

# [Mauritian banking sector history and evolution finance essay](https://assignbuster.com/mauritian-banking-sector-history-and-evolution-finance-essay/)

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The Mauritian economy has transformed itself from a poor sugar economy in 1970’s to export-led growth strategy. After some time the Export Processing Zone sector was introduced to help to decrease unemployment level and foreign direct investment from Hong-Kong, France and UK increased which led to a better Mauritian economy. The growth of the country was examined by Arbache and Page (2008) from 1975 – 2005 and it was found that the island “ was one of the best performers” compared to Namibia, Seychelled and south Africa for example, in terms per capita growth and low growth volatility.

Along the development of the manufacturing sector, the tourism sector surfaced as an important pillar contributing to the economy by increasing foreign earnings. Though these 2 sectors were doing well, diversification in services sector took place in the 1990’s.

Orientation was made to the financial services sector where the main focus was on the banking and insurance. Laws were enacted powering the development of this sector. In 1988, the Banking Act was amended to introduce offshore banking in Mauritius. Then, the Stock exchange of Mauritius Act 1988 established the Stock Exchange of Mauritius.

## 3. 1 The Mauritian Banking Sector History and Evolution

The first bank being established is the “ Bank of Mauritius” in 1813 failed in 1825. Then, along with the start off of a second Bank of Mauritius in 1832, the Mauritius Commercial Bank (MCB) was established in 1838. Both banks were severely affected by the financial crisis in London in 1847, though the MCB being the only one which survived to present. The MCB is now the largest bank with market share of more than 40%.

In addition to the above, a third Bank of Mauritius was establishes in 1894 opening a branch in Seychelles which was then acquired by HSBC in 1916. HSBC is, therefore, referred to as the oldest foreign bank being followed by Barclays Bank Mauritius ( a descendent of National Bank of South Africa).

A new Bank of Mauritius (BoM) was set up which earmarked the monetary history of the Island. Being established in 1967 as central bank, it has the sole power to issue notes.

Some functions of the central bank are:

Formulation and implementation of monetary policy

Government’s bank

Managing of the public debt and foreign exchange reserves

Regulating and supervising of banks

Today, Mauritius possesses a sophisticated banking sector with 20 banks. Banks form the base of the financial system as 70% of Total Financial Sector Assets are from the banking sector [Mohamudally-Boolaky and Ramlall (2009)] – supporting the fact the banking sector contributed more than 6% of GDP for the past year [Board of Investment Report 2011]. Besides traditional banking facilities, banks provide the following facilities: Point of Sales, ATM, Card, Internet banking, Mobile Banking, E-commerce facilities and so on.

## 3. 1. 1 Major Developments in the Mauritian Banking Sector

## 3. 1. 1. 1 Segmental Reporting under a Single Banking License Regime

As from 2004, banks were no more segregated into onshore and offshore as the Banking Act 2004 was amended to govern all banks with a single banking license. Operations are now classified into Segment A (other banking activities than Segment B) and Segment B (Provision of financial services to non-residents that creates “ foreign source income”) [Guideline on Segmental Reporting under a Single Banking Licence Regime – BoM (2005)].

## 3. 1. 1. 2 CAMEL Rating

The BoM uses the CAMEL rating, which is an International bank-rating system, to rate individual banks according to factors that envelop financial, operational and managerial performance. CAMEL stands for:

C – Capital adequacy

A – Asset quality

M – Management

E – Earnings

L – Liquidity

Table: CAMEL Ratings for the Quarter ended 30 June 2012

## Bank

## Overall Rating \*

1

ABC Banking Corporation Ltd

3+

2

AfrAsia Bank Limited

2-

3

Bank of Baroda

2+

4

Bank One Limited

2-

5

Banque des Mascareignes Ltée

3-

6

Barclays Bank PLC

2-

7

Bramer Banking Corporation Ltd

3+

8

Century Banking Corporation Ltd

2-

9

Deutsche Bank (Mauritius) Limited

2+

10

Habib Bank Limited

2-

11

HSBC Bank (Mauritius) Limited

2+

12

Investec Bank (Mauritius) Limited

2+

13

Mauritius Post and Cooperative Bank Ltd

3+

14

P. T Bank Internasional Indonesia

2-

15

SBI (Mauritius) Ltd

3+

16

Standard Bank (Mauritius) Limited

2-

17

Standard Chartered Bank (Mauritius) Limited

2-

18

State Bank of Mauritius Ltd

2+

18

The Mauritius Commercial Bank Limited

2-

20

The Hongkong and Shanghai Banking Corporation Limited

2+

## \* 1: Strong 2+ and 2- : Satisfactory 3+ and 3- : Fair 4: Marginal 5: Unsatisfactory

Source: Bank of Mauritius Communiqué for CAMEL rating for banks 28 December 2012

## 3. 1. 1. 3 Mauritius Credit Information Bureau (MCIB)

According to BoM MCIB update (2005), the MCIB “ collects, stores and provides credit information to lending institutions about customers’ credit exposures”. As from December 2005, banks need to inquire about credit exposure of their borrowers from the MCIB before giving any credit facility to their customers.

## 3. 1. 1. 4 BASEL I & II Framework

Basel I and II has been implemented in Mauritius in 1993 and 2008 respectively by the central bank and Basel III is under negotiations.

Under Basel II, for capital adequacy principles, banks are required to use the Standardised Approach to Credit Risk unless approval for Internal Ratings-Based Approach granted from the BoM [BoM (2008)].

## 3. 1. 1. 5 Technological Development

Technological advances have contributed massively to the banking sector. New facilities have been developed such as:

Point of Sales;

ATM;

Cards services;

Internet and Mobile banking;

E-commerce facilities and

Banks are connected via the SWIFT network;

Cheque Truncation System and so on

## 3. 1. 1. 6 Diversification

Banks are seeking regional diversification, for example SBM has branches in Madagascar and India [FSSA (2003)]. Also commercial banks such as SBM are becoming universal banks by diversifying into the following products: Wealth Management & Private Banking, Global Business, Fiduciary services, Asset Financing, and Stock brokering, amongst others.

Another major diversification of the financial sector is towards Islamic Banking under the Shari’ah principles. The first bank to offer this service is the HSBC through the HSBC Amana Branch. Then, in 2011 Century Banking Corporation started to operate as a wholly Islamic bank.

## 3. 1. 2 Benefits of the above major developments

The following are some of the benefits:

There has been an improvement in risk management;

Banks are becoming more competitive due to technological advances and they are having increasing technical efficiency;

Services offered are being designed to adapt to customers’ demand – les time consuming, availability on a 24/7 basis

Overall, banks are being more and more efficient. A proof of that is their survival during the Global Financial Crisis 2008. Though many banks closed down in the US due to the financial crisis, the Mauritian banking sector remained resilient, safe, lucrative and highly capitalised. As per the FSR 2011, this was possible due to high capital adequacy requirement, carefully designed regulations and better risk management.

## 3. 1. 3 Challenges and Future of the Mauritian banking system

The future of the banking sector is predominant as it drives the financial sector, which is a main pillar, to outstanding performance.

The future of banks that Mauritian authorities are still discussing about is the capital requirements of Basel III. This is because banks have a strong capital position and they are not exposed too much in the developments of external financial markets [FSSA (2008)]. However, it will have to be amended to suit the local context says J. Benoit (July 2012).

According to Khadaroo (2008), the participation of the BoM in the COMESA Regional Payment and Settlement System will allow extraterritorial payments among COMESA countries. This will reduce costs and time taken for the transaction to take place and enhance security.

Moreover, the island’s traditional European markets are in difficulty; therefore, authorities are planning to position Mauritius as an investment platform to link Africa and Asia [Zafar (2011)]. However, the problems that businesses will encounter are: lack of access to finance and infrastructure, corruption and political instability [Business mega (2013)].

Furthermore, the CEO of AfrAsia bank, J. Benoit (September 2012), said that new regulations and governance needs to be out since this will encourage banks to innovate. According to him, banks need to be encouraged to go for niche markets and large banks to do new things.

In addition, the Mauritian banking system lacks professionals to assist the financial sector development. Therefore, the island has been opened up to foreign talent to enable this development. Also, tertiary institutions have designed new courses – for example the University of Mauritius introduced Banking & Finance and International Business Finance courses to sustain the financial growth; and there are many new courses to come. Besides, from the Budget 2013, banks will offer a maximum of Rs 100, 000 per year to students for their university fees.

Last but not least, the Mauritian financial sector will be more resilient to shocks in the future since this sector is becoming more open, exposures will continue to be managed prudently and there will be continuous enhancement in transparency