

**SPEECH HON. D SESUNGKUR ON THE OCCASION OF THE OPENING OF THE
SEMINAR ON RISK-BASED APPROACH TO AML/CFT SUPERVISION,
EBENE, 2019**

Mr Gaoneadry, Permanent Secretary of my Ministry
Mr Gunpath, Permanent Secretary of the Ministry of Defence and Rodrigues
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Mr Seewoosunkur, Officer-in-Charge, Financial Services Commission
Chairmen and CEOs of Parastatal Organisations
Resource Persons from India and South Africa
Distinguished Guests
Ladies & Gentlemen
Dear Participants,
Ladies and Gentlemen,

Good morning

It is an honour for me to be with you this morning and address such a distinguished and expert audience on the occasion of the opening of the seminar on Risk-Based Supervision. I would like to extend my sincere thanks and appreciation to Ravi Mohan of AFRITAC South who worked in close collaboration with my colleagues at the Ministry to organize this week-long capacity building programme. They have left no stone unturned to make this seminar a reality and more importantly, through a well-thought-out curriculum they are ensuring that participants go back to their respective institutions with enhanced supervisory competencies. I had the opportunity of going through the programme.

It is indeed an extensive one. It is a pointer that participants are expected to come out fully equipped to design and implement appropriate solutions to meet the challenges of our times.

I take this opportunity to also extend sincere appreciation to the resource persons of the IMF who have travelled from far to share with us collective wisdom of other countries, latest trends, up-to-date knowledge and skills and assist us in our endeavours to combat money laundering and terrorism financing. I hope that the organisers have allowed time on the programme for our foreign guests to enjoy our long tradition of genuine hospitality. We like to say that Mauritius feels like multiple countries in one, offering a melting pot of regional cultures and remarkable landscapes from mountains to green terrains encircled by the ocean.

Ladies and gentlemen,

It is my third appearance in a short span of time standing before an eminent parterre of professionals from regulatory institutions and law enforcement agencies, amongst others, to open a seminar on capacity building. I am pleased to come again and I will hopefully come back yet again because such gatherings of AML/CFT experts and practitioners are the guardians of trust, security and credibility in the Mauritius International Financial Services Centre. As gatekeepers and protectors, you shield our jurisdiction from abuse. I salute your presence here this morning and acknowledge your important role in the financial services setup.

My presence before you and the collaboration of my Ministry in co-hosting such events marks our absolute determination in building and enhancing the capacity of our experts. AML/CFT has been an ongoing supervisory priority for Mauritius. We are aware that if we are not

constantly on our toes imposing the appropriate anti-money laundering and terrorism financing requirements, Mauritius can suffer irremediable reputational risks. Indeed, ladies and gentlemen, Mauritius as an International Financial Centre seeking to become more externally-oriented will undoubtedly face growing ML/TF risks as criminals looking for escape routes to camouflage funds and evade financial sanctions. With a growing risk profile, our country needs your expert vigilance. In so doing, you are helping to raise the profile of Mauritius as a responsible member of the international community and uphold our reputation as a conducive and reputable place to do business.

Ladies and gentlemen

The Risk-Based Supervision approach in our regulatory and supervisory practices is a key contributor to the financial stability of our financial system. However, risks do not remain static. The scale, scope and complexity of ML and CF keeps evolving at viral speed. We have all seen that new products and new technologies bring along with them new risks, and more serious risks. The rapid pace of innovation in the financial services sector, particularly driven by technological advancements, has created riskier environments putting pressure on Regulatory bodies to not only expand the supervisory team but also beef up the quality of supervisors. So, we need to be smart by placing and directing the energy of our scarce and experienced supervisory capacity where it is most needed. By targeting I mean carving up regulated entities on the basis of their risk appetite and assess whether they constitute systemic risks, financial stability risks or not, and only apply brakes in cases of unwarranted risk-taking.

Harvard's International Expert on Regulatory Strategy, Professor Malcolm Sparrow defined the Risk-Based approach in simple words (and I quote): "Pick important problems and fix them". Risk-based supervision is about this, isn't it? It is the efficient allocation of supervisory resources to their most effective use.

Ladies and gentlemen,

It is a logical sequence that we keep reviewing the skillsets required from the seasoned supervisor. I am aware that the FSC is going through recruitment exercises with a view to strengthening its human resource capacity. We need to keep building specialist expertise in key risk areas, including technology risks and risk management areas. For instance, we should be reinforcing our IT team Technology particularly with regard to data analytics which will significantly increase our ability to identify higher risk areas. As regulated entities move in Cloud, Artificial Intelligence, Blockchain and Data Analytics to improve offering to their customers, the Regulator needs to correspondingly augment his skills and knowledge for effective supervision of these new risk areas. It is important, ladies and gentlemen, that we nurture a new breed of supervisors who are not only technically proficient to carry out proactive assessments of risks but who are also forward thinkers and who are capable of designing the next generation of supervisory procedures and action. We need Supervisors who keep on challenging our established ways and ensure that our responses are always relevant and effective. It is important that we encourage such talent which will be a step ahead of the industry.

Ladies and gentlemen

As we increase layers of protect to protect our jurisdiction against a rapidly changing and increasingly volatile environment, I would wish to put in a word of caution. Under both the FATF's international standards, regulators expect financial institutions to establish and implement policies and programmes that are **reasonably** designed. Financial institutions are exhorted to adopt a **reasonable** risk-based approach.

It is important that we do not get over zealous in our efforts to fight ML and FT. It is important that we do not scare away legitimate business. It is important that we do not impair the competitiveness and dynamism of our businesses and our financial system. Yes, we need to be safe and efficient. But we also need to be the hospitable host on which we have built a reputation. It is important that we strike the right balance. I am not asking that we dilute our AML/CFT standards. We should not stop enforcing those standards. But we need to be sensible and know when to apply the brakes.

In a similar context at an Annual Dinner of the American Bankers Association, Alan Greenspan had said (and I quote): ***"How do we avoid killing the goose that lays the golden egg?"***.

Alan Greenspan told bankers that evening (and I quote):

"Our "best practice" is to assure that regulatory restrictions are not a barrier to your "best practice." Your "best practice" is to employ improved risk management and all its tools in order to increase your risk-adjusted rate of return."

Ladies and gentlemen,

It is not about zero tolerance, zero failure, or zero risk. It is not a standard of perfection that we are advocating. Such a standard would obstruct capital flows. Let us be realistic, we cannot be everywhere all the time and cover all risk areas. By being overly protective, we shall be surely hindering the competitiveness and efficiency of our IFC. We should be careful so that we do not stifle innovation.

Ladies and gentlemen,

On this note of caution, let me now say a few words on action which my Ministry has been taking and those initiatives still in progress. As you may be aware, following the publication of the Mutual Evaluation Report of Mauritius by the Eastern and Southern Africa Anti-Money Laundering Group (the ESAAMLG) in September 2018, my Ministry has been working in close collaboration with all relevant stakeholders to address the deficiencies identified in our AML/CFT framework. The Financial Intelligence and Anti-Money Laundering Act (the FIAMLA) was amended and a new set of Regulations were enacted under the FIAMLA, amongst other things. On the basis of these amendments, Mauritius had submitted an application for re-rating of a number of the Financial Action Task Force (the FATF) Recommendations. I am, therefore, pleased to announce that these measures have been favourably considered by the ESAAMLG and our ratings for 12 FATF Recommendations have been upgraded, including Recommendation 10 on Customer Due Diligence where we have been rated as 'Largely Compliant'.

I am also pleased to announce that my Ministry, in collaboration with relevant stakeholders, including the Financial Services Commission, the Bank of Mauritius, the Financial Intelligence Unit and the Attorney General's Office, amongst others, is working on two pieces of

legislations to address the remaining Technical Compliance deficiencies identified by the ESAAMLG in our AML/CFT framework. The first legislation is being drafted to enable Mauritius to implement targeted sanctions, including financial sanctions, arms embargo and travel ban, and other measures imposed by the United Nations Security Council with a view to meeting Recommendation 6 of the FATF. The other legislation, the AML/CFT (Miscellaneous Provisions) Bill aims to address various existing enactments with a view to meeting the FATF standards. These bills will soon be presented to the National Assembly. Based on these draft legislations, we have submitted a second application for re-rating to the ESAAMLG in last month which will be considered during the next Plenary of the ESAAMLG in September 2019.

Ladies and gentlemen,

Mauritius has started its National Risk Assessment exercise in January 2017 with the assistance of the World Bank and it is expected to be completed in May 2019. Based on the results of the Risk Assessment, financial sector regulators, namely the Bank of Mauritius and the Financial Services Commission, will be required to develop their AML/CFT risk-based supervisory framework.

Ladies and Gentlemen,

In closing I would like to reiterate that Mauritius remains committed in addressing all the shortcomings and meeting the recommendations in the Mutual Evaluation Report of Mauritius with a view to enhancing the integrity and good repute of Mauritius as an International Financial Centre.

We all share the goal of ensuring that the Mauritius IFC is convenient, efficient, safe, secure, and easy-to-use for legitimate customers and investors. We all share the goal that our system is hardened against abuse by those who have done bad things and are looking for loopholes to get away with the proceeds of such bad things. We all share the goal of advancing financial integrity. We all together in this fight. It is a good fight for a good cause for the people of our country.

My government is highly appreciative of the support of the IMF in promoting our AML/CFT efforts to guard the financial integrity of our jurisdiction by shunning away illicit flows and activities. We are thankful for the technical assistance, we are thankful for your help in building and strengthening our institutions and we are grateful for your support in enhancing operational effectiveness. We have travelled a long way together and the journey is still long. We look forward to your continued support and collaboration standing by Mauritius as we compellingly position ourselves as a highly competitive and reputable International Financial Services Centre at par with the more established jurisdictions.

I am confident that you will all feel very much at home this week at the supervisor's house, the FSC House.

I wish you all a rewarding seminar and thank you for your attention.