

R Basant Roi: A central banker's piece of advice to bankers

Address by Mr R Basant Roi, Governor of the Bank of Mauritius, at the official inauguration of the New Co-operative Bank Ltd, 9 August 2002.

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The Rt Hon Prime Minister
Hon Deputy Prime Minister and Minister of Finance
Hon Ministers
Chairman and Members of the Board of Directors of New Co-operative Bank Ltd.
Ladies and Gentleman

Good Afternoon

I am privileged to address this audience of bankers and representatives of co-operative societies on the occasion of the official inauguration of the New Co-operative Bank Ltd.

Nearly a hundred and forty years ago, in December 1863, the Comptroller of Currency and later Secretary of the Treasury of the United States addressed a letter to all national banks that had just come into operation. Retrospectively, I strongly believe that this is rightly an occasion for me to quote 7 very short paragraphs from the nearly 140-year old letter, more so as I recognise a good number of bankers and representatives of co-operative societies in this audience. Each of the seven paragraphs that I am about to share with you remains invaluable pieces of advice to bankers - even after nearly 140 years.

First advice

“Let no loans be made that are not secured beyond a reasonable contingency. Do nothing to foster and encourage speculation. Give facilities to legitimate and prudent transactions. Make your discounts on as short as the business of your customers will permit and insist upon the payment of all paper at maturity, no matter whether you need the money or not.”

Second advice

“Distribute your loans rather than concentrate them in a few hands. Large loans to a single individual or firm, although sometimes proper and necessary, are generally injudicious and frequently unsafe. Large borrowers are apt to control the bank; and when this is the relation between a bank and its customers, it is not difficult to decide which in the end will suffer.”

Third advice

“Treat your customer liberally, bearing in mind the fact that a bank prospers as its customers prosper, but never permit them to dictate your policy.”

Fourth advice

“If you doubt the propriety of discounting an offering, give the bank the benefit of the doubt and decline it; never make a discount if you doubt the propriety of doing it. If you have reasons to distrust the integrity of a customer, close his account. Never deal with a rascal under the impression that you can prevent him from cheating you. The risk in such cases is greater than the profits.”

Fifth advice

“Pay your officers such salaries as will enable them to live comfortably and respectably without stealing; and require of them their entire services. If an officer lives beyond his income, dismiss him; even if his excess of expenditures can be explained consistently with his integrity, still dismiss him.”

Extravagance, if not a crime, very naturally leads to crime. A man cannot be a safe officer of a bank who spends more than he earns.”

Sixth advice

“The capital of a bank should be a reality, not a fiction; and it should be owned by those who have money to lend, and not by borrowers. The Comptroller will endeavour to prevent, by all means within his control, the creation of a nominal capital by national banks, by the use of their circulation, or any other artificial means; and in his effort to do this, he confidently expects the co-operation of all well managed banks.”

Seventh advice

“Pursue a straightforward, upright, legitimate banking business. Never be tempted by the prospect of large returns to do anything but what may be properly done under the National Currency Act. ‘Splendid financiering’ is not legitimate banking, and ‘splendid financiers’ in banking are generally either humbugs or rascals.”

These are the seven chief mantras of good banks and good bankers. They are atemporal - indeed timeless. They were valid more than century ago; they are valid today and they will continue to remain valid.

The New Co-operative Bank Ltd is starting operation. A note of caution is appropriate on this occasion. Never attempt to grow big too fast. Make sure that all loans are adequately and legally backed by valid securities - whether the loans are made to co-operative societies or to individuals. When a bank lends few thousands of rupees it is the borrowers’ headache to repay the loan; when it lends millions of rupees it is not the borrowers’ headache but the bankers’ headache to recover the money lent out. A small bank with a healthy and sound balance sheet is stronger than any big bank with a weak balance sheet.

I seize this opportunity to reflect on one particular aspect of the way policy decisions in some banking enterprises are made in Mauritius. Of all the five revocations of banking licences in Mauritius, three were clearly motivated by problems the roots of which were found at the level of Boards of Directors. Members of the Boards of Directors obscenely took advantage of their positions to influence imprudent credit decisions making. The Bank of Mauritius issued 9 Guidelines to the banking industry so far. Two more Guidelines have been issued to the industry for consultations. The Guidelines on Corporate Governance, effective June 2001, and on Related Party Transactions, effective January 2002, put the roles and responsibilities of Boards of Directors of banks in the right perspective. The Guidelines, as I said in my address to the private sector in November last, are not obituaries but principles that should be adhered to by the Boards of Directors of all banks, including the Board of Directors of the Bank of Mauritius. The quiet and sybaritic lives of Board members are over.

The Banking Supervision Department of the Bank of Mauritius is already assisting the staff of the New Co-operative Bank Ltd to come to grips with all the Guidelines. I urge all the Co-operative entities to familiarise themselves with the Guidelines in order to understand and fully appreciate the new regulatory environment in which the New Co-operative Bank Ltd is expected to operate.

May I wish the New Co-operative Bank Ltd the very best of success.

Thank you.