

Harvesh Seegolam: Development of financial markets and digital transformation in Mauritius

Keynote speech by Mr Harvesh Seegolam, Governor of the Bank of Mauritius, at the Bloomberg Financial Forum for the Mauritius Discovery Series, Port Louis, 27 September 2023.

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- Mr Giuseppe Netti, Regional Head for the Middle East and Africa, Bloomberg
- Members of the press
- Ladies and gentlemen

Good afternoon

It is a pleasure to be with you today at the Bloomberg Financial Forum for the Mauritius Discovery Series. At the outset, I would like to thank Bloomberg for inviting me to share a few thoughts on development of financial markets and digital transformation in Mauritius. This event is very timely as Mauritius pursues several initiatives for the development of its financial market. Digitalisation is ostensibly a game changer in a world characterised by datafication and increased connectivity. It entails a fundamental paradigm and cultural shift in the *modus operandi* of financial markets.

The Mauritian financial market has undergone a series of transformational changes over the years and is on par with modern financial markets in more advanced jurisdictions on numerous fronts: financial market legislations, instruments, institutions, and stakeholders. As you are aware, Mauritius was ranked second place in Sub-Saharan Africa in the latest OMFIF Absa Financial Market Index. This index evaluates financial market development of 26 countries over six key pillars namely: market depth, access to foreign exchange, market transparency, tax and regulatory environment, capacity of local investors, macroeconomic stability and legal standards and enforceability. Mauritius scored highly in each of these areas. This bears ample testimony to the success of all efforts spearheaded by the authorities. But we cannot rest on our laurels. More still remains to be done. We need to think outside the box. And to think big! Most importantly, we need to be ready to leverage on the plethora of opportunities that digitalisation throws at us so that we may catapult ourselves in the vanguard of *Avant Garde* countries with sophisticated financial markets.

As an international financial centre of repute, our jurisdiction subscribes to best practices and standards. Mauritius joined the African Bond Indices (ABABI) in January 2021. As you all know, the ABABI is calculated by Bloomberg and is administered by the African Development Bank. The inclusion of Mauritius in the ABABI index has helped to improve the overall credit quality of the ABABI, the more so as Mauritius is one of the only two investment grade sovereigns in Africa.

As a proactive central bank, the Bank of Mauritius has embarked on a journey to further accompany the development of the financial market. The Bank of Mauritius has been broadening the depth of our financial market, including through the release of a guideline for the issue of Money Market Instruments in 2019. The objective is to

introduce a minimum set of requirements for issuers to follow while at the same time protecting potential investors. There has been growing interest from corporates for the issuance of MMIs on the local market, with a view to lowering their short-term funding cost. Three companies have been approved by the Bank of Mauritius to act as Issuing and Paying Agent (IPA) to assist MMI issuers. The Bank of Mauritius has granted five MMIs licences since the introduction of the Guideline, for a total amount of Rs7.2 billion of which Rs2.0 billion was issued as recently as this month.

In July 2023, the reputation of Mauritius as an IFC was further consolidated through two important decisions by international credit rating agencies. Standard & Poor's confirmed the *'Investment Grade'* status of Mauritius - the only IFC with such a rating across Africa, while Moody's released a Credit Opinion upgrading the scorecard-indicated outcome of Mauritius from Baa3-Ba2 in May 2023 to currently Baa1-Baa3. Going forward, we can only expect a better outlook for the country's balance of payments and for its international liquidity position. At the level of the Bank of Mauritius, we continue to work together with all stakeholders through the Committee on International Developments to share information and discuss latest updates in view of improving the ratings of Mauritius.

Ladies and gentlemen

I will not do justice if I fail to mention the improvement in the foreign exchange market operations. The situation has markedly improved since the pandemic, thereby resulting in a scaling down of the frequency and magnitude of the Bank of Mauritius FX intervention on the domestic FX market. FX injections by the Bank of Mauritius, which amounted to USD164 million since beginning of the year, are much lower than the amount of USD621.8 million during the same period last year and USD1,132 million during the same period in 2021. However, as this period of the year is tantamount to the building of end-of-year stocks, the Bank of Mauritius stands ready to provide support to the FX market in case of need. It is worth noting that, in line with promoting the integrity and effective functioning of the Mauritian wholesale FX market on the international FX market, banks operating in the jurisdiction have now all adhered to the FX Global Code since June 2021. This in itself is a landmark achievement. With respect to the performance of the Rupee, you will have noted that it continues to reflect economic fundamentals.

Ladies and gentlemen

It has been observed across several markets that some banks are not taking sufficient risks to service their customers' FX requirements. In Mauritius, banks have to abide by the *"Guideline for Calculation and Reporting of Foreign Exposures of banks"* to ensure an orderly functioning of the foreign exchange market. The provisions of the guideline enable banks to run overbought or oversold positions up to a maximum limit of 15 per cent of their Tier 1 capital. The Bank of Mauritius is closely monitoring compliance with the Guideline and is looking forward to all banks playing their roles fully.

Ladies and gentlemen

The development of financial market goes hand in hand with complementary initiatives. It is now time for me to provide you with an overview of both recent and future

developments. In August 2023, the Sustainable Finance Framework for Mauritius was launched. This document, which has been worked jointly by the Bank of Mauritius, the Government and other stakeholders, governs the issue of green, social, sustainability and thematic bonds, loans or other debt instruments or sustainability-linked bonds, loans or other instruments. We anticipate such instruments to gain popularity in view of the pledge of the country to transition to a sustainable and carbon-neutral economy. All these developments further consolidate the reputation of Mauritius as an IFC in the region on ESG matters.

Financial market developments also entail bringing necessary refinements to the Monetary Policy Framework. In this line, I had announced a review of our framework back in September 2020. The new framework became effective as from 16 January 2023. It provides greater transparency on the monetary policy strategy to further strengthen the monetary policy transmission mechanism. The overnight interbank rate replaced the yield on the 91-Day Bill as the operational target for monetary policy. The main instrument of monetary policy operation is now the 7-day Bank of Mauritius Bill, which is used to steer the overnight interbank rate within the corridor set around the "*Key Rate*" and provide a nominal anchor to short-term money market rates.

We have further pursued active liquidity management to ensure orderly liquidity conditions in the domestic financial market and to align market interest rates with the policy rate. As from August 2023, the Bank of Mauritius resumed issuances of BoM Bills of maturities up to 1 year and BoM Notes in the 2-Year and 3-Year Tenor while it is issuing on a weekly basis 7-Day BoM Bills. Under the new Monetary Policy Framework, Overnight Deposit and Lending Facility are available to banks at their discretion.

Ladies and gentlemen

While the pandemic created manifold challenges, the Bank of Mauritius also managed to turn those into stepping stones. In partnership with the banking industry, we designed a strategic roadmap to chart the way forward for the sector over the next 10 years. The strategic roadmap aims at supporting the sustained expansion and innovation of the banking sector and reinforcing the position of Mauritius as an IFC.

The strategic roadmap "future of banking in Mauritius" was launched in September 2022. The roadmap is the result of discussions held with various stakeholders – including the public and private sectors, the civil society as well as foreign experts and specialists across Africa, Europe and Asia.

The roadmap contains a series of initiatives targeting specific strategic areas. In terms of market access, they cover the Asia and the Africa global business strategy. Several other measures will assist the banking sector to demarcate itself in terms of the range of products and services offered as well as the respective delivery channels. Additional initiatives relate to the fundamental building blocks that are deemed critical to enhance the attractiveness and soundness of the banking sector – such as the regulatory regime, digitalisation, and ESG.

The translation of the roadmap into reality is overseen by the Bank of Mauritius, in close partnership with all concerned stakeholders. Its implementation will be staggered over the next few years. Three task forces have already been set up to work on some of the initiatives.

One of the key initiatives relates to promoting the setting up of regional treasury headquarters in Mauritius by multinational corporations. Some of the initial conditions are already in place. Progress on several other fronts is ongoing to lure players in the corporate treasury activity sphere. Once treasury management offerings expand and become more visible, banking business is set to benefit from scaled-up operations. Giving the right incentives alongside building awareness and confidence lie at the core of our strategy.

Ladies and gentlemen

We cannot predict the future with certainty. However, I can safely say that digitalisation in Mauritius is likely to reach new heights in coming years as its potential is endless. While the Bank of Mauritius has an open mind and open-door policy as far as new technology is concerned, it is nevertheless imperative for us to have a full grasp of the potential implications on economic activity, financial stability, reputation and even inflation.

I assumed office in March 2020 at a time when the pandemic was at its peak. This challenging period spurred us into taking several decisions for the benefit of the citizens. I need not delve on each of the measure as I am sure that you would have amply come across them. We rolled out a series of unprecedented measures, including the creation of the Mauritius Investment Corporation, during the pandemic to preserve stability of financial markets and of the financial sector at large. The Mauritius Investment Corporation has played a pivotal role in ensuring that shocks to the real sector are not transmitted to the financial system through its support to systemically important corporates.

On the legislative front, the law was amended to give the Bank of Mauritius the power to grant digital banking licence. There is significant interest from operators to set up digital banks in Mauritius and a few applications are already in the pipeline. We have equally been encouraging existing banks to explore and launch digital banking services or to enhance their digital service offerings. Most of our banks offer online banking facilities. One bank is also providing services through artificial intelligence-enabled system.

Equally noteworthy are the strides that have been made in the payments landscape. A national QR code, namely, the MauCAS QR Code, based on international standards, was introduced in September 2021. This initiative not only allowed payments with any mobile app but was also instrumental in the democratisation of digital payments. Small merchants who could not previously afford expensive cards point of sale machines, are now able to accept payments through QR codes.

The QR code has also facilitated the digitalisation of Government payments and supports the Government's e-services initiatives. The Bank of Mauritius has further established a payment portal to bring more efficiency in Government payments and services. The official launch is planned in the coming weeks.

Ladies and gentlemen

Interoperability is a prerequisite for a robust payment infrastructure. Easing of consumer payment options necessitates interoperability among diverse payment instruments and arrangements. On that note, open banking has been enabled on the MauCAS Instant Payment System through Application Programming Interface which facilitate integration among operators in the payment space.

The Bank of Mauritius has also opened settlement accounts for non-banks in its Real Time Gross Settlement, thereby bringing a reduction in settlement and credit risk in the national payment systems while simultaneously guaranteeing the ultimate settlement of payments.

Our involvement in the payment sector extends beyond the domestic market. The Bank of Mauritius is collaborating with other central banks and stakeholders in Africa, Asia and Middle East to improve cross-border payment to facilitate the lives of our citizens, tourists and the business community.

As with other central banks, the Bank of Mauritius has embarked on the implementation of a retail Central Bank Digital Currency (CBDC), the Digital Rupee. Work is already at an advanced stage. A Consultation Paper was released to the public and comments obtained. We have now entered the experimentation phase and expect to move to a pilot run over the next couple of months with the assistance of other service providers and other central banks which have already been involved in successful pilot runs.

Ladies and gentlemen

A sound legislative and regulatory framework facilitates adoption of technology and gives credence to its development.

Cloud-based services have gained traction recently in several parts of the world and Mauritius had to follow suit to maintain its competitiveness. The Bank of Mauritius adopted a collaborative approach as with the adoption of other latest standards. To this end, we consulted the industry, cloud service providers and experts in the domain on a more extensive regulatory framework for cloud services and came up with our Guideline on Use of Cloud Services in September 2022.

The Bank of Mauritius is also establishing its own central KYC system to facilitate verification of customers' identity more efficiently while ensuring compliance with international standards and recommendations from organizations such as the FATF. The project has reached its final stages and will be launched shortly. I am also pleased to share with you that some of our licensees have already kickstarted the process of onboarding clients digitally.

In parallel, the Bank of Mauritius is closely keeping an eye on the evolution of the virtual asset market subsequent to the proclamation of the Virtual Asset and Initial Token Offering Services Act 2021 (VAITOS Act) in February 2022. The regulatory and supervisory frameworks with respect to virtual assets are being enhanced and the Bank of Mauritius Guideline for Virtual Asset-related Activities is currently being finalised following a round of consultation with the industry. It is worth recalling that Mauritius is one of the very few jurisdictions to have achieved the status of compliant or largely compliant with respect to the 40 recommendations of the FATF. Mauritius, which serves as a reference considering its rapid exit from the FATF list, continues to upgrade its AML/CFT regime through the necessary legislative amendments and adoption of a risk-based supervisory framework.

Ladies and gentlemen

Introduction of Fintech and its acceptance requires prior testing. The Bank of Mauritius is establishing its innovation hub and digital lab, which will provide a testing environment for the development of fintech solutions and will facilitate the hosting of ideations, hackathons and exploratory programming sessions, amongst others. We are collaborating with other central banks and Innovation Hubs. We are confident that these initiatives will accelerate the development of technology-enabled banking and financial services.

The use of innovative solutions also introduces new risks such as cybersecurity threats. The Bank of Mauritius has taken proactive steps and has developed a clear-cut cyber risk and resilience strategy. We are conscious that a cyber incident may, at any point, assume magnitudes of systemic proportions since each stakeholder in the chain represents a point of vulnerability.

With this in mind, I have established the Mauritius Financial Sector Cyber Committee (MFSCC) to enhance the cyber resilience of the financial sector and, by ricochet, the overall stability of our financial system. I chaired the first meeting of this Committee on 15 September 2023. The upcoming projects of the Committee include the establishment of relevant frameworks for the sharing of information and intelligence and the conduct of cyber simulation exercise.

The 6th Annual Cybersecurity Workshop, which was held at the IMF Headquarters earlier this year, was attended by representatives from over 60 countries. Mauritius emerged as a notable case study. The workshop highlighted the evolving role of central banks in supervising cyber-related activities among their licensees. Mauritius stood out as an example, showcasing a collaborative approach between its Supervision team and its Information Security team as they jointly conducted onsite supervision. Many countries have expressed their intent to follow Mauritius' approach in strengthening their own cybersecurity frameworks. Several central banks have contacted the Bank of Mauritius to benefit from our experience and initiatives we have been taking. I am fully confident that Mauritius will develop into a regional hub of cyber excellence as it implements the Cyber Risk and Resilience strategy.

Ladies and gentlemen

To wrap up, the effective development of financial markets and its digitalisation are important to ensure sustained growth. The potential of financial markets for the African region is immense. We have to ensure that all necessary efforts are harnessed in designing the right enabling environment and ecosystem in this pursuit. It is important for all stakeholders including policy makers, central banks, regulators and operators to collaborate in this endeavour, not only locally but also at the regional level for a sound ecosystem.

We will continue to play our role and to play it well to ensure optimisation of our potential.

With these notes, I would like to thank you all for your attention and I wish you fruitful deliberations.