

Financial sector developments in mauritius



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Introduction

Mauritius is a multicultural developing island found in the Indian Ocean. Since independence in 1968, Mauritius has experienced outstanding transformations. In early 1970s, Mauritius supported a monocrop economy, predominantly dependent on sugar and has gradually evolved to a multi-sector economy with impressive rise in per capita income. The country has inherited a unique set of sound legal, financial and educational institutions at independence. Mauritius has successfully diversified into different economic sectors such as textiles, tourism and financial services. According to World Bank's 2012 Doing Business report[1], Mauritius ranks first among African economies and 23rd worldwide in terms ease to carry out business.

History of financial sector developments in Mauritius.

In 1970's, a strategic change took place as Mauritius switched from agricultural sector to the industrial sector. The government implemented an import substitution strategy with the intention to reduce imports considerably. Unfortunately, no economic growth was noted. Mauritius underwent some political changes in 1969 whereby the Mouvement Militant Mauricien (MMM) won its first election. Nonetheless, after the introduction of the EPZ during 1980's and start of the exportation, the Mauritian economy experienced a boom. The adoption of such an outward looking strategy eventually led to economic growth. The country is presently under the governance of the Mauritian Labour Party – a stable democracy with one of Africa's highest per capita incomes.

Mauritius has a stable democracy with one of the highest per capita incomes in Africa. Table 1 below shows the trends of real gross domestic product per head in Mauritius for the past six years.

According to the statistics provided above, an overall consistent rising trend is noted. This can be attributed due to a well-managed economic regime in the country. Real GDP per capita peaked highest in 2007 owing to the development in the ICT business being an essential trait. Mauritius witnessed a slight rise of 5.97% in 2011 when compared to the year 2010. Data are in current international dollars converted at purchasing power parity rates.

In the past, the Mauritian financial system comprised mainly of the banking sector with the first Commercial Bank being established in 1838. The banking sector alone has contributed over 6% on average to GDP in the last few years. A change in the financial structure took place in the early 1980s and a need for NBFIs was felt. Having revisited the policies, an outward looking strategy was implemented whereupon the mid 1980's marked the fastest growth rate. Ever since, the financial sector has flourished and today the sector comprise an increasing number of leading international banks insurance companies, offshore companies, and NBFIs.

Mauritius set up in the 1970's one of the world's first Export Processing Zones (EPZs). In the 90's the country decided to set up an International Financial Centre which would be to the services sector what the EPZ's were for the manufacturing sector.

Mauritius has since attracted a number of international businesses investing across the globe. Investment vehicles ranging from investment holdings to major collective schemes have been set up and administered in the country.

The Financial services industry is supervised and regulated under a legal framework by the Ministry of Finance. The responsibility to regulate bank and non-bank activities falls on different regulators. Incidentally, the regulatory approach has been product based. In early 1990's, Mauritius faced new challenges in terms of higher wages and increased inflation rate and the economy's international competitiveness was seriously threatened. The economy nearly hit full employment and investment in new product lines was mandatory to regain the competitive edge. Ultimately, there was the emergence of the offshore banking and financial services. Presently, the financial structure of Mauritius is regulated and supervised by two different bodies namely: Bank of Mauritius (BOM) and Financial Services Commission (FSC). BOM is the regulator of Banking sector while the FSC regulates non-banking financial institutions (Capital Market, Global Business, Insurance and Pension funds).

Financial Services Commission

The Financial Services Commission (FSC), established in 2001, operates under the Financial Services Act 2007[2], Securities Act 2005 and Insurance Act 2005. It is an integrated regulator for for global business, insurance and pensions, capital markets and other NBFIs. The FSC licenses, regulates, monitors and supervises the conduct of business activities. Its aim is to promote fairness and transparency of the financial institutions to protect the integrity of investors. The FSC is committed to the sustained development of

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the economy as a sound, stable and competitive International Financial Centre of repute.

Global business

Since its inception in 1992 under the Mauritian Offshore Business Activities Act (MOBAA), the global business (formerly known as offshore business activities) has experienced sustained growth. During the same year, the Freeport was created in a view to liberalize the global financial sector. The global business sector contributed on average 5% of GDP over the last few years. The Financial Services Act 2007 defined the global business as a resident corporation that proposes to conduct business outside Mauritius may apply to the FSC for a Category 1 or Category 2 Global Business License. GBL1 companies may conduct financial services business as well as non financial services business. On the other hand, GBL2 companies can conduct any activity except financial services including be banking, holding, corporate services, trusteeship services or managing a CIS insurance.

According to table 2, the global business industry experienced a rise of almost 13 % in the number of GBC 2's in 2011 as compared to 2010 indicating that the jurisdiction ensures certainty and attractiveness to carry out business, according to the FSC Report 2011.

The number of GBCs followed an upward trend indicating growingly financial investments. In 2011, GBCs were being serviced by 154 Management companies. Management companies are service providers which act as intermediaries between their clients and the FSC. Despite a constant rise in the turnover for management companies in Mauritius for the last four

consecutive years, an approximate fall of 40% was registered from the year 2010 to 2011. The profit before tax dropped by almost 54% in 2011 when compared to year 2010, as depicted below.

Insurance market and pension

The Insurance is an integral part of the financial sector as it contributes to economic growth by promoting financial stability, mobilizing savings, fostering trade as well as mitigating risks. The FSC licenses the insurance/reinsurance companies as well as insurance service providers under the Insurance Act 2005, in alignment with the principles of International Association of Insurance Supervisors (IAIS).

As illustrated below, the insurance industry grew by 8% in 2011 with assets amounting to Rs 95. 9 billion for 21 insurance companies. Similarly, the total gross premium expanded by 9% from Rs 17. 5 billion in 2010 to Rs 19. 2 billion in 2011 during the year under review. Another performance indicator of the insurance industry is the increase in number of licenses issued. The FSC licensed 18 insurance agents, one insurance broker and 675 insurance salespersons in 2011.

The Private Pension Schemes Bill

The pension system ensures old-age income protection and contributes to economic development and financial stability. In November 2012, the the Private Pension Schemes Act 2012 (' PPSA') has been introduced to promote and regulate the pension sector in Mauritius.