

## **SEMINAR ON FINANCIAL SECTOR ASSESSMENT PROGRAMME**

*Address by Mr. R. Basant Roi, Governor, Bank of Mauritius*

*September 8, 2003, Plaza Beach Resort, Pointe aux Piments, Mauritius.*

Hon. Minister of Economic Development, Financial Services and Corporate Affairs

Mrs Ann Rennie, Deputy Mission Chief

Ladies and Gentlemen

Good morning

I am pleased to be here in your midst, this morning, for the opening of this Seminar on the Financial Sector Assessment Programme.

Over three years ago, on May 26, 2000 the Financial Stability Forum had issued a Press Release in which it categorised Mauritius in the third and last group of countries regarding their perceived degree of supervision and co-operation. The categorisation was carried out on the basis of a survey, including questionnaires that were, according to the Press Release, forwarded to supervisors the world over. We were not even aware of this survey. Yet, Mauritius was categorised in the last group. Worse, Mauritius was never given a hearing before its categorisation in the last group. In spite of all the statements of good intention made in the Press Release, some damage had already been inflicted to the image of Mauritius as a financial services centre. Voices against this approach were raised at various international meetings of Governors of Central Banks.

Subsequently, the IMF was urged and, rightly so, by the Financial Stability Forum to take a lead role in the assessment of jurisdictions' adherence to international standards. The IMF held a Consultative meeting to hear the views of outside experts from onshore and offshore centres and international agencies. This initiative was formally and fully backed by Mauritius.

The World Bank joined in with the IMF.

The assessment of Mauritius by the joint IMF/World Bank Mission has been fair and just. The FSAP Mission has given the authorities of Mauritius a fair hearing. The assessment has been thorough and has been carried out in a manner that should help all of us here to further strengthen the soundness and safety of our financial sector. A careful reading of all the recommendations made in the Report does allow us to spotlight certain areas that are really vulnerable to risks. With a financial system like ours that is fully integrated with the world's financial system we cannot afford to take lightly the vulnerabilities highlighted therein. Despite certain disagreements that we have had with the FSAP mission's views, I must say that the quality of the recommendations is very much appreciated. I seize this opportunity to commend the FSAP Team, in particular Mr Abdessatar Ouanes and Mrs Ann Rennie, for having given a well-balanced assessment of our financial sector.

The Report does not merely refer to the weaknesses and vulnerabilities of our financial sector. It does also underline the strength of our financial sector and the progress that has been made in recent years with regard to our supervisory framework. I am particularly pleased to note, among the findings of the FSAP Mission, the following:-

- (1) Overall, the Mauritian financial sector is currently in good health, and the short-term stability risks are modest.
- (2) Mauritius has a relatively large and well-developed domestic financial system and a growing offshore sector.
- (3) The authorities have embarked on an ambitious program to transform the economy, and the Government, in partnership with the private sector, is taking decisive measures to build a knowledge economy based on higher value-added services, notably in information and communication technologies.
- (4) The assessment of Standards and Codes found a high level of compliance with internationally accepted norms and best practices.

- (5) Mauritius' strong economic performance has spurred the development of a large, profitable and sound banking sector.
- (6) The banking system of Mauritius is profitable, well capitalised and generally sound.
- (7) The quality of banking supervision in Mauritius has improved significantly over the past few years and is of a generally higher standard than in most African countries.
- (8) The Bank of Mauritius Guidelines on Corporate Governance, Internal Control and credit are all of a commendable standard reflecting international best practices and the capacity of the Bank of Mauritius to enforce the Guidelines has improved with the development of knowledge and skills within the Supervision Department.

We expect that, on the basis of the FSAP Report, the Financial Stability Forum will issue another press release announcing the removal of Mauritius from the third category.

Our commitment to proceed with the various recommendations is already evidenced by the actions that have already been taken by the authorities in Mauritius. We are thankful to the IMF and the World Bank for the prompt response given to our request for Technical Assistance to beef up our supervisory and legal framework.

A few laws have, under the whip of the Honourable Minister for Financial Services, been enacted: the Anti-Money Laundering (Miscellaneous Provisions) Act to further strengthen our institutional and regulatory framework with respect to money laundering; the Convention for the Suppression of the Financing of Terrorism Act which lays the basis for Mauritius to ratify the Convention. Regulations under the Financial Intelligence and Anti-Money Laundering Act 2002 have been promulgated. Another law on Mutual Assistance in Criminal and Related Matters has also been enacted.

Guidance Notes on Anti-Money Laundering and Combating the Financing of Terrorism have been updated and aligned with international standards as acknowledged by the FSAP Mission. The ambiguity as to whether the Bank of Mauritius is empowered to issue such Guidance Notes has been dealt with in the Anti-Money Laundering (Miscellaneous Provisions) Act.

Furthermore, a few additional guidelines are being worked upon. A draft Guideline on Credit Policy has already been finalised and is due to be issued to the industry shortly.

In February 2002, at the quarterly meeting of the Banking Committee, I proposed to Chief Executive Officers of banks, the establishment of a Credit Information Bureau in Mauritius. Bankers enthusiastically welcomed the project. A Sub-Committee, comprising senior officials of all commercial banks and headed by the Manager Legal of the Bank of Mauritius was appointed to make recommendations on the way forward. The Sub-Committee submitted their report in August 2002. I am happy to note that the FSAP mission is supportive of this initiative.

The National Bank of Belgium houses one of the most sophisticated Credit Information Bureau in the world. I accordingly solicited the assistance of the Governor of the National Bank of Belgium to guide us on this project. A delegation headed by the Managing Director of the Bank of Mauritius, comprising bankers, will proceed to the National Bank of Belgium for a prospecting visit in November this year.

In all the assessments that have been made so far a common thread is perceptible. The strong willingness of the authorities in Mauritius to co-operate and to promote the country as a sound and clean jurisdiction runs through the assessments. Even before the Financial Sector Assessment Programme started we, at the Bank of Mauritius, had already identified certain areas of vulnerability of our banking industry. We did initiate several remedial actions and I am particularly pleased to note that the FSAP Report does make mentions of the various initiatives. The FSAP Report is a critical assessment of where we stand today. The recommendations are expressions of views regarding what need to be done now and in the immediate future. But we need

to constantly review our supervisory and legal framework in the light of changes taking place in the domestic economy and in the dynamic international financial system as well.

We have a panoply of rules, guidelines and laws for the proper conduct of banking business in Mauritius. As regulators and supervisors we need to exercise discretion failing which the very purpose of the rules, guidelines and laws could be defeated. Let me share with you a brief paragraph from Sammuel Brittan's *Economics and Ethics*: "Most real-world situations are more complicated than the simple prisoner's dilemma, and the possibility of choosing an inappropriate strategy is a real one.

This possibility arises because the way in which strategies are normally determined is via the application of widely accepted rules – whether these are obviously moral, such as 'do not kill'; conventional, such as 'drive on the left'; or habitual, such as 'do not scatter litter'.

But many widely supported moral practices and rules are double-edged. Frank cites a hypothetical Jones who sacrifices a day's earnings of \$300 to prosecute Smith for stealing a \$200 briefcase. The motive here can only be described as vengeance. Frank is inclined to regard Jones as a social benefactor because his action discourages theft.

May be. But encouraging vengeance as a general practice is playing with fire."

Regulators and supervisors or any other authorities should make productive use of the rules, guidelines and laws in the best interest of our financial sector. Misuse of the rules, guidelines and laws by anyone of us could only jeopardize the achievement of the authorities' objectives. The goal should be the promotion of the growth of our financial market without excessive constraint.

Let me wish all the participants in the Seminar a pleasant working day.

Thank you.