, is accountable to the Board of Directors of BEAC and the Council of Ministers of the CEMAC. Codes of conduct regarding financial affairs of staffs are made public. COBAC currently does not maintain separate accounts from BEAC.

36. The medium-term challenges for transparency hinge crucially on harnessing the efficiency of internet technology in the distribution of information, given the telecommunications and budget constraints of the region. Also, the COBAC is well-positioned to play an exemplary role in the area of transparency, thus furthering good corporate governance practices in the region, in particular with respect to financial institutions.

Recommended next steps

37. Recommended next steps include the following: (i) practice 6.4: to formalize the current consultation procedure; (ii) practice 7.3: COBAC could ask liquidators to disclose publicly the results of their operations on an annual basis; practice 7.4: the COBAC budget should provide for ongoing public information services; practice 7.5: to make regulatory texts available to the public on the Internet, to minimize lags and keep down costs.

Authorities' response

38. The authorities were in broad agreement with the assessment, and were conscious of the unfinished agenda ahead. Specifically, COBAC argued that although they did not dispose of a separate public information service (practice 7.4), they were able to address all requests for information from the public in an adequate manner, and that the practice was observed.

B. Monetary Policy

General

39. This assessment of the transparency practices in the area of monetary policy was performed in the context of the FSAP for Gabon. It is based on an earlier assessment performed in the context of the Cameroon FSAP (February/March 2000), and on discussions with the authorities. The assessment was based on the Code of Good Practices on Transparency in Monetary and Financial Policies (MFP Transparency Code).

Legal framework, institutions, and market structureXoverview

40. The regional central bank BEAC (Banque des Etats de l'Afrique Centrale) is one of the principal institutions of the Central African Economic and Monetary Community (CEMAC—Communauté Economique et Monétaire de l'Afrique Centrale), which was established by treaty ratified in 1999. A new charter for the BEAC was approved in 1999. Monetary policy, anchored by a fixed peg to the Euro, is conducted at a regional level, in which over 30 banks are active in six different countries.

Main findingsXsummary

41. Overall, monetary policy in the CEMAC is rather transparent—a situation that is to some extent the result of institutional arrangements prevailing in the economic and monetary union. Such arrangements would be impossible to implement to the satisfaction of all countries involved without a large degree of transparency. There has not been significant progress in the area of transparency practices since the assessment performed in the context of the Cameroon FSAP.

42. **Clarity of roles, responsibilities and objectives:** Objectives, institutional framework, relationship between monetary and fiscal operations, and agency roles are clearly defined in the charter of the BEAC and in the international treaties on the Central African Monetary Union. Transparency will be further enhanced by the decision that the Governor will be accountable to an inter-parliamentary commission, which will be established in 2004. However, internal rules that details how the BEAC contracts outside goods and services are not made public (Practice 1.2.4). The authorities could also consider developing the transparency practices underlying the soon-to-be-introduced government securities auctions.

43. **Open process for formulating and reporting of policies:** The monetary policy framework and decision making process are defined in broad terms in the charter of the BEAC. Policy changes are promptly communicated and clearly explained. Fundamental modifications are, in practice if not in law, preceded by consultations with the parties concerned. Progress has been made in explaining the monetary policy framework in the 1999/2000 annual report. However, there is a tendency to limit the communication of policy measures to affected parties, instead of to the public at large. The BEAC internet site is still under development, and its operation would substantially improve outreach. Publication of

monetary policy procedures and practices (Practice 2.1.1) would further improve transparency in that area.

44. ***Public availability of information on financial policies:*** To improve the quality of data, the BEAC is implementing the GDDS. The BEAC has a broad range of publications as well as a network of local branches to inform the public. However, emergency assistance to clients (Practice 3.2.3)—if rare—is kept secret, even after any concerns for financial stability have dissipated. Also, some publications continue to suffer from long production delays; plans to separate research papers from the “Etudes et Statistiques” would allow the more time-sensitive statistics to be circulated more promptly.

45. ***Accountability and assurances of integrity by financial agencies:*** The Governor is accountable to the Board, the Interministerial Committee and the Heads of State of the CEMAC. Since last year, financial statements are audited by external auditors. Parts of the code of conduct for BEAC staff is published in the BEAC charter; a more detailed version remains an internal BEAC document, and could be considered for publication to enhance transparency in this domain.

Recommended next steps

46. Recommended next steps in the area of clarity of roles responsibilities and objectives include the publication of its internal regulations (practice 1.2.4), and assuring that the texts governing issues of government securities include best transparency practices (practice 1.3.2).

47. In the area of open process for formulating and reporting decisions, the recommendations include (i) to provide a brief assessment of progress toward achieving its monetary policy objectives in the monthly Bulletin (practice 2.4); (ii) to make public consultations obligatory for substantive changes (practice 2.5); and (iii) to broaden distribution of regulations (practice 2.6). The BEAC’s Internet site could be used for this purpose.

48. In the area of public availability of information, recommended next steps include (i) the publication of the BEAC chart of accounts (including accounting standards), with the exception of confidential sections (practice 3.2.1); (ii) to establish fixed dates for the publication of this information and adhere to them (practice 3.2.2); and (iii) to introduce regular information meetings with member states’ parliaments, emphasizing the close link between monetary and fiscal policy (practice 3.3.2).

49. Regarding accountability and assurances of integrity, the following recommendations and next steps are considered: (i) to publish internal regulations, with the exception of those parts that could impact the security of its operations (practice 4.2.2); (ii) under the new audit procedure, the overall financial position approved by the external auditors, as well as their opinion and relevant comments, are to be published in the annual report (practice 4.3); and (iii) publication of the standards and rules for the conduct of personal financial affairs of

officials and staff would enhance the BEAC's credibility by reassuring the public that officials and staff are subject to strict standards (practice 4.4).

Authorities' response

50. The authorities were in broad agreement with the overall assessment, and were conscious of the unfinished agenda ahead. They indicated that transparency practices continued to be upgraded. On practice 2.1.1 (the procedures and practices governing monetary policy instruments and operations) the BEAC noted that the parties involved (banks) have access to these procedures and practices. However, the wider public did not; this would be reviewed in the context of the website of the BEAC. Regarding practice 2.5 (presumption of public consultations), the BEAC will consider formalizing the procedure in its charter. On practice 3.2.3 (aggregate information on emergency financial support), the BEAC indicated that the Board was informed of any emergency lending, but that the public was not informed in light of the sensitive nature of the operation. Regarding practice 3.3.2 (explanation of objective(s) and performance to the public): the BEAC noted in this context that the Governor also is asked to explain monetary policy implementation annually to the Heads of State.

C. Insurance Regulation and Supervision

General

51. This is an assessment of the observance of the Code of Good Practices on Transparency of Monetary and Financial Policies in the area of insurance supervision, undertaken as part of the Financial Sector Assessment Program (FSAP) mission for Gabon.

Institutional and market structureXoverview

52. The CIMA Treaty governing insurance supervision in Gabon and other countries was signed by 14 countries.¹ Among other bodies, the treaty instituted a Counsel of Insurance Ministers (CIMA) with governing powers and policy-making responsibilities, a Regional Supervisory Commission (CRCA) with supervisory and regulatory responsibilities, and a Secretariat of the CRCA, the only permanent body of the CIMA. The CRCA publishes an annual report on market activity for the region as a whole, with individual country synopses. The Secretariat is staffed by a Secretary General, two deputies, and five inspectors.

¹ These are: Benin, Burkina Faso, Cameroon, Central African Republic, Chad, the Comoros, Congo, Côte d'Ivoire, Equatorial Guinea, Gabon, Mali, Niger, Senegal, and Togo. Although the CIMA Treaty was signed by 14 countries, the Comoros has not yet ratified it. Hence, supervision is carried out on the remaining 13 countries only.

53. In the region, some 98 companies are licensed to operate and currently active.² In 1999, life business represented 23 percent of total gross premium income (GPI) with non-life representing 77 percent.

Main findingsXsummary

54. For the four broad areas covered in the Code of Good Practices on Transparency in Monetary and Financial Policies (clarity of roles, responsibilities, and objectives; the process for formulating and reporting of policy decisions; public availability of information; and accountability and assurances of integrity), CRCA overall demonstrates a fairly high degree of transparency, certainly when contrasted with the small size of the organization. However, this does not translate automatically to insurance sector soundness, in part owing to serious staff shortages and reliance on national supervisory agencies.

55. **Clarity of roles, responsibilities and objectives:** The roles, responsibilities and objectives of the CRCA are clearly defined in the CIMA Treaty, and explained in publications that are widely accessible.

56. **Open process for formulating and reporting of policies:** Similarly, the CRCA has an open process for formulating and reporting financial policy decisions. However, the current practice of organizing consultations prior to substantive technical changes in the structure of financial regulations could be formalized. Also, a more formal and transparent regulatory ladder linking regulatory stages with supervisory pressure would help organizing the work of the CRCA more effectively. Finally, the Secretariat should publish an annual report of all its activities, which focuses on inspections, types of violations, and sanctions imposed. Such a publication would not only improve transparency of its supervisory and regulatory activity, but it would also serve as a means for the CRCA to market its services to the industry and strengthen partnership between the supervisor and the supervised. This could be an abridged version of the activity reports currently prepared for the CMA.

57. **Public availability of information on financial policies:** CRCA has a rather limited range of publications. However, the regional insurance association, FANAF, publishes all texts relevant for the insurance community and the public at large. The prompt introduction of an internet site—programmed for end-July—has the potential to upgrade transparency practices greatly. Audited financial statements, including a balance sheet and expenses and revenues, could be made public on a pre-announced schedule.

58. **Accountability and assurances of integrity by financial agencies:** CRCA displays overall observance of the Code with regard to accountability and public assurances of integrity. Its Secretary General is accountable to the Council of Ministers. Codes of conduct for staff are made public. However, financial statements, including on operating expenses and revenues, are currently not disclosed.

² The license is withdrawn if a company is not active for at least one year.

59. The medium-term challenges for transparency hinge crucially on harnessing the efficiency of internet technology in the distribution of information, given the telecommunications and budget constraints of the region. Also, as a multinational agency with a well-trained and professional staff, the CRCA is well positioned to play an exemplary role in the area of transparency, thus furthering good corporate governance practices in the region, in particular with respect to insurance companies.

Recommended next steps

60. Recommended next steps include (i) to publicly disclose the conventions and memoranda of understanding signed with other financial agencies (practice 6.1.5); (ii) to formalize the current consultation procedure (practice 6.2); (iii) to make public a summary of its semi-annual report to the CMA (practice 6.3); (iv) to publish its balance sheet on a pre-announced schedule (practice 7.3); (v) to publicly disclose its the audited financial statements (practice 8.2); to disclose information on accounting policies and any qualification to the financial statements (practice 8.2.1); and to disclose publicly information on operating expenses and revenues (practice 8.3).

Authorities' response

61. The authorities were in broad agreement with the assessment, and would consider formalizing the consultation procedure. They also stood ready to disclose requested information upon request, to the extent confidentiality considerations permitted.



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Gabon

ROSC | Reports on the Observance of Standards and Codes

Insurance Regulation

International Association of Insurance Supervision,
Insurance Core Principles

III. IAIS CORE PRINCIPLES

A. General

62. This is an assessment of the observance of the core supervision principles developed by the International Association of Insurance Supervisors (IAIS) undertaken as part of the Financial Sector Assessment Program (FSAP) mission for Gabon. This assessment is based in part on assessments previously prepared for the FSAP missions of Cameroon and Senegal.

B. Regional Market Structure—Overview

63. The Inter-African Conference of Insurance Markets (Conférence Interafricaine des Marchés d'Assurances, CIMA) region comprises 14 countries in Africa (see footnote 15). Although the CIMA Treaty was signed by 14 countries, the Republic of Comores has not yet ratified it. Hence, supervision is carried out on the remaining 13 countries only. In the region some 98 companies are licensed to operate and currently active.³ The CIMA publishes an annual report on market activity for the region as a whole and with individual country synopsis. In this section data from the year 2000 report are summarized.

64. In 1999, life business represented 23 percent of total gross premium income (GPI) with non-life 77 percent. Activity is not evenly distributed among the 14 countries: life insurance accounts for more than 10 percent of GPI in only four countries: Côte d'Ivoire (40 percent), Cameroon (16 percent), Gabon (13 percent), and Senegal (12 percent).

65. Table 7 reports summary statistics of the structure and penetration of insurance activity in the region.

³ A license is withdrawn if a company is not active for at least one year.

Table 7. CIMA Insurance Market Structure and Penetration

Country	Number of Companies			Premiums		Assets	Own Capital
	Nonlife	Life	Compo Site	(CFA billions)	Non-life (Percent)	(CFA billions)	(CFA billions)
Benin	4	3	0	10.60	80	17.30	2.66
Burkina	4	1	2	11.67	86	31.03	2.45
Cameroon	7	4	4	44.79	77	117.62	10.72
Central Africa	1	0	1	1.78	94	6.56	0.46
Comores	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Congo	1	0	1	n.a.	n.a.	n.a.	n.a.
Cote d'Ivoire	15	10	0	113.14	70	349.81	47.29
Gabon	4	3	0	38.01	87	74.69	4.90
Equatorial Guinea	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Mali	4	1	1	9.71	91	19.93	2.76
Niger	1	0	3	6.50	93	13.81	-1.14
Senegal	9	5	0	32.62	80	114.14	18.92
Tchad	0	0	2	3.10	97	5.16	1.21
Togo	2	3	2	10.24	78	24.82	1.61

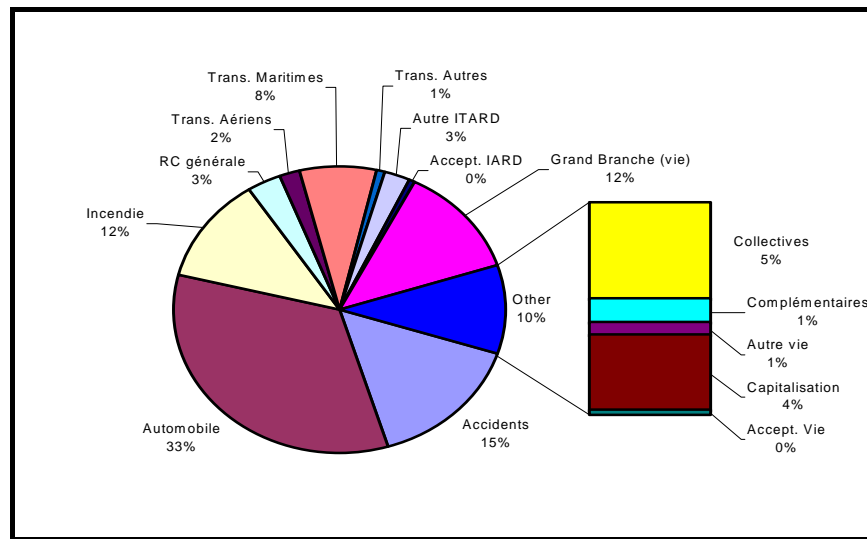
Source: CIMA.

66. When this table was prepared, figures for Côte d'Ivoire and Cameroon were flagged as partially complete.

67. Figure 1 reports the distribution of insurance activity (life and non-life) by line of business. The four largest lines of business (accounting for 72 percent of total 1999 GPI) are: car, personal accidents, fire, and term life.

68. The vast majority of companies are in precarious financial conditions. The most important problems related to the adequate coverage of liabilities, whilst a few companies do not pass the solvency test. For the region as a whole, reserve adequacy has increased in the last years: a coverage deficit of 0.2 percent was reported in 1999, down from 8 percent in 1998, 14 percent in 1997, and 18 percent in 1996. For the region as a whole, the capital base used in the solvency margin was 270 percent of the minimum solvency margin. However, concentration is very high, and the CRCA has 80 percent of all companies under a rehabilitation plan, i.e., companies that have had either a deficit in the coverage of liabilities or did not pass the solvency test.

Figure 1. Insurance Lines of Business, Share of GPI (1999)



Source: CIMA.

C. General Preconditions for Effective Insurance Supervision

69. A successful insurance market requires strong enforceable legal rights, low inflation (unless indexed assets are available), and wide and liquid investment markets.

70. The principal responsibility of the supervisory authority is to ensure the financial solvency of the companies operating within the jurisdiction. The process of supervision should include a heavy emphasis on disclosure of information. In all countries, the consumer of insurance is at a considerable disadvantage vis-à-vis the insurance company, since the company can and does request a considerable amount of information from the applicant for insurance, while the consumer often has a difficult time in gathering useful information about the financial condition and claims-handling practices of the insurance companies. It is also the work of the supervisor to remove or at least minimize this information gap. Additional responsibilities of the supervisory authority are to promote public and international confidence in the quality and soundness of financial institutions, and enabling insurers to fulfill their role in the spreading of risk, thereby protecting invested capital and facilitating the growth of businesses, as well as providing the public with high quality investment vehicles and life insurance for estate planning and other purposes.

71. Several preconditions are needed for effective supervision and growth of the private sector insurance market. In order to play its economic and financial role, the insurance sector requires a framework of stable and liberal regulation that provides adequate incentives for efficiency and allows individual companies to innovate. Insurance regulation must aim at creating a contestable market that is open to new entry by qualified companies and facilitates the exit of insolvent firms. It must also aim at safeguarding the stability of the sector and the solvency of individual companies and at protecting the interests of policyholders. A strong

and consistent legal framework is needed for effective supervision; a stable macroeconomic environment and the existence of strong governance mechanisms promote the development of the industry and the confidence of business. Ultimately, the growth in per-capita income and an improvement in a more even income distribution are major determinants of the growth of insurance demand in all countries.

72. These preconditions are not all met in the CIMA region. Although the CIMA Code is an excellent piece of legislation, the effectiveness of supervision is seriously limited mainly for the following reasons: (i) the CIMA Secretariat suffers from acute shortage of resources (both financial and human capital); (ii) the membership of the CRCA includes CICA-Re, which has shares in many insurance companies—this creates a situation of potential conflict of interest; (iii) the annual frequency of financial reporting from companies to the supervisory authority does not allow for the conduct of effective off-site supervision; (iv) information disclosure to consumers is also limited as national insurance federations are not active in the development of standards for market conduct. Although the activity of supervision is aimed at ensuring consumer protection, local DNAs do not have an office dealing with consumers' complaints. In practice complaints can be addressed to and are processed by local DNAs but no dedicated regulation governs this activity. This is of high important for the CIMA region, as insurance culture is not developed.

D. Main Findings

73. The introduction of the CIMA Code has required many companies to adapt their affairs to comply with the new regulation. Changes haven't been gradual and many companies have exited the market. After more than five years companies are still in a "transition phase" and many companies do not yet comply with regulation on the coverage of policy obligation. A few companies do not meet the new solvency margin. Higher capital requirements have been introduced and existing companies were given a "grace" period of three years to comply. As meanwhile most of the companies have gone through a re-capitalization plan because of serious solvency problems, it is safe to say that very few companies do not meet the new minimum capital requirements.

74. Regulation is of high standards although important deficiencies have been found, notably in the area of reinsurance and prudential rules (mainly investment regulations). The effectiveness of supervision is limited due to acute shortage of resources (both financial and human capital) and because of some conflict of interest inherent to the particular membership structure of the CRCA. Table 8 summarizes the main findings of this assessment.

Table 8. Summary of Main Findings of Assessment of Observance of the IAIS Insurance Supervisory Principles

Subject	Main Findings
Organization of an Insurance Supervisor (CP 1)	<ul style="list-style-type: none"> - Problems of conflict of interests and lack of political independence exist because of the membership structure of the expert committee and CRCA. - The CRCA’s overall budget is low. In particular, the CRCA is not able to use its budget flexibly: when urgent tasks need carrying out, no extra budget is provided. Although the budget is financed through companies’ contributions, member states do not transfer outstanding balances, as annual budget approved by the Council is often lower than the sum of companies’ contributions. - Professional staff (inspectors and above) salaries are lower than in the private sector and this negatively affects the ability to retain highly qualified staff (salaries of professional staff are also estimated to be half of same level personnel in the COBAC). - The structure of CRCA cannot be readily modified to respond to market needs. - There is no formal legal protection of staff whilst in the exercise of their official capacity.
Licensing and Changes in Control (CPs 2-3)	<ul style="list-style-type: none"> - Companies need country specific licenses to operate in the region. - Fit and proper test is not formally conducted for owners. - Source of funds are not checked with the aim to preventing the use of resources from illegal activity. - A requirement of maximum two months to process the license exists and applicants can start activity when this period lapses and no reply is received. In practice this constraint is relaxed by counting time from each communication between the CRCA and the applicant. - The CRCA has no authority to control outsourcing contracts, although necessary information is requested to applicants. - The control on owners is tighter for changes in control than at time of licensing.
Corporate Governance (CP 4)	<ul style="list-style-type: none"> - The law does not establish sufficient powers in the area of corporate governance for the CRCA.
Internal Controls (CP 5)	<ul style="list-style-type: none"> - The existence of some regulation ensures the presence of internal controls in the areas of investment management risk, valuation of provisions, fair treatment of customers, information disclosure, accounting procedures, and the use of external auditors. However, the law does not establish sufficient powers in the area of internal controls for the CRCA like, for instance, the requirement of “manuelles de procedure.”
Prudential Rules (CPs 6-10)	<ul style="list-style-type: none"> - There is no requirement to segregate assets through the use of custodians.

	<ul style="list-style-type: none"> - No maturity matching is required by law although consideration to this is given during on-site inspections. - Policies in foreign currency can only be sold with prior authorization of the local Ministry of Finance. - Investment diversification is not optimal due to the lack of investment opportunities in the region. Furthermore, foreign (outside the region) assets are not admitted to cover liabilities. - There is no requirement that liabilities for life insurance obligations be set by an actuary or similar expert. - There are no generally accepted accounting or actuarial principles applied. However, the staff of the CIMA Secretariat is examining the development of new actuarial techniques to assist in the assessment of the adequacy of technical provisions, particularly with respect to claims where there may be long intervals between date of notice and date of settlement. - The method of determination of the technical provisions for life insurance companies is based on the same assumptions that were used for fixing the premiums. This does not allow to reflect the changes that might have occurred on the risks covered since the premium was determined. The resulting level of provisions would not reflect in those cases the true underlying liability. - The limits for admissibility of premium arrears are adequate if not somehow generous. - The solvency margin used does not consider the asset risk on the balance sheet and it might overestimate the credit risk from reinsurers. However, this is, at present, justifiable as the CRCA has no supervisory authority (and expertise) on reinsurance activity.
Market Conduct (CPs 11)	<ul style="list-style-type: none"> - The law does not establish sufficient powers in the area of market conduct for the CRCA. The local federations or DNAs are not involved in developing codes of conduct. The CRCA would not have the authority to monitor their observance.
Monitoring, Inspection and Sanctions (CPs 12-14)	<ul style="list-style-type: none"> - The frequency of financial reporting does not allow the conduct of effective off-site inspection. Ideally the CRCA should receive a complete set of information in electronic form on a monthly basis. - The CRCA is developing a new software package to facilitate the flow of information between DNAs and the Secretariat. - The Code foresees the use of a diversified set of sanctions. However, sanctioning activity seems to be limited to the revocation of license once the company has a deficit in the coverage of liabilities or does not pass the solvency test. - It is not clear whether (or how) objectivity is achieved in the imposition of sanctions.

	<ul style="list-style-type: none"> - Monetary sanctions are not applied, and no manual for imposing monetary sanctions exists. - No automatic triggers exist for the imposition of sanctions. - Recent amendments of the Code have improved the liquidation process. However, at present, the rules are too biased towards the rehabilitation of companies instead of preserving existing assets for liquidation. As a result, asset stripping is the norm.
Cross-border Business Operations (CP 15)	-
Supervisory Coordination and Cooperation, and Confidentiality (CPs 16-17)	-

E. Recommended Next Steps

75. The following are some of the principal recommended actions to be taken in order to increase compliance with the IAIS core supervisory principles.

- Regarding the organization of an insurance supervisor (CP 1): (i) redesign the membership structure of the expert committee and CRCA to eliminate situations of conflict of interests and increase CRCA’s independence from political influence; (ii) increase CRCA’s budget; (iii) explore alternative source of funding for the regional supervisor and resolve the issue of outstanding balances; and (iv) introduce a formal legal protection scheme for CRCA staff.
- Regarding licensing and changes in control (CPs 2 – 3): (i) abolish the multi-license requirement to operate in more than one country in the region; (ii) require local DNAs to control the source of funds in the licensing process; (iii) harmonize the regulation on licensing and changes in controls as far as fit and proper test of owners is concerned; and (iv) relax the two month period limitation for processing a license application.
- Regarding corporate governance (CP 4): (i) consider requiring companies to use independent advisors; and (ii) consider requiring companies to hire internal comptrollers with reporting duties to directors and supervisory authorities.
- Regarding internal controls (CP 5): consider requiring the production and use of “manuels de procédure”.
- Regarding prudential rules (CPs 6 - 10): (i) introduce maturity matching requirements between assets and liabilities; (ii) allow companies to freely market products in foreign currency; (iii) allow companies to cover liabilities with foreign (non CIMA region) assets; (iv) assure that technical provisions prudently reflect the present actuarial evaluations of future risk covered minus future premiums; (v) abolish compulsory cession requirements; (vi) authorize the CRCA to supervise reinsurance companies; (vii) authorize the CRCA to supervise the reinsurance activity of companies; and (viii) develop standards for screening foreign reinsurance companies.

- Regarding market conduct (CP 11): (i) require local DNAs to monitor commercial relations between companies and brokers with the aim of reducing premium arrears; and (ii) give consideration to developing of market conduct codes by local federations.
- Regarding monitoring, inspection and sanctions (CPs 12 - 14): (i) increase frequency of financial reporting; (ii) give consideration to developing a more formal regulatory ladder and a more detailed inspection manual; (iii) introduce automatic triggers for the imposition of sanctions; and (iv) develop a manual for the imposition of monetary sanctions.

F. Authorities' Response

76. The regional authorities were satisfied with the general assessment as well as specific recommendations made.