Rameswurlall Basant Roi: Cross-border banking and regulatory reforms - implications for Africa from international experience

Opening address by Mr Rameswurlall Basant Roi, Governor of the Bank of Mauritius, at the Joint IMF/BCBS/Making Finance Work for Africa Conference, IMF Africa Training Institute, Ebene, 1 February 2017.

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Managing Director of the IMF, Madam Christine Lagarde

Chairman of the Basel Committee on Banking Supervision

Fellow Governors

Executive Directors and Senior Officials of the IMF

Distinguished Guests

Ladies and Gentlemen

Good afternoon

I am pleased to welcome you all to Mauritius. I wish you a pleasant stay with us. I thank the organizers of the *Joint IMF/BCBS/Making Finance Work for Africa Conference* for inviting me to give the opening address today. May I extend my appreciation to the Mauritius IMF Africa Training Institute for hosting this Conference.

When I was here recently, I was asked to give a closing address to a house-full audience of course participants. I had shared with them my personal experience as regulator of all deposit taking institutions in Mauritius. While narrating to them a number of enlightening anecdotes related to events leading to the revocation of banking licenses, problems associated with crisis resolution and presenting them with the risks and challenges that regulators face in the globalized world, I read in their looks the enthusiasm and the eagerness to take their regulatory and supervisory responsibilities seriously. Interestingly, I found out that regulators in Africa are keen to have better regulatory structures. Understandably, one hampering factor – apart from an acute shortage of highly skilled and seasoned bank examiners – that overwhelms all other considerations is national interests as opposed to the soundness and stability of financial industries at the regional, pan-African or global level. The political will is thus seen to be missing. It's a problem not confined to Africa only.

I believe that it's in order for me to give a very quick and broad brush-stroke of our experience with the regulation and supervision of banking and cross-border banking activities.

Mauritius was a regional hub for payments and settlements since the 17th century. Traders from the West, the Middle East, India and China crossing this part of the world used to regularly meet here in Mauritius for purposes of payments and settlements. The piastres, Indian rupee, Pound sterling, the US dollar, gold and silver used to be the means of payments and settlements. A characteristic feature of the hub was free banking. There was no regulatory authority and therefore no licensing authority. Banks used to issue their own paper currencies. And, of course, banks used to collapse quite often. The seed of frequent bank failures resided mostly in the recklessness with which banks issued their respective banknotes. The authority's anxiety with regard to the sustenance of confidence and stability in the then monetary system had led to the setting up of the Board of Commissioners of currency in 1864, the first in the world. By the end of the l9th century the hub had lost its significance. Rivalries between bankers had led to the establishment, in 1838, of what is today the largest domestic bank in Mauritius. Two British banks having large cross-border banking activities the world over have been present in Mauritius for more than a century. Soon after World War II, it was realized that our financial system needed to be regulated. Licensing of banks was introduced. To prevent banks from collapsing due to stresses and strains caused by massive repatriation of funds, exchange control was introduced in 1951. Ever since the establishment of the Board of Commissioners of currency a running thread of preoccupying concern has been the soundness and stability of our financial system.

Regulation and supervision of banks started formally in the very early 1970s. Of the 8 banks then in operation, 5 were branches of international banks. A mix of home-host country regulations guided their operations. In the first half of the 1980s, we initiated steps to gradually liberalize our financial sector. In 1989, we established the offshore banking centre. Two types of banking licenses were issued, one for banks carrying out exclusively offshore banking business and the other for banks carrying out domestic banking business. By July 1994, with the suspension of our Exchange Control Act, the gradual liberalization of the financial sector was completed. The heightened pace of globalization and financial integration posed serious challenges for the banks operating in Mauritius and for us as regulator. Admittedly, like other regulators in many jurisdictions we were not prepared for the challenges. Subsequently, banks operating in the offshore sector were brought within the purview of more or less the same regulatory and supervisory norms as those applicable to domestic banks. The dual-licensing regime was done away with.

One of the most meaningful developments, yet unrecognized, in the Mauritian economy over the last 27 years has been the introduction in 2004 of a single license regime for banks operating in our jurisdiction. It allowed what formerly were offshore banks to interact actively with the domestic money and foreign exchange markets and with the domestic economy in general. Cross-border banking activities decisively picked up. The Bank of Mauritius Act and the Banking Act were both overhauled and suitably recast to meet emerging regulatory challenges. Previously, quite some prudential norms set by the Bank of Mauritius used to be introduced by way of regulations made by the Minister of Finance. They sometimes used to be lobbied against in the halls of Government. By making the guidelines legal in the Bank of Mauritius Act 2004, the Bank does not have to have recourse to Government for issuing guidelines to banks and is therefore free pressures from the banking industry and other related parties. So far, the Bank of Mauritius has issued 35 Guidelines to the banking industry. They all have authority.

As the financial integration accelerated, cross-border banking activities also accelerated in the 1990s. Today, cross-border banking activities account for 60 per cent of our banking industry's businesses. Total banking assets are around 300 per cent of our GDP. The risks and vulnerabilities to our financial industry and the economy are by no means negligible. Since the beginning of the new millennium, the Bank of Mauritius took a number of regulatory and supervisory initiatives a few of which are as follows:

1. The Bank entered into MOUs on cross border supervision and information sharing with 16 of its counterparts. The MOUs set forth a statement of intent between the Bank and its counterparts to establish a framework for mutual assistance, cooperation and exchange of information in the fulfilment of the institutions' respective supervisory responsibilities;
2. The Banking Act allows for cross border cooperation in terms of group audit from parent bank of the subsidiaries and branches of foreign banks in Mauritius;
3. Besides carrying out onsite examination of overseas subsidiaries of local banks, the Bank has also engaged with its foreign counterparts to carry out joint examinations of entities falling under its purview. The Banking Act allows host supervisors to conduct examinations of banks in our jurisdiction;

4. Two years ago a huge financial conglomerate failed in Mauritius. The Bank of Mauritius Act and the Banking Act were amended to enhance both consolidated and conglomerate supervision;
5. The Bank of Mauritius attends the supervisory colleges of almost all the subsidiaries and branches of foreign banks operating in our jurisdiction. The Bank has a policy of holding supervisory colleges for the two largest domestic banks that have subsidiaries and branches overseas;
6. A major risk associated with cross border operations is money laundering. The Bank of Mauritius has continuously upgraded its guidelines on AML/CFT in line with FATF recommendations. Strict enforcement of the guidelines has led to severe regulatory sanctions against non-compliant institutions which explains why the Bank is unpopular, and
7. Given the acceleration of cross-border banking activities, the Bank of Mauritius is currently strengthening its risk-based supervisory framework.

These initiatives are by no means adequate for effective regulation and supervision of our banking industry. A lot more has to be accomplished. At some point in time this year, we would be having a crisis resolution framework for Mauritius. Crisis avoidance, more so in an increasingly digitalized financial world, requires far bolder initiatives to strengthen regulatory and supervisory frameworks not only in Mauritius but in every other country in the African continent. We are told that in the years ahead we will continue to be provided with banking and financial services but banks, as we know them today, will no longer exist. We, regulators, have to be steps ahead. Our regulatory and supervisory experience clearly demonstrates that effective regulatory structures for cross border banking activities are indispensably needed. The absence of a regional or pan-African regulatory structure is palpably felt for quite some years. The idea, mooted already, of having a regulatory structure for overseeing banks having significant cross-border banking activities does hold water. This could be a starting point.

Regulatory challenges keep multiplying on the regulators' table. For instance, we observe in our jurisdiction here that the distinction between subsidiaries and branches are blurring. Instead of being incorporated locally as completely separate legal entities, subsidiaries of big banking groups are being organized along business lines. Different subsidiaries of the same banking groups are being set up in different jurisdictions with different facilities and advantages. Would a failure of one of the subsidiaries not bring down the entire group?

Ladies and gentleman, there is a multiplicity of complex regulatory issues that need to be resolved by governments and regulatory authorities in the African continent. I do not wish to pre-empt the panelists. We have the distinguished presence of seasoned regulators as panelists for the Conference. I am confident that we will leave this place with a lot of ideas and options to contemplate about.

May I thank the Managing Director of the IMF Madam Christine Lagarde and the Chairman of the Basel Committee on Banking Supervision, Mr Stefan Ingves for being with us during the Conference. I, once again, thank the Director of IMF Africa Training Institute for hosting the Conference.

Thank you.