

Exploring the Influence of the Financial Services Sector Evolution on Economic Finance in Mauritius



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ABSTRACT: This paper investigates the evolution of the financial services sector in Mauritius and its impact on economic finance. The study provides a detailed analysis of the development of the financial services sector in Mauritius, which has emerged as a key player in the African region. The paper examines the key factors that have contributed to the growth of the sector, including government policies, regulatory reforms, and investments in infrastructure and technology. Furthermore, the paper assesses the impact of the growth of the financial services sector on the wider economy, including its contribution to GDP growth, employment, and income generation. The study also identifies some of the challenges facing the financial services sector in Mauritius, such as the need for greater financial inclusion, enhanced risk management, and increased transparency. Overall, the paper argues that the evolution of the financial services sector in Mauritius has had a significant positive impact on economic finance and has played a critical role in the country's economic development.

KEYWORDS: Financial Services Sector, FSC, Economic Finance, regulator, Fintech, Regtech

INTRODUCTION

Mauritius has a hybrid legal system inspired by the French and English legal systems. Mauritius was under French rule until it became British in 1814, but retained French law and customs. Mauritius has one of Africa's most sophisticated financial systems. This is a well-capitalized and profitable system. A sound regulatory framework and monetary policy for macroeconomic stability have contributed significantly to the soundness of the financial system. This Financial Sector Assessment (FSA) is based in the context of the Financial Sector Assessment Program (FSAP) and is a collaboration between the IMF and the World Bank aimed at identifying the strengths and weaknesses of the financial sector and development needs (EDB Mauritius, 2022).

The financial sector has played a key role in Mauritius' transition towards more sustainable, environmentally friendly, inclusive and resilient growth, with the public and private sectors on this transformational journey. A Memorandum of Understanding (MoU) has been signed between the Mauritius Financial Services Commission (FSC) and the Lebanese Capital Markets Authority (CMA). The MoU aims to strengthen capacity building and promote mutual support between the two organizations (GIS, 2019).

Mauritius IFC's global business segment provides convenience, tax efficiency and risk reduction for internationally active companies. Mauritius-based global business companies have been committed to driving investment and growth on all continents. Since the humble beginnings of 1992, global business has evolved into one of the mainstays of the economy for many years, including global collective investment schemes, closed-end funds, professional funds, professional collective investment schemes, CIS management and investment (EDB Mauritius, 2022).

EVOLUTION OF FINANCIAL SERVICES SECTOR AND ITS IMPACT ON ECONOMIC FINANCE

Early years

At the time of independence in 1968, the Mauritius economy was very unique among emerging countries in that it lacked a subsistence agriculture sector because agriculture focused on sugar production. The single agricultural nature of its production meant that the financial and financial systems played a fundamental role, providing credit and smoothing seasonal variations.

Consequently, the financial system was moderately well developed and the population was proficient in credit. The system consisted of several commercial banks, public development banks, postal savings banks, housing finance companies, credit unions, several insurance and brokers, and private development finance companies.

Commercial banks were primarily engaged in short-term lending, while development banks provided long-term lending. Mortgages were provided to consumers through mortgage lenders. Co-operative banks have lent money to member co-operatives and small producers. Stocks were also bought and sold in a small over-the-counter market. For deposits and loans, there was a differentiated

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interest rate system according to maturity and by institution or sector. It is worth noting that the Mauritius people were not only familiar with credit, but were willing to benefit from the further development of the financial system. Currency and foreign exchange policies have had a noteworthy impact on the economy as a whole over the next few years (Savournaden and Roopchand, 2017).

The Bank of Mauritius (BOM) was recognized as the central bank of Mauritius with the passage of the BOM Act in 1967 (BOM, 2022). This law allowed the BOM to act as the lender of last resort and government banker in the banking system. The BOM's authority was further strengthened in 1971 by the enactment of a new law that gives it broader authority to oversee banks and set current ratio requirements and minimum capital requirements for attaining and maintaining bank licenses. The revised Mauritius Banking Act, passed by the Parliament in September 2004, has modernized the bank's monetary policy implementation structure, established a monetary policy committee, and increased transparency through regular monetary policy statements.

Additionally, it defines the central bank's priority goals to promote financial stability and orderly and balanced economic development. In 1972, the financial bill and Long-term government bonds were also issued, in 1970, the BOM contributed to the capital of the Public Development Bank to increase the availability of long-term funds for agriculture and industry. Concessional loans to fund industrial diversification and exports are now available through discounts on commercial banknotes and direct loaning to commercial banks. Given the openness of the economy and its reliance on trade, BOM began offering forex risk futures coverage. Futures currency contracts were officially introduced in the late 1970s (BOM, 2022).

Maturing of the financial system

As savings habits have increased, the need for long-term investment and financing tools has increased. In response, several private and national pension funds (NPFs) emerged in the mid to late 1970s. Insurance, like some private development lenders, has grown rapidly. The early to mid-1980s were a difficult time for Mauritius' financial system. Mauritius signed a Stand-By Arrangement with the IMF in 1979, shifting its focus to addressing serious internal and external financial imbalances and maintaining macroeconomic stability. The development of the financial system has slowed. However, when several IMF-backed programs ended in 1986 and macroeconomic constancy was no longer recognized as a menace, the establishment of the financial system was renewed through the implementation of several legal and institutional changes (Yao et al., 2021).

Therefore, a new banking law was passed in 1988 to replace the banking law of 1971. This included extensive improvements to strengthen bank supervision and regulatory systems, as well as the receipt of licensed deposits by non-bank financial institutions. The law also established a legal and regulatory system for offshore banking institutions, thereby creating the framework for Mauritius' offshore financial centres. The official Mauritius stock market was established in 1989 with the establishment of the SEM under the authority of the Stock Exchange Act of 1988 (World bank, 2022).

Offshore financial centres were seen as an opportunity to generate economic growth and received strong support from the country's political leadership. Offshore banks were restricted to non-residents owning a majority and conducting foreign currency transactions. The stock market has also grown tremendously, supported by tax incentives for investors. Policies have been established in relation to disclosures, non-performing loans and provisions, loans to relevant parties, credit concentration, liquidity and corporate governance. The Treasury Securities secondary market was created and introduced modern and efficient payment, securities trading and settlement systems. As a result, Mauritius has undergone a significant fiscal deepening process in recent years. This is reflected not only in the slowdown in the speed of money circulation, but also in the rise in the speed of money circulation.

The Financial System at Present

Financial services regulation is regularly converting the funding surroundings in Mauritius. It is apposite to peer from in which it starts. As such, Financial Services Law (FSL) isn't codified in Mauritius in comparison to our Civil Code, Code de Commerce or our Criminal Code. The reasserts of the FSL are observed scattered in a complicated nation in numerous law made below Acts of Parliament, through manner of Delegated Legislations and through Case Law in which as an example in a current judgment brought through Her Ladyship Mrs A.F. Chui Yew Cheong with inside the case of "*M&A Aluminium Centre Ltd v/s The MCB Ltd*" 2009 SCJ 52, the Supreme Court, whilst relating to Section 40 (1) below the Banking Act 1988 headed "Identity of customers", held that during searching on the identification of a purchaser a financial institution has the introduced responsibility to examine the credibility as properly of that purchaser. The word "Credibility" does now no longer exist within the Act of Parliament however the Supreme Court has formed it (Potayya, 2022).

The important regulatory our bodies in that sphere are the BOM which first got here into operation below Ordinance 1 at the seventeenth April 1958 and the FSC being the successor of the defunct Mauritius Offshore Business Activities Authority which have become operational in 1992. In addition to the reasserts referred to above, the BOM and the FSC do make guidelines and rules to increase the economic and the criminal offerings right into greater stringent surroundings to fulfill the desires of the Local and International users. It is to be cited that each economic organization dealing in each banking and non-banking sector want to use to the BOM and FSC for its respective license and lamentably we do now no longer have what's received in the UK in which, ever because June 1998 the Financial Services Authority had grown to be the only forestall keep for each sector.

Our scenario in Mauritius is of complicated nature and happily the Expert in FSL is aware of in which to show for it. The Finance (Miscellaneous Provisions) Act 2021 (the Finance Act) introduced good sized amendments to the law in Mauritius, putting the

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foundation for financial recuperation and resilience amidst the COVID-19 pandemic. Those amendments have been brought with the purpose of strengthening the improvement of key sectors, including innovation in phrases of fintech and Regtech, specifically in mild of the improved nexus among generation and economic offerings over the current years (Jowaheer, 2021). The primary tendencies catalyzed through the current legislative amendments and an evaluation of the tendencies being discovered in Mauritius are set out as follows:

- **NPS Regulations**

Two years after the promulgation of the National Payment System Act (NPS Act) of 2018 (enforced in January 2019), the BOM announced the National Payment System (Authorization and License) Rule in June 2021. The NPS Act was introduced to provide a regulatory and supervisory framework for Mauritius' payment systems. Regulations now formalize the application procedure and offer clear guidelines for adequate service delivery to potential payment service providers and existing payment service providers. Payment service providers and their services are now properly monitored and evaluated to ensure the safe and competent operation of payment systems. These regulations have contributed significantly to the modernization of the Mauritius payment ecosystem. Especially in the management of the COVID 19 pandemic, where the demand for contactless digital payments is higher than customary cash payments.

- **MauCAS QR code**

Further to regulations, the latest developments are related to the June 2021 National budget announcement regarding the launch of the country's MauCAS QR Code, a new payment method for BoM's MauCAS (Mauritius Central Automated Switch) platform. Within a few months of the announcement, BoM successfully published the MauCAS QR Code on September 20, 2021. This is due to the modernization of the payment's ecosystem, given the present international trend from a cash-dominated economy to a digitizing economy, and the accelerating demand for digital payments in the COVID 19 pandemic agenda. Another milestone in democratization (Jowaheer, 2021).

- **Digital currency**

Mauritius law has been amended to provide a framework in which BoM issues digital currencies and can be retained or used by the general public. BoM is now able to accept deposits from these individuals and open accounts for the purpose of issuing digital currencies. As the adoption of digital payments accelerates, BoM may issue rules to further clarify the mechanism for using digital currencies in Mauritius.

- **Central bank digital currency**

In light of the above legislative changes, the Central Bank Digital Currency (CBDC) is expected to be launched by the end of 2021. The purpose of the CBDC is to upkeep the operation of faster payment systems and to fill existing gaps that traditional currency systems may struggle to fill.

- **Fintech and Regtech**

The changes introduced by the Financial Law can be seen as a stepping stone to turning Mauritius into a major fintech hub. The main development is expected at transmuting traditional financial services systems by making them more effectual, effective and robust (Yao et al., 2021).

An overview of these changes is shown below.

1) The revised Banking Act of 2004 comprises of new definitions for «Fintech», «Regtech» or «Regulatory Technology», «Regulatory Sandbox», and «Regulatory Sandbox Approval».

2) «FinTech» is a technologically feasible financial innovation that may lead to new business models, requests, processes or products that have a significant impact on the provision of financial markets, financial institutions and financial services. «Regtech» refers to an advanced technology solution used by financial institutions and other regulated organizations to ease compliance with supervisory rules and requirements.

3) The Financial Services Act of 2007 (FSA) has also been amended to allow the FSC to grant regulatory sandbox approvals to existing licensees and other entities. Granting regulatory sandbox approvals by BoM and FSC will impact the growth of Mauritius' fintech industry. This is a very welcome change. With the approval of the regulatory sandbox issued by BoM (or FSC in some cases), individuals can conduct live experimentations with FinTech, Regtech, or other innovation-driven financial services under the supervision of BoM. The granting of regulatory sandbox licenses to investors who intend to engage in business activities that do not have a legal framework or appropriate provisions in existing local law was previously supported by the Economic Development Commission. Investors will need to apply for a license from BoM or FSC, depending on the nature of the activity. This change proves to be practically beneficial as the license is issued by the same competent authority that originally reviewed and approved the application, which is likely to reduce the processing time of the application (Jowaheer, 2021)

A financial institution, NPS law, FSA licensee or entity is eligible to apply for regulatory sandbox approval. This approval creates a controlled environment in which license applications can be submitted and innovative products can be tested before they are

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subject to regulatory requirements. Investors and experts in this area can be tested with no license-related costs, as they only need to apply for a related license from BoM (or FSC) once to BoM (or FSC, if applicable). Satisfied with successful trials of fintech, Regtech, or other related innovation-driven financial services. These changes also include a detailed description of the regulatory sandbox approval application, approval, monitoring, and renewal process.

- **Launching of the FSC One Platform**

With the aim of launching Mauritius in a revolutionary era of digital advances in financial services, FSC launched the digital platform FSC One on August 12, 2021. The online licensing platform facilitates business in Mauritius, especially in terms of reducing delays associated with processing license applications, including investor evaluation and regulatory sandbox licenses. With one-click access to regulatory information, investors can self-manage the information on the platform and enjoy a great user experience.

- **Establishing Fintech Innovation Hub and Digital Lab**

The law, BA and FSA, has been amended in line with the government's vision to establish Mauritius as the region's leading fintech hub. BA has been modified to allow the establishment of FinTech Innovation Hubs and Digital Labs to facilitate innovation and provide the right environment for testing products and services.

REGULATORS OF MAURITIUS

- **The BoM**

The BoM may provide oversight and may seek cooperation with financial institutions or public or private authorities to establish centers and laboratories. With BoM's openness to collaboration, fintech operators have the opportunity to partner with BoM to provide value-added services such as credit scores and support Central Bank Digital Currency (CBDC). The FinTech Innovation Center and Digital Lab under the jurisdiction of the BOM are related to banking financial services (World bank, 2022).

- **The FSC**

With the changes made to the FSA, FSC will also be responsible for establishing FinTech Innovation Centers and Digital Labs to promote and support technological development in the non-bank financial services sector. The FSC sets requirements for entry into the hub and operations within the hub, the regulated platform provides important support for the development of fintech products and services, and investors become Mauritius and current Fintech entrepreneurs. Encourage them to set up a base, continue their business and boost their business in Mauritius. The regulated platform will certainly be clearer and will have a positive impact on investors' settlement in Mauritius. Some of the regulatory frameworks for innovation driven financial services have already been introduced by FSC in recent years, so FSC is expected to quickly develop a more regulated platform.

For example:

- Guidance issued by FSC on the recognition of digital assets as an asset class for investment by sophisticated investors.
- Mauritius is a pioneer in providing a dedicated regulatory environment for protecting digital assets through licenses and rules for custodian services (digital assets).
- The regulatory approach to STO was elucidated by the FSC through the issuance of a second guidance note. Further, guidance on security token offerings and security token trading systems has been issued to provide a common standard set of STO and security token trading system licenses in Mauritius.
- Recently, the FSC has published a consultation paper on the regulatory framework for FinTech Service Provider (FSP) licenses. This license is intended to provide technology service providers to financial institutions that want to set a commercial presence and operate in Mauritius or with favorable regulatory regimes from Mauritius.

MAURITIUS ON THE EU BLACKLIST AND THE FATF GREY LIST

Mauritius was put on the European Union's blacklist and the Financial Action Task Force (FATF) grey list for money laundering and terrorist financing in 2020, jeopardizing trust in the country and undermining its financial services sector. Mauritius has suffered considerably from being on the FATF's grey list and EU's blacklist. This unfortunately demonstrated that will all the supervision, policy and legislation, the respective institutions have failed to carry out their tasks properly. The country suffered from a negative reputational risk and has as well impacted the economic operator's trust. As such, quality business is not coming to the jurisdiction, existing businesses felt and still feels uneasy with the situation and large institutional clients have considered alternatives to Mauritius. This has not only slowed down FDI but also put pressure on our forex. The country has faced a need for financial security in this insecure market now more than ever with the covid-19 pandemic.

The Reserve Bank of India had started refusing licences to investors operating in Mauritius on account of its inability to conduct the appropriate prior verifications. The Financial Services Commission statistics of new incorporations in Mauritius reveal that on average, some 130 GBL Companies and Authorised Companies, and 6 investment funds have been set up monthly since the beginning of 2020. This represents a 18% fall in the number of incorporations relative to the same period last year. Thus, facing a

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volatile cocktail of the aftermath consequences of the pandemic coupled with the blacklisting, Mauritius is bound to see a slowdown in new incorporations and more voluntary winding-up actions during the current investment climate.

Bank payments to and from the EU, in general be subject to enhanced due diligence (EDD) measures and, in some cases, could be rejected by banking systems. EU banks and professionals will have to strengthen their control over business transactions involving Mauritius.

The Government of Mauritius had to take drastic measures to ensure that it keeps its excellent jurisdiction image and that the country is removed from the lists. The regulatory framework was upgraded, and regulators were more aggressive in their actions resulting in Mauritius

CONCLUSION

From the BoM's issue of the NPS Regulations to the publication of the MauCAS Code just a few months after the announcement made in this year's Budget, it appears that Mauritius is rapidly moving into the digital transformation era. The legislative changes reflect the government's desire to enable new avenues for Mauritius residents to obtain banking services while also encouraging support and growth for a thriving digital banking industry.

The creation of a financial innovation hub and digital lab in Mauritius is a significant step forward in the fintech industry, which is quickly becoming a competitive market. The BOM is expected to issue additional guidelines in relation to the regulatory framework for existing and new payment service providers, fintech and Regtech players, with the firm intention of offering broader categories of financial products and services in the near future, given the BoM's strong desire to make digital banking a reality in Mauritius.

Due to the lack of a solid legal framework or rules, investors' confidence in establishing themselves in Mauritius and present fintech entrepreneurs' trust in continuing their operations in Mauritius were significantly damaged prior to the legislative reforms. The BoM and the FSC, on the other hand, are working tirelessly to improve the regulatory framework in order to raise Mauritius' profile as a desirable jurisdiction where financial institutions and fintech start-ups can continue to lead digital innovation in the financial sector through regulatory reforms, global networking, and investment. In view of the aforementioned considerable advances, it is evident that the banking and payment sector in Mauritius has a bright future.

Mauritius has indeed faced negative publicity due to the recent blacklisting of the country. But it has nevertheless taken actions to remedy the situation. Another issue is that institutions are prone to corruption as well. There should be less governmental intervention to enable the institutions to carry out their tasks.

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