

R Basant Roi: Improving loans quality in Mauritius

Address by Mr R Basant Roi, Governor of the Bank of Mauritius, at the opening of IOIB branch, Curepipe, 25 May 2006.

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Hon. Deputy Prime Minister and Minister of Finance and Economic Development
Chairman of the Board of Directors and Chief Executive of IOIB
Ladies and gentlemen

Good Afternoon

I am extremely happy to be here with you on this special occasion marking the opening of the Curepipe branch of the IOIB.

May I, to begin with, express my personal appreciation to the Board of Directors of the IOIB and the SBI team for having successfully met the various challenges that confronted them at the time of the take over of the bank last year. The new management of the bank was faced with the task of putting in place a robust policy framework including solid internal control systems and procedures and filling gaps in the overall management structure of the bank. Declining level of deposits, advances and profitability, skewed asset level with low yielding investments accounting for more than 60 per cent of the asset book, high cost of funds with fixed deposits accounting for over 65 per cent of total deposits, absence of investment friendly products, extremely high level of non-performing assets and total absence of any system of target setting and performance review. These were conditions in which the bank was operating in the very recent past.

Worst, a constellation of obscure forces, known only to a few, militated against those who were really determined to bring the bank to safe haven. The regulator and a few faithful board members of the bank sailed against the strong wind. I am personally very happy to see that the Board of Directors of the bank and the SBI team have brought about a dramatic improvement in the balance sheet of the bank in the first year of its operation.

On an annual basis, the deposit base of the bank grew by 21 per cent, advances by 55 per cent and its total assets by 50 per cent. Profit before tax Rs34 million; profit after tax Rs24 million. The ratio of gross NPA to gross advances fell from nearly 27 per cent in June 2005 to nearly 17 per cent in March 2006 – that is, by 10 percentage points. The ratio of net NPA to net advances has fallen from 16 per cent to 9 per cent and is expected to go down to around 3 per cent by March 2007. Without an iota of doubt, this is really an impressive performance.

I have found it appropriate to mention these figures for one basic reason: the prime concern of any regulator is not to close a bank for the wrong reason but to save an ailing bank from collapsing. The regulator's challenge is to turn an ailing bank into a really good and performing bank. In this challenge the Board of Directors of the IOIB and the SBI team have played an instrumental- indeed a decisive- role.

Non-performing loans in the books of banks are an animal that the Bank of Mauritius has been combating since July 1999. One of the many reasons that motivated the Bank to combat this animal in the balance sheets of banks is the need to prevent lending rates of banks from rising inordinately. You will appreciate that the bigger is this animal in the books of banks the higher the lending rates. Good and productive borrowers pay for bad borrowers. And lending rates have never been generous in Mauritius. You may wish to note that in 1999 housing loans made by banks carried an interest rate of between 14 and 15 per cent. Today such loans carry interest rates that are below 10 per cent. I suspect the reduction in the size of non-performing loans in the books of most banks has had some positive impact on the level of lending rates. Hopefully with the reduction of non-performing loans on an industrywide basis would eventually help bring down lending rates in Mauritius thereby alleviating interest cost burden to the real sector of the economy.

Prospects for improving loans quality are bright more so when there are 900 to 1000 queries per day by banks at the Mauritius Credit Information Bureau. Only yesterday I was given to understand that a habitual delinquent borrower had applied for additional credit facilities from a bank. Rather than obtaining an additional credit facility, the delinquent borrower was made to repay a large chunk of his debt – thanks to information culled from the Mauritius Credit Information Bureau.

I am confident that the IOIB along with all the other banks operating in the country would successfully bring down the level of nonperforming loans thereby creating scope for bringing down lending rates to realistic levels. The IOIB, in particular, has made important strides in this area. May I wish the Board of Directors, the management and the staff of the bank the very best of success in their new endeavour.