The Impact of the Global Financial Crisis on the Mauritian Financial Services Sector

Aleesha Mohamudally-Boolaky  
University of Technology, Mauritius  
La Tour Koenig, Pointe aux Sables  
E-mail: aboolaky@umail.utm.ac.mu

Indranarain Ramlall  
University of Technology, Mauritius  
La Tour Koenig, Pointe aux Sables  
E-mail: ramindra0001@yahoo.co.uk

Abstract
Considered as the worst crisis since that of the Great Depression in 1929, the US Subprime crisis trailed behind major changes in the sphere of finance. Indeed, as the crisis unfolded itself, directly or indirectly, it generated heightened risk aversion among traders, bailout of bruised banks by the government, massive injections of fiscal stimulus packages and austerity measures in light of recent debt crisis. Ironically, Islamic financing, which was so far been considered to be practically immune to the crisis got a blow in December 2009 on the back of debt problems in Dubai. Overall, the crisis has pushed both academicians and practitioners to think out of the conventional way, let alone revision of major economic theories such as benefits of a monetary union. The objective of this paper is geared towards analyzing the impact of the crisis onto the Mauritian financial services sector of which the banking industry is the most important. To capture the effects related to the characteristics specific to the different banks, a questionnaire has been dispatched to all banks in Mauritius on questions related to the crisis. Despite the fact that the response rate has been around 38%, nonetheless, this paper does provide some interesting insights as to how banks responded to the crisis.

**Keywords:** US Subprime crisis, Financial Services, Mauritius

**JEL Classification Codes:** G15, G20, G21
1. INTRODUCTION

A collapse of the US subprime mortgage market and the reversal of the housing boom in other industrialized economies have had a ripple effect around the world. The Global Financial Crisis which started to show its effects in the middle of 2007 and into 2008 in the US, was the sequel of excessive credit lines given to companies and individuals to boost the housing bubble, according to Yilmaz (2008). Following a high market volatility with prices of stocks going more and more speculative, banks, mortgage companies and insurances were unable to pay back their debts. The problem was so large that banks even with large capital reserves ran out. This chain effect of insolvency, lead to the collapse of even the wealthiest economies which had to come up with rescue packages to bail out their financial systems (Moshirian, 2009).

For Chan Lau (2008), the financial quake made the ailing US economy tremble and run the risk of a major bankruptcy. European economies which were well aligned with their American counterparts in the form of overseas subsidiaries and affiliates, were eventually threatened by the crisis and it was foreseen that emerging economies in the developing world would also suffer.

In the first few months of the financial crisis, there was the widely held view that the impact on African countries would be minimal, as there is less exposure to complex financial products. Yet this proved to be false. As a matter of fact, Ramlall (2009) showed that with the crisis, the main index of the Mauritius stock market, SEMDEX, had become more sensitive to movements in international stock markets. He went further as to account for the retreat by foreigners made during the crisis on the back of undermined international portfolio diversification. However, as the crisis continued leading to an economic slowdown, risks could grow as the banking sector remains vulnerable to reduction in income and debt servicing capacities as well as problems faced by the sectors which are pillars to the economy. According to Kamara and al. (2009) African countries have been taking several measures to mitigate the impact of the crisis on their financial institutions, including interest rate reductions, recapitalization of financial institutions, increasing liquidity to banks and firms, fiscal stimulus packages, trade policy changes, and regulatory reforms.

Larose (2003) showed that during the Asian financial crisis in the late 90’s, remote small island economies like Mauritius faced downtowns in their stock markets although they were not connected with the origins of the crisis. Mauritius is currently more exposed to the global slowdown arising from the financial crisis due to the growing interdependence of its financial institutions into a global market place. The global economic recession is likely to continue to hold back the island’s economic growth. Mauritius is a small, export-driven country and the sharp decrease in export volumes during the latter half of 2008 and the first quarters of 2009 has already had a major impact on industry.
The Mauritian financial system is a bank-based one as banks represent around 70% of the total assets to the plain effect that commercial banks are highly responsible for the financing of both private and public investments. In early 2009, according to Financial Stability Report of the Bank of Mauritius, the financial crisis did not have significant direct impact on the Mauritian banking sector. This is because the latter does not have any direct exposure to the toxic debt that has affected global financial markets. However, as the slowdown continues there is need to safeguard against financial vulnerabilities like rising credit risk foreign currency risk, bank risk management practices, lending standards, and funding reliability. It should extend to all deposit-taking and credit creating institutions, including nonbank financial institutions.

The rest of the paper is organized as follows. Section 2 focuses on the empirical evidence which is split into four main parts; financial crisis in Mauritius, new products and services, expansions and employment in the financial services sector and expectations for future. Section 3 concludes the paper with the appendix section containing the questionnaire.

2. EMPIRICAL EVIDENCE

To capture the effects of the financial crisis related to the characteristics specific to the different banks and insurance companies in Mauritius, a questionnaire has been administered to gauge on whether the institutions have been proactive enough in view of curbing the adverse effects. Questionnaires were dispatched to the CEOs of 16 commercial banks and the three major insurance companies in Mauritius. However it should be pointed out the response rate hovered around 40% for the banks and there were no responses from the Insurance industry. Our analysis was therefore restricted to the banking sector only and there was no possibility to make comparative analysis which was initially one of our objectives. The major reason that has been evocated for not responding to the survey was confidentiality compliance. But interestingly and fortunately, the two largest commercial Banks in Mauritius (The MCB Ltd and the SBM Ltd) which hold about 70 per cent of banking assets, have responded to the survey. Taking the above limitations into account, we have attempted to give a first insight of the impact the crisis on the banking sector in Mauritius in the following sub sections.

2.1 Financial crisis in Mauritius

As per figure 1, 5 banks pointed that the tourism and textile sectors are the most affected by the crisis as these two sectors come out among the most affected ones with number one being synonymous with

\[^{1}\] Continuous attempts were made several times to ensure a higher response rate, chiefly for the insurance sector, but it was futile.
the highest effect felt. The results bode well with the fact that the crisis has strained hard on the exporting arm of Mauritius with the textile and tourism sectors being the most badly hit ones. Besides the dwindling demand for our products by foreigners, an appreciating rupee vis-a-vis the euro has further squeezed on the profit margins of the exporters. Intriguingly, in the case of one bank, it transpires that financial services sector has been the most affected one followed by the IT sector.

When questioned about the impact of the crisis on the banking, offshore and insurance sectors, most participants respond that the offshore sector has been the most directly hit as depicted in figure 2, followed by the banking sector and the insurance sector. Only two banks provide different responses. While one bank states that the insurance sector has been the second most badly hit followed by the domestic banking sector, the other bank states that it is the domestic banking which has been most hit relative to offshore banking. Nonetheless, based on a totalitarian rule, it is evident that the offshore sector has indeed borne the direct brunt of the crisis relative to the domestic or insurance sectors.

![Impact of Financial Crisis on different sectors](image)

**Figure 1: Impact of crisis on different sectors in Mauritius**

When asked whether they have been affected by the crisis, only one bank states that it has not been affected by the crisis. Besides, most banks point out that there have been lag effects of the crisis onto the Mauritian economy, mostly in the period 2009/10.
Figure 2: Impact of crisis on banking, offshore and insurance sectors in Mauritius

Table 1: Capturing effect of crisis on financial ratios of banks

<table>
<thead>
<tr>
<th>Ratio</th>
<th>Increased considerably</th>
<th>Increased a little</th>
<th>Did not change</th>
<th>Decreased a little</th>
<th>Decreased considerably</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income over total assets</td>
<td>2</td>
<td>2</td>
<td></td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Non-interest income over total assets</td>
<td>2</td>
<td>2</td>
<td></td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Profit from foreign exchange transactions</td>
<td>4</td>
<td>1</td>
<td></td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>PBIT</td>
<td>4</td>
<td>1</td>
<td></td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Return on Equity</td>
<td>4</td>
<td></td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liquidity ratio</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Tier 1 Capital</td>
<td>4</td>
<td>1</td>
<td></td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Tier 2 Capital</td>
<td>3</td>
<td>1</td>
<td></td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Debt/Equity</td>
<td>1</td>
<td></td>
<td></td>
<td>2</td>
<td>1</td>
</tr>
</tbody>
</table>
Table 1 clearly shows that the Mauritian banking system has indeed come out unscathed by the crisis as most of the respondents identified themselves in the first column whether the values rose considerably. Such a finding signifies that most of the activities are internally based so that the risk is lower relative to the case where the activities are more dependent on foreign sources of activities. Indeed, probing deeper, it emerged that, only two international banks were present. Table 2 substantiate the findings of table 1 as there is now glaring evidence that personal loans, home loans, credit cards and even corporate loans have been on an ascending trend during the crisis.

**Table 2: Capturing effect of crisis on loan portfolio of banks**

<table>
<thead>
<tr>
<th></th>
<th>Increased considerably</th>
<th>Increased a little</th>
<th>Did not change</th>
<th>Decreased a little</th>
<th>Decreased considerably</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal loans</td>
<td>4</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Corporate loans</td>
<td>4</td>
<td>0</td>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Home loans</td>
<td>4</td>
<td>1</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit Cards</td>
<td>4</td>
<td>1</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debit Cards</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

When questioned about their major strategy deployed by fund managers to scale down risk in their unit-linked funds, out of the six respondents, only five of them answer the question with diverse reasons cited. One bank points out clearly that it goes for more cash during the crisis while another bank states that it resorts towards a balanced portfolio. Ironically, even during the crisis where there tends to be greater co-movements among markets, one bank claims that it diversifies its operations in terms of geographic composition and asset types. One respondent points out that it deals in no such funds. The best answer comes from a larger bank which states that it clings towards a combination of increase in cash which is invested in lucrative short term fixed income securities (mainly leasing deposits) and buying back of stocks on the market as soon as they become too undervalued. In that respect, it can be inferred that larger banks are best able to withstand the crisis by adopting active portfolio management.

**2.2 New products and Services**

Half of the respondents do not introduce new investment products. One bank cited “We didn’t introduce a new product since we already had a product which could be used to mitigate the effects of the crisis (a fixed income fund). Those that introduce these products usually do so on a quarterly basis and also based on the demand side of the market. Interestingly, only two banks respond to the crisis by introducing new products in terms of proper diversification, exposure to markets and currency-
wise diversification. Besides, only one bank offers Islamic financial products/services. The most plausible reason is that it is an international bank and hence avails of expertise by its parent company abroad as to launch these products and services in Mauritius. 2 banks points out that it is quite likely that their institutions will consider offering Islamic financial products in the future while 2 banks respond the same question using the words “Quite unlikely”. Only one bank says that it doesn’t know whether these products will be introduced in its institution.

2 banks states that they somewhat agree that Islamic banking products can be more resistant to financial crisis than conventional products and services. For the same question, 2 banks take a neutral position while 2 banks somewhat disagree. Hence, from these responses, it can be inferred that Islamic products are still not hundred per cent full-proof vis-à-vis the crisis. Indeed, in December 2009 when debt problems surfaced in Dubai, many persons started to question the credibility of Islamic financing. The two banks that adhere to an affirmative response agreed that Islamic Shariah prohibits economic and financial transactions that involve interests, risk and uncertainty. One bank further adds that the Islamic financial system is likely to be more credible and transparent.

2.3 Expansions and employment in the financial services sector

When questioned about the status of their employment level in their organization and the number of branches, only four banks answer. In general, the recruitment level has been on an ascending level for these four banks for the years 2005, 2006, 2007, 2008 and 2009. There are no layoffs for the same time period under review. 50% of the respondents state that there has been an increase in the number of new customers during the financial crisis while the rest state the contrary. Hence, it can be inferred that the employment level in the financial services sector is still immune to the crisis. However, since there are only two international banks in the respondent sample, further investigation is warranted based on the fact that the offshore sector is more likely to be adversely affected relative to the domestic banking sector.

While only three banks point out that they cling towards new marketing strategies during the crisis, only two of banks spell out their strategies deployed which comprise of increasing focus on customer service, more segmented offering, channel-specific pricing and scaling up exposure to loans and advances which are more resilient in difficult times. This clearly shows that when the crisis begins to impact on the local economy, new strategies are vital to ensure that profit margins are at least maintained at current levels. Besides, the fact that more attention is given to customer service plainly shows that maintaining of enhancing the service quality dispensed to customers is of paramount significance. Moreover, based on the discriminatory pricing mechanism, this ensures that different customers are charged different rates as per their capacity to pay. Such a strategy is highly beneficial as it ensures that there is no loss of customers on one side while securing profit margins on the other side.
2.4 Expectations for future

When asked to ranked on a scale ranging from one point to five points (the highest) to depict the extent to which the banks have been proactive during the crisis, four banks select four points meaning that they have been reasonably proactive in taking measures to mitigate the effects of the crisis on their organization. Two banks identify themselves at the extreme of the continuum, one at the lowest level and one at the highest level.

Two banks take a neutral position when questioned about whether their institution has to take more measures during the coming months to face the effects of the financial crisis. However, one bank somewhat disagrees to the same question by further pointing out that a prudent approach has already been maintained with policies being reviewed in light of changes in the environment. Three banks strongly agree that more measures have to be taken by their organization since they are directly subject to effects on the customers’ side operating in the tourism and textile sectors. One bank further states that the financial crisis will consume to some extent their profits so that new income generating sources have to be developed as well as operating into new markets whereby the crisis has least impacted. Finally one bank pointed out that more stress should now be laid on less risky products along with implementing more in-depth KYC on borrowers.

The last and perhaps most interesting question of the survey is based on whether the crisis is already over or things will worsen going ahead. However, the answers are equally spread with two banks stating that the worst of the crisis is behind us, 2 banks pointing out that the situation will remain about the same and 2 banks stating that the crisis continues and that the situation will get worse in 2010 with difficulties in Europe acting as an aggravating factor.

3. CONCLUSION

The paper investigates the extent to which global financial crisis has been affecting the Mauritian Financial Services sector, more particularly the Banking sector. Although the crisis started out in 2008, Mauritius experienced a lagged effect and started to face significant consequences. The measures deployed to withstand the crisis are oriented towards a combined strategy of increasing cash and investing in stocks. Interestingly, even during the crisis, there have been attempts to diversify. Furthermore, as far as employment, is concerned, results from the survey indicate that some recruitment has been done, though not massive. However, our banking sector comprises of international banks and with the globalization of the financial services sector, there are risks that decisions made in distant headquarters of major financial institutions may have substantial employment repercussions in their subsidiaries.
Finally, what can be concluded is that the Mauritian Banking sector has till now resisted quite successfully to the effects of the Global Financial crisis. This may be partly due to the fact that our banking sector is not contaminated by toxic assets and partly due to the fact that the lagged effect of the crisis has curbed its impact and has allowed the banks to be more proactive and take appropriate measures. However, expectations for the near future are not optimistic in the sense that the banks are not expecting any improvement of the situation, while some are even predicting an increase in the difficulties that they might be facing.

References


Appendix: Questionnaire

Dear Sir/Madam
We are currently doing a research work on the “Impact of the Global Financial Crisis in the Mauritian Financial Services Sector” which has been accepted for presentation and publication in a peer-reviewed conference, The International Research Symposium in Service Management organized by the University of Mauritius to be held in August 2010. The objective is to get a first insight of the ongoing financial and economic crisis and to gauge on whether Mauritian financial institutions have been resilient or proactive in view of curbing its adverse effects.

We would therefore be grateful if you could spare some of your valuable time to fill in the attached questionnaire, without which our research work cannot progress. In case you are not able to do so, we would be grateful if you could send it to the most appropriate person(s) in your institution.

We wish to assure you that all information you would provide will be treated with strict confidentiality and will be used solely for the purpose of academic research.

Furthermore, it will be a pleasure to submit you a copy of the article upon completion of the work.

Kindly note that for your convenience a pre paid envelope with the address is provided to send back the questionnaire. A copy has also been sent to you on your email address. You could alternatively send back the questionnaire by email on the addresses below.

We remain at your disposal for any information or clarification

We thank you in advance for your cooperation and participation.

A. Financial crisis and the Mauritian economy

1. According to you, how have the following sectors of our economy been affected by the Global financial crisis? Rate the following according to their importance from 1-4, 1 being the sector which has mostly been affected and 4 the least affected.

☐ Tourism  
☐ Financial services  
☐ Textile industry  
☐ Information and Communication Technology

2. In the financial services sector which subsector do you think has been more affected by the crisis? Rate the following according to their importance from 1-3, 1 being the sector which has mostly been affected and 3 the least affected.

☐ Domestic Banking  
☐ Offshore Banking  
☐ Insurance sector

3 (a). Do you think that your company faced the impact of the financial crisis?

☐ Yes  ☐ No

(b). If Yes, when did your company start facing the impact?

☐ From the beginning of the financial crisis that is 2007/2008  
☐ There has been a lagged effect. Specify the period: ………..

4. What has been the trend in the evolution of the following financial ratios over the last 5 years for your company? Tick as appropriate
### International Research Symposium in Service Management

<table>
<thead>
<tr>
<th></th>
<th>Increased considerably</th>
<th>Increased A little</th>
<th>Did not change</th>
<th>Decreased a little</th>
<th>Decreased considerably</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income over total assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-interest income over total assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profits from foreign exchange transactions</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(PBIT: Profit before interest and tax/Interest costs)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Return on equity (Net profit/Equity)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liquidity Ratio (Current assets/current liabilities)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tier 1 Capital</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tier 2 Capital</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debt/Equity</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### B. Existing Products and Services:

5. As far as demand for loans for your bank is concerned, what has been the trend during the last five years?

<table>
<thead>
<tr>
<th></th>
<th>Increased considerably</th>
<th>Increased A little</th>
<th>Did not change</th>
<th>Decreased a little</th>
<th>Decreased considerably</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal loans</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate loans</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Home loans</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit Cards</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debit Cards</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

9. What was the major strategy deployed by the fund managers to reduce risk in the unit-linked funds?

- [ ] Increase in portfolio composition in terms of cash
- [ ] Increase in fixed income portfolios
- [ ] Any other please specify ………………………

### C. New Products and Services

10 (a) Does your institution constantly introduce new investment products?

- [ ] Yes
- [ ] No

(b) If yes, on what frequency? …………………………………………………

Le Meridien Hotel, Mauritius, 24-27 August 2010
(c) Did your institution introduce new products recently mainly to alleviate the negative effects of the crisis?

☐ Yes  ☐ No

(d) If Yes, Please state the products and explain briefly to what extent have these new products been effective in achieving the goal.

………………………………………………………………………………………………………………………
………………………………………………………………………………………………………………………
………………………………………………………………………………………………………………………
………………………………………………………………………………………………………………………

11(a) Is your institution currently offering Islamic financial products and/or services?

☐ Yes  ☐ No

(b) If No, how likely your institution will consider offering Islamic financial products and/or services in the future?

☐ Very Likely
☐ Quite likely
☐ Don’t Know
☐ Quite unlikely
☐ Very unlikely

(c) Do you agree that Islamic banking products/services can be more resistant to financial crisis than conventional products and services?

☐ Strongly agree
☐ Somewhat agree
☐ Neutral
☐ Somewhat disagree
☐ Strongly disagree

(d) If Yes, what factors could explain this resistance? (You may tick one or more boxes)

☐ Islamic Shariah prohibits economic and financial transactions that involve interests (riba)
☐ Islamic Shariah prohibits economic and financial transactions that involve risk and uncertainty(gharar)
☐ The Islamic financial system is likely to be more credible and transparent
D. Expansions and employment in the financial services sector.

12. Please provide figures for the following:

<table>
<thead>
<tr>
<th>Year</th>
<th>New Branches</th>
<th>Recruitment</th>
<th>Lay offs</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2006</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

13. During the financial crisis period, has there been an increase in the number of new customers?

- [ ] Yes
- [ ] No

14. (a) Has your company adopted new marketing strategies during the crisis?

- [ ] Yes
- [ ] No

(b) If yes, state the strategies deployed.

……………………………………………………………………………………………………………………
……………………………………………………………………………………………………………………
………………………………………………

E. Expectations for future

15. To what extent has that your institution has been proactive during the crisis? Rate on a scale from 1-5, 1 being the least and 5 the highest.

- [ ] 1
- [ ] 2
- [ ] 3
- [ ] 4
- [ ] 5

16. Do you agree that that your institution has to take more measures during the coming months to face the effects of the financial crisis?

- [ ] Strongly agree
- [ ] Somewhat agree
- [ ] Neutral
- [ ] Somewhat disagree
- [ ] Strongly disagree

Please briefly explain your answer

……………………………………………………………………………………………………………………
……………………………………………………………………………………………………………………

Le Meridien Hotel, Mauritius, 24-27 August 2010
17. What would you say is the prevailing expectation for the economy in general?

☐ The worst of the crisis is behind us,
☐ The situation will remain about the same;
☐ The crisis continues and the situation will get worse in 2010 with the difficulties in Europe acting as an aggravating factor.

F. General Information: Position held in the institution …………………………..

THANKING YOU FOR YOUR PARTICIPATION