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# Mauritian banks think beyond home comforts

**James King** | 2/05/2017 9:00 am

**Careful cost management and diversification have yielded solid profits for Mauritius's banks. And with the government now focusing on SMEs, many banks are now developing their services for this sector while also expanding their footprint abroad. James King reports.**


Faced with a regional economic slowdown and a sub-optimal domestic operating environment, Mauritian banks should be struggling. Instead, the country's lenders have overcome these challenges to post solid growth numbers in the past year.

This performance reflects the efforts by most banks to cut costs, diversify their activities and develop innovative products and services to support growth. For a relatively small market, these achievements are one of the more promising stories emerging from the region in recent times.

Research by Swan, a Mauritian financial services provider, puts sector-wide return on equity at 9.3% for the year ending 2016, while return on assets was about 1.2%. Though these numbers show a decline from recent years, they nevertheless contain some standout individual performances, particularly regarding the country's largest and most well-established lenders.

**Profits up**

The MCB Group, of which the Mauritius Commercial Bank (MCB) is the main constituent, saw its profit attributable to shareholders expand by 15.8% to $184m in the 2015/16 financial year. Notably, earnings from foreign sources and non-banking operations contributed to about 60% of the group's results during this period.

Meanwhile, the State Bank of Mauritius Group (SBM), the country's second largest bank by total assets, saw after-tax profits jump by 43% for year-end 2016. This was partly due to a reduction in impairment charges. "SBM's performance in 2016 was good and at par with our peer group. The key takeaway is that there has been growth momentum in our bottom line parameters while our top-line performance has exceeded national growth," says SBM Holdings chairman Kee Chong Li Kwong Wing.

But it was AfrAsia Bank, which focuses on corporate and investment banking, as well as global business, private banking and treasury and financial markets, that produced the country's standout performance according to most key indicators. The group's net profits grew by 148% in the 2015/16 financial year – a record – with net interest income growing from MRs860m ($24.4m) to MRs965m over the period, while the bank's return on average equity hit 19%.

"AfrAsia is on a journey to reach its full potential as a business," says Sanjiv Bhasin, chief executive of AfrAsia Bank. "We have started this journey by doing what we can in the best way we can to increase our revenue and profit streams. On a more structural basis, we are working to improve governance procedures, invest in our technology and ensure our customer service is market leading."

**Infrastructure boost**

The good news for Mauritian banks is that the domestic economic environment looks set to improve. Supportive government spending under the Mauritian Public Sector Investment Programme, which has allocated about $4.3bn-worth of investment between now and the fiscal year 2020/21, is expected to provide a boost to the country's gross domestic product growth.

MCB, the country's largest lender, expects the economy to expand by 4% in 2017 – assuming there are no delays in project implementation – up from 3.7% in 2016. "Looking ahead, it is [worth taking note] of the array of policy measures that have been identified and are being implemented by the authorities in order to gear up the productivity and competitiveness of the economy, notably via the unfolding of large-scale infrastructure upgrades and real estate projects," says Raoul Gufflet, deputy chief executive of MCB.

In the pipeline are plans to expand the harbour in capital city Port Louis, designed to capture a greater share of the region's container traffic, increase the country's share of the Indian Ocean's bunkering activities, as well as to install the necessary processing infrastructure to position Mauritius as a seafood hub. In addition, the development of the Metro Express, a light rail project that falls under the government's road decongestion programme, is expected to provide a major investment boost.

"I think the new budget and the government's big public infrastructure programmes will kick-start significant demand for credit. This should help address some of the excess liquidity in the market," says Mr Li Kwong Wing.

**Liquidity challenge**

In recent years, low demand for credit and high capital inflows have contributed to an excess of both local and foreign currency liquidity in the Mauritian banking sector. For most lenders, this situation has been problematic. In many cases, the bulk of this excess liquidity has been allocated towards Treasury bills, where the average yield was below some banks' savings rates, particularly during 2014 and 2015. For lenders with a growing deposit base, these trends placed unhelpful pressure on profitability and margins.

But since 2015, the country's central bank, the Bank of Mauritius (BoM), has taken a proactive role in sterilising this excess liquidity. Moreover, reductions in the base interest rate in late 2015 and mid-2016 helped the banks to improve their margins. These actions have partly alleviated the challenges linked to the country's excess liquidity situation, although there is still some way to go. According to data from Swan, banks' excess cash holdings in March 2017 were about MRs11.6bn.

Nonetheless, Mauritian banks are encouraged by the new outlets for liquidity, such as infrastructure projects and other developments. MCB's Mr Gufflet says: "The current expansion of our loan portfolio is an encouraging sign, which is being confirmed by our pipeline of projects. The latter should be further boosted in the periods ahead and, thus, further support our revenue generation if announced sizeable domestic public and private investment projects are executed as planned."

**SME opportunities**

The multiplier effects of this project spending are expected to stimulate new opportunities for small and medium-sized enterprises (SMEs). Indeed, under the government's economic development agenda, the authorities are promoting SMEs as a means of stimulating the economy and driving the next stage of the country's development. The banks, in turn, are looking to bolster their SME offerings to capitalise on this opportunity.

SBM, for example, is supporting these businesses as they expand their activities across mainland Africa. Mr Li Kwong Wing notes that exporting into the Common Market for Eastern and Southern Africa will be vital for Mauritian SMEs in their hunt for higher growth opportunities. To support this objective, SBM offers trade insurance cover, as well as the discounting of receivables, among other services, to its SME customers.

"SBM is now trying to revitalise its operations in the SME sector in order to accompany the growth in the regional market," says Mr Li Kwong Wing.

**MauBank moves in**

Meanwhile, MauBank, which was created through the merger of Mauritius Post and Cooperative Bank (MPCB) and National Commercial Bank (NCB) in early 2016, is benefiting from its historical know-how in the SME segment. About one-third of its total assets are geared towards SMEs, of which it has 6000 customers, thanks to MPCB's strong offering in this business line.

Sridhar Nagarajan, chief executive of MauBank, says: "Our bread and butter is SMEs. Our team knows how to work with SMEs because we are a truly local bank. We have started adopting new techniques for SMEs, including clustering industries for appraisal. For example, we are very quick in assessing and understanding plantations based on aggregated knowledge of the industry."

MauBank hit the headlines in 2016 for turning in a profit just a few months into its existence. Mr Nagarajan points to the bank's dynamic board and its ability to swiftly execute credit decisions as two factors that have helped to drive MauBank's success. The lender has ambitious plans to capitalise on its strong SME and retail offerings to further its growth.

“The merger of MPCB and NCB has given MauBank a market share of 8%. Our aim is to reach 15% and become the third significant bank in Mauritius,” says Mr Nagarajan. “We will do this slowly because our job now is not to grow the balance sheet but to put the bank back on track. We have actually shrunk the balance sheet slightly because we had too many high-cost deposits. Reducing these deposits has helped to push us into profitability.”

## International expansion

Beyond the domestic market, a number of Mauritian banks are focusing more of their efforts on international growth. Indeed, many lenders have for some time looked towards mainland Africa and Asia as an engine of future growth, and capturing opportunities along the Africa-Asia corridor is a central theme for most Mauritian banks. Many already boast a footprint across multiple markets in Asia and Africa, but there is a strong trend to capitalise on these positions by leveraging relationships and market knowledge to drive new growth.

AfrAsia Bank is no exception. “As a bank, our bandwidth is restricted due to our size. So we have defined the markets where we have sound local knowledge and significant relationships. In this respect, South Africa and India are two markets in which we have excellent local connectivity as well as strong understanding of the business landscape,” says Mr Bhasin.

“Gradually, we want to diversify our country coverage on the asset side. We have started looking at smaller markets because we think we can understand these places better than some of our larger competitors. In this respect, we are carefully looking at opportunities in Sri Lanka, Bangladesh and Indonesia,” he adds.

Other lenders are also making ambitious moves. SBM has been aggressively pursuing geographic expansion in recent years, which has seen it enlarge its presence across south Asia, sub-Saharan Africa and the Indian Ocean.

“Our long-term growth strategy is built around regional expansion in order to cover the Asia-Africa corridor. Today, we have a presence in India, Madagascar and Myanmar, and soon in Kenya and Seychelles,” says Mr Li Kwong Wing. “We also want to open a representative office in Hong Kong, Dubai and South Africa. We are developing our footprint across this corridor to facilitate the flow of business, trade and capital between the two regions.”

## India focus

This kind of international connectivity has long been a key ingredient to Mauritius’s economic success. In terms of financial services, the country's long history with India, characterised by its decades-old double taxation avoidance agreement (DTAA), has positioned the country as a successful international financial centre. But changing political currents in India have led to a renegotiation of this treaty, which reinstates capital gains taxes on Mauritian residents upon the transfer of Indian securities. The move was expected to hit the country's economy, as well as its offshore business, hard. But to date, the impact has been negligible.

“The revised DTAA with India will not have any meaningful impact on Mauritius," says Mr Bhasin. "Indeed, we expect business flows to increase in the coming years. This is because the DTAA was attractive primarily for equity investments with India.

“Moving forward, to support much-needed infrastructure developments, the debt markets are likely to play a much bigger role. And Mauritius can play a significant part here because it has a deep connectivity with, and understanding of, India. In addition, Mauritius benefits from abundant foreign currency liquidity,” he adds.

### African connections

But the treaty change is giving Mauritius's banks and wider financial services community fresh impetus to build closer ties with Africa. Most lenders are now looking to enhance their business lines with the continent by harnessing their accumulated specialised knowledge to position the country as a hub for treasury management and trade services, among other activities.

"Fundamentally, MCB is truly African at heart and we are on the continent to stay. In fact, the African continent is an integral part of our medium- and long-term vision," says MCB's Mr Gufflet.

But as Mauritian banks reap the rewards of regional expansion, they must also face up to a greater level of risk. In recent times, sub-Saharan Africa has been a source of political and economic volatility as commodity prices crashed and national currencies tanked.

Political risks are also mounting in key markets, as shown by the South African government's sacking of respected minister of finance Pravin Gordhan, replacing him with Malusi Gigaba, who has announced plans to radically transform the country's economy. The move led Standard & Poor's to downgrade its sovereign rating to junk status.

Mr Bhasin says: "The regional credit cycle is not showing any signs of improvement. South Africa, in addition to a number of other African markets, is showing signs of a slowdown. We are hoping that South Africa's recent downgrade doesn't negatively impact the performance of the country's corporates and banks."

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