

## **R Basant Roi: Treasury and risk management**

Address by Mr R Basant Roi, Governor of the Bank of Mauritius, at the Financial Markets Association of Mauritius workshop on treasury and risk management, 10 September 2003.

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President and Members of the Financial Markets Association of Mauritius

Ladies and Gentlemen

Good morning.

Thank you Chairman for the invitation to briefly address this gathering of financial market participants this morning at the opening ceremony of the Treasury and Risk Management Workshop. As far as I recall, this is the first time that such a Workshop is being organized by your Association for the benefit of its members and for professionals involved in Treasury and Risk Management.

Since the breakdown of the Bretton Woods system in the early 1970s treasury management has assumed an increasingly greater importance in our economic life. With the globalisation of financial markets treasury management has become more demanding than before. Until five years ago Treasury management was not assigned the same importance that ought to have been given by corporate bodies in Mauritius. It is absolutely essential that in today's world efficient treasury management occupies a seat of importance in the management of enterprises. I congratulate your Association for having taken the initiative to hold this workshop. I strongly believe that we should keep ourselves abreast of the latest developments in asset and liability management, risk management techniques and derivative instruments. This workshop is positively a first step forward.

I would first and foremost like to make an observation. Treasury management is not specific to banks and other financial institutions. It does concern all of us who are in the business of managing financial resources in a globalised financial market. Enterprises producing goods and services, exporters, importers or any other economic agent that has got to manage its finance necessarily requires expertise in treasury management. In 1999, I was surprised to learn that an exporter with a turnover of over Rs2 billion did not have any expertise at all in managing its own finance. In a world economy characterized by stiff competition, every enterprise needs to be good in treasury management. In the last few years I have stressed a lot on good corporate governance as the basis for best business practices and highlighted the urgency for restructuring and consolidation of individual firm so as to enhance micro-economic efficiency.

Traditionally much of the knowledge and skills of professionals in the wholesale financial markets has been learned on the jobs. This approach has varied from the simple "Sit, watch and learn" approach to the sophisticated mentoring system used by some large financial Institutions. Today treasury operations have grown into one of the key administrative areas of financial institutions, responsible for the processing of all financial market transactions, including a crucial role in the control of risk.

Professionals constantly have to re-tool, re-equip and fully update themselves to meet the exigencies of the marketplace. With so much of innovation and technological progress taking place in the world of finance, there is no place for players having limited skills and knowledge in treasury management. The market punishes those who lag behind. One of the challenges in treasury management is to keep abreast of latest techniques and trends in the marketplace and make the most out of them. The biggest challenge for most of our market participants remains the interpretation of economic indicators, changes in policy signals and predicting the course of economic events that affect financial markets. It's tantamount to becoming good crystal ball readers in the money and foreign exchange markets.

Treasury Management is also the Management of Risks. With the globalization of financial markets, financial institutions around the world are exposed to a multiplicity of risks. Movements in the rates of interests and volatility of exchange rates in an increasingly complex environment have made the process of managing risks a critical aspect of treasury management. May I however state that my recent experience in the domestic financial market tends to suggest that our treasury managers seem to be acquiring expertise in predicting changes in the interest rate policy stance of the Bank of Mauritius. But a very limited number of treasury managers seem to be able to foresee at times movements in exchange rates. This is quite understandable; it is not in the realm of mortals like us to accurately predict exchange rate movements.

Credit risks, market risks, exchange risks, payment and settlement risks and so on and so forth are all risks that textbooks teach us how to mathematically measure. Textbooks also teach us the various ways and means of protecting against risks. Operational risk however is a type of risk that no financial institution has ever been able to guard itself against. No financial institution or any other enterprises, in particular treasury management units in any of these organizations, should ever dare to overlook operational risks. It is worth stating that many of the lessons learned from those headlines cases cited violations of the fundamental tenets of internal control, particularly those pertaining to operational risks. Lately we have observed that some institutions have been reviewing their treasury operations. The Bank of Mauritius views these undertakings as positive moves towards improving efficiency in management.

In any treasury management unit it is essential to have a modularly flexible treasury system, which can adapt to the conditions of a fast moving market. One of the basic tenets for the treasury unit in a bank is the strict segregation of duties and location between the front, middle and back office, the latter controlling confirmation and settlement transactions. You can trust neither your subordinates nor your superiors. Errors can be expensive. Correct your errors. If you do not do so, your errors become fatal mistakes in treasury management.

The events of the past two years demonstrate how quickly a corporation's reputation can be tainted by accusations of inappropriate activities or lack of attention to regulations. Success in banking still is heavily dependent on winning and keeping the trust of customers, employees, and the public at large. When corporate reputations are tainted, it does take time to rebuild customer and community relationships.

Last year I met with one of the foreign exchange dealers at a reception. I told him that he was taking too much time to become a market maker in our money and foreign exchange markets. Pat came the reply from your friend that Rome was not built in a day. It took time to build Rome. I listened and did not utter any single word. This is an appropriate time for me to respond to that statement. Yes, it did take time to build Rome because they did not have the technology. You have the technology. Go ahead and develop skills in market making. It will serve all of us to have good market makers in our financial system.

I am aware that the experts from the Republic of South Africa are competent persons and I trust they will do an excellent job. I wish all my good friends from the Financial Markets Association of Mauritius here the very best of success in their endeavours.

Thank you