Innovating and transforming the Mauritius IFC of 2030: a blueprint for success

June 2018

The Mauritius IFC today

IFCs are loosely defined as locations or cities hosting a collection of financial services providers and facilities with a substantial amount of international activity, in either relative (international vs. domestic) or absolute terms.

EXHIBIT 1

IFC categorisation

Broad vs. deep

Diversified

Broad range of sectors and activities

Specialised

Deep expertise in two-three specific activities

Global vs. regional

Global

Spans multiple continents, strong connectivity to other IFCs

Regional

Focused on countries within a geographic region

Leading IFCs

Strong connection to other IFCs and deep expertise in multiple sectors

The Mauritius International Financial Centre (IFC) is a core part of the Mauritian economy. It contributes almost US$1 billion to GDP (8% of total) and US$180 million in tax revenues (8% of total), and provides more than 11,000 jobs (~4% of skilled labour)[i].

The IFC today is built upon three pillars: cross-border investment, cross-border corporate banking and private banking and wealth management.

The core area of specialisation is the facilitation of cross-border investments and related fund administration activities, which comprise 60% of the IFC's economic value add, an estimated 88% of IFC tax revenues and ~70% of the IFC employment.

Cross-border corporate banking, which includes deposits from investment vehicles and revenue accrued from re-investment of these deposits, accounts for 32% of the IFC's economic value add. Private banking for foreign customers accounts for less than 5%, but local and regional banks report high growth in this segment driven by the divestment of African high net worth individual (HNWI) portfolios by European banks.

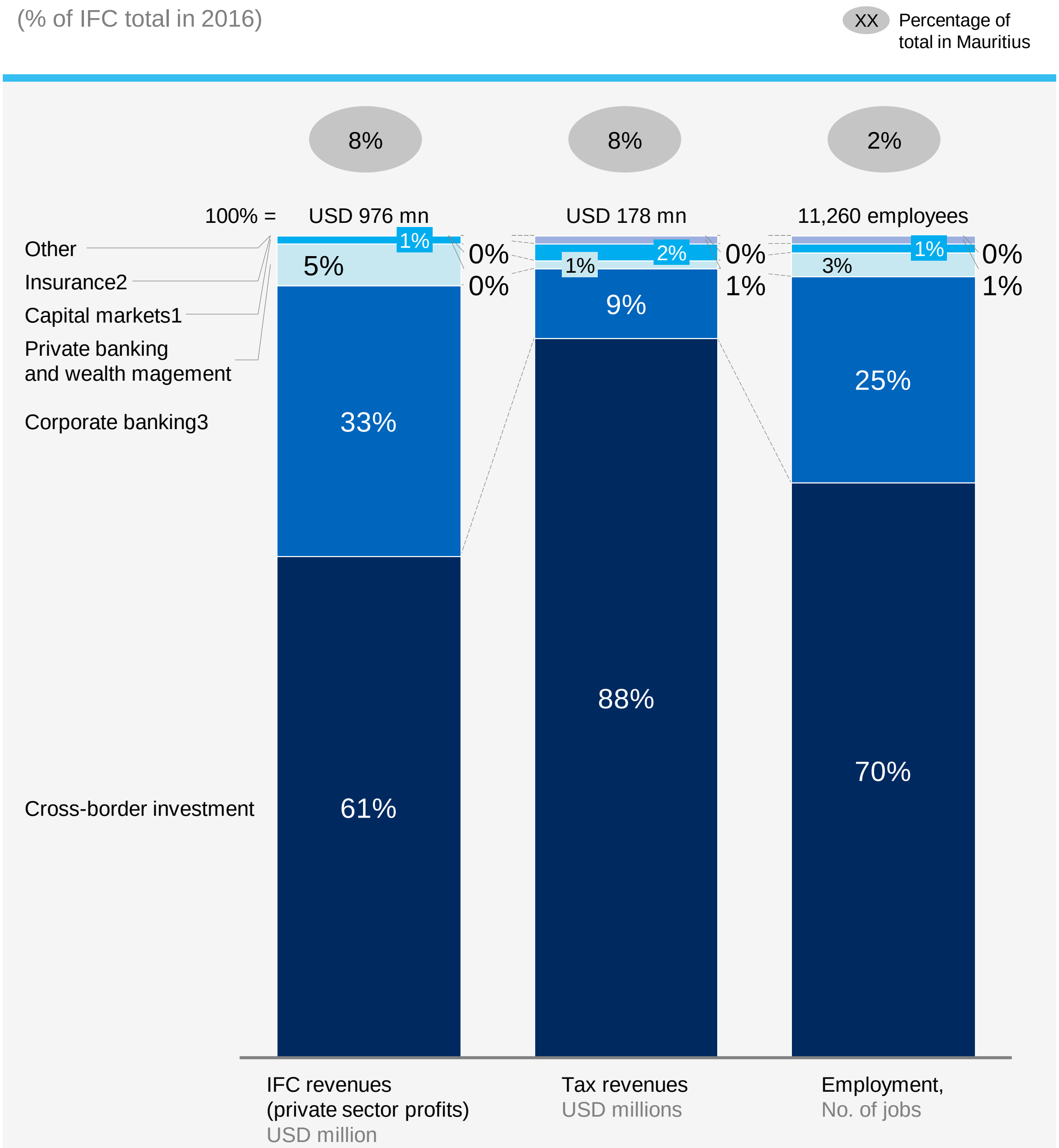
In line with the Mauritian Government's Vision 2030 target to double the size of the financial sector, the IFC aspires to grow its contribution to GDP in real terms, to US$1.9 billion. This will increase IFC-related employment by 1.5 times to ~17,000 jobs and increase tax revenue to ~US$0.3 billion in real terms. These macro-economic ambitions rely on further training Mauritians in the financial services industry and provide better paid, more fulfilling careers, which would help to transform Mauritius into a high-income country. The growth of the IFC would also rely on an expat talent pool to develop the domestic financial and non-financial sectors.

However, the IFC's ambitions are being challenged by growing international pressure, adverse press coverage and the changing international economic landscape. To understand the IFC's status, we assessed it along the five competitiveness factors used by the Financial Centre Futures Programme to compile the Global Financial Centres Index (GFCI): business environment; human capital; infrastructure; financial sector development; and reputation and other.

EXHIBIT 2

IFC socio-economic contributions in 2016

(% of IFC total in 2016)



1 Foreign listings and trading 2 Captive insurance, cell captive insurance, reinsurance 3 Corporate banking for foreign entities (70% cash management)

- **Business environment.** Mauritius is one of the most stable and attractive environments for doing business in Africa thanks to its stable political and economic regime, tax attractiveness, internationally compliant and enabling regulatory framework, robust legal and judicial framework, and foreign currency availability with free capital flows. But it also faces challenges.
- **Human capital.** Mauritius has a highly literate, comparatively low-cost and multi-lingual workforce. However, there is a shortage of professionals with the deep specialisation required for certain IFC activities. Its biggest challenges are attracting expatriate professionals, developing local talent in the relevant skills, and retaining skilled and experienced staff.
- **Infrastructure.** Port Louis and Ebene are good commercial property hubs, as many international financial services and IFC-relevant firms are based there. However, transport is a challenge as traffic is dense, parking is scarce, and public transport is limited. ICT infrastructure can further be enhanced.
- **Financial sector development.** Mauritius is an investment grade jurisdiction with two strong local and three international banks accounting for most of the market. More international banks (particularly large pan-African and Chinese banks) and international law firms are needed to improve the depth of financial services. The Mauritius Stock Exchange is technically advanced and innovative, but needs to continue on the path of product innovation and attract global order flows to its platform through remote members to enhance its liquidity and size.
- **Reputation and other.** Mauritius has severe reputation challenges based on adverse perceptions and lack of awareness about the IFC's attractivity. The improvements it has made in transparency, compliance with the highest international standards and attractiveness as a jurisdiction with deep specialisation in certain financial services are not widely known. The IFC therefore needs to manage its brand on three levels: government-to-government, institutional and individual.

There are 6 imperatives that need to be driven for Mauritius to reach its full potential as an IFC (Exhibit 3)

EXHIBIT 3

6 Imperatives for Mauritius IFC

Business Enrolment

- Future-proof Mauritius' regulatory and tax regimes
- Create simple, user-friendly processes to serve financial institutions (FIs), corporates and HNWIs

Human Capital

- Attract, develop and retain world-class global talent

Financial Sector Development

- Attract high-calibre corporates and financial institutions to create real depth and breadth in the IFC

Infrastructure

- Enhance living and transport options for expatriates and locals

Reputation and other

- Improve the nature and reach of Mauritius' reputation by building and communicating its image as a world-class specialist IFC with deep institutional and national relationships

To fill the gap between anticipated and aspired growth, the IFC needs to address two questions:

- Where will future growth come from?
- How will the IFC tackle the challenges it faces?

Where will future growth come from?

The IFC has several opportunities within its three core pillars (cross-border investment, cross-border corporate banking, and private banking and wealth management), and additional opportunities in international capital markets, captive insurance in Africa, cross-border asset management, and African fintechs.

Given Mauritius' profile as a specialist IFC and the need for highly focused efforts over the next 10 years, there is widespread agreement that the national and joint public and private sector IFC initiative should concentrate on the three pillars as areas of specialisation. Additional opportunities can and should still be pursued by the private sector, as they will drive diversification and depth in the IFC, contribute to brand-building, and afford opportunities for innovation.

In short, Mauritius should position itself as a specialist regional IFC focused on Africa and India, with deep expertise in these areas. If successful, the IFC should be able to achieve its aspiration and double by 2030 in real terms.

We analysed each of the pillars in detail to understand the opportunity, Mauritius' value proposition, and what would be required to achieve the IFC's objectives.

Cross-border investment

To grow its cross-border investment, Mauritius should protect its India investment flows, establish Mauritius as the investment platform to Africa, and specialise in fast-growing areas such as real estate, infrastructure and private equity.

At ~US$600 million, the cross-border investments sector represents 60% of the IFC's value add through three sources of revenue:

- **Management companies (ManCos)** that provide set-up and administrative services to investment structures. This is the largest of the IFC revenue sources, however growth has slowed. The market is relatively fragmented: the top 10 ManCos capture roughly half the market share, with the balance provided by smaller international and local providers.

- **Investment structures** that are set up in Mauritius for investing or financing outside the country. More than 20,000 investment structures are serviced by ManCos in Mauritius, and this number has grown ~2% year-on-year for the last four years. These investments are structured largely for corporates and funds, with only a small number serving the growing private individual market.
- **Eco-system** that enables the set-up and administration of the structures, including law and accounting firms, tax advisors, and banks. There is a strong presence of large international accounting firms and specialist law firms, but few large international law firms.

Mauritius has a strong value proposition for cross-border investors based on its broad product range, attractive tax rates, comparatively low service costs and political stability. The comparative advantage for ManCos is clear, with low labour costs relative to the high quality of administrative services, particularly in fund administration.

Mauritius lacks a clear position versus other IFCs as a specialist in a specific product or region (e.g., hedge funds in Dublin, insurance in the Cayman Islands). It competes with other jurisdictions as IFCs – including Luxembourg, Dubai, and Singapore.

Mauritius needs to protect its traditional markets and position the sector to capture value from growth areas by addressing its three biggest challenges:

- **Business environment**. Urgent amendments are needed to the current investment structures to comply with the OECD BEPS package and other international developments.
- **Reputation**
  - A clearly articulated value proposition is required for investment into India to replace Mauritius' previous advantage and protect its key market.
  - Greater presence in key African countries and a solid, recognised relationship with Africa.
  - Greater presence in key African countries and clear communication of the value proposition of Mauritius.
- **Human capital.** The presence of major international ManCos enables Mauritius to offer a similar range of services to its competitors, but needs to develop the high-level front office skills, experienced talent, and calibre of international law firms and banks in other jurisdictions.

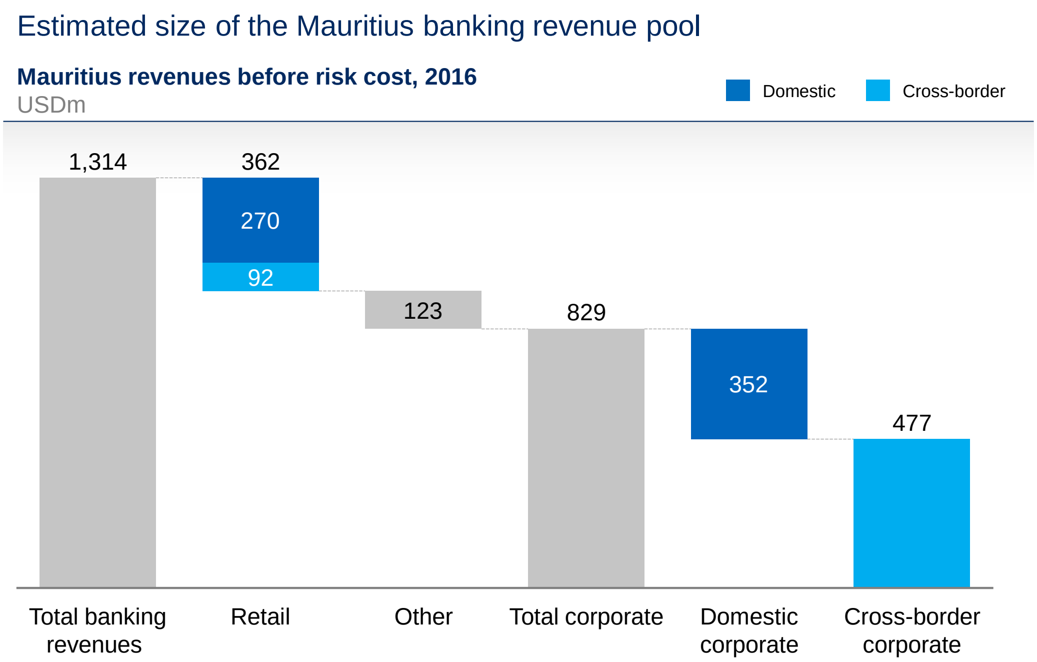
Mauritius could also leverage the high quality of its labour force to provide administrative services at comparatively low cost to encourage insourcing of fund administration services.

Cross-border corporate banking

Mauritius could become a regional treasury and trade finance hub.

Cross-border corporate banking, including deposits from investment vehicles, accounts for 32% of the IFC's economic value add. This equates to US$~480 million in banking revenues, 70% of which is cash management and the rest a mix of corporate lending, structured lending, trade finance and payments. The main clients are cross-border structures, regional treasury and procurement centres serving African corporates, MNCs, and state institutions.

EXHIBIT 4



Singapore is an exciting reference case in this regard, as it has become the Asian finance and treasury hub with initiatives to attract corporates to establish regional headquarters, regional treasury centres, and corporate procurement centres. It has underpinned its growth with special initiatives, e.g., headquarters and global trader programmes that include everything from tax incentives to company set-up assistance.

- **Treasury management.** The sheer size of the Africa cross-border cash management opportunity makes it a very attractive IFC activity. It is expected to grow 13% p.a. to a US$9.5 billion banking revenue market by 2030, driven by the increasing number of regional players in Africa and the expansion of existing players, especially in cash-rich industries (30% of African and MNC regional players are in, e.g., retail, FMCG, telecom and services).
- **Trade finance.** Although small today, rapid growth is expected in this segment. Three main activities underlie this opportunity: pure export/import financing to regional procurement centres; letter of credit (LC) discounting to African corporates and state organisations looking for affordable hard currency; and commodity financing.

Relative to its regional competitors, Mauritius has a compelling value proposition: free capital flows, availability and convertibility of foreign currency, attractive tax regime, and a relatively stable political climate and economy. However, there are three imperatives for Mauritius to improve its value proposition:

- Business environment
- Human capital
- Financial sector development

In addition, Mauritius could enhance and market targeted incentives to attract large corporates to set up headquarters, treasury and procurement centres.

Private banking and wealth management

Mauritius could become a compelling home for private wealth.

Private banking and wealth management is the IFC's third-largest sector, with a banking revenue pool of US$94 million, AuM of US$8.2 billion, and approximately 300 full-time employees (FTEs). Private banks provide traditional banking regulated by the Bank of Mauritius (BOM) and more complex wealth management services regulated by the FSC to HNWIs:

- *Traditional banking*: deposit taking (~50% of AUM), personal lending and credit cards.
- *Wealth management*: Custodial services, portfolio management and investment advisory services.

Private banking and wealth management for the region is a major opportunity, offering potential growth of 7-8% p.a. to create a US$20 billion[1] revenue pool by 2030. A particularly interesting growth segment is HNWIs, i.e., entrepreneurs, industrialists and family business owners increasing their wealth.

Its compelling value proposition for private banks, wealth managers and HNWIs place Mauritius in an ideal position to capture significant share of this market, as it offers free capital flows and hard currency investment options; a strong regulatory framework and efficient tax structure for wealth placement; a wide range of investment structures with deep expertise in fund administration, and the potential to build greater links with the investor services eco-system that could provide cross-sell opportunities for HNWIs already using Mauritius; the potential to build a distinctive proposition on the well-established tourism industry; a stable political climate and economy.

For private banking and wealth management, Mauritius now needs to focus on 3 imperatives.

- Business environment
- Human capital
- Financial sector development

In addition to these three pillars, the private sector can and should pursue additional opportunities in capital markets (building the leading multi-asset class, multi-currency, exchange for regional mid-size corporates), captive insurance, asset management, reinsurance, fintech, cryptocurrency exchange, and Islamic banking (cross-border Musharakah finance and Sharia-compliant trusts). These opportunities will require the necessary regulation, financial sector development, human capital and brand- and reputation-building efforts.

How will the IFC tackle the challenges it faces?

The opportunities are great – but so are the challenges. To overcome the challenges described above, the IFC Core Working Group has developed six imperatives and proposes to set up a Delivery Unit/Project Office to execute them. The initiatives under the six imperatives are detailed in a separate 'Implementation Plan'.

[1] Includes promoter holdings in companies

IFC Delivery Unit/Project Office

The IFC Delivery Unit/Project Office (DU/PO) is designed to unite a complex set of government, industry association, private sector and regulatory bodies around a common purpose.

Several models exist and have been implemented successfully in other jurisdictions. Defining the optimal delivery model for Mauritius will require consideration of the local context and the deliverables required.

The proposed model is a central unit with strong powers and a mandate to execute the implementation plan, with a task force for each of the focus areas.

The DU/PO requires a strong leader with a proven track record of delivery, a broad wide network in the financial sector and beyond, and the soft skills needed to drive transformation. The core team should comprise 3-5 full-time employees.

The DU/PO would apply problem-solving, fast escalation and resolution of issues, and coordination of sector stakeholders to deliver its mandate. It would execute joint public and private sector initiatives through cross-functional task forces.

Each task force would comprise private sector and public sector stakeholders who will be instrumental in executing the activities of the task force.

The task force would coordinate activities across participating stakeholders and have access to global experts as and when needed.

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EXHIBIT SOURCES

Exhibit 1: Global Financial Centres Index 23 (GFCI 23) report, Global Financial City Index

Exhibit 2: Statistics Mauritius, Mauritius Revenue Authority, Financial Services Commission

Exhibit 4: McKinsey Global Banking Pools, expert interviews