

Presentation by Mr. B.R. Gujadhur, Managing Director, Bank of Mauritius, at the invitation of the Commission for Education, Rodrigues Regional Assembly, 20 September 2003

Career Opportunities in the Financial Sector

Good Afternoon

I am pleased to speak this afternoon to a young audience aspiring to join the financial sector in a near term.

First, I have to thank you for inviting me to make this presentation. My entire career has been in the financial sector, notably with the Bank of Mauritius from the start of the Bank in 1967. As such, I have been a privileged witness over the years of the dramatic changes that have taken place in the financial sector both in Mauritius and in the global economy. In 2001, I was appointed Chairman of the Financial Services Commission (FSC) which is responsible for the regulation and supervision of all non-bank financial activities, including the Stock Exchange, the insurance sector, offshore business and all other non-bank financial activities. The mission of the Board of the FSC is to achieve a world-class integrated regulation for Mauritius' non-bank financial services sector and I can assure you that it is pursuing this objective with the greatest determination.

2. Nature of financial intermediation

The first point to note is that those working in the financial sector are essentially engaged in the provision of services. The quality of services provided varies from one person to another in general. However, in financial institutions, there are thresholds below which a service given to the public cannot go down. These basic levels of service determine every financial institution's standing and competitive edge on the market. Financial institutions typically allocate funds that have been pooled together from those who have surpluses to end users who

are typically borrowers of money. This is referred to as intermediation. Financial intermediation is fraught with risks. Accordingly, the job of the financial service provider is to carefully balance the risks taken. The extent to which he succeeds in so doing will determine whether he will make profits or otherwise.

This is a serious matter. If the risks are excessive, the financial service provider would turn up successive losses. The effect of such losses would be to gradually erode the capital of the financial institution. Such a situation would result in the public loss of confidence in the concerned institution. Seeing this signal, if the public then rushed to withdraw its money from it, the institution would collapse with consequences that you can only guess.

3. Skills

From what I have just described to you, it is easy to make out that the golden rule in financial institutions is to control and manage risks. It constitutes the core principle underlying a well-run successful and sustainable financial institution. This fundamental canon of good governance in financial intermediation has remained immutable over centuries, no matter how much the style and delivery of financial services have undergone transformations over the years. Those who have acted contrary to this basic principle have witnessed the inescapable failure of their institutions.

So we have good management as an essential ingredient for successful financial intermediation. There is normally a division of duties in financial institutions. Jobs at the lower level would call for simple skills such as a sound knowledge of mathematics combined with accounting skills. You could manage with the simpler transactions with this amount of knowledge coupled with a good dose of on-the-job training. It goes without saying that modern financial institutions are usually highly computerized. You would therefore need to be equipped with reasonable IT skills even at the junior levels of administration.

At the higher levels, complex transactions and decisions are involved. They relate to processing of applications for loans in the case of banks or making complex investment decisions, calculating the amount of risk taken on a portfolio, analyzing cash flows of clients and the institution itself, matching liquidity and earnings objectives of the institution as well as forecasting market trends and taking positions based on such forecasts. In the financial futures markets, where derivatives are traded, including products such as futures, options and swaps, sophisticated mathematical models are used to determine the value at risk and the appropriate hedge to be taken in the circumstances.

These complex transactions require a much higher level of skills. They involve the competencies of holders of specialized degrees and professional qualifications in the fields of finance, economics, accounting, actuarial studies, financial legal structuring, business administration and management, depending on the principal focus of the relevant financial institution. In most cases, the successful financial service provider at this level combines one or more of these high level skills and a massive dose of experience gained on the market. Accordingly, multi-skilled personnel carry a premium and financial institutions are ready to pay a price for it for such positions.

Translated in simple terms, this means that a long-term well-sustained career in the financial sector should be based on specialized skills and extensive knowledge and mastery of the twists and turns of the markets. One cannot go too far in financial institutions today with simple qualifications even though this was possible in a not too remote past. The markets are unforgiving to practitioners who cannot go deep enough and who make miscalculations on the risks taken. Given the serious implications that this situation has for financial institutions, team-work and collective decision making are employed to ward off the potential dangers.

4. Going Global

Technology has become an inescapable and integral part of the platform on which financial services are delivered worldwide. It is a cornerstone on which competition is driven on the markets. A mastery of technology support systems in financial activities will be an asset.

Another phenomenon that is characteristic of financial intermediation today is the increasing pervasiveness of financial markets the world over. Thus, if the stock exchange of New York was to register a downfall, you would see it mirrored successively in other stock exchanges such as Tokyo, Hong Kong, Singapore, London, Paris and Frankfurt as the clock goes round. The point to understand is that there is not much headway one can make by being a stand-alone financial service provider in a geographic location, removed from the global stage. In terms of a well grounded career, it means that you have to keep in constant touch with global movements on financial markets which may spin off opportunities for making profits at the right time, provided you have the skills and the technology to do business. Access to the Internet and at low cost would help you keep abreast of market events, which should form part of your routine culture so as to address your job effectively in this regard.

A good part of financial business today is based on international financial flows. These flows amounting to trillions of US dollars per day arise from liberalization of financial markets worldwide, which began in the 1980's. Accordingly, funds move along restlessly throughout the day across diverse financial markets all over the globe in search of profits. The small Channel Island of Jersey which has a population of some 60,000, has so perfected the art of dealing with business based on international financial flows that it generates a per capita income of over US\$24,000. Its economic activity is almost exclusively based on the provision of financial services. Similarly, Singapore, another financial centre and an economic hub in East Asia with a geographic area of a

little over a third that of Mauritius, has a per capita income of more than US\$20,000. Mauritius' per capita income is around US\$4,600. The relatively higher prosperity of Jersey and Singapore is directly based on these countries' exceptional intermediation skills in finance and international trade.

To achieve that level of prosperity, we in Mauritius have to generate world-class skills to take advantage of the increasing pervasiveness of financial flows in global markets. To win the trades, you need to be highly innovative and imaginative and keep constant touch with the latest developments on the markets. You also need to be there to meet the customer's needs before the others. If you have the core number of professionals to drive the trade, business will come to your doors. For this to happen, you have to meet the needs of the customer by anticipating it from information you have gathered about the customer, rather than forcing the customer to accept products that you have developed for your own convenience on your shelves, irrespective of what his specific requirements could be. You have to be inventive and resourceful. This is how the notion of the personal banker, for instance, has been developed. The latter knows, by dealing with you across the whole spectrum of your activities, what your specific needs could be and, hence, he attends to them by offering specific services and the appropriate vehicles through which the needs can be met. This is the nature of competition in today's markets.

5. Where do we stand?

Mauritius has a reasonably good financial sector. It is comprised of domestic and offshore banks, insurance companies, pension funds, the stock exchange, foreign exchange dealers, money-changers, stockbrokers, factoring and leasing, equity and venture capital funds, collective investments, trusts, house finance companies, a development bank and some amount of micro-finance. This looks like an impressive list. However, our financial market is not as deep as other financial markets. Normally, liquidity flows, the volumes of

trade undertaken and connectedness with the business generated by international capital flows demonstrate the depth of a financial market. We have to go some way still to match the profile of other self-sustaining financial markets in other parts of the world which have deep structures.

We should be asking ourselves the following question. Given that financial intermediation is skill-based, what could be keeping us from applying our skills to graduate to the highest level of the world's well-established financial centers? One of our handicaps is that geographically we are off the mainstream of key world financial centers in the global context. Most economic activities and trades take place in the cross-Atlantic and Asia-Pacific regions. We have been trying our best since the late 1980's to join this mainstream. We have been successful to quite an extent with the introduction in the early 1990's of the offshore sector that extends the otherwise narrowed down scope represented by purely domestic financing activities. We have also been assisted by the advance of technology that has helped overcome constraints of physical location. We have opened up our financial sector to expatriates who have the skills and international connections to throw in their weight and drive the development of our financial market with the help of their international networks. We will have to continue on this policy for the future growth of our financial market and attract those talents from abroad who can add value to our financial sector business. The objective should be to go on building core knowledge and skills and learning on-the-job while also expanding and diversifying domestic financial activities in the reach out to the global economy, thereby generating sustainable jobs for our young men and women.

6. Scope of Cover in the Financial Sector

A career in the financial sector can be extremely fulfilling. It can bring you in contact with the entire spectrum of humanity. This in itself endows the financial service provider with a rich harvest of human relationship. Some people will

confide unto you their innermost secrets. Others will be evasive and elusive about their financial dealings. You will be in a position to assess better than many others the general direction the economy is taking at specific moments since the financial transactions which you will handle represent a perfect mirror of the pace at which economic activity is actually taking place. To apprehend all of it, you will have to rise above the routine and understand the operation of the markets from a high point.

Forces at work at the international level are constantly changing the mix of financial services that an institution provides. The same forces are also responsible for the emergence of new financial instruments and products requiring finer techniques and higher skills to handle them effectively. Such is the power of international competition in the financial sector that it constantly requires a re-adaptation of professionals working in this field. Some of them accept this process as new challenges to be taken up. Others cannot easily adapt to it. Whatever be the case, the financial markets have become very demanding and it is expected that their future evolution will keep professionals working in the sector under the pressure to become more productive and competitive. We have in Mauritius quite a few cost advantages at present. We need to preserve them so as to retain a reasonable share of global financial business to ourselves, which means that salaries will have to be kept within bounds even for well-qualified and skilled professionals working in the sector.

The City of London is one of the oldest financial markets in the world, having a history of over three centuries. Yet it is one of the most modern places to do financial business today due to constant re-adaptation of services. It is much more expensive than Mauritius but its professionals have the advantage of being able to mount the most intricate financial projects for their customers. We need to employ our skills with greater flexibility backed by knowledge of market changes as it is the case in London. A place like Dublin did not figure among the mainstream world financial centers a decade or two ago but it has emerged

as one of the key new centers in recent years. It enjoys a relative cost advantage compared to other financial centers. With appropriate re-engineering, places like Mauritius can become significant key players in international financing like Dublin. The basic deciding factor is the extent to which we can form an enduring alliance with other professionals operating in other financial markets having the best global standards and outreach of customers of substance. This process would raise the quality of our human resources further and bring up more qualified and experienced professionals who can raise the scope to serve both our domestic and international financial operations effectively.

7. Conclusion

This ambition to serve global markets is legitimate. To achieve it, we have to forge ahead higher up on the value chain from where we are operating today. A sheer small gust of wind should not send us tottering in terms of the amount of business canvassed. Existing gaps in the financing spectrum in Mauritius are being quickly filled up. This is encouraging. Searches are being carried out to identify potential demand for services. This is how micro-finance has recently emerged as a new area of financing that could probably be well adapted to demands by small entrepreneur based economic activities such as in Rodrigues. As a whole, Mauritius' financial sector has registered an average annual growth rate of about 8 per cent over the past ten years. Employment in the sector which stood at 6000 in 1993 stands at 7,400 in 2003. A greater diversity of services is being provided at present. There is higher value added per employee. We can look forward to the sustained continuation of our involvement in both local and international financial services but with greater emphasis on the provision of international financial services.

Finally, if I take the liberty to tender an advice to those aspiring to join the financial services sector, it is this. Keep in mind at all times that people entrust their money to you because you are a repository of their faith and seen as a

capable manager. It is on this essential element of public confidence that the entire financial infrastructure is built. To live up fully to this expectation, the successful financial services provider will need to impose upon himself a considerable amount of self-discipline and adopt high and irreproachable standards of conduct with unimpeachable personal character. People expect you to allocate the funds they put at your disposal to the best possible uses and in the most secure destinations. On this elementary principle of good faith and honesty, the whole edifice of the financial sector has been built and the centerpiece of this framework is no other than integrity and skill of the individual financial service provider himself.

Thank you.