

4. Assessment and Prospects

The overall performance of the banking sector has been satisfactory. The enactment of the Banking Act 2004 has widened the scope of the activities banks can engage in. While it ushers in a deregulated environment, some of the more important issues concerning banks' functioning mainly regulatory capital, implementation of KYC/AML etc. have been incorporated in the Act. More recently the Act has been amended to facilitate introduction of Islamic Banking in Mauritius.

The timely implementation of Basel II is both crucial and challenging. The Bank has adopted a consultative process with a view to ensure that the implementation is inclusive and the transition is smooth. A close monitoring of the implementation is critical for the achievement of the objective. The banks in Mauritius are bracing up to the task ahead.

The Way Forward

The Bank is aware that the end objective of Basel II is the adoption of the IRB approaches for a better measurement of credit risk. Given that these approaches are based on historical information, the Bank intends to set up centralised databases for credit and operational losses. As the database builds up, banks will be encouraged to assess credit and operational risks through the use of internal models.

The Working Group on Credit Risk for the IRB approach has thus initiated discussions with the industry in respect of the data to be collected for estimating the loss parameters, namely, the Probability of Default, the Loss Given Default and the Exposure at Default. The data will also be used for assessing the appropriateness of the standard loss parameters for credit risk set in the Basel II document with respect to the historical loss experience of the banking industry.

Likewise, the Working Group on Operational Risk is encouraging banks to enhance their operational risk management process through the use of key risk indicators. This tool will help in the management process, including the identification, assessment, mitigation and control of operational risk. Moreover, the Working Group may adjust the indicators (Alpha and

Beta factors) used in the Basic Indicator and the Standardised Approaches to reflect historical loss experience in the Mauritian banking industry.

Online banking has gathered momentum in Mauritius. The success of e-banking at the individual bank level requires a well-designed strategy accompanied by substantial IT investment. This, however, may represent an obstacle for small banks, which may not have the necessary financial resources to implement sophisticated e-banking solutions, including personalised offerings. The manner in which the smaller banks coexist and compete successfully is an important issue for the future.

The Challenge Ahead

Mauritius can successfully become a launch pad for the development of financial services in the African region and can provide a smooth gateway between the African continent and emerging economies like India and China due to its strategic geographic location. As a regional financial hub, Mauritius may become a depository centre for private wealth and a channel for funds and investments to Asia and Africa.

The objective to position Mauritius as a prime destination for private wealth management poses a great challenge to the Mauritian financial services sector. To this end, the financial sector should engage extensively in capacity building for the delivery of private banking services. The hiring of professionals in the field and appropriate training imparted to staff would bring value added products to this niche market. Emphasis should be placed on the building-up of appropriate infrastructure and network, the provision of ancillary financial products including legal advisory services and institutional reforms. These would enable the Mauritian financial sector to compete with other jurisdictions which are already established in the area of private wealth management. The ultimate challenge would be to adapt to the evolving needs and expectations of private banking clients.

From the supervisory perspective, the risks involved in private banking should be properly

assessed and managed by banks. The latter should have a sound risk management framework with proper policies and procedures in place. They must have staff with appropriate skills and expertise in the administration of private banking.

The Bank has embarked on the implementation of Basel II, which involves improvement in the risk management system of banks. Further, banks should enhance their corporate governance structures. It is expected that as banks consolidate their risk management framework they would be better equipped to broaden the scope of their activities to include the provision of private banking services.

The establishment of Islamic banks in Mauritius is very challenging. The prerequisites for the development of a stable Islamic banking system are an

effective regulatory and supervisory framework, a comprehensive legal infrastructure, good corporate governance and sound risk management practices within Islamic banks. However, the regulatory and supervisory framework will have to be consistent with the requirements of the Sharia principles.

In conclusion, the important tasks ahead include sustaining the growth momentum in the banking system without any destabilising development, implementing Islamic Banking, smoothening the regulatory framework to provide a deregulated environment without weakening it. The Bank and the banking system in Mauritius have the capability to size up to the challenge.