Address by Mr Y Googoolye, First Deputy Governor, Bank of Mauritius at the Launching Ceremony of the Conference ' Leasing: Fuelling the Economy' organized by the Association of Leasing Companies, Tuesday 6 October 2009.

Ladies and Gentlemen

Good morning

At the outset I must congratulate the Association of Leasing Companies, Mauritius, for coming out with this initiative of organising a conference to underscore the significance of leasing as a vehicle of economic development. I am happy to note that the Association, intends, among others, to play an educative role of increasing awareness of the benefits of leasing and asset finance to specific legislative and business audiences as well as to the general community and that this conference is being organised in furtherance of this objective. I do recall that Mr Jugurnauth had during one of the meetings with us some time back mentioned about the Association wanting to hold this conference and had sought our support. I had told him then that the Bank as a regulator would support such efforts.

A study by International Finance Corporation (IFC) observes that leasing plays an important role in promoting a strong and sustainable private sector in emerging markets, particularly as it supports underserved markets, such as micro, small, and medium enterprises, to gain access to finance. Moreover, in emerging markets, leasing can be a major financing tool to enable growth and investment in infrastructure, construction and the services sectors. Leasing is also seen as a favoured vehicle for SMEs as it bridges a significant gap in their access to finance arena. This is because,

- firstly, as an asset-backed term financing product, leasing helps avoid need for collaterals; and,

- secondly, leasing institutions are expected to develop or possess critical skills that give them a strong comparative advantage on the SME client segment.

This seems to be the case in Mauritius too which is perhaps why the Government chose the leasing companies to channel its assistance to the SME sector as part of the stimulus package in the wake of the global crisis.

As a base definition, leasing can be considered as a written agreement under which a property owner allows a tenant to use the property for a specified period of time and rent. However, over time leasing has evolved into a method of financial intermediation where people who have capital or access to capital buy assets for use by economic operators in need of those assets. As this activity evolved, it developed different variants and its own rules of the game. This led to the evolution of a regulatory framework to deal with the sector.

In Mauritius, the regulation of the leasing sector does not come within the purview of the Bank of Mauritius but that of the Financial Services Commission. However, a number of leasing companies also accept public deposits to finance their leasing business and there we have a role since deposit taking requires a licence from the Bank. In fact, eleven out of the twelve entities involved in leasing are deposit taking institutions too. The non-bank deposit taking companies which engage in leasing are thus subject to dual oversight, one from the Bank for their deposit taking activity and the other from the Financial Services Commission with regard to their leasing business.

This dual regulation could have different implications.

- It might mean overlaps leading to excessive supervision;
- It might result in supervisory gaps leading to regulatory arbitrage; and
- It could also lead to lack of supervisory focus resulting in wastage of resources of the supervisors and the regulated entities.

Very often it results in all these three consequences.

The key to avoiding these is coordination among the supervisors. As you are aware, in Mauritius we have a formal mechanism for coordination between the Bank of Mauritius and the Financial Services Commission through the Protocole d'Accord signed between the two of us under which we have set up a Joint Coordination Committee which meets periodically to discuss issues of common interests and exchange notes. While this is working reasonably well, I am sure Mr Meetarbhan shares my view that there is a lot more to be done to strengthen coordination and cooperation. For instance, one area where we need to move forward is to conduct coordinated on site examinations so that the supervisory resources of both organisations are optimally used. Moreover, and as we move forward, we also need to determine the lead regulator for financial sector conglomerates.

Until recently, banks were not permitted to undertake leasing business directly but only through a subsidiary. In 2008, banks were permitted to offer financial leasing themselves. This was done by including financial leasing activity in the definition of “banking business”. However, barring a few cases, this has not resulted in any large offering of leasing products by the banks. Therefore, within the spectrum of institutions regulated by us, leasing is still largely in the domain of the non-bank deposit taking institutions.

The orderly growth of a sector requires a proper legislative framework. The legislative framework envisages that the non-bank deposit taking institutions and the banks should be subject to the same prudential regime. In furtherance of this, the Bank of Mauritius decided to extend several guidelines to this segment and we are soon bringing it under a risk weighted capital adequacy measurement system. There is another important aspect that I need to highlight here. The legislation envisages that we encourage merger of deposit taking institutions among themselves or with banks or even their conversion as banks.

The contribution of financial intermediation in the GDP of Mauritius has been growing steadily and has gone up from 10.3 per cent in 2005 to 10.5 per cent in 2007. It is forecast to be about 10.8 per cent in 2008. While the specific contribution of leasing is not captured in the data, it is important that leasing also plays a significant role. What is heartening though is that the outstanding lease assets have been growing at a rate of 10 per cent or more over the last five years. If we look at the leasing business of the non-bank deposit taking sector we see that outstanding leases have gone up from Rs10.1 billion in December 2006 to Rs11.5 billion in December 2007 and further to Rs12.6 billion at the end of 2008.

While the leasing sector has been growing steadily, there is need for leapfrogging if the sector has to catch up with other segments within the financial intermediation industry. The share of deposits of leasing companies in total deposits declined from 6.5 per cent in December 2007 to 6.2 per cent in December 2008. An IFC study identifies financial management skills, access to diversified sources of local currency financing, good governance and performance management framework besides development of a sustainable competitive niche as critical for the growth of the leasing sector.

In this context, I would highlight the proper assessment of credit risk and post disbursement management as very critical. Delinquencies in the leasing segment are comparatively higher than in the banking sector. Now that non-bank deposit taking institutions have access to the Mauritius Credit Information Bureau (MCIB) data base we hope to see tangible improvement in this area. If leasing has to grow fast, it must be cost advantageous too and a lower rate of delinquencies will help operators to keep their margin with a lower spread.

Before concluding, let me say that I am sure the deliberations of this conference would help identify what needs to be done in the times ahead for the leasing industry to be able to play its role to its fullest potential in a fast growing emerging economy like ours. I am confident it will lead to greater awareness of the leasing business among all stakeholders in Mauritius and eventually pave the way for the sector emerging as a significant contributor to our growth in general and the SME segment in particular.

Thank you for your attention.