



**COUNTRY
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Maldives

BANKING & FINANCE

Contributor

S&A Lawyers



Mohamed Shahdy Anwar

Managing Partner | shahdy@sandalawyers.com

Fathimath Lamaan

Counsel | lamaan@sandalawyers.com

This country-specific Q&A provides an overview of banking & finance laws and regulations applicable in Maldives.

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MALDIVES BANKING & FINANCE



1. What are the national authorities for banking regulation, supervision and resolution in your jurisdiction?

The Maldives Monetary Authority (MMA) established under the Maldives Monetary Authority Act of 1981 is the national authority that regulates and supervises banks and other financial institutions in the Maldives. The MMA regulates and supervises banks and other financial institutions primarily through the Maldives Banking Act of 2010. Through the powers granted under the Maldives Monetary Authority Act, the MMA also regulates payment services providers through the National Payment System Act of 2021 and insurance service providers under the Insurance Industry Regulations of 2016.

2. Which type of activities trigger the requirement of a banking licence?

Section 3 of the Banking Act states that it would be unlawful to carry out banking business in the Maldives including advertising deposit taking services. Section 4 of the Act elaborates and specifies the specific activities that must only be carried out in the Maldives pursuant to a license issued by the MMA, which are as follows.

1. carrying out banking business within the Maldives targeted at Maldivians;
2. carrying out banking business outside of the Maldives through an entity that is organized under the laws of the Maldives or through an office that is located within the Maldives;
3. opening a branch or a subsidiary in the Maldives of a local or foreign bank;
4. opening a branch or representative office outside Maldives of a local bank or of any bank operating from offices located within Maldives; and
5. operating a representative office in the Maldives of a foreign bank.

3. Does your regulatory regime know different licenses for different banking services?

The Banking Act of 2010 was designed to be a catch all regulatory regime for banking service providers, although since 2021, separate licenses have been issued for payment service providers under the National Payment System Act of 2021 which opens the possibility for non-bank actors to apply for licenses and carry out payment services as per the provisions of the National Payment System Act.

Although the license granted under the Banking Act is a 'catch all' license', there are two tiers of the license where if your minimum unimpaired paid up capital is MVR 150,000,000 or more, then you have an unrestricted license but if your minimum unimpaired paid up capital is not less than MVR 60,000,000 then you may need additional approvals from the MMA before you engage in certain businesses.

4. Does a banking license automatically permit certain other activities, e.g., broker dealer activities, payment services, issuance of e-money?

The licenses issued to banks under the Banking Act allows for banks to carry out services that fall under the scope of the Banking Act. However, subsequent legislative regimes such as the National Payment Systems Act specify that banks who already have a license under the Banking Act do not need a separate license under the National Payment Systems Act. There are financial services which are regulated outside the scope of the Banking Act by the Capital Market Development Authority ("CMDA") under the Maldives Securities Act of 2006 and for such services that are covered under the Securities Act, if a bank wishes to carry out such services, then the bank would need to apply for a separate license from the CMDA.

5. Is there a “sandbox” or “license light” for specific activities?

The National Payment System Act is designed to give licenses to parties (other than registered banks) who wish to carry out payment services. Other than that, there are no ‘license light’ regimes for services that fall under the scope of the Banking Act.

6. Are there specific restrictions with respect to the issuance or custody of crypto currencies, such as a regulatory or voluntary moratorium?

Cryptocurrency is currently not recognized as a valid form of legal tender in the Maldives.

7. Do crypto assets qualify as deposits and, if so, are they covered by deposit insurance and/or segregation of funds?

Please refer to the response in Question 6 above.

8. If crypto assets are held by the licensed entity, what are the related capital requirements (risk weights, etc.)?

Please refer to the response in Question 6 above.

9. What is the general application process for bank licenses and what is the average timing?

Licenses are applied for in writing to the MMA. Said application has to be in the form prescribed by the MMA from time to time and must contain all requested information. The MMA prescribes different application forms and different informational requirements for the various categories of licenses available. Under the Banking Act (Law No 24/2010), the MMA has discretion to determine the procedures that it will use to evaluate applications for licenses.

The information submitted with the application for a license must include at least the following.

- An authenticated copy of the charter and corporate governance documents of the applicant, and of its audited annual balance sheets and profit and loss statements for the last three years.
- A description of the proposed capital funds of

the applicant, the sources of such funds and the amount that has been paid in. The MMA has discretion to require that the intended capital funds be deposited with the MMA, or another depository approved by the MMA, together with a certification that there is no encumbrance on such funds.

- The premises and the addresses at which the applicant proposes to do business, and the name under which the applicant intends to conduct its banking business.
- The names, places of permanent residence, business and professional backgrounds, and other biographical and financial data to be determined by the MMA, of each proposed major shareholder and administrator of the applicant.
- For each major shareholder and administrator, an affidavit duly signed by the individual stating any convictions for crimes or no conviction, and any involvement in a managerial function in an insolvent company or a company subject to insolvency proceedings, if any. The standard text for such affidavit may be determined by the MMA.
- A business plan describing the objectives and business activities intended for the proposed entity, including a description of its organizational structure and internal controls, including measures appropriate to counter money laundering and the financing of terrorism, together with projected balance sheets, profit and loss accounts and cash flow statements for the first three years of operations.
- In the case of an application by a foreign bank or bank holding company, or the subsidiary of such foreign bank or bank holding company, a statement from the foreign supervisory authority responsible for the prudential supervision of the foreign entity to the effect that it has no objection to the proposed establishment of operations in Maldives by the applicant. This statement shall also state that such authority will exercise consolidated supervision over the applicant.

In the case of an application by a bank holding company or bank to organize a domestic bank, the MMA must obtain detailed financial and operational information regarding the prospective licensee, in addition to the information listed above. This information must also include details of the major shareholders and administrators of the applicant bank or bank holding company. The MMA may use this information to

determine the following:

- that the ownership by the bank holding company or bank will not weaken the subsidiary bank but will bring financial and managerial resources that will benefit the domestic subsidiary bank; and
- that the major shareholders and administrators of the bank holding company or bank are fit and proper persons.

In the case of an application by a foreign bank to open a branch or representative office in Maldives, the MMA may request any additional information that it believes to be pertinent to the proposal. It can also request the applicant to provide financial and biographical information regarding the persons to be designated as branch manager or representative office manager, as the case may be.

Applications for licenses are to be accompanied by an application fee payable to the MMA in such amounts as the MMA may prescribe from time to time.

Applicants applying for a license are required to act expeditiously in providing the required information, as well as any other information requested by the MMA for the purposes of processing the application. If an applicant fails to complete their application filing requirements within three months of applying for the license, the MMA has the discretion to deem the application to have been abandoned and the application fee forfeited.

Within 3 months of receipt of the complete application, the MMA shall grant or deny the requested license.

10. Is mere cross-border activity permissible? If yes, what are the requirements?

Cross-border lending is not regulated by the MMA and therefore foreign banks, financial institutions or non-banks do not require any specific permits or licenses to provide financing to a company or party in Maldives. However, if a Maldivian entity based in the Maldives or an entity through an office in the Maldives provides services offshore, then that would be deemed a regulated activity.

11. What legal entities can operate as banks? What legal forms are generally used to operate as banks?

In the case of domestic entities, licenses are only

granted to companies that are registered under the Companies Act (presently governed under the new Law No 07/2023). In the case of branches or representative offices of foreign banks, licenses can be granted to companies that are registered under the respective companies acts of their jurisdiction of incorporation.

12. What are the organizational requirements for banks, including with respect to corporate governance?

The Regulation on Corporate Governance for Banks, Insurance Companies and Finance Companies (Regulation No. 2020/R-59) (the "Corporate Governance Regulation") sets out the corporate governance requirements for banks registered in the Maldives.

The Corporate Governance Regulation determines the composition and responsibilities of the board of directors, its committees, meetings and what must be discussed in its meetings.

The regulation requires the board of the banks to be an uneven number and consist of a minimum of 5 and maximum 15 members. The board should have a majority of non-executive directors and at least 1/4th of the board should be independent directors. The chairperson of the board shall be appointed from the non-executive directors. The board shall have the ultimate responsibility for inter alia the institution's strategic objectives, organizational structure, financial soundness and establishing the institution's corporate governance and risk management framework.

The regulation also determines the eligibility and role of senior management of the bank.

With regards to disclosure and transparency, the Corporate Governance Regulation requires financial institutions to include a corporate governance report within its annual report, which shall include but not be limited to the following:

- The financial institution's compliance to applicable legislative and regulatory requirements, including details of any deviation from applicable requirements with reason;
- Names of each member of the board, identifying whether they are an independent director, non-executive or executive director, as well as information on other directorships held by the member;
- Number of board and board committee meetings held during the financial year, along with the remuneration paid to each member

of the board, and the attendance details of each board member; and

- Statement on the risk management and internal control systems of the financial institution.

13. Do any restrictions on remuneration policies apply?

The Banking Act states that the remuneration of the members of the board of directors shall be set by the shareholders in a general meeting. It does not however provide a restriction on the level of remuneration.

Separately, the Corporate Governance Regulation states that the board shall set an “appropriate remuneration” framework for the members of the board and the senior management.

14. Has your jurisdiction implemented the Basel III framework with respect to regulatory capital? Are there any major deviations, e.g., with respect to certain categories of banks?

The Basel III framework has not yet been implemented in the Maldives.

15. Are there any requirements with respect to the leverage ratio?

Pursuant to the Regulation on Capital Adequacy (Regulation No. 2015/R-166), the minimum acceptable leverage capital ratio is 5%. However, if a bank is pursuing or experiencing significant growth, has an inordinate level or risk and/or inadequate risk management systems, or less-than-satisfactory asset quality, management, earnings or liquidity, a higher minimum may be required.

16. What liquidity requirements apply? Has your jurisdiction implemented the Basel III liquidity requirements, including regarding LCR and NSFR?

Effective from 3rd June 2021 following the lifting of the temporary concessions allowed in response to the COVID-19 pandemic, the minimum reserve requirement for local currency deposits is currently maintained at 10%.

17. Do banks have to publish their financial

statements? Is there interim reporting and, if so, in which intervals?

Each bank shall publish, in a newspaper of general circulation, its audited financial statements, including consolidated financial statements, if applicable, within 4 (four) months after the end of the financial year. And such financial statements shall be displayed in a prominent location in its head office and branches, together with a list of the names of the members of its board of directors. The financial information can also be made available on the bank’s local website.

Banks are subject to interim reporting in quarterly intervals for tax purposes.

18. Does consolidated supervision of a bank exist in your jurisdiction? If so, what are the consequences?

Pursuant to the Banking Act, the MMA supervises banks on a consolidated basis or where that is not possible, then on such other basis as the Authority may determine in the following manner:

- The MMA may at any time cause an on-site examination of a bank to be made by one or more officers of the MMA, or by any other person or persons appointed by the MMA for the purpose of determining the condition and performance of the bank, the adequacy of management and the board’s policies for managing risk, and the extent to which it complies with the provisions of laws and regulations regarding the management of its activities, and any other matters deemed relevant by the MMA;
- The MMA shall make an on-site examination of all banks on a regular basis, at intervals not exceeding 2 years;
 - The MMA may request that banks provide and corroborate in writing when necessary, any additional information, documents or proof;
 - Any person authorized to carry out an examination shall be subject to confidentiality requirements and may require any administrator, officer, employee or agent of a bank, or its subsidiaries or affiliates, to provide access to all necessary books, accounts, documents, and records. The bank shall furnish the requested information to the bank examiner

- in a timely manner;
- Bank examiners shall prepare a report based on the results of the examination and shall submit the report to the MMA and to the board of directors of the bank.

19. What reporting and/or approval requirements apply to the acquisition of shareholdings in, or control of, banks?

Pursuant to the Banking Act, any person, acting directly or indirectly or in concert with other persons who propose to become a major shareholder in a bank shall obtain approval of the MMA prior to acquiring the shares. Further, any major shareholder, acting directly or indirectly or in concert with other persons, who proposes to increase an existing holding in a bank in a manner that would reach or exceed a threshold of 20%, 33% or 50% of the bank's capital or voting rights shall also obtain the approval of the MMA prior to the acquisition.

The MMA shall not approve the proposed acquisition if in its discretion, it concludes that it would substantially lessen competition, jeopardize the financial stability of the bank or prejudice the interests of its depositors.

20. Does your regulatory regime impose conditions for eligible owners of banks (e.g., with respect to major participations)?

In determining whether a license shall be granted, the MMA shall inter alia take into consideration the following:

- The financial history and status of the applicant, proposed major shareholders and administrators;
- The character and professional experience of its major shareholders and administrators as fit and proper persons;

Each license granted shall further be subject to certain requirements which include the following:

- The representations and statements made by the applicant, its major shareholders, administrators and any other persons acting on its behalf in connection with the license application shall be accurate and truthful.
- Each person who will be a major shareholder or administrator of the licensee shall at all times be fit and proper for the intended position.

21. Are there specific restrictions on foreign shareholdings in banks?

Following the new Foreign Direct Investment Policy, which came into effect in 2020, express provision has been created for 100% foreign held companies to be allowed to incorporate and provide banking and related services. There continues to however still be a requirement for at least two shareholders and at least one resident to sit on the board of directors.

22. Is there a special regime for domestic and/or globally systemically important banks?

The Banking Act applies only to banks with a domestic presence. It does not extend to globally systematically important banks.

23. What are the sanctions the regulator(s) can order in the case of a violation of banking regulations?

Where a bank is in breach of the Banking Act, the MMA may take one or more of the following actions, as appropriate to the respective violation(s) in question:

- Send a written warning to the bank;
- Enter into an informal agreement with the bank regarding measures to be taken to correct the violations and establishing a time schedule for accomplishing such action;
- Give orders to the bank to cease and desist from particular actions, or requiring the bank to take affirmative action to correct the violations;
- Require the bank to submit a detailed description of remedial measures that it intends to take or that it has taken to eliminate the violations;
- Require the board of directors to inject additional capital funds within the time period acceptable to the MMA or in the alternative, require the board to submit a plan acceptable to MMA for increasing capital to a level specified by MMA;
- Require the bank to cease some of its operations;
- Bar the bank from declaring or paying any cash dividends or distributing profits to any person;
- Impose any restriction or prescribe conditions on the granting of credit;
- In addition to any minimum balances of

reserves stipulated in the Maldives Monetary Authority Act 1981 and other legally required deposits, require the bank to deposit and maintain balances with the MMA for a period of time and on such terms as deemed appropriate by MMA;

- Require the chairman to convene the board of directors to review and examine the violations;
- Require the bank to hire, for a period of time and under conditions specified by MMA, an advisor who shall have authority to make decisions or disapprove actions proposed to be taken by the bank regarding the sale, disposition or transfer of the bank's assets, the loan or investment of the bank's funds, the undertaking of any debt, obligation or liability and the payment of dividends;
- Require the bank to temporarily or permanently remove from office the managing director, any other executive director or the designated branch manager;
- Require the bank to remove the chairman or any of the members of the bank's board of directors;
- Dissolve the bank's board of directors and appoint a conservator to assume responsibility for managing the bank;
- Impose an administrative penalty on the bank in an amount between MVR 10,000 and MVR 100,000 on a daily basis. The total aggregate of the penalty shall not exceed 5% of the bank's paid up capital;
- Impose an administrative penalty on one of more administrators of the bank in the event that the MMA determines that such administrators are responsible for the existence of the violations; or
- Revoke the bank's license.

24. What is the resolution regime for banks?

There are no detailed bankruptcy or insolvency laws in the Maldives except for the provisions of voluntary or court enforced liquidation processes as outlined in the Companies Act.

However, the Banking Act states that the MMA shall open bankruptcy proceedings against a bank in one or more of the following grounds, which shall be submitted to the court:

- The bank is not paying its financial obligations, including deposit liabilities as they fall due, and no liquidity support acceptable to

the MMA is available;

- The core capital of the bank is less than 2% of the gross assets of the bank, and no recapitalization plan acceptable to the MMA is available; or
- The bank is no longer viable and the MMA determines that no realistic means exist to return the bank to a viable condition within a reasonable time.

25. How are client's assets and cash deposits protected?

The Deposit Insurance Scheme Regulation requires all deposit taking banks to be a member of the scheme. Pursuant to this Regulation, insured deposits of member banks shall consist of current, time and savings deposit liabilities, as well as similar deposit liabilities accepted under Islamic banking norms, up to MVR 30,000 or its equivalent in foreign currency deposits per depositor out of his total deposits at each member bank. The following deposit liabilities shall not be insured:

- Deposit liabilities to member institutions;
- Deposit liabilities to the Government including Ministries, Departments;
- Deposit liabilities to shareholders, directors, key management personnel and other related persons as defined by MMA;
- Deposit liabilities held as collateral against any accommodation granted.

26. Does your jurisdiction know a bail-in tool in bank resolution and which liabilities are covered? Does it apply in situations of a mere liquidity crisis (breach of LCR etc.)?

Yes. In the interests of preserving the soundness of the banking system and to maximize the value of a bank for its creditors, the receiver appointed may obtain the Court's approval to transfer all or substantially all of the shares in capital stock of the bank or transfer all or substantially all of the assets, liabilities or both of the bank. The same applies in a situation where there has been a liquidity crisis and the bank does not have the liquidity support which is acceptable to MMA.

27. Is there a requirement for banks to hold gone concern capital ("TLAC")? Does the regime differentiate between different types of banks?

Yes. Tier 2 capital includes year-to-date earnings (or

losses), undisclosed reserves, asset revaluation reserves (if allowed by MMA and consistent with applicable accounting standards), general loan loss provisions (limited to 1.25% of risk-weighted assets), subordinated term debt (limited to 50% of Tier 1 capital) and hybrid debt-equity capital instruments. This regime does not differ between different types of banks.

28. In your view, what are the recent trends in bank regulation in your jurisdiction?

Whilst there have not been significant changes to the legal and regulatory framework in the banking and finance sector, in August 2023, the MMA introduced an innovative Instant Payment System called “Favara” in the Maldives. This system is designed to revolutionize the speed and convenience of money transfers for both individuals and businesses. Designed to be accessible through the respective banks’ e-wallets, internet banking, and mobile banking applications, Favara allows users to swiftly transfer up to a maximum of MVR 50,000 (around USD 3,200) in a single transaction. As of the date of this publication, Bank of Maldives, Maldives Islamic Bank and the State Bank of India offer Favara payment services.

In line with these initiatives, the MMA also initiated a request for proposal for the drafting of an electronic Know Your Customer (e-KYC) regulation and related guidelines. The drafting of the regulation is believed to be underway, and the eventual implementation of this regulation will undoubtedly bring substantial benefits to

the banking sector. It will streamline client onboarding processes, reduce the reliance on manual paperwork, and enhance convenience and security for clients. Biometric authentication methods, such as facial recognition, would be welcome to mitigate fraud risks and ensure banks’ compliance with regulatory requirements.

29. What do you believe to be the biggest threat to the success of the financial sector in your jurisdiction?

Whilst there was a slight increase in the lending activities from local banks in 2023 compared to 2022, the rate of loan growth still falls short of meeting the increased appetite in the Maldivian borrower market. This has allowed private borrowers in Maldives to explore opportunities from elsewhere bringing in new players to the lenders’ market. This has created room for banks with foreign branches in Maldives to step in, recording a significant growth in their loans and a diversification of their lending portfolio, with the local market having recently witnessed certain Singaporean banks grant their first green loan in Maldives for the development of tourist establishments.

On a separate note, the enforcement of debt and enforcement of mortgages through the courts still remain a very time-consuming process and whereas recent developments and progress of the judicial sector has resulted in quicker resolution of disputes, the delay in enforcing judgement debts and mortgages remain a major difficulty for banks seeking to enforce against borrowers in the Maldives.

Contributors

Mohamed Shahdy Anwar
Managing Partner

shahdy@sandalawyers.com



Fathimath Lamaan
Counsel

lamaan@sandalawyers.com

