Address by Mr. Yandraduth Googoolye, First Deputy Governor of the Bank of Mauritius at the International Monetary Fund's Regional Technical Assistance Center for Southern Africa (AFRITAC South) on the Committee on Payment and Settlement Systems and the Technical Committee of the International Organization of Securities Commission (CPSS-IOSCO) Principles for Financial Market Infrastructures: Challenges and Strategies.

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Delegates from member Central Banks

Ladies and Gentlemen

Good Morning and a warm welcome to Mauritius.

I am delighted to share some thoughts and insights with you today. The more so that this seminar rings some sweet memories as I have been closely associated with development of the payments system in Mauritius, and the FMIs in general.

Financial Market Infrastructures (FMI) are the medium through which payments and transactions with financial instruments are processed, cleared and settled. The FMIs make it possible for all economic agents to make and receive payments in a safe and efficient manner. It is, thus, a necessary condition for the functioning and stability of the financial system. Nowadays, most central banks oversee the financial infrastructure with the ultimate objective of safeguarding financial stability. And we must not forget the importance of FMIs when it comes to implementing monetary policy. Therefore, FMIs are vital for the two very objects of a central bank.

The conduct of this regional workshop could not have been that much timely. Across the globe, the financial sector is experiencing innovation-led transformation, bringing about concomitant development of payment mechanisms by operators, often from outside the traditional banking sector domain. Such new payment alternatives, which in many cases, are cheaper and more accessible to micro-enterprises and the public at large, are blurring the boundaries between banks and non-banks, thereby posing significant challenges to regulators.

In the aftermath of the global financial crisis, the Committee on Payment and Settlement Systems (CPSS) of the BIS met to assess whether the 10 core principles introduced in 2001 would be adequate to contain future shocks. The CPSS shifted focus from payment systems to the financial system as a while, and this why we have FMIs. The 10 core principles of SIPS were changed into the 24 principles for FMIs.

We must confess that there is scope to further strengthen FMI in the region, while acknowledging the progress made thus far. The state of development of the region's financial systems is diverse and weakly integrated with the global financial system. In SADC, a number of initiatives have been launched to create a Financial Market Infrastructure by 2018 on the assumption that there will be monetary convergence and a SADC Central Bank by that date. There are parallel, if not overlapping, programs and projects at the level of COMESA, AACB (Association of African Central Banks) and the African Union. This surely calls for a harmonization of these varied initiatives as the region will benefit with a common programme.

In the region, Mauritius stands out as a model of economic development, with a relatively well-developed financial system and high access to financial services. In fact, we can boast to have more than one bank account per capita. Our financial sector has benefitted from vision, leadership and innovation. The Bank of Mauritius has the statutory responsibility to organise and set up the payments and settlement system, and promote its smooth operation. This has been a boon in helping the Bank to achieve its primary objects to maintain price stability and promote orderly and balances economic development, while ensuring stability and soundness of the financial system.

The Bank's vision for the payment systems landscape can be traced as far back as the mid-1990s, with a Payment Systems modernisation roadmap to implement a Real Time Gross Settlement System (RTGS) followed by the automation of the clearing systems. The RTGS became effective in 2000, with the implementation of the Mauritius Automated Clearing and Settlement System, which electronically links all banks operating in Mauritius as well as the Ministry of Finance to the Bank of Mauritius. Our service provider for RTGS is certified "*SWIFT Gold Label*" and we are the only country in the region to have a multi-currency RTGS.

The RTGS, which is the main payment infrastructure in Mauritius, has enabled us to monitor all transactions during banks' business hours. Settlement is done in central bank funds. Government, which is an indirect participant of the MACSS, maintain all its accounts with the Bank, both its revenue and expenditure accounts. Transfers are made on a daily basis, to and from these accounts. This offsite monitoring exercise has proven its importance to explain the change in banks' balances on a daily basis. This matrix highlights all the factors that brought about changes in banks' balances, such as interbank settlement, cash withdrawal, clearing and settlement etc. Thus, it serves as an important input for various departments at the Bank and has triggered monitoring and investigation process in so many times.

The Bank hosts the Regional Payments and Settlement System (REPSS) of COMESA that connects the 19 COMESA member-states through the SWIFT network for cross-border payments. REPSS, which started live operations on 30 October 2012, is a cross-border fund transfer system for countries in the COMESA region with the objectives of enhancing intra-regional trade by reducing the cost of transfer and the time taken for effective transfer of funds from 5 days to same day.

The second phase of the domestic FMI modernisation project was geared to the retail sector. We first standardised cheques through the use of MICR technology in 2002 and then embarked on the cheque truncation system, which came live in 2011. This initiative brings in efficiency in the cheque clearance process and ensures efficiency in the funds transfer process.

The establishment of the Mauritius Credit Information Bureau (MCIB) under the aegis of the Bank of Mauritius was another key milestone of the domestic financial market infrastructure. The MCIB is broad-based and collects real-time credit information on borrowers and credit guarantors of banks, non-bank deposit-taking institutions, insurance companies, leasing companies, utility companies and microfinance companies. The MCIB contributes to financial stability through enhanced banks' credit appraisal and assessment, thus allowing for a better credit quality in the financial sector.

Recently, the Bank went one step further and issued a draft National Payment System Bill for public consultation and feedback. The Bank adopted a transparent approach given the national importance of the payments system. A specific payments system legislation stems from the need of central banks to redefine their supervisory framework following the regulation of digital banking services. This legislation would ensure that the FMIs are sound, resilient and reliable in the light of rapidly evolving technological change. While we should ensure the stability of players in the financial system, we must also understand the interconnectedness between them and their threat to disrupting financial stability. In this respect, the central bank needs to arm itself with the relevant policy toolkits.

The Bank is also working on the next phase of payments innovation in the country due to the growing number of payment operators in the banking and non-banking sectors. The basic objective is to pave the way for inter-operable digital banking systems, thus achieved through the implementation of a National Payment Switch. The National Payment Switch will route all transactions made with locally issued cards to a central point (the Switch), for settlement at the Bank. It will have a single interface with global card payment processors such as VISA, MasterCard, Union Pay, etc. It is expected that the National Payment Switch will support a cost effective payment system, which will ensure the protection of consumers and enable all players to operate on a level playing field.

The current state of FMI in Mauritius reflects in many ways the challenges that the Bank faced, and effectively addressed at various points in time. While the route we took was long and sometimes bumpy, our job is not yet over. New challenges are now emerging along with technological progress and to name just a few: issues related to cyber-crime, payments system oversight, and the emergence of virtual currencies.

Cyber-crime is very much a reality or, rather a thorn, which regulatory authorities have to face nowadays. Understanding the potential threats and putting in place effective prevention mechanisms are key tasks for central banks to wither cyber events. In this respect, the importance of financial literacy cannot be underscored. The rise in the use of virtual currencies across the globe is also calling for monitoring given their potential to serve as vehicles for money laundering, terrorism financing and tax evasion. The IMF, in an interesting paper on virtual currencies, has indicated that " … *achieving a balanced regulatory framework that guards against risks without suffocating innovation is a challenge that will require extensive international cooperation*".

Ladies and Gentlemen, financial technology is moving fast, thereby calling many of our processes into question. We must remain cognizant of these changes and prepare an appropriate policy toolkit to deal with issues that can threaten the financial stability of our economies. While there should not be a "*one size fits all approach*" given the economic and financial specificities of countries in our region, we must, nonetheless, pool our resources to meet challenges and strategize our approach. I am sure that this workshop will provide an excellent opportunity for sharing ideas and comparing notes.

I wish you fruitful and enlightening discussions and a pleasant stay in Mauritius.

Thank you.