Newsletter

AUGUST 2020

Vision

Our Vision is to make Mauritius a clean and transparent jurisdiction of substance and repute offering high standard financial services at the national, regional and international level.

Mission

To transform Mauritius into a Financial Centre of Excellence anchored on principles of good governance, global best practices and high ethical standards.

"Strong engagement and collaborative efforts for effective AML/CFT regimes", says Minister Seeruttun

The Minister of Financial Services and Good Governance, Hon. Mahen Seeruttun, addressed the audience during the Ceremony of Award of Certificates for the Capacity Building event entitled "A Risk-Based approach to AML/CFT for Accountants" on 27 August 2020 at the FSC Auditorium, FSC House, Ebene.

The Minister of Labour, Human Resource Development and Training, Hon. Soodesh Callichurn along with other eminent personalities were also present for the event. Organised by the Financial Services Institute (FSI) with ACCA Mauritius and Global Finance Mauritius with part funding from the Human Resource Development Council (HRDC), the workshop saw the participation of 225 accountants for the training on Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT). "The FSI has been actively conducting back-to-back training since end June 2020 and has reached out to well over 1000 professionals in a short span of 12 weeks mostly among Designated Non-Financial Businesses and Professions." he added. Moreover, proper coordination and exchange of information among domestic and international authorities remains a critical point for the implementation of an effective AML/CFT regime.

"Your involvement and commitment in the fight against ML/FT brings invaluable support to the work of regulatory and law enforcement agencies."

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He commended the FSI for the various initiatives undertaken in the fields of training and capacity building. "It is only through our collaborative efforts that we can create highly effective AML/CFT regimes and, it is only with a strong engagement and by standing together as one that we shall be successful in our resolve of promoting financial integrity for the benefit of all." Added the latter. Hon. Minister Seeruttun then proceeded to award the certificates to the participants.

EU Technical Assistance to enhance reporting of STRs

Mauritius has secured Technical Assistance (TA) from the EU AML/ CFT Global Facility with the aim of enhancing Mauritius's overall compliance with the standards of the Financial Action Task Force (FATF).

In this context, the EU AML/ CFT Global Facility, in collaboration with the Ministry of Financial Services and Good Governance, organised a workshop at La Pirogue Hotel on Wednesday 26 August 2020 on "Enhancing the level of reporting and the diversity in Suspicious Transaction Reports".

This workshop was facilitated by Mr David Hotte, Team Leader of the EU AML/ CFT Global Facility, and Mr Arnaud Stien, Expert from the EU AML/ CFT Global Facility, who were present in Mauritius and Ms Inneke Geyskens-Borgions from the United Nations Office on Drugs and Crime (UNODC) who intervened virtually. The workshop was attended by around 140 participants from the private and public sectors, including representatives from banks, fund managers, investment advisers and dealers, insurance companies, the legal and accounting professions, real estate sector casinos and dealers in precious metals and stones, the Attorney General's Office, the Financial Services Commission, the Bank of Mauritius, the Financial Intelligence Unit, the Gambling Regulatory Authority and the Mauritius Institute of Professional Accountants. The aim of the outreach was to enhance the level of reporting by financial institutions and Designated Financial Businesses and Professions (DNFBPs). Hon. Minister Mahen Kumar Seeruttun, who delivered the keynote address at the opening of the workshop, underscored the role played by the private sector in combatting money laundering and terrorism financing.

"The onus of implementing the whole gamut of preventive measures that principally aim at ensuring that proceeds of crime and funds in support of terrorism are detected and reported rests on you, dear participants financial institutions and DNFBPs, in your capacity as reporting persons." affirmed the Minister.

The workshop was highly interactive and encouraged the cross-pollination of ideas and practices across the reporting community. During the workshop, key stages of the financial intelligence and penal chain were explained and included presentations delivered by the officers of the Independent Commission Against Corruption and the Office of the Director of Public Prosecutions. The representatives from the private sector who also play a key role in this chain shared their operational experience with regard to detecting and reporting suspicious transactions.

The requirement to report suspicious transactions, established under Section 14 of the Financial Intelligence and Anti-Money Laundering Act (FIAMLA) states that banks, financial institutions, cash dealers or members of relevant professions shall make a report to the FIU on any transaction which they have reason to believe may be a suspicious transaction.

Committee on Fintech – Developing an enabling framework

Financial technology, or Fintech, refers to the fusion of financial services and information technology. It relates mainly to start-up companies which develop innovative technological solutions in areas such as online and mobile payments, big data, alternative finance and financial management, cryptocurrencies and others.

Fintech has managed to establish itself as a separate segment in the financial services sector. The main players in this segment are companies that provide financial services similar or identical to those provided by traditional financial intermediaries. However, unlike traditional financial service providers, companies in the Fintech segment almost exclusively use modern internet technologies and software to meet the needs of their customers. The Fintech segment also includes many elements that can be divided into four main segments, namely "financing", "asset management", "payments" and "other fintechs".

COVID-19 has become an unexpected catalyst for Fintech adoption globally. Online activities and transactions are no longer a matter of convenience but a necessity. Banks are launching digital channels so that customers can bank from home, and they can provide extra support to borrowers in distress. Senior citizens are adopting QR payments and digital banks for the first time. Schools are conducting classes through teleconferences. Grocery stores have shifted to online ordering and delivery.

Digital technologies have spread rapidly in much of the world and it is in this very vein that Mauritius has adopted a proactive stance to facilitate digital innovation across different areas of the financial sector. This will act as an enabler for the democratisation of financial services by allowing non-traditional firms to enter the space.

The Financial Services Commission (FSC) as the regulator of the non-bank financial services sector and global business, is spearheading the digital transformation of finance in Mauritius from a regulatory perspective.

Mauritius is leaving no stone unturned to drive the Agenda of Government to make the country a Fintech Hub for Africa. Regulators are being proactive, especially in the advent of innovative solutions that will impact the way people do business. One of the first moves towards enabling Fintech development in Mauritius was the introduction of the Regulatory Sandbox Licence (RSL) in September 2018 to allow technology-based companies that do not fit into existing licensing frameworks to conduct their operations. Gradually, new regulations were put in place to encompass businesses operating in the Fintech space.

These included several changes in 2019 such as a regulatory framework for the Custodian Services (Digital Asset) Licence, recognition of Digital Assets as an asset class for investment by sophisticated and expert investors.

The FSC recently issued Guidance Notes on Securities Token Offerings and rules on Peer to Peer lending. The Mauritius Africa Fintech Hub (MAFH) was also launched in 2018, to bring together Mauritian, Pan-African and Global Corporates, start-ups, investors, academia and regulators to collaborate in the Fintech space in a way that will empower African Fintech in the future.

Furthermore, Cabinet approved the setting up of a Technical Committee at the level of the Ministry of Financial Services and Good Governance to look into emerging issues being encountered by the industry stakeholders for carrying out Fintech activities in Mauritius. The Committee comprises key stakeholders, namely the FSC, MAFH, the Bank of Mauritius, the Ministry of Technology, Communication and Innovation, the Economic Development Board, the Mauritius Bankers' Association among others.

The main responsibility of the Technical Committee is to take stock of the current state of Fintech and to explore ways in which the industry, regulators and policymakers can work together to ensure the promotion and development of the Fintech sector in Mauritius.

SUB-COMMITTEES

Two subcommittees have been set up under the main Fintech Committee, encompassing the:

- regulatory aspect of Fintech to look into the regulatory challenges and hurdles faced by Fintech start-ups to operate in the Fintech landscape in Mauritius.
- product development which will create an enabling environment to allow Fintech start-ups to develop new financial technological solutions.

The evolution of Fintech is set to soar in the coming years, hence, the objective of making Mauritius a fintech hub in the region will certainly see major steps taken in this direction. Fintech is a field that would contribute to further opening our economy as well as unearthing exciting opportunities for budding young entrepreneurs and fresh graduates.

IRSA: Disrupting criminal activities

Confiscating criminal assets is an effective means to disrupt and deter criminal activity. The Integrity Reporting Services Agency (the 'Agency') has participated in trainings by specialists and experts to enhance its effectiveness in recognizing and dealing with ML and TF threats and in undertaking financial investigations.

Amongst of the training recently attended by the staff of the Agency are:

- The Asset Recovery Inter-Agency Network Southern Africa (ARINSA) imparted a two week course on planning and undertaking financial investigations. The course emphasised the importance of planning to give a structured approach to the investigation so that all the key elements necessary for asset confiscation are addressed. It also dealt with the practicalities of an investigation, the risks and challenges that investigators face and measures to mitigate them.

- In July 2020, EU Consultants from the EU Global AML/CFT Facility rolled out a five-day course on Trade Based Money Laundering for Agency and other LEA's staff. The course dealt with the complex arrangements employed by trade based money launderers to hide their tracks and gave case studies involving professional networks who use such schemes not only for criminal enrichment but also to fund terrorism. Key examples and case studies came from the Consultants' personal experience from their law enforcement and counter terrorism work in Ireland.

- The German development agency GIZ conducted a two week's course in August 2020 for the Agency and other LEAs staff on financial investigations and AML. The emphasis was on denying criminals the financial benefits of their crimes and in utilizing existing asset confiscation legislation to the fullest extent possible.

- This was a wide-ranging course and included, inter alia, interviewing techniques, alternative value transfer systems such as hawala and the risks posed by crypto currencies. Evidence was presented that crypto risks are not a theoretical construction but are being actively exploited by criminals in Mauritius.

- Further guidance was also given in August 2020 by EU Consultants in relation to FATF Immediate Outcomes 5 and 7. This, in part, highlighted the need for reports to the FATF to fairly convey the efforts of

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- regulators and LEAs by carefully structuring to show the relevance and depth of the work undertaken to satisfy FATF's action points.

The Good Governance and Integrity Reporting Act was amended in July 2020 to reduce the financial limit for which property can be confiscated to Rs 2.5 million. The reduction applies only to cash seized during criminal enquiries, for example in cases of cash interdictions at the airport which are suspected to be connected to drug trafficking.

The reduction closes a gap in the law to allow confiscations from lower-level couriers to disrupt criminal networks and does not impede the rights of honest Mauritian citizens to enjoy property. The Agency conducted outreach in the first quarter of the year, through press, radio and billboards at the entrances of Ebene and Trianon, to raise awareness among the general public about illicit enrichment and the duty to report. The website of the Agency is also a useful tool for the public to report cases of unexplained wealth, accessible on this link.

World Bank suspends 'Doing Business' rankings

The World Bank has suspended its Doing Business report, which ranks countries based on the costs of doing business, due to a number of irregularities that have been reported regarding changes to the data in the Doing Business 2018 and Doing Business 2020 reports. The changes in the data were inconsistent with the Doing Business methodology.

A World Bank statement said: "The Board of Executive Directors of the World Bank has been briefed on the situation as have the authorities of the countries that were most affected by the data irregularities. The publication of the Doing Business report will be paused as we conduct our assessment".

As stated by the World Bank, the four countries most affected by the irregularities in the 2020 and 2018 reports, were China, Saudi Arabia, the United Arab Emirates and Azerbaijan.

Saudi Arabia recorded the greatest improvement in its business ranking in the 2020 report, rising to position 62 from 91 the previous year, that is, climbing 30 places. China was also among the top 10 most improved business environments in 2020, rising to number 31 from 46. The Doing Business Report, launched in 2002, has become an influential global metric to assess the business environment and relative competitiveness of countries. The Doing Business reports have amassed surprising influence over global regulatory policies. Researchers found that the rankings strongly affect policy as governments make reforms to improve their ranking. High rankings are prized by governments seeking to attract investment and motivation for policymakers to improve conditions for business. A country moving up in the rankings tends to attract foreign direct investment.

Doing Business measures aspects of business regulation affecting domestic small and medium-sized firms in 11 areas across 189 economies. The areas are namely, starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts, resolving insolvency and labour market regulation.

In the last report, only two Sub-Saharan economies, Mauritius and Rwanda, ranked among the top 50. Kenya, South Africa, Zambia, Botswana, and Togo ranked among the top 100 while South Sudan, Eritrea and Somalia ranked among the lowest globally.
(Source: Financial Times)

FSC's Communique on FATF Countermeasures on Iran

The Financial Action Task Force (FATF) has on 21 February 2020, made a call for action in relation to its list of "High-Risk Jurisdictions". Further to this list, the Ministry of Financial Services and Good Governance has identified Iran amongst high-risk countries under section 17H(1) of the Financial Intelligence and Anti-Money Laundering Act (FIAMLA). General Notice No. 587 of 2020 was, in this respect, published in the Mauritius Government Gazette which inter alia stipulates that reporting persons are required,under section 17H(2) of the FIAMLA to apply enhanced due diligence measures as prescribed in the FIAMLA Regulations 2018 with respect to business relationships or transactions involving those high risk countries. The FSC has, on 24 July 2020, issued a Communique to the attention of all its licensees for strict compliance with the General Notice to ensure that Mauritius remains wholly committed to uphold the integrity of the domestic and international financial system.

Outreach programmes on AML/CFT

The FSC has undertaken a series of outreach in the months of July and August 2020 to create awareness on the AML/CFT measures and Risk-based approach. A training session on AML/CFT Onsite Inspections Risk Based Supervision, facilitated by international AML/CFT experts, was conducted virtually for all Management Companies (MCs). Two outreach sessions on Statutory Obligations for Trustees to maintain Beneficial Owners' information were also organised by the FSC in August 2020 to Qualified Trustees.

Artificial Intelligence – Key enabler to Financial Services

Artificial intelligence (AI) is widely seen as the key to competitive advantage by businesses and governments across the globe. In financial services, the benefits of running AI across the huge volumes of data firms include: achieving a better understanding of customers and allowing more tailored products and services; internal process efficiencies; enhanced cybersecurity; and reduced risk, especially around fraudulent activities.

AI is increasingly used in the delivery of a variety of financial products from the provision of robo-advisers to trading decisions. Given the long history of pioneering data analytics in the sector, financial services firms are primed to take advantage of this technology and the benefits it offers.

The winners and losers in the new digital banking landscape will be defined by those that can best access, process and analyse data, the speed with which they can react to such analysis, and their ability to predict and control the increasingly autonomous activities of their IT systems. This could lead to a significant shift in market trends and dynamics.

The deployment of AI solutions in financial services will involve machine-led decision-making affecting financial customers and the processing of customers' personal data by machines. Whilst this creates tremendous business opportunities, it needs to be balanced against potential unwelcome outcomes for customers. If AI tools are not effectively designed, monitored and controlled, this may lead to unfair, unethical or even unlawful results.

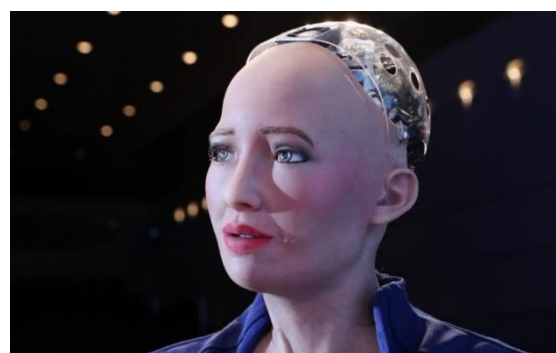
The potential for machine learning systems to be trained by flawed data creates problems in addition to the potential for bias and discrimination. Non-transparent decision-making results in a lack of accountability, as well as potentially unjustifiable outcomes and AI failures, can result in data breaches compromising both data privacy requirements and data security. Machine learning and the use of algorithms, for example in determining pricing and eligibility, can also lead to anti-competitive behaviour or financial exclusion. These outcomes are not only unwelcome for customers but have the potential for complex legal, ethical and practical consequences and, ultimately, liability for the responsible party.

All modern financial services are underpinned by information technology systems and the growth and enhancement of such services have been traditionally associated with ongoing evolution in information and technology.

Financial supervisors have viewed emerging technologies as an opportunity for further growth and customisation of financial services.

The Basel Committee on Banking Supervision (BCBS), in a report published in 2018, has encouraged banks to harness emerging technologies, such as AI, to increase their efficiency in responding to fintech-related risks. The Financial Stability Board (FSB), in a report published in 2017, set out different applications of AI in the financial sector (such as portfolio management, client due diligence, credit scoring, regulatory compliance), the possible benefits and potential for lower fees for retail customers and small and medium-sized enterprises (SMEs) and efficiency gains in back-office procedures.

The complexities of the ever-changing regulatory landscape can be challenging for many financial institutions. AI can "learn", remember, and comply with all applicable laws – from Know Your Customer (KYC) and anti-money laundering regulations to rules governing asset management. At the same time, the significant harm that may occur to customers and society more generally due to the failure or misuse of systems and controls within banks, governmental and regulatory focus in this area continues to grow at both the domestic and international level.



Insurance companies facing the challenges of COVID-19 worldwide

COVID-19 pandemic has spread quickly around the world and infection rates are still rising in many countries. Many persons will be expecting their insurance policies to recover some of these costs and losses.

The impact on the insurance sector is not expected to be limited to the claims incurred as a result of the insurance coverage provided. Insurance companies will also face the impacts of confinement measures and staff absences, and will need to implement business continuity arrangements to ensure their ability to maintain core operations. They will also face reduced revenues as the demand for various types of insurance coverage (event cancellation, travel, etc.) declines.

Insurance companies are significant investors in equity and fixed income markets and are likely to losses as a result of equity market losses, bond impairments or ratings action and reinvestment risk as central banks around the world support the economy with interest rate cuts. This could result in solvency impairment in some cases, with particular challenges to be expected in the life sector and particularly for companies offering products with return guarantees.

In a pandemic with significant mortality, life insurance claims rise immediately, whereas expected future payments on life-contingent annuities fall. These risks can therefore offset each other from a long-term solvency perspective, although large life insurance claims may have a meaningful short-term impact.

Annuities typically pay out account values upon death prior to annuitization. Although the majority of variable annuities do not offer guaranteed returns, some insurers do provide guarantees and face pressure from falling equity prices and higher volatility.

The likely impact of the Covid-19 pandemic on various types of policies are discussed below:

Life insurance: The beneficiaries of life insurance policies attached to the individuals that succumb to the effects of the disease will submit claims on those policies. Life insurance policies do not usually apply exclusions based on the cause of death (with the exception of suicide) and therefore most claims on life insurance policies should be paid.

Health insurance: In countries where health care costs are covered by the state or through a state-mandated social security coverage and that rely significantly on private insurance markets to provide coverage for health care expenses, there may be gaps in insurance coverage for COVID-19 related expenses.

Travel insurance: In light of the current COVID-19 situation, some insurers have changed the terms of their travel insurance policies, including refusal to sell new travel insurance policies until further notice.

Liability: Businesses could face a number of different types of claims for compensation if they are perceived to have been negligent in their response to the COVID-19 pandemic.

Sustainable Finance – EU establishes new classification system

Sustainable Finance refers to the process of taking into account environmental, social and governance (ESG) considerations when making investment decisions in the financial sector, leading to increased longer-term investments in sustainable economic activities and projects.

The European Union (EU) has, time and again, demonstrated its abilities as an international leader in the financial regulation. It now aims to create a carbon neutral economy.

Since 2018, the EU has been exploring how to integrate sustainability considerations into its financial policy framework in order to rally sustainable growth. The European Green Deal, the EU's flagship initiative on climate action, sets a goal of zero net emissions by 2050. To achieve its goal, the EU must invest in new technologies.

However, public investment will not suffice and private investors will have to step in to finance climate-friendly projects. This requires clear criteria on what exactly is sustainable and eco-friendly; otherwise, some funding might be directed to "greenwashing" projects that claim to be green, but in reality are not.

During the International Monetary Fund (IMF)/World Bank Annual Meetings in Washington DC in 2019, the European Union launched, together with relevant authorities from Argentina, Canada, Chile, China, India, Kenya and Morocco, the International platform on sustainable finance (IPSF). Many countries have joined the platform since its creation. The ultimate objective of the IPSF is to help scale up the mobilisation of private capital towards environmentally sustainable investments. The IPSF is a forum to strengthen international cooperation and coordination on approaches that are fundamental for private investors to identify and seize environmentally sustainable investment opportunities globally.

The European Green Deal Investment Plan of 14 January 2020 announced that the Commission will establish an EU Green Bond Standard (GBS) underlining the need for long-term signals to direct financial and capital flows to green investments. It was announced that the Commission will present a renewed sustainable finance strategy to help investors in identifying sustainable investments and ensuring that they are credible. Green bonds play an increasingly important role in financing assets needed for the low-carbon transition.

The Commission put forward an action plan on financing sustainable growth, the establishment of an EU classification system for sustainable activities, i.e., an EU taxonomy which entered into force on 12 July 2020. Taxonomy Regulation is a key piece of legislation that will contribute to the European Green Deal by boosting private sector investment in green and sustainable projects. The objective of the EU taxonomy regulation is to set

performance thresholds to be able to categorise environmentally-sustainable economic activities.The EU taxonomy regulation is targeted towards three financial stakeholders:

(i) financial market participants;

(ii) large companies that are already required to provide a non-financial statement under the Non-Financial Reporting Directive (NFRD); and

(iii) EU members states keen on issuing labels on green financial products or issuing green bonds.

The taxonomy regulation sets six environmental objectives and states that an activity can be considered environmentally sustainable if it contributes to any of them without significantly harming any of the others. The "do no harm" principle ensures that an economic activity causing more damage to the environment than creating benefits cannot be classified as sustainable. Environmentally sustainable activities should also respect human and labour rights.

The Taxonomy Regulation will help create the world's first-ever "green list", a classification system for sustainable economic activities that will create a common language that investors can use everywhere when investing in projects and economic activities that have a substantial positive impact on the climate and the environment. By enabling investors to re-orient investments towards more sustainable technologies and businesses, this piece of legislation will be instrumental for the EU to become climate neutral by 2050.