

Rundheersing Bheenick: Consolidating the overall supervision of the financial sector in Mauritius

Speech by Mr Rundheersing Bheenick, Governor of the Bank of Mauritius, on the occasion of the Signature of a Protocole D'Accord and Launching Ceremony of the Joint BOM/FSC Coordination Committee, Port Louis, 12 July 2007.

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Members of the Board of Directors of the Bank of Mauritius and of the Financial Services Commission

The Chief Executive of the Financial Services Commission

Chairman of the Mauritius Bankers Association

Operators in the Non-bank Sector

Staff of the FSC and Bank of Mauritius

Ladies and Gentlemen

It is a great honour and indeed a pleasure for me to welcome you all to the signature of a Protocole D'Accord and the launching ceremony of a Joint Bank of Mauritius/Financial Services Commission Coordination Committee in an effort to promote a more structured and active collaboration and coordination between the two regulatory and supervisory authorities.

You will appreciate that, as financial institutions increasingly operate globally and diversify their businesses, it has become important in the interest of financial stability for supervisory bodies to oversee the safety and soundness of these institutions on a consolidated basis. While the Bank of Mauritius has the lead supervisory responsibility for the banking and non-bank deposit-taking sectors, there is an urgent need to conduct consolidated supervision to complement the supervision of licensed entities on a solo basis. This will contribute to a more accurate assessment of the risks to which a financial institution may be exposed.

Responding to the changes in the financial services industry, the Bank of Mauritius and the Financial Services Commission have agreed to collaborate more closely with a view to consolidating the overall supervision of the financial sector. As consolidated supervision is undoubtedly an essential element of effective financial sector supervision, we are today formalizing this process of collaboration and co-operation between the Bank of Mauritius and the Financial Services Commission through the signature of a Protocole D'Accord and the setting up of a Joint BOM/FSC Coordination Committee. The main purpose of the Protocole D'Accord will be to expand on the scope of the Memorandum of Understanding (MOU) signed between the two regulatory and supervisory bodies in December 2002. The Protocole D'Accord makes further provision for the parties to agree on the extent of their responsibilities and harmonization of their procedures with respect to financial institutions which are regulated by both institutions. The Memorandum of Understanding sets out a framework of co-operation between the Bank of Mauritius and the Financial Services Commission in their common pursuit to maintain a safe, efficient and stable financial system in Mauritius. Both supervisory bodies will, under the terms of the MOU, work in close collaboration to ensure the setting up of appropriate arrangements to respond to threats to financial stability, to coordinate information sharing and avoid duplication.

Financial stability remains a major concern to both the Bank of Mauritius and the Financial Services Commission, given their statutory responsibilities to supervise and regulate the financial markets. Achieving financial stability is not a destination but rather a journey. It is an on-going concern for both regulators given the continuous developments and challenges in the economic environment. Presently, our financial sector is under the regulatory and supervisory purview of these two bodies. Currently, the asymmetry of information makes it difficult to evaluate the state of financial stability. As the final resting place of risk is hard to observe, as regulators, we can at least try, through this collaboration, to track its passage through the markets. There are, therefore, compelling reasons for both authorities to

strengthen collaboration with a view to improving the sharing of information relevant to their respective responsibilities.

The process of effective consolidated supervision involves qualitative as well as quantitative dimensions. Supervisors must therefore be aware of the ownership structure, the overall organizational structure, the corporate governance and risk management systems and all material risks within a conglomerate. As regulators, we must have knowledge of the entire group to properly assess risks which may emanate either from the licensee's core activities or from its affiliation with entities that may or may not be directly regulated. As conglomerates are showing increasing interest in banking business, we regulators have the duty to evaluate the risks that would spill over directly or indirectly from the non-bank or non-regulated entities of the groups. We must by all means avoid supervisory grey areas. Enhancing information sharing between regulatory authorities right from the licensing stage helps to minimize the risks arising from supervisory gaps.

As you are aware, Mauritius had undergone two Financial Sector Assessment Programmes (FSAP) by a Joint IMF-World Bank Mission in recent years. The launching of this Joint Coordination Committee shows the commitment of the regulators to promote best international practices that meet the expectations of international organizations and of the Basel Committee on Banking Supervision which also advocates that banking groups should be supervised on a consolidated basis.

I now have the pleasure of announcing to you the names of the representatives of the Bank of Mauritius on the Joint Committee. Mr. H.O. Jankee, Chief Economist, Mrs N. Sajadah Aujayeb, Legal Officer and Mr G. Gonpot, Senior Bank Officer will represent the Bank on this Committee. The Bank of Mauritius and the Financial Services Commission have also agreed to the principle of rotating Chairmanship, with the Committee being chaired alternately by the Chief Economist of the Bank and the Acting Deputy Chief Executive of the Financial Services Commission.

Let me add that while we are a dynamic sector, we have observed that quite some poaching of staff goes around in our sector. We do not want this to happen between our two institutions. Quite a few employees of the FSC have applied for posts at the Bank.

On this note, I would like to thank you for your presence at the Bank today and look forward to your support and collaboration in enabling this Joint Committee achieve its objectives.

Thank you for your attention.