
There is no doubting that more and more people are open to digital banking, especially in the wake of the COVID-19 pandemic, which has pushed "traditional" banking onto digital channels. In a recent report published by N26, a fully digital bank headquartered in Berlin and Accenture, 69% of the respondents were open to digital-only banking. The report surveyed 47,810 respondents (i.e., consumers of banking and insurance services) across 28 markets including Asia, Africa, North and South America, Europe and Australia.

As a forward-looking central bank, the Bank of Mauritius (BoM) has developed a comprehensive licensing and regulatory framework to permit the operation and supervisory mechanism of digital banks in Mauritius. The framework was developed in consultation with the IMF's Regional Technical Assistance Centre for Southern Africa and culminated in the issuance of a guideline on digital banks by the BoM (the "**Guideline**").

This article aims to provide a brief overview of the salient features of the Guideline.

## Digital Banks

In Mauritius, a digital bank must be licensed under section 7(5) of the Banking Act 2004 (the "**Act**") to carry on exclusively digital banking business. Digital banking business is defined under the Act as "*banking business carried on exclusively through digital means or electronically*". Accordingly, an entity intending to conduct the regulated activity of digital banking business must apply and be licenced by the BoM to do so.

Also, an applicant for a digital banking licence must be a body corporate and, in this context, it may take different forms. The applicant may be a stand-alone entity or a branch or a subsidiary of a foreign bank. Depending on the form it wishes to take, the BoM may specify additional requirements to, or exemptions from, the legal, regulatory and supervisory framework applicable to that applicant.

## Licensing model

The grant of a digital banking licence is based on a phased/sequenced licensing process – which is referred to as the "restricted phase" in the Guideline. Other regulators in Australia, the United Kingdom and Switzerland have also tested this approach as it allows the applicant to launch its activities on a smaller scale, subject to restrictions. As the applicant builds its capabilities and capital readiness over a determined timeframe, the activities that the applicant may undertake are gradually expanded to a full-fledged licence.

**Procedure**

An application for a digital banking licence is made by submitting a duly filled and prescribed application form to the BoM together with a non-refundable processing fee. The application pack must contain extensive information about the applicant's ability and expertise to meet the licensing criteria. To mention a few, an applicant must provide a business plan giving the nature of the planned business, organisational structure and internal control, projected financial statements, including projected cash flow statements. The applicant must also have in place a core banking system and a fully-fledged anti-money laundering and counter terrorist financing transaction monitoring system and software.

In terms of administration, the applicant must demonstrate that it has at least ten suitably qualified full-time officers, including the CEO, the deputy CEO and key functional heads. Its board of directors must also consist of at least one Mauritian citizen residing in Mauritius. Over and above that Mauritian element to the applicant's board of directors, the applicant must also have a principal place of business in Mauritius. However, this physical office must be used solely for administrative purposes, to deal with customer complaints or to interact with the BoM and must not to be used as a medium to conduct banking business with its customers.

The applicant will be authorised to commence business as a restricted digital bank upon successful completion of the application process. A restricted digital bank is defined under the Guideline as a digital bank operating in the restricted phase.

**The Restricted Phase**

As per the Guideline, the restricted phase is made up of (i) a **mobilisation period** of not more than two years, and (ii) a subsequent **transitional period** of not more than three years. The Guideline stresses that there is no minimum period for exiting the restricted phase as long as the licensee meets all the requirements to the satisfaction of the BoM.

The Guideline also provides for prudential and regulatory requirements that apply to a restricted digital bank. Amongst these, a restricted digital bank must take all reasonable steps to ensure that all customers are made aware that it is operating as a restricted digital bank that is subject to predefined restricted phase. There must also be no change in shareholding of the licensee, except with the approval of the BoM.

During the restricted phase, the licensee must demonstrate that it is able to meet the applicable minimum capital requirement. The Guideline stresses that this requirement should be met at the onset and on an ongoing basis. However, subject to the prior approval of the BoM, the licensee may be exempted from some of the minimum capital requirements referred to in the Guideline.

**Conduct of Business**

*Mobilisation Period*

During the mobilisation period, the licensee must commence operations with an amount paid as stated capital or an amount of assigned capital, as the case may be, of not less than MUR 200,000,000 (approximately USD 4,529,382) or an equivalent amount in any freely convertible currency held in assets in or outside Mauritius, as may be approved by the BoM. Amongst other specific restrictions, the licensee must only deal with resident customers, with the exception of its shareholders, employees and related parties, operate with an asset size not exceeding

MUR 1,000,000,000 (approximately USD 22,725,134) and offer only simple credit and deposits products.

*Transitional Period*

During the transitional period, the licensee must strengthen its existing activities and expand the operation of its asset size to MUR 2,000,000,000 (approximately USD 45,450,268) – which may be increased subject to the approval of the BoM). Moreover, the Guideline also provides for more relaxed capital adequacy and minimum liquidity coverage ratios requirements.

**Conclusion**

The Guideline is testament to the BoM's commitment to elevate, strengthen and modernise the "traditional" banking landscape in Mauritius. Financial institutions and customers should not be insensible to the new technological capabilities and lower operational costs and capital expenditures per customer that digital banks may offer. The Guideline paves the way for more affordable, user-friendly services to customers as opposed to their brick-and-mortar counterparts. In this way, the Guideline could possibly advance financial inclusion.

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*Should you require legal advice on the matters mentioned above, please contact chambers@blc.mu.*