

Welcome Remarks of Mr Rundheersing Bheenick, Governor, Bank of Mauritius, at the 11th Summit of International Financial Services Board, Pointe Aux Piments, Mauritius, Wednesday 21 May 2014

The Piccadilly syndrome

It is a common characteristic of the forty or so small island-states, like Mauritius, that we are in a state of constant flux, welcoming visitors from abroad, coming for education, training, tourism, meetings and conventions, or just to get on with their professional work: likewise we serve as host to many specialists, like yourselves, to keep us up-to-date in the mainstream of ideas and practice in esoteric fields.

It is said, that if you stand by the statue of Eros in Piccadilly Circus in London, for long enough, you will meet with all the people you ever knew, and all those you are ever likely to know. A small island-state is like a microcosm of Piccadilly Circus, as I am sure our colleagues from Singapore and Bahrain can confirm, from their experience in hosting the IFSB Summits in 2009 and 2010.

So, you are all, most welcome here today, to this 11th Annual IFSB Summit, to confirm the Piccadilly Syndrome, to meet friends old and new, and to contribute to the maelstrom of conceptual interchange on our theme for the 2014 Summit: **New Markets and Frontiers for Islamic Finance: Innovation and the Regulatory Perimeter.**

The Theme

The face of finance and banking world-wide has changed remarkably in recent times. It would be unreasonable to expect, the industry to be out of the headlines anytime soon. With the rapid adoption of a casino business style, in the 1990's, what used to be seen as reliable, staid, and, to many, rather boring, the professions of accountancy and banking, plunged from an apparently sound state of vigorous growth, into a chaotic vortex, with convulsions all around them. Now, we bankers are on probation with people all over the world watching us and waiting. Regulators and governments are more alert than ever before to such issues as management of risk in banking, failure of bank Boards to exercise effective oversight, inability of many central banks to spot the bubble before it burst, and the dire consequences of being lender of last resort when faced with systemic collapse and too-big-to-fail banks.

Such is the scene where Islamic finance is breaking new ground, extending its footprint, and pioneering with products and services that can trace their origins to the 8th century, but are still fresh and innovative in this modern setting. Islamic finance has its roots in the wider milieu of ethical and socially-responsible investment. Its proponents see its rebirth as safe as houses. Such was the hubris of the US housing and banking sectors where financial engineering, with immaculately-assured derivatives, seemingly achieved financial levitation by making risk miraculously vanish into remote and hidden corners of the financial landscape, if not into thin air. So it is crucial at this time, and most pertinent, that this Summit will not only address the hopes for a continuing expanding horizon for Islamic finance, in pioneering such services into new continents and sectors, but will also keep a wary eye on the regulatory perimeter, to ensure this rebirth does not emerge as an uncontrollable *enfant terrible!*

Progress of IFSB

The recent progress of Islamic finance has been quite remarkable. The 10 preceding Summits bear witness to this. Total Islamic banking assets are now over US\$ 2 trillion and the Islamic finance industry has logged an impressive cumulative average annual growth in assets of 14% over the past decade.

Previous Summits have focused on such themes as looking to and planning for the future; the architectural requirements for sound development; achieving stability in an unstable world; the response of regulators to the threats of the previously inconceivable risks taken by an unbridled finance sector; and the institutional and service implications of the quest for inclusive growth.

Now, all the talk is about **Africa Rising**. The optimism is justified. Islamic finance is a bright star coming over the horizon for the African region which is experiencing spirited growth. Gone now, we trust, are the days of deepest, darkest, Africa.

We must nevertheless be realistic about the magnitude of the task ahead in Africa as we approach the deadline for the achievement of the Millennium Development Goals, for this is a great region with huge potential but also with gruesome disparities. For example, in the African region:

- Expectation of life at birth ranges from 38 years in some places to over 70 in others, and in some countries it is actually in decline,
- People with access to safe sanitation ranges from under 20 percent in some places to 100 percent in others,
- In some countries over half the population live and die in dire poverty; in others poverty touches scarcely anyone,
- Nearly half the people are linked to the internet in some countries and can engage in real-time financial transactions: Kenya has written a glorious chapter in mobile phone payments and services; in other parts of the African region less than five per cent of population have internet access and even then with grossly unreliable connectivity,
- As for High Street banking, here in Mauritius over 80 percent of the people use banking services: in the African region as a whole the **unbanked** are over 80 percent of the population.

Whilst our scenarios may be positive at present it would be foolhardy not to be aware of the immense challenges in Africa, despite its emerging growth. These stark figures underscore the challenge ahead for our fortitude and our stamina in the IFSB.

IFSB horizons

So how do we envisage the future for new markets, and the frontiers for Islamic finance? Having spent much of my own professional life in national economic planning and development I am pleased to see that in Section 4 of our Summit today we have a clutch of papers on Islamic Finance and Economic Development, which I especially look forward to.

Yet it is here that, in projecting forward, IFSB might well benefit from the skills of scenario planning. For there is a tendency at Summit meetings to see the horizon as glowing warmly, with hope and expectation of the best of all possible worlds. That is a rather Panglossian prospect. Candidly (!) we should be aware of alternative scenarios. We might do well to contemplate how we could respond to the worst case scenario, not just how we can exploit the best. Having reached this 11th Summit, we should also reflect, with our far off

sorrowing Nepalese colleagues, on that narrow margin between scaling the highest peak and being overwhelmed by a catastrophic avalanche, as in recent days was the plight there of so many mountaineers.

Now as a central banker, and shedding my hat as a planner, I think it might be prudent to begin to scrutinise Islamic banking and the plausibility of the business models that it advocates. What, for example, is the prudent balance between profitability and social justice? Can the Islamic banking business model represent a viable alternative to conventional banking? Will “green banking”, as Islamic banking is sometimes referred to, be able to meet effectively the needs of modern society?

The other face of Mauritius

Those are just some of my passing reflections on this much-awaited Summit to which I heartily welcome you all. I trust you will find here much food for thought at this meeting of the best minds in the Islamic financing world.

But I must also invite you to sample the other delights of Mauritius and trust that you will find some time to enjoy these while you are here, the sea, the sand and the exceptionally friendly people.