

Yandraduth Googoolye: Enabling framework for financial technologies in Mauritius

Speech by Mr Yandraduth Googoolye, Governor of the Bank of Mauritius, at the Mauritius International Financial Centre - Forward Looking conference, organized by the Financial Services Commission, Balaclava, 20 September 2018.

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Thank you Lord Desai.

Let me first wish a very good morning to the other panelists and the distinguished guests present at this Conference.

It is indeed a great pleasure for me to be part of this Panel today to share the Bank of Mauritius', as well as my personal views, on fintech.

We all agree that fintech — that is technology-enabled innovation in financial services — has developed significantly over recent years and is impacting the way financial services are produced and delivered.

The Bank of Mauritius, as the regulator for the Banking Sector and also having been mandated to ensure the stability and soundness of the financial sector, has been following closely the evolution of Fintech.

I must, nonetheless, highlight that the application of technologies in financial services is not new. The banking sector, for example, has been subject to gradual transformation through technological advent over the past decades – the advent of ATMs, credit cards, cheque truncation, internet banking, cross border transfer of funds, amongst others are just a few examples.

Technological evolution of the financial services sector therefore is a natural phenomenon which happened in a phased and orderly manner. The legal and regulatory landscape has been continuously amended to adapt to the technological changes in line with the recommendations of international standard setters.

Similarly, we are preparing ourselves for the fintech revolution.

The announcements in the Budget Speech of this year clearly show the commitment of our jurisdiction to adopt and accept the fintech revolution. The building blocks of these announcements, which in my view, are the key drivers in the development of an enabling framework for fintech, are:

(i) The Regulatory Sandbox Licence

(ii) Creating a regulatory framework for Digital Assets and investment in crypto currency as a digital asset.

(iii) The need for cyber-security and cyber-resilience policies and capacities.

(iv) the harmonization of the AML/CFT framework in line with development in Fintech.

Regulatory Sandbox Licences as a prelude to the enabling regulatory framework

As the demand for technologically enabled financial services, continued to increase, and in the absence of an appropriate legal framework to govern same, in 2016, provision was made in the Investment Promotion Act for the Board of Investment (now the Economic Development Board)

to grant Regulatory Sandbox Licences.

Applications for Regulatory Sandbox Licences in a variety of fields, such as crowdfunding, peer-to-peer lending, cryptocurrency, initial coin offering, amongst others, were received. Regulatory Sandbox Licences, however, are granted for a specific period of time, usually not exceeding one year, pending which either the Bank of Mauritius or the Financial Services Commission, depending on the activity, would propose the appropriate regulatory framework to regulate the fintech company.

This, however, was not a simple task as the Bank of Mauritius is not only the regulator of the banking sector, but also the guardian of the safety and soundness of the financial sector.

The regulatory framework cannot be amended nor overhauled in a haphazard manner as it must ensure that the stability and soundness of our financial system nor the reputation of our jurisdiction is not jeopardized in the process.

This is why we are following closely the works and guidance offered by international standard setters such as the Basel Committee on Banking Supervision, the Financial Stability Board, the International Monetary Fund, the Financial Action Task Force, to name but a few, which have realized that fintech must be properly regulated to maintain the stability and soundness of the financial systems.

Most, if not all, international standard setters have underscored that fintech have resulted in new business models, applications, processes, or products. These changes have, in turn, had an effect on financial markets and institutions which may have a potential impact on the monetary and financial stability.

It is therefore crucial for the Mauritius International Financial Centre that its enabling framework for fintech be in line with the latest discussions taking place at the level of these organisations to ensure that, in setting up the fintech regulatory framework, the Mauritius International Financial Centre provides the proper biosphere for the fintech ecosystem while affording appropriate safeguards to investors.

In a Paper issued in February 2018, the Basel Committee on Banking Supervision considered that *while bank supervisors must remain focused on ensuring the safety and soundness of the banking system, they should be vigilant for opportunities to enhance both safety and soundness and financial stability while monitoring for current practices that might unduly or unintentionally hamper beneficial innovation in the financial industry.*

This consideration, in my view, is applicable to the non-bank financial services supervisors as well.

Tobias Adrian, IMF Financial Counsellor and Director of the Monetary and Capital Markets Department, for his part, in a recent speech expressed the view that adopting well-designed standards can promote both certainty for innovators and safety for consumers. Hence, to maximize the full potential of new financial technologies, policymakers must strike a sensible balance, namely, creating a supportive space for innovation while maintaining a robust regulatory framework.

Amongst its terms of reference, the Fintech and Innovation-Driven Financial Services Regulatory Committee chaired by Lord Desai was tasked to advise on the development of a regulatory framework for fintech in Mauritius.

The Regulatory Committee found that the applicable laws in Mauritius are essentially technology-neutral and that statutory provisions pertaining to the innovative application of technology for financial services are practically non-existent.

The Regulatory Committee advised that two approaches may be considered in this respect – namely extending the existing regulatory and supervisory perimeter to accommodate fintech or setting up a fintech-specific regulatory framework.

I hope that these issues are considered by the National Regulatory Sandbox Committee.

Digital Assets and crypto currencies

The Financial Services Commission has recently issued a Guidance Note on the recognition of digital assets as an asset-class for investment by sophisticated and expert investors. The Guidance Note clarifies that cryptocurrencies are not legal tender in Mauritius but have “value” since they are exchangeable for other things having value, thereby showing characteristics akin to physical commodities such as precious metals.

I expect that this Guidance Note will clarify a number of queries regarding cryptocurrencies.

The Financial Service Commission will surely have regard to the framework developed by the Financial Stability Board, in collaboration with the Committee on Payments and Market Infrastructures (CPMI), to monitor the financial stability implications of the developments in crypto-asset markets. While the Financial Stability Board believes that crypto-assets do not pose a material risk to global financial stability, it recognises the need for vigilant monitoring in light of the speed of market developments.

Moreover, having regard to the international trend, I wonder whether the Bank of Mauritius, as the sole issuer of legal tender in Mauritius, could possibly consider issuing central bank digital currency in the coming year(s).

The implementation of the National Payment Switch, which is well underway, is expected to add more impetus and dynamism to the payment systems infrastructure by providing a multifaceted inter-bank switching platform for various payment channels that will easily integrate local and international payment systems.

Additionally, instantaneous access to bank accounts has become the basis for digitalisation of the economy. The change in consumer attitudes and new technologies has led the Bank of Mauritius to embark in the implementation of an Instant Payment System, concurrently to the National Payment Switch. The implementation of the Instant Payment System will, further, support the e-government initiative by promoting electronic payments through all channels in the Government agencies through instant or near real time payments.

Cyber-security and cyber-resilience policies and capacities

In 2017, the Financial Stability Board (FSB) assessed the financial stability implications from fintech and noted that addressing the following three priority areas is seen as essential to supporting an authority's efforts to safeguard financial stability while fostering more inclusive and sustainable finance. These priority areas are –

Firstly, managing operational risk from third-party service providers;

Secondly, mitigating cyber risks; and

Thirdly, monitoring macro-financial risks that could emerge as fintech activities increase.

The Bank of Mauritius is currently enhancing its supervisory guidelines in line with the recommendations of the Financial Stability Board. A new guideline on Information Technology Risk Management is currently being finalized and will be issued to financial institutions. The Guideline will provide a framework for the establishment of sound practices and processes for managing the risks that emanate from the use of IT systems.

With respect to macro-financial risks, the Bank of Mauritius and the Financial Services Commission have been collaborating to mitigate such risk and enhance the stability of the financial services sector.

Enhancing the Regulatory framework against money-laundering and terrorist financing in line with development in Fintech.

To mitigate potential AML/CFT risk, the legislative framework must be made applicable to fintech driven financial services as well as the companies offering them. The framework must also be extended to crypto currencies and crypto assets.

The Financial Action Task Force (FATF) has engaged, since 2016, a constructive dialogue with fintech and regulation technology (Regtech) sectors to support innovation in financial services, while addressing the regulatory and supervisory challenges posed by emerging technologies.

The FATF has agreed to initiate a project on investigative best practices related to virtual currencies/crypto-assets to assist law enforcement in the light of the growing risks.

Additionally, the FATF's guidance and standards are being reviewed to determine if changes are necessary to clarify their application to virtual currencies/crypto-assets and promote a more consistent regulatory approach, taking into account the results of FATF's stocktake exercise of the different national regulatory approaches.

We must therefore follow progress made on this matter and adapt our legislation accordingly.

Conclusion

Fintech is definitely here to stay. Regulators must therefore brace themselves to accept new technologies as forming an integral part of the financial landscape. In the process, the Bank of Mauritius is ensuring that it has specialized and trained resources to assist it in fulfilling its mandate and better understand innovative and disruptive technologies.

I must nonetheless emphasise that fintech must be encouraged specially where, rather than disrupting the whole system, it adds value and facilitates certain processes or activities such as transaction monitoring, client on-boarding process, regulatory reporting.

It can also enhance supervisory capabilities. The use of innovative technology in financial supervision can indeed assist in this endeavour. Supervisory technology (supotech) can help to digitise reporting and regulatory processes, resulting in more efficient and proactive monitoring of risk and compliance at financial institutions.

The Bank of Mauritius and the Financial Services Commission are collaborating in ascertaining that any potential regulatory gaps are addressed and regulatory arbitrage eliminated.

I am confident that the financial services sector has a bright future ahead and together with fintech firms, regulators, services providers and customers can embark on this transformational journey and design a new regulatory landscape and financial ecosystem for Mauritius.

Thank you for your kind attention.