Rameswurlall Basant Roi: Mauritius's long history of banking

Address by Mr Rameswurlall Basant Roi, Governor of the Bank of Mauritius, at the launching ceremony of the Bank of China (Mauritius) Limited, Balaclava, 27 September 2016.

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Her Excellency, Madam President of the Republic of Mauritius

Honourable Minister of Finance and Economic Development

Honourable Ministers

His Excellency the Ambassador of the People's Republic of China

Chairman of the Board of Supervisors, Bank of China, and Leader of the Chinese Delegation

The CEO of the Bank of China (Mauritius) Limited

Distinguished Guests

Ladies and gentlemen

Good morning

Years ago, under my watch, five banks were licensed by the Bank of Mauritius: Deutsche Bank (Mauritius) Ltd, Standard Chartered Bank (Mauritius) Ltd, Standard Bank (Mauritius) Ltd, Banque des Mascareignes and Investec Bank (Mauritius) Ltd. Afrasia Bank Ltd and the SBI (Mauritius) Ltd were about to set foot in our jurisdiction before my departure in 2006. On March 18 this year, I handed over a banking license to the Bank of China (Mauritius) Limited – a bank from the second largest economy of the world and the oldest society that is once again writing its own story under a new mandate. It's indeed a great pleasure to be associated with the Chinese delegation this morning for the launching of the bank. The bank gets its moment under the sun in our jurisdiction as from today. Let me once again extend a very warm welcome to the Bank of China.

Established in 1912, the Bank of China successively served as China's central bank, international exchange bank and specialized international trade bank until 1949. The bank eventually rose to a leading position in the Chinese financial industry and developed a good standing in the international financial community. It's reckoned as a Global Systemically-Important Bank and ranked 4th worldwide and 3rd in China in terms of Tier 1 capital in 2015. The bank, largely owned by the Government of China, had wished to open a branch as opposed to a subsidiary in Mauritius. But the Bank of Mauritius required the Bank of China to go for a subsidiary and not for a branch as is imperatively demanded by our prudential standards. The bank respectfully complied.

The Bank of China's stated capital stands at nearly Rs2.0 billion – almost ten times the amount required as per our Banking Act – reflecting its determination to use its presence in Mauritius as a strong and powerful conduit for facilitating and expanding businesses between Africa and Mauritius and between Mauritius and China. The stated capital defines clearly the scope and character of activities that the Bank of China is resolved to undertake in our jurisdiction. Strong banks with strong stated capital give credibility to a jurisdiction. Low levels of stated capital convey the perception that the requirements for obtaining a banking license are very lax, even though there may be stringent conditions that need to be satisfied for opening a bank. Most banks in our jurisdiction have stated capital well above what the Banking Act prescribes.

Lately, the Bank of Mauritius has been taxed as being inflexible, and even arrogant, with regard to issues having to do with regulation and supervision of deposit-taking institutions. This is rightly an occasion for me to share some of my concerns.

Under the post-World War II gold standard, there never was a financial crisis that thrusted systemic risk to the world economy. Since 1971, when the Bretton Woods System broke down, the international monetary and financial system experienced 13 major crises:

- 1973 oil price shock and international monetary crisis
- 1979 oil price shock and the US dollar crisis
- 1982 Latin American debt crisis
- 1984 banking crisis and effective nationalization of Continental Illinois Bank in the US
- 1987 October stock market crash
- 1989–91 S&L crisis and bailout in the US
- 1990 Japanese bubble collapse and banking crisis
- 1992-The European Exchange Rate Mechanism crisis
- 1994 Mexican peso crisis
- 1997 Asian currency crisis
- 2001 dot com crash
- 2007–09 Housing market collapse in the US and international financial crisis
- 2010–2012 European sovereign debt crisis

I am sure none of us feels good about a world ridden with crises. On average, every 4-year period the world economy has suffered from a major currency or financial crisis over the last 45 years, let alone occasional political disturbances and rivalries between countries that wreak mayhem in financial markets. The high frequency of crises and their increasingly lasting character have kept regulators on their toes. Every crisis is known to have given Ministers of Finance and Governors of central banks more and more troublesome times with taxpayers bearing the brunt for regulatory mistakes and regulatory forbearance. From trusted life-savers they turn into potential drowning victims. There are few worse sins in the business of regulating and supervising financial institutions than falling “behind the curve”. The consequences are usually dire for the economy. Insouciance is costly to society. The exigencies of universally accepted rules, laws and by-laws in the business of banking do not allow us to adopt a relaxed and unperturbed attitude towards regulatory and supervisory issues. To use a Shakespearean lexicon, the responsible regulator often has to be “cruel only to be kind” to the financial system, the economy and, by extension, to society as a whole. Under what appears to be the arrogance of central banking, lies the unspoiled humility of the central banker.

A Damocles’ sword is hanging, since quite some time, above the necks of banks in a number of jurisdictions, particularly the smaller ones. Banks in smaller jurisdictions are operating in a penalizing environment. Many of them have already been sanctioned by larger correspondent banks overseas. A study conducted by the World Bank reveals that half of the 91 financial regulators surveyed have seen a decline in correspondent banking facilities in the past three years. Correspondent banking is the business that banks do with one another and is an essential link in cross-border payments, cheque clearing and remittance. Many of us must be aware that a barrage of regulation aimed at stemming money laundering and terrorist financing has led to billion-dollar fines for major banks recently. Several large banks domiciled in advanced countries are retreating from some countries deemed high-risk. This process of de-risking is on and it threatens to upend regional financial security. Most of the 170 smaller banks surveyed reported a loss of access to “scale and breadth” of services provided by large banks overseas. The regions hardest hit are East Asia Pacific, Central Asia, the Caribbean, Eastern Europe and small jurisdictions with “significant offshore banking activities and high-risk jurisdictions". There are indications that some countries in Africa are already losing correspondent banking facilities from larger overseas banks. Newly set up banks unknown in the banking world are having serious problems regarding correspondent banking facilities. Cheque clearing, payments and settlements, cash management and international wire transfers have suffered the most. Foreign trade in the afflicted countries have suffered as a result. This problem is best tackled at the very licensing stage of banks by the regulatory authority.

In our domestic market, foreign currencies equivalent to as much as US$11.0 billion are purchased and sold annually against rupees. In the last eighteen months, the Bank has equipped itself with the right technology to pick up unfamiliar smells in financial transactions. As regulator, we have defined our bearings in today's overbearing and unforgiving environment. Mauritius cannot afford to take the kind of risk that could seriously jeopardize its trade and financial transactions with the rest of the world.

Regulatory authorities in jurisdictions like ours have two choices: either to sound like Cassandra or to get laid back on a multiple dose of congenital optimism and take it lightly as another speed bump on the road to an imaginary perfect world. It's not amusing being Cassandra. But remember, Cassandra ended being right. And the Trojan, having blissfully disregarded her warnings, ended up being very wrong and very dead. With due regard to some business persons seeking a banking license, I must say with all the humility of a central banker that the regulator cannot afford to embrace crude populism as a way of professional life.

Effective enforcement of prudential norms requires a strong regulatory and supervisory framework. In the light of many regulatory challenges that the Bank has been facing for several years, various attempts were made to consolidate our legal framework. The attempts were in vain. This year, following the 2016–17 Government Budget, quite a good number of amendments to the Banking Act and the Bank of Mauritius Act were proposed. This is an occasion for me to thank the Honourable Minister of Finance for having taken the amendments to the National Assembly, defended them with conviction and got them through. Regulators need authority; they need discretion to use the authority as evolving situations demand. But the Bank does also recognize that the inherent complexity and unpredictability of markets and, more importantly, of human behaviour necessitate flexibility. The Bank does, however, keep in mind a few basic principles when using this discretion. The authority thus granted to the Bank of Mauritius is used responsibly and not vainly.

Mauritius has a very long history of banking. The oldest Mauritian bank is the Mauritius Commercial Bank Ltd, established in 1838. Quite a few banks were operational long before 1838. And Mauritius used to be a regional financial hub since as far back as the 17th century to the early decades of the 20th century. The Pound sterling, the Indian rupee, the US dollar, gold, silver and some Middle Eastern currencies were used as media of exchange. Mauritius had emerged as an important regional platform for payments and settlements between traders from the West, Africa, the Indian sub-Continent and East Asia. The construction of the Suez Canal and the two World Wars arrested the evolution of the financial hub. After several decades, the platform was revived in 1989 with the hosting of our Offshore Banking Centre. Mauritius does have its historical roots in serving international finance. We don't take this attribute and the aptitude of our jurisdiction lightly. I seize this opportunity to tell the people of China and the Chinese business community in Africa that we have no restriction whatsoever on capital flows since 1994. Business people bring capital in and take capital out of Mauritius freely – as long as anti-money laundering parameters set by the laws of the country are positively observed. This vitally important characteristic of our jurisdiction combined with a robust regulatory and supervisory framework for financial institutions makes of Mauritius a safe and credible financial hub.

Mauritius is already a jurisdiction through which vast amounts of capital flow from various parts of the world to China. The mass of trade between Africa and China needs a credible jurisdiction for the usage of the RMB. The renminbi has moved fast from a regulatory-driven currency to a market-driven currency in the past few years. Mauritius does have the potential to grow into a regional “node” for the internationalization of the RMB. To the Chinese business community in Africa, in particular, I wish to reassure that fund management, treasury management of corporate bodies etc are competently conducted in our jurisdiction. The advent of the Bank of China in our jurisdiction is thus a promising development.

Last year, I was in Shanghai, at the heart of the Chinese financial centre. During a conversation over dinner with a group of bankers, I was a little surprised at their ignorance of Chinese people having settled down here in Mauritius for around two centuries. They listened to me in disbelief and jaw-dropped silence when I told them that the Spring Festival is celebrated in Mauritius and the day of celebrations is a national holiday. To the people of China, particularly to those Chinese businessmen having enterprises in Africa, I wish to tell them that the Chinese Diaspora’s contribution to the economic development of Mauritius has been enormous. Sino-Mauritian relationship is a great story line which the Chinese immigrants have constructed and woven through thick and thin since they first set foot in Mauritius. The establishment of the Bank of China is a welcome response to the demands for closer co-operation between Mauritius and the People’s Republic of China.

The bank is headed by Mr Zhang Xiaoqing, a career banker. I understand the bank is expected to be a game changer in the region under his leadership. On behalf of the Board of Directors and the staff of the Bank of Mauritius, and on my own behalf, I wish the Bank of China the very best.

Thank you.