

Rundheersing Bheenick: Putting Mauritius on the world's Islamic finance map

Address by Mr Rundheersing Bheenick, Governor of the Bank of Mauritius, at the official launching of HSBC Amanah Islamic Banking Mauritius, Les Guibies, Pailles, 5 May 2009.

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Ladies and Gentlemen

A very good morning to you all.

It is always a pleasure to do business with our friends from the Hong Kong and Shanghai Banking Corporation. They know so well the business of business.

HSBC – a reliable partner over the years

The presence of HSBC in our local banking history traces its roots back to 1859 when the Chartered Mercantile Bank of India, London and China established a branch in Mauritius. The bank boasts therefore over 150 years of significant contribution to the economic development of the country.

Today HSBC, subsidiary and branch combined, ranks first in terms of assets, deposits and advances.

HSBC has always adapted and evolved to meet new challenges in our financial sector. Now it is helping us write a new chapter in the history of banking and finance in Mauritius. We are pleased that HSBC Amanah has included Mauritius in its global strategy.

HSBC, with its distinct Hexagon logo, needs no introduction in our part of the world. It is indeed "The World's Local Bank" as their slogan has it.

As Confucius said, "*A man who reviews the old so as to find out the new is qualified to teach others*".

As we search for solutions for the current global economic and financial crisis, it is well that we go back way beyond the days when our present, so-called, "whizz-kids" were born. That is the very ones that have now led so many bankers and the world into so much trouble. So we look now to our friends from Hong Kong who fuse together a sublime sense of history with a zest for the future to take us forward.

In Mauritius, we have tended to look to Singapore for our benchmarks of performance. But Lee Kwan Yew, celebrated doyen of development theory and practice, in fact saw Hong Kong as the standard-bearer of development for small states and for Singapore itself. In his perceptive autobiography, "From Third World to First", he wrote "*I saw Hong Kong as a source of inspiration and of ideas before visiting Hong Kong I did not understand the importance of talent the yeast that transforms a society and makes it grow.*"

We are proud that as we take our first tentative steps in Islamic finance we have a prestigious global name such as HSBC Amanah to support us in our ambition to position Mauritius as a jurisdiction of choice for world-class Islamic financial services.

It is an irony that we have driven conventional banking, Western style, so far beyond its carrying capacity that we now have to delve back, for new solutions to the question of sustainability, into that quite different tradition of banking derived from the principles of the Shariah.

Our approach to Islamic banking/our challenges

Central Banks, such as Bank Negara Malaysia and the Bank of England amongst others, have been important sources of inspiration for us. One has emerged as the Islamic finance powerhouse of the world and the other is by far the most renowned conventional financial centre.

The UK had a visionary leader in Eddie George, Central Bank Governor between 1993-2003. Sadly, Lord George left us recently. I had the pleasure of meeting him last October on a day trip to Robben Island laid on by South African Governor Tito Mboweni and he spoke very fondly of his visit to Mauritius. He was an easy conversationalist. It was precisely a conversation with his neighbours, a well-established professional couple, deploring the fact that they were unable to access mortgages in the United Kingdom on the ground that they were based on *riba*, and thus not in accordance with the principles of their faith, that moved him to envisage Islamic finance in the UK.

This casual chit-chat between good neighbours has today resulted in a financial centre that harbours six authorised Islamic financial institutions and another two dozen or so institutions offering Islamic financial products as well as over twenty *sukuks* listed on the London Stock Exchange.

Meanwhile, driven by petrodollars and rising prosperity in the Gulf and Southeast Asia, Islamic finance has literally exploded. Increasing demand for Shariah-compliance augurs even better days ahead for the Islamic finance industry as we prepare to enter the field.

In these circumstances, how could we resist stealing a page from Eddie George's book?

Just like the British FSA did over 10 years back, we steered our thinking towards having a regulatory framework that accommodates both conventional and Islamic financial institutions.

We have also drawn guidance from the experience of other countries which have embarked on Islamic finance but we have had to map out our own route. For instance, we have opted not to impose a single Shariah on our financial institutions Board. We have left it to individual institutions to set up their own Shariah Committee and nominate their own Shariah experts. The Bank will recognize Shariah experts from reputable jurisdictions.

It is good to be clear about what Islamic finance is not? As we view it, Islamic finance is not just for people of Muslim faith. The sound ethical principles underlying Islamic finance represent an attractive alternative to conventional financial products. Islamic finance offers advantages to Muslims and non-Muslims alike. The traditional bank/customer, borrower/lender relationship changes considerably into a partnership in Islamic finance.

We have already amended legislation and issued the necessary guidelines, but the challenge goes well beyond the legal changes and setting up a regulatory framework. The challenge begins when marketing Mauritius as a destination of choice for Islamic finance. It is a very competitive field that we are entering.

Other challenges for this secular country include the integration, the merging of this novel way of doing business within our present conventional financial landscape as a seamless addition so that it is perceived as just another financial product. There is also the challenge of attaining full regulatory and Shariah compliance simultaneously.

There is also the wider or meta-challenge for all Islamic financial industry stakeholders to mainstream the industry with conventional finance systems. The present global financial delinquency constitutes an opportunity for the more ethical, risk-sharing, approach of Islamic finance. But it is early days yet for us in Mauritius to join that debate! Let us get our feet firmly on the first rung of the ladder as we are doing now!

As I speak to you today I am aware that I am not an expert in Islamic finance and I am certainly not very likely to issue a *fatwah* anytime soon! And I guess many of you present here today are fellow-novitiates!

Our bankers and their legal advisers would need to develop a thorough understanding of Islamic law to ensure that the financial products which they offer meet full regulatory and Shariah compliance.

Shariah advisors should be able to combine their in-depth knowledge of Islamic law with a familiarity with conventional financial and economic concepts.

We therefore need to develop the know-how as we would require a pool of experts in the field.

Issuers of Islamic financial products on their part have a role to play in creating awareness, and in educating the public on the merits of Islamic finance. As for us, the regulator, we also have a steep learning curve ahead of us.

Two years down the line

When I joined office as Governor two years ago, I recognised that the potential of Islamic finance to bring diversity to our financial markets, boost business opportunities, and exert a positive impact on the economy.

I jumped on a moving train. The work had already started. In October 2005, Government had set up a steering committee to explore the possibility of implementing the establishment of Islamic financial services in Mauritius.

There was however some confusion about the “*aiguillonage*” and the destination.

The first meeting was held under the chairmanship of the Minister of Arts and Culture. After some time, he quite reasonably asked the Ministry of Finance to take over the chair. It began to look suspiciously like a game of musical chairs when, in June 2006, the chairmanship was passed on to the Bank of Mauritius. But the train seemed finally to be on the right track and heading in the right direction.

A report was rapidly finalized in June 2007. This is when the challenge started for our small island. We had to chalk out a Way Forward to position our country in the first Division of the Islamic Banking League. I am happy to say that in only two short, but eventful, years we have:

- (i) Joined the IFSB as member – which crystallized after my very first meeting with the Secretary-General, Professor Rifaat, when I attended the BIS meeting in Basel in 2007;
- (ii) Brought the necessary amendments to domestic banking laws to accommodate Islamic banking;
- (iii) Issued the *Guideline for Institutions Conducting Islamic Banking Business* in June 2008;
- (iv) Approved in August 2008 the application for an Islamic bank from two promoters, one from a group operating in the Gulf and the other from a leading financial conglomerate in Mauritius;
- (v) Approved the application from HSBC to operate an Islamic window; and
- (vi) Embarked on a project to develop Shariah-compliant money market products for the emergence of an active Inter-bank Money Market for Islamic financial institutions.

Shariah-compliant Treasury and Central Bank paper

Let me say a word about this. We have in mind to introduce Treasury and central bank paper which would be the equivalent of Treasury Bills/Notes/Bonds and Bank of Mauritius Bills, but without the interest rate element attached, to make them Shariah-compliant. Such

instruments will help banks offering Islamic financial services to manage their liquidity. I understand that we may be among the first central banks to introduce such instruments for banks to park their excess funds or manage their liquidity. As Governor of the Central Bank, I take a personal commitment to do whatever is required to help our licensees implement Islamic banking successfully and make it work.

Islamic finance and the global crisis

The launching of Islamic banking in Mauritius comes at an opportune time. Economic thinkers, who are trying to figure out how the world sleepwalked into the financial mess, which we are now mired in, are now beginning to appreciate the need to redesign tomorrow's financial architecture based on sound ethical principles.

In this sense, Islamic finance is gaining added credibility as a viable alternative. Dr Zeti, the much-admired Governor of the Bank Negara Malaysia, has in numerous addresses recently underscored the relative resilience of Islamic finance to withstand global stress. Indeed, if we take the UK example, many banks have collapsed, or have been effectively nationalised, but there has been no failure of any Islamic financial institution.

I am glad – as I am sure are the shareholders, customers, and other stakeholders of this global financial giant – that HSBC is not among the victims!

Let me make a commercial break here and tell you about the forthcoming **Seminar on Islamic Capital Markets**.

In two weeks' time, we will be hosting a Seminar on Islamic capital markets. This is the first event that the Bank is officially launching in collaboration with IFSB. I am pleased that our sister-regulator has agreed to join forces with us in this exercise. This is as it should be. The border between banks and non bank financial institutions – which can be drawn not without difficulty in conventional finance systems – become very blurred in Islamic finance. We therefore lean on the Memorandum of Understanding which the Bank signed with the Financial Services Commission to ensure that there is no regulatory overkill.

The Seminar aims at creating awareness on the Islamic capital market and its role in the Islamic financial services industry.

We have invited Expressions of Interest from the public wishing to attend the Seminar. I am pleased to say that we have been overwhelmed by the response.

Given the huge interest to participate in this event, we at the Central Bank are now contemplating to extend the planned event and organise sessions to accommodate all those who have expressed an interest to participate. This would thus be an additional contribution of the Bank in disseminating knowledge of Islamic Finance among the general public. Watch this space for a further announcement on this as soon as we finalise the logistics.

Let me, therefore, once again congratulate HSBC on its strategic decision to start Islamic finance operations here in Mauritius, and welcome HSBC Amanah to our shores. Today, my colleagues and I who have worked on this subject for two years now feel a legitimate sense of fulfillment.

And I can tell our friends from HSBC: You add depth to our financial sector. And give a new dimension to your long-established presence here. You also comfort us in our ambition to grow and develop our country as a major international financial centre.

In these very difficult times that we are going through, when we inspect every passing cloud for any trace of silver lining, can we perhaps expect Amanah to be the spark that we are looking for to re-energise our faltering economy?

All our very best wishes to you and your team, and a very good day to all of you, Ladies and Gentlemen, who are here with us this morning for the launching ceremony of the very first Islamic finance operation in Mauritius.