

# FINANCE InFocus

A monthly publication of the  
Ministry of Financial Services and Good Governance

## Vision

*Our vision is to transform Mauritius into a Centre of Excellence and promote wealth and good governance. We are driven by ethical behaviour, efficiency, honesty, trust, integrity and responsiveness in our quest for excellence within our operational and staff functions.*

## Risks of terrorism financing unveiled



A three-day workshop under the United Nations Counter Terrorism Centre (UNCT) National Capacity Building project on Countering the Financing of Terrorism was organised by the United Nations Office of Counter Terrorism (UNOCT) in collaboration with this Ministry from 6 to 8 February 2019. The theme of the workshop was “Mitigating the risk of terrorist abuse of Non-Profit Organisations (NPOs).” The focus of this workshop was the NPO sector’s vulnerability to terrorist financing risks. NPOs are a vibrant and integral part of the contemporary global environment and play a significant role in the community. However, NPOs also include those whose goals are not purely altruistic. The most extreme threat of abuse is by those engaged in terrorist activities. While the vast majority of NPOs work tirelessly to better the lives of people around the world, a small number of organisations and individuals have

taken advantage of the NPO sector to support those who engage in terrorism. The abuse of NPOs to finance terrorism may seem to be a risk with low probability, yet the impact of these activities is particularly acute for both the victims of terrorism and those who should benefit from the benevolence of NPOs.

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In this respect, the Government remains committed to implementing Recommendation 8 of the Financial Action Task Force (FATF) which aims at protecting the NPO sector from terrorist financing abuse in order to preserve the soundness and integrity of the financial system of the country.

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### Raising awareness for legal profession

A special awareness raising session for the legal profession was held on 6 February 2019. The focus was the implementation of the United Nations Security Council Resolutions (UNSCR) 1267 and 1373 on the designation of terrorists and terrorism organisations, and the freezing of their assets in Mauritius. The objective was to raise awareness among stakeholders to ensure that Mauritius complies with International Obligations, both as a member of the United Nations and the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG).

## Mitigating the risks of terrorism financing

The threat posed to NPOs by terrorist entities requires an understanding of the environment that NPOs operate in, the vulnerabilities present in the sector, how terrorist entities seek to exploit these vulnerabilities, and how threats to the sector are detected and managed. This Ministry, in collaboration with the relevant stakeholders, will soon undertake a risk assessment of the NPO sector. The aim of this exercise is to understand the risk of terrorist financing abuse in the NPO sector. Additionally, there is a need to better understand the different threats (in terms of both risks and vulnerabilities) between jurisdictions that are net beneficiaries of NPO services and jurisdictions that are net donors.

Following the risk assessment, Mauritius will be able to review the adequacy of laws and regulations relating to NPOs identified as being vulnerable to terrorist financing abuse. Consequently, a risk-based approach will be developed for the supervision of NPOs. This approach entails that countries should identify, assess, and understand the money laundering and terrorist financing risks. It should take action, including designating an authority or mechanism to coordinate actions to assess risks, and apply resources aimed at ensuring the risks are mitigated effectively. Based on that assessment, countries should apply a risk-based approach to ensure that



measures are in place to mitigate money laundering and terrorist financing which commensurate with the risks identified. This risk-based approach is an essential pillar of the efficient allocation of resources to counter terrorism financing risks. Where countries identify higher risks, they should ensure that their AML/CFT regime adequately addresses such risks. Where countries identify lower risks, they may decide to apply simplified due diligence. Identified risks may be dealt with through multiple sanctions including, but not limited to, criminal prosecution. Furthermore, administrative enforcement, financial penalties, and targeted financial sanctions play important roles in the disruption of terrorist financing abuse. However, it is important to highlight that while the protection of the NPO sector is vital, measures taken to protect the sector should not disrupt or discourage legitimate charitable activities.

## IFC Delivery Unit: Propelling Financial Services to new heights

Due to its strategic location between Africa and Asia, and an established network of treaties with numerous countries, Mauritius IFC has tremendous potential to become an important financial hub in the region. However, to fulfil this ambition, Mauritius has to overcome a series of challenges. In this context, the IFC Blueprint 2030, devised by this Ministry with the Financial Services Commission, paves the way for achieving higher contribution to GDP, creation of employment and ultimately leading to new avenues of growth. As per the Blueprint, a Delivery Unit (DU) has been set up with the purpose of implementing the recommendations and shape the future of the financial services sector. As an enabler, it is designed to unite a complex set of government, industry association, private sector and regulatory bodies around a common purpose. The set model for the DU is to have a central unit steered at cabinet level with strong powers and mandate to execute the Blueprint Roadmap. The DU will ensure delivery of its mandate through problem solving, fast escalation and better coordination of sector stakeholders.



It would execute joint public and private sector initiatives through seven cross-functional task forces: cross-border investment - India; cross-border investment - Africa; private banking and wealth management; corporate banking; regional treasury and shared services; corporate banking; trade finance; expatriate experience; transport and connectivity. The task forces of the DU will be instrumental in executing the activities of the task force. They would coordinate activities across participating stakeholders (regulatory bodies, private sector and industry organisations) and have access to global experts on an ad hoc basis.

## Initiating Africa to Fintech



The African continent is well poised to meet its Fintech and digital challenges, as per a publication of the African Department of the International Monetary Fund, entitled “FinTech in Sub-Saharan African Countries”. With the right policies in place, it could reap a digital dividend. But policymakers need to address the large infrastructure gap in the region, starting with electricity and internet services. Technological innovation and infrastructure development can play key roles in allowing the continent to create jobs, promote growth, and raise living standards for all.

New technologies are being developed and implemented in sub-Saharan Africa with the potential to change the competitive landscape in the financial sector. FinTech challenges traditional structures and creates efficiency gains by opening up the financial services value chain, although it also raises concerns about new vulnerabilities. There is much uncertainty around the ultimate impact of financial technology and policymakers in sub-Saharan Africa as in other regions of the world. Cybersecurity is of concern as it is an emerging global risk. Policymakers in sub-Saharan Africa will need to address several trade-offs to reap the potential benefits of FinTech.

First, policymakers will need to fill the large existing hard infrastructure gap in the region, choose the appropriate mix of energy sources to generate electricity, and improve the governance of public utilities to ensure an adequate provision of electricity and internet services. However, to do so they will need to complement their scarce public resources with domestic and foreign private financing as well as concessional resources. In turn, policymakers will need to mitigate the risks associated with investing in infrastructure projects in their countries. Second, policymakers in the region will also need to address the perennial race between fast-moving innovation and the slow pace of regulation.

There is a trade-off between supporting rapid innovation, which has large potential gains to the economy, and taking the time to identify and manage its associated risks through regulation and supervision to ensure financial stability and integrity. Third, policymakers will need to think beyond the potential benefits of FinTech on the financial sector to assess Fintech’s impact on employment and productivity, the digital economy, and, more broadly, much-needed structural transformation of their economies. To reap innovation’s potential benefits, policymakers will need to elaborate policies that can help leverage human capital such as improving financial and digital inclusion, and ensuring the adequate provision of financing to new sectors.

The Fintech sector is evolving rapidly in sub-Saharan Africa, and it is challenging for regulators to identify, measure, and manage the associated risks. Since sub-Saharan Africa is dominated by small value payments, proportionality, the balancing of risks and benefits against costs of regulation and supervision, is important. Regulators can thus focus on specific challenges such as price and financial stability, consumer protection from fraud, cyber-risk, and on increasing financial literacy.



Mauritius is using the concept of “regulatory sandbox” to spur innovation in the Fintech industry by accommodating the entry of new entrepreneurs. The Government has also launched the Regulatory Sandbox License (RSL) on 20 October 2016. Although the RSL covers any innovative industry, most of the recent RSL successful applicants are in the FinTech industry. For instance, SelfKey has obtained an RSL to develop a digital identity wallet service. Other licenses have been issued to an online crowdfunding platform, a medical company producing stem cells, and a financial provider of new investment products for the film industry.

# Mauritius - A Leading International Financial Centre

## Best Performer in Africa



WORLD BANK GROUP

Ease of Doing Business Index

1<sup>st</sup> in Africa (20<sup>th</sup> Globally)



Global Competitiveness Report

1<sup>st</sup> in Sub-Saharan Africa (49<sup>th</sup> Globally)



Mo Ibrahim FOUNDATION

Ibrahim Index of African Governance

1<sup>st</sup> in Africa



# Forbes

Forbes Best Countries for Business

1<sup>st</sup> in Africa (39<sup>th</sup> Globally)



Index of Economic Freedom

1<sup>st</sup> in Africa (21<sup>th</sup> Globally)

## Forerunner in Innovation

Investment Banking



Global Headquartering



Treasury Management



Digital Assets Framework



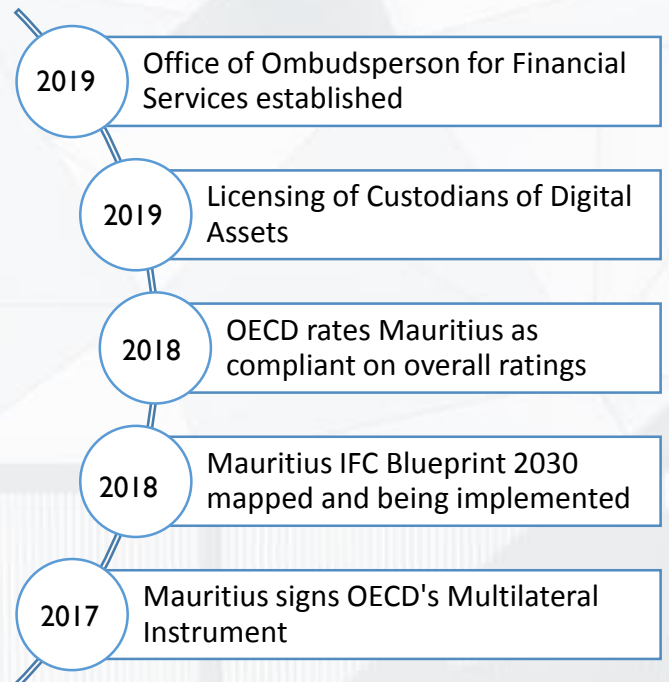
Global Legal Advisory Services



Home Office



## Regulating for the Future



## The untapped opportunity of the Indo-Mauritian DTA

A recent ruling by the Mumbai Bench of the Income Tax Appellate Tribunal in India confirmed that any holder of the Mauritian Tax Resident Certificate will be subject to a withholding tax not exceeding 7.5% for interest income on debt securities investment in India. Mauritius is exploring this opportunity because of its ability to be the connecting dot between the demand and supply on the Indian debt securities market. The market is booming because of the increasing demand for financing of infrastructural and other developmental projects.

Mauritius has historically been the leading contributor of investment in India via Foreign Direct Investment and Foreign Portfolio routes. Recent statistics published by the Reserve Bank of India show that for the two quarters ending December 2018, Singapore overtook Mauritius as the leading source of FDI equity into India. Mauritius, however, is the second largest contributor of FDI equity to India and is determined towards regaining its position as the leading source of investment into India by exploring untapped opportunities and consolidating equity investment. The renegotiated Double Taxation Agreement (DTA) in 2016 gave Mauritius a competitive edge in debt securities instruments through the most favourable withholding tax rate of 7.5% in interest income compared to other jurisdictions. Our jurisdiction is the ideal platform as we have a withholding tax rate of 7.5% on interest income, which is a preferential rate compared to jurisdictions like Singapore (15%) and Cyprus (10%). Furthermore, capital gains on sale of Indian debt instruments purchased by Mauritian tax-resident investors are taxable in Mauritius and they are subject to 0% tax in our jurisdiction.



Further, there are numerous non-tax advantages for using Mauritius, such as no foreign exchange control, free repatriation of capital, low cost of managing the structures and a pool of professionals such as lawyers, bankers and accountants to set up and manage the structure. Mauritius has well established Management Companies with valuable experience of the Indian financial market and knowledge of the vehicles for investment in the Indian debt market. All ingredients are present; it is just a matter of baking the perfect cake. Therefore, there is an immense opportunity for investors to structure or even restructure their investment towards debt securities in India.

Debt structuring in the Indian market fits perfectly with the Blueprint strategy. The Blueprint for the financial services sector calls for the consolidation of Indian investment market and to seize opportunities to become the Singapore of Africa. Areas of growth include: trade finance, wealth management, cross border investment and private banking. Therefore, the way forward is clear and it is up to operators to capitalise on debt structuring as a product for investors.

### EU Updates its list of non-cooperative tax jurisdictions

EU Finance Ministers have updated the EU list of non-cooperative tax jurisdictions, based on an intense process of analysis and dialogue steered by the European Commission. Mauritius has been in the grey list since October 2018 and will continue to be monitored in 2019 along with 33 countries, while 25 countries from the original screening process have now been cleared. In its latest list of non-cooperative tax jurisdictions, the EU has blacklisted 15 countries. Of those, 5 have taken no commitments since the first blacklist adopted in 2017: American Samoa, Guam, Samoa, Trinidad and Tobago, and US Virgin Islands. 3 others were on the 2017 list but were moved to the grey list following commitments they had taken but have now to be blacklisted again for not having followed up: Barbados, United Arab Emirates and Marshall Islands.

The European Union had previously established that the Partial Exemption regime introduced in the Finance Act 2018 of Mauritius was not in line with international best practice. In this respect, the Prime Minister has sent a letter to demonstrate that Mauritius has made meaningful commitments to address the deficiencies identified by the EU. In light of the new updated list, the Ministry of Finance and Economic Development has issued a communique indicating that Mauritian authorities will continue to work closely with stakeholders in ensuring the good repute of the jurisdiction.

## Ombudsperson: Empowering consumers of Financial Services

Mardayah Kona Yerukunondu has been sworn in as Ombudsperson for Financial Services on 1 March 2019. The Office of Ombudsperson for Financial Services aims at better protecting consumers of banking and financial services and bringing transparency and objectivity in the examination of complaints pertaining to the financial services sector. The Office covers all licensees of the Bank of Mauritius (BoM), all licensees of the Financial Services Commission (FSC), but excludes Global Business and Authorised companies and the participants under the Securities (Central Depository, clearing and Settlement) Act.

The introduction of the Office of the Ombudsperson will certainly help decongest our already over-burdened court system and will also relieve the burden currently placed on the regulators. This will allow them to focus on other matters. Furthermore, many bankers and representatives of the financial sector have already expressed their support for such an Office, given that it will be a fair system of dealing with consumer disputes. This eventually will contribute to the growth of the market. Previously, there were different redress mechanisms in place for the banking sector and non-banking sector, and it was noted with concern that since 2015, over 4500 applications have been registered from individuals complaining about financial institutions both from the banking and non-banking financial sectors.



More specifically, for the year 2018 in the insurance sector, there were 426 complaints out of which 182 have been settled. There are many representations from consumers who have exhausted recourse to the financial institution concerned as well as the regulator and are still aggrieved. They therefore were in limbo pending a verdict. In that event the consumers resort to civil proceedings, but the process is a lengthy and costly one. Moreover, effectiveness of such dispute settlements by the Court may be hampered by the complexity and the technicity of complaints. Mardayah Kona Yerukunondu, barrister at law and reckoning more than 39 years of service at the Bank of Mauritius, is all set to take up the challenge. He is empowered to make awards when he is satisfied that the complainant has suffered a loss, financial or otherwise. He is not subject to the directions or control of any person or authority and is accordingly independent.

## Mauritius forerunner in regulating custody of Digital Assets

The Mauritius International Financial Centre (MIFC) is the first jurisdiction in the world to offer a regulated landscape for the custody of Digital Assets. This has been possible with the coming in force of the regulatory framework for digital asset custodian services licenses for Custodian Services on 1<sup>st</sup> March 2019. This move drives the Government's ambition to establish Mauritius as a FinTech Hub in the African region and also provides substantial boost to the local blockchain industry. This piece of legislation sets the requirements, operations and governance standards that are applicable to potential licence holders. For instance, holders of the Custodian Services (Digital Asset) Licence are required to comply with the anti-money laundering and counter-terrorism rules, in line with global best practices.



The framework for the Custodian Services (Digital Asset) Licence was developed in consultation with the Organisation for Economic Cooperation and Development (OECD). It also took into consideration feedback from stakeholders and the public.

## Digital Investment Banking; A new wave of development

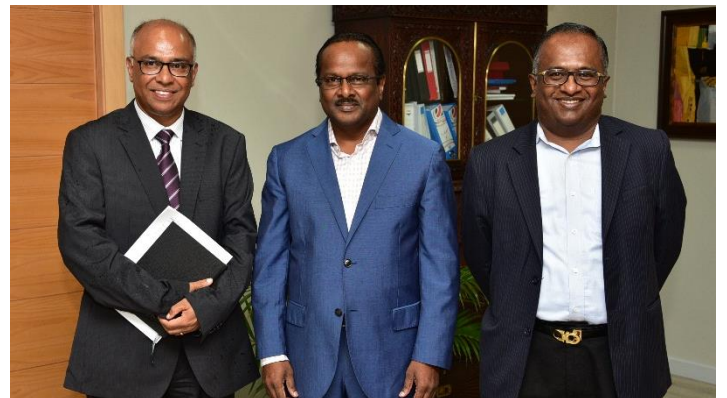
With the rise of cryptocurrency and digital assets, Digital Investment Banking will be the future of investment banking and will transform into a new pivotal sector of the financial services industry. Investment banks have traditionally offered services such as underwriting of equity and debt, asset management services, and corporate finance advisory. However, with the advent of digital financial asset and emerging technologies, the scope of services has widened to include crypto custody, smart contract builder, crypto financial advisory and a plethora of hybrid crypto and traditional financial services. Since 2015, Mauritius has been laying the foundation to position itself as the leading African Fintech hub. Ever since, the regulatory framework for Fintech activities in Mauritius has leapfrogged with the presence of Custody for Digital Asset Licence, Regulatory Sandbox Licence, and Guidance notes on investment in Digital Assets. With such enabling and resilient frameworks, Digital Investment Banking is set to become an emerging sector in the Mauritian financial landscape. Currently, a firm willing to undertake Digital Investment banking activities in Mauritius can apply for the suitable licence with the Financial Services Commission (FSC) and the Economic Development Board (EDB). The FSC is responsible for Custody for Digital Asset Licence and Investment Banking Licence while the EDB oversees the



Regulatory Sandbox Licence. A Licence for Digital Asset Marketplace and guidance notes on Initial Coin Offering are also in the pipeline for a full-fledged Fintech regulatory framework. Mauritius is, therefore, the propitious platform to make Digital Investment banking an emerging financial sector activity through its well-developed regulatory framework, financial sector competitiveness, improving ease of doing business and stable political and social regimes. By virtue of its strategical geographic location, Mauritius also presents wide opportunities for Investment Banks to hold digital investment banking activities on the African and Asian continents. Digital Investment Banking is set to shine across the globe with Mauritius as the leading jurisdiction for such activities.

### Shankar Menon: “Mauritius well positioned to attract investors”

Hon. Minister Sesungrur met Shankar Narayanan Madhava Menon on 6 February 2019. The latter was formerly the Managing Director of the Asia Growth Capital team of Carlyle, a global private equity fund, responsible for advising on growth capital investments in Asia. Shankar Menon believes that Mauritius has a strong financial sector to attract investors and is well positioned for investment to Singapore and Hong Kong. Moreover, the incentives offered are interesting and there is also a structured supervision and control in place. Mr Menon has known Mauritius for



more than 15 years and he intends to start his own business through investment in Mauritius. Shankar Narayanan has been in private equity since 1993 with the unique distinction of having run some investee companies. He has on-the-ground work experience in India which allows him to have a practical perspective of growth prospects and challenges across industries. Minister Sesungrur stated that Mauritius will be exploring the opportunities for investment from Singapore and Hong Kong and he is confident that investors still recognize Mauritius as a strong financial jurisdiction.

## Prof George Theocharidis: “Mauritius can become Ship Registry for Southern Hemisphere”

On 19 February 2019, Minister Sesungkur met Prof George Theocharidis of World Maritime University and Stephen Drury, Partner at HFW, UK. The aim of this meeting was to elaborate on the benefits of having a Ship Registry and Ancillary Services for the Financial Sector in Mauritius. The Minister stated that the idea of ship registration and aircraft registration has been mooted for some time but the project did not take off because of the lack of skilled resources in this area and the high costs associated with it. Prof George Theocharidis is of the view that the solutions to these issues are to build capacity to perform some specific functions and to have a separate directorate that will be charged with policy and planning. Leaders in ship registration are Panama, Liberia, Malta and Marshall Islands.



Singapore and Bahamas have a significant amount of ships registered at their end as well. The common success factors of these countries are proper policy in place, well-defined strategic plan and convenient laws. Some African countries also attempted to be ship registries but ended up on EU Registry black list. The consultants suggested that Mauritius could be the Registry for the Southern Hemisphere if the proper structure is put in place. Prof George Theocharidis and Stephen Drury were in Mauritius for a workshop on Ship Registry and Ancillary Services organised by the EDB in collaboration with the Ministry of Ocean Economy, Marine Resources, Fisheries and Shipping.

## Insurance giant Lloyd’s to explore Mauritian market

Lloyd’s, a world’s specialist insurance and reinsurance market, has appointed Shiamdass Appannah as Lloyd’s General Representative in Mauritius. In this context, the latter, accompanied by Amit Khilosia, Lloyd’s Regional Manager, Africa, called upon Minister Sesungkur on 7 February 2019. Exploring further collaboration between the entity and Mauritius was on the agenda.

“Lloyd’s is already a leading provider of specialist insurance and reinsurance across Africa and I look forward to supporting the Lloyd's market in extending their reach in the Mauritius financial sector and across the region.” Stated Shiamdass Appannah. He will promote the Lloyd’s market, develop and strengthen Lloyd’s relationships in Mauritius as part of Lloyd’s growth strategy in emerging markets. After a long career at Africa Re, Shiamdass co-founded a successful reinsurance



broker in Mauritius which has offices in Africa and London. It is to be noted that Lloyd’s works with a global network of over 4000 insurance professionals to grow the insured world in building resilience for businesses and local communities and strengthening economic growth around the world.

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