Chapter 13

Governance and Financial Reporting of Islamic Banks: Evidence From Mauritius

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ABSTRACT

While Islamic finance continues to evolve at a fast pace across the globe, the government of Mauritius is undertaking various initiatives to encourage and facilitate the conduct of Islamic banking activities in the country. Examples are the admission of the Bank of Mauritius as an associate member of the Islamic Financial Services Board in 2007, the enactment of the guidelines for Islamic banking in 2008, and the hosting of the 11th Islamic Financial Services Board Summit in 2014. Consequently, through these endeavors, several stakeholders offering Islamic finance products are expressing interest to set up their business infrastructures in Mauritius. Hence, this chapter discusses the main governance and financial reporting requirements of the offeror of Islamic banking products such that potential investors are acquainted with the legal and compliance needs of an Islamic bank operating in Mauritius.

INTRODUCTION

Mauritius is a developing country that is located in the Indian Ocean and the Gross Domestic Product of Mauritius is USD 14 billion as at 31st December 2018 (Mauritius Chamber of Commerce and Industry, 2018). Since the country’s independence in 1968, Mauritius has transitioned from a poor sugar economy into one of the most remarkable flourishing economies in Africa. This economic development is attributed mainly to a long history of political stability and good governance in addition to the growing corporate, information and telecommunication technology and tourism sectors in Mauritius. As of 31st December 2018, the tertiary economic sector comprises of 63.9% of the entire Mauritian economy as compared to the secondary sector being 19.1% and the primary sector being 17% of the Mauritian economy (Mauritius Chamber of Commerce and Industry, 2018). In essence, Mauritius is recognised
as an international financial centre for conducting business and acts as a gateway to Africa and Asia (BOI, 2017). Furthermore, following the collaboration of the London Court of International Arbitration, the country is well-known to be an international and regional jurisdiction for arbitration in commercial matters (MIAC, 2014).

Moreover, Mauritius is now striving to be a centre for Islamic business activities. This is because Islamic finance is evolving at a fast pace across the globe which is evidenced by the expectation that total assets involved in Islamic finance are likely to surpass US$ 4 trillion in the year 2020 (Mauritius National Investment Promotion Agency, 2014). Having recognised the potential of Islamic banking, various initiatives have been undertaken by the Mauritius government in order to develop the reputation of Mauritius as a jurisdiction for structuring Islamic banking structures such as Sukuk through the establishment of sharia-compliant trusts. Amongst such endeavours are the the admission of the Bank of Mauritius as an associate member of the Islamic Financial Services Board in 2007, the enactment of the guidelines for Islamic banking in 2008 and the hosting of the 11th Islamic Financial Services Board Summit in 2014. Another notable incentive of the Mauritius government is the amendment of the Banking Act 2004 of Mauritius in the year 2007 to enable existing banks licensed in the country to carry out Islamic banking business through window operations and to grant banks a specific Islamic banking licence to conduct Islamic banking business exclusively. Hence, the aim of this research is to explore and discuss the governance and financial reporting requirements of Islamic banks in Mauritius with the view of bringing transparency for potential investors that would like to establish an Islamic bank in the country and also to shed light to existing Islamic banks on their legal and compliance obligations.

With respect to the methodologies adopted, this chapter has made use of secondary data to illustrate the research work carried out. For this purpose, online materials, existing laws and regulations, newspaper and journal articles and existing studies on Islamic banking have been extensively referred to. In addition, while the introductory part of this chapter has briefly portrayed the ambition of Mauritius to develop Islamic banking in the country, the other parts of the chapter are structured as follows: the background section sets out the historical background underlying the emergence of Islamic banks in Mauritius, the literature review part illustrates the importance of having an appropriate governance and financial reporting framework to ensure the good functioning of Islamic banking activities and existing researches on this topic will be discussed, the governance structures section highlights various governance practices of different countries such as Malaysia, Bahrain, Saudi Arabia and Mauritius, the section on financial reporting distinguishes the internationally accounting standards from standards established by the Accounting and Auditing Organisation for Islamic Financial Institution (AAOIFI) and will provide the various reporting requirements for Islamic banks operating in Mauritius. Lastly, this chapter will discuss the challenges facing Islamic banks in Mauritius and the appropriate recommendations will be set out.

BACKGROUND

The history of Islamic finance in Mauritius dates back to the year 1998 whereby a society under the name of Al Barakah Cooperative Society Limited which is an Islamic cooperative credit union, started offering Islamic financing. However, only members forming part of this society could avail of these facilities which comprise of tailor-made Murabahah schemes, Hajj savings accounts and Istisna financing (Gerlbard et al., 2014). Given the growing demand for Islamic finance products both from the Muslim community and the non-Muslim community, a Steering Committee was set up in October 2005 by the