

Yandraduth Googoolye: Developing the custody market in Mauritius

Address by Mr Yandraduth Googoolye, First Deputy Governor of the Bank of Mauritius, at the official launching of HSBC Global Custody Services, Port Louis, 12 April 2012.

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Good morning to you all.

It gives me great pleasure to be present this morning at the launching of the HSBC Global Custody Services. This is yet another initiative of HSBC towards broadening the range of services that it offers to its customers. I have been given to understand that with this proposition, the bank, with the intrinsic support of its parent Group, aims at increasing the size of the custody market in the Mauritian jurisdiction. "HSBC Security Services" hopes to create a hub for tapping of both developed and emerging markets in over a network of 90 countries worldwide, including 25 African states.

It is a known fact that the custodian industry has been dominated by a handful of largest banks worldwide, and HSBC has, in this regard, secured a privileged position among these big players. No doubt, your bank can view its track record in the global custodian industry with immense pride today.

Having been ranked number one globally for its Global Custody Product in the *Global Custodian 2011*, your bank has been top rated in 8 out of 10 categories as published recently in the magazine. This outstanding performance clearly demonstrates your commitment to deliver a market leading product and maintain the position of number one service provider by the industry. While looking at the history of HSBC Group in Mauritius as far back as in the year 1859, it is remembered with pride and nostalgia of the assistance provided by the bank in the financing of railway construction in 1864. And today, it is acknowledged that HSBC Bank is moving on the fast track, bringing new life and strength to our banking sector.

Role of a custodian bank

The traditional responsibility of a custodian bank has been the holding and safe keeping of the various assets of either institutional or individual investors. These assets included stocks and bonds. While having its origins from the physical safekeeping of share certificates, custody has now been transformed into a technology-intensive information processing business. With the globalization of capital markets, more specialization is coming along with the constant growth of cross-border investment and collective investment schemes. Global custodians are therefore able to capture cross-border custody business without incurring substantial set-up costs and on-going fixed costs.

There is no doubt that the global custodian model is most appealing to institutional investors and asset managers, and rightly so, HSBC is well-placed to serve this industry by capitalizing on its network of branches across the globe and by leveraging effectively on its worldwide resources with local expertise. HSBC Bank is creating a one-stop shop service by providing from its globally connected business, whether for fund accounting, valuation, global custody and transfer, foreign currency exchange, cash management, or securities lending. In addition, the proposition of HSBC Bank incorporates the creation of a central flow of data on the current status of assets which would enable the owner of the assets to easily obtain documentation that provides information about the holdings that he has entrusted to the bank.

Supervisory issues relating to provision of custody services

As is the case for any financial product, there are a number of risks associated in the delivery of custody services. These risks can be broadly, classified into operational, financial and legal risks. Focus is therefore being laid on financial risk management, capital adequacy, and operational risk mitigation. While it is viewed that there might not be any systemic implications which emanate directly from custody services, vigilance is nonetheless required on the part of financial institutions and supervisory authorities alike, since cross-border investment flows might have an impact on domestic financial system stability.

In the aftermath of the global crisis which has been of unprecedented magnitude, banks have been called to become leaner and fitter. Alongside, the job of regulators has become even more complex given their mandate to maintain soundness and stability of the financial system. Presently, the Bank of Mauritius is engaged in constantly upgrading its prudential and supervisory norms to keep pace with international best practices in the regulation and supervision of financial institutions falling under its purview. The recent financial crisis bears witness to the fact that a mere slackening of vigilance can give rise to devastating snowball effects. As supervisor, we do maintain that prudential and supervisory norms have to be constantly revamped to chase up and keep pace with financial innovation. And in the wake of the rapid integration of financial markets, there is a dire need for refinement in early warning system tools that can further enhance the supervisory framework. Concurrently, the upholding of the basic principles of sound corporate governance remain crucial for withstanding speculative appetites and curbing excessive market volatility. And so much so, as banking per se requires the fundamental ingredient of instilling trust and confidence.

Supervisors and authorities responsible for financial stability are presently contemplating the best options for strengthening of the risk sensitivity of the prudential framework, in the expectation of the emergence of a new financial architecture. One area remains that in the best interest of one and all, there should be increased trust-based cooperation between the financial service provider and the oversight authority. This basic ingredient is no doubt key to a continued successful development of an efficient and secure market infrastructure that meets the fast-changing needs of our financial sector. Mutual cooperation can but benefit our financial system. While HSBC Bank is engaged in marketing its custodian service provider role, our economy shall certainly gain in the process – our jurisdiction is projected in the global business arena as a credible International Financial Centre. Allow me to congratulate this initiative of HSBC Group and convey my best wishes to the Management and staff of HSBC Bank (Mauritius) Limited.

I thank you for your attention.