

## **Rundheersing Bheenick: Developing banking technology in Mauritius**

Remarks by Mr Rundheersing Bheenick, Governor of the Bank of Mauritius, at the launch of the “New Business On Line” project by Standard Bank, Port Louis, 20 May 2009.

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Good evening, ladies and gentlemen

It is my pleasure to be here at this Product Presentation as you prepare to roll out the “New Business On Line” project in Mauritius. You operate in a very competitive environment and it is quite appropriate that you should always be on the lookout to extract every inch of competitive advantage that you can from having a state-of-the-art technology platform and thus strive to stay ahead of the field. How I wish I could say as much for my own institution!

If you had to contend with the built-in inertia and resistance to change existing practices and structures, that I have encountered, you would not be rolling out this world-class technology to the domestic corporate and institutional market. You would not be coming with the technological enhancements that make Mauritius more attractive to Multinationals with centralised African Regional Hubs and Shared Service Centres. Your product will stimulate the flow of foreign capital into the country, by creating a new banking environment that provides increased choice, control, security and accessibility.

We all know how critical it has become to transform the physical flow of funds to an electronic delivery channel without undermining the security and confidence of the banking public. And, at the Central Bank, we are acutely conscious of the role of a smooth functioning payment system to the effective functioning of the economy.

Since Standard Bank started operations here in Mauritius in November 2001, it has made significant progress. Its asset base (2008) now stands at around USD850 million and its total deposits amount to USD745 million, having almost doubled over the last two years.

Standard Bank has been a pioneer when it comes to adapting its business model to the rapidly-changing market conditions. In 2006, it became the first offshore bank as they were then called, to shift to universal banking. Its new strategy comprised two main elements, namely (i) international corporate and investment banking (ii) domestic corporate and investment banking, with appropriate treasury/global market and private banking.

Since then, the bank has launched several initiatives such as (i) provision of global custody services to foreign offshore funds and private equity funds, (ii) the establishment of a private banking suite, and (iii) the launch of internet banking platform for wealth management and private banking clients. I understand that this “New Business On Line” project of your bank forms part of a broader plan of Standard Bank Group encompassing the African region to provide an enhanced service to the Group’s corporate and institutional clients.

And, in terms of initiatives, there was the coup d’éclat when the Group became the first to partner with a major Chinese bank, namely Industrial and Commercial Bank of China (ICBC) to support its strategy to expand its African and international networks and capabilities, including in China. And they did this before the global financial sector got embroiled in the current turmoil.

The Bank of Mauritius has every reason to be satisfied with the performance of Standard Bank in our country. We value your contribution to our regular dialogue with the Mauritius Bankers’ Association. We are currently engaged in a sustained dialogue with your bank regarding the development of the domestic bond market, an area where Standard Bank has made a big contribution in Africa. It is no coincidence that Standard Bank Mauritius was nominated for several awards by the 2009 Euromoney Private Banking and Wealth Management survey. I wish to commend your bank for being at the forefront of innovation.

## **Role of ICT and online banking**

We all know the pivotal role that Information and Communication Technology plays in business development. The ability to transfer information through shared electronic files and computer networks considerably enhances business efficiency and lowers transaction costs. We recognize that our banks have been investing heavily in technology. Most of them have developed sophisticated information systems to support their operations. It seems now that they are waking up to the call of e-networking – following the example of our youngsters who now develop social ties through Facebook. On a more serious note, the creation of networks through ICT has tremendous advantages from an economic perspective. By rapidly increasing firms' networks, ICT is able to reduce the gap between more established businesses and newcomers. Online banking bridges the distance between geographically remote locations, creating new business opportunities. It is an imperative in the era of financial globalisation.

## **Risks**

Online banking presents a wide range of potential risks and has led to heightened concerns about the vulnerability of bank and electronic payment systems. These concerns cannot be overemphasised – the lack of trust in e-business processes and legal protection with regard to confidentiality of data and transactions can be a major constraint to the adoption of this alternative way of doing business. This is why we, as regulator, consistently insist on the need for financial institutions to properly ascertain the vulnerabilities and threats potentially affecting individual online systems, and to establish compensating internal controls with a view to mitigating those risks. We need to have robust systems that would ensure integrity of online transactions and backup mechanisms in case of failure.

The smooth functioning and confidence in the payments system are areas that are very dear to a regulator's heart. Indeed the extent of that confidence determines to a large extent the decision of investors and businesses on where to place their funds or to locate their company's ventures.

Therefore all initiatives geared towards ensuring a modern, efficient and safer banking environment are most welcomed. In fact, innovation, whether in the banking sector or elsewhere, is subject to important network externalities. To illustrate the point I am making here, let us take the example of the *TGV (Train à Grande Vitesse* – high speed train) having to share rail networks with an old-fashioned steam engine train. It probably would not get very far and run the risk of damaging the whole rail network. In the same way innovation by an individual bank is greatly enhanced if everybody else is innovating, not least the regulator. The global financial crisis has very clearly exposed the dangers of the failure of regulators to keep abreast of developments taking place in the financial arena.

The Bank of Mauritius is fully aware that it has a role to play in supporting innovation by individual banks. It has also been active on this front with a heightened role in the area of regional integration. Central banks' concerns are however of a different nature. Central banks look at the critical role of a smoothly functioning payment system in maintaining financial stability and in promoting the orderly and balanced development of the economy. The Bank initiated a number of projects, regrettably those projects have been unduly stalled – for reasons that I would not wish to evoke here. However I will give you an overview of the changes that the implementation of those projects would have brought to the payments, clearance and settlement system in our country.

## **REPSS**

As cross-border trade grows, the increased volume of transactions and migration to open account terms, that is, supplier credit extended to buyer at time of sale, are exerting pressure

on banks as well as on the payment systems to improve the cross-border payment process. The current system of cross-border trade payments handled through correspondent banking relationships is slow, inefficient and costly for banks and businesses. Improvements require significant investments in terms of changed processes and systems. In this context, the COMESA Clearing House was mandated to implement a system to facilitate cross-border payment and settlement between Central Banks in the COMESA region. This system, named "Regional Payment and Settlement System – REPSS" will provide a single gateway for Central Banks within the region to effect payment and settlement of trades. It will be a complete real-time online system with an open, published interface based on S.W.I.F.T standards.

The main aim of REPSS is to stimulate and increase intra-regional trade by enabling importers to pay for goods and services in their local currency, whilst exporters will be able to invoice for their products in their local currency. Local banks will access the payment system through their central banks. Any participating bank will, therefore, be able to make payments to, and receive payments from, any other participating bank. The linkages through central banks will avoid the complex payment chains that may sometimes occur in correspondent bank arrangements. The system will use the infrastructure of each member country's central bank and commercial banking system to make it operational. Each country will, however, need to put in place adequate enabling legislation. In addition, a Trust Fund will be established to assure daily settlements in the event of an inability to settle by one or more participating banks.

The cornerstone of the REPSS operational model is a settlement agent which will hold accounts of participants and carry out end-of-day procedures. At the Twelfth Meeting of the COMESA Committee of Governors of Central Banks held in Tripoli on 8 and 9 November 2007, it was decided that a REPSS participating Central Bank acts as the Settlement Agent for the COMESA Clearing House (CCH) and opens a CCH USD and a CCH EURO account at its Central Bank. In this context, the Bank of Mauritius has been designated to act as Settlement Agent for the CCH and relevant EURO and USD accounts are being opened for participating member central banks. When we recall that COMESA is a grouping of 19 countries, with a population of 425 million, a GDP of USD345 billion, and an external trade of USD200 billion, you wonder why we at the Bank of Mauritius have had so much difficulty in getting equipped to deliver on this commitment.

## **Cheque Truncation**

The Bank of Mauritius has embarked on the modernisation of the clearing and settlement of cheques in the country through a system called truncation. This process enables clearing to be achieved in a more speedy and secure manner through images of cheques instead of the physical movement of cheques to the Clearing House for exchange.

The modernisation of the cheque clearing and settlement process started in November 2002 when all cheques issued by banks were standardised and the use of Magnetic Ink Character Recognition cheques was introduced. Since then, banks started exchanging code lines through the Mauritius Automated Clearing and Settlement network. The project on Cheque Truncation was first discussed at the Port Louis Automated Clearing House Committee in September 2005 and a Steering Committee was set up in August 2006 for the project implementation.

It was initially envisaged to develop the application for image based cheque clearing at the Bank. However, given the resources required to develop such a system and the fact that a number of Cheque Truncation System applications existed on the market, it was decided in April 2008 to purchase an off-the-shelf solution. The Request for Proposal was prepared and the Bank organised an international competitive bidding process where suitably qualified vendors were invited to bid for the project in June 2008.

While all this was happening – some skeptics might say, while nothing was actually happening – the value of cheques cleared has been steadily rising from Rs187 billion to reach Rs254 billion last year. What this means is that some five million transactions that could have been done instantly now take three to five days to be cleared in a very inefficient and antiquated matter. That is the heavy price that all of us in Mauritius, banks, customers, economic operators have paid needlessly. It is a matter of regret for me that we are lagging behind, while Bank Negara Malaysia which started the same project in 2006, has already implemented it in 2008. Closer to us, Botswana and Madagascar already have Cheque Truncation as part of their payment systems.

### **Modernisation of MACSS**

The MACSS, a real time gross settlement system, provides the means for real time interbank payments and is used to settle cheque clearing positions of the Port Louis Automated Clearing House for the final settlements of the Contribution Network Payment to the accounts of the Mauritius Revenue Authority and for settlements for the Central Depository System.

The pressing demands of the growing financial sector and increasing cross-border transactions poses new and complex challenges to the current payment system infrastructure. The need for a more dynamic, flexible and business-friendly payment system capable of better resisting systemic shocks and providing for international exposure is increasingly felt. In that respect, the Bank has decided to replace the existing MACCS application with new application based on best international practice and built on a more resilient architecture, supporting multi-currency transactions with extended settlement windows and providing for low cost messages. The core application is operational as from 14 January 2009 and all advanced features will soon be implemented.

### **Online reporting and monitoring system**

The Bank sees also a need to enhance the data collection, collation and dissemination process by developing an online application available across banks. Banks currently report information to the Bank through mails or hardcopy documents. Recognising the drawbacks of the existing system, the Bank decided to launch the Central Database System (CDS) initiative in July 2007 designed to bring all data used for analysis and decision making into a single repository. The CDS would also provide a Customised Dashboard for Management to retrieve crisp information for decision-making purposes. The CDS initiative would also be extended to licensed Cash Dealers and moneychangers with a view to exercising a closer monitoring of the market.

Our efforts to modernise the payments, clearance and settlement system have taken many twists and turns over the last two years. My determination to push these projects through has not flagged. And this must be done; and must be done fast, in the interests of the efficiency of the banking sector and of the economy generally. The new platform of Standard Bank serves both as an encouragement and a reminder for us that status quo is definitely not an option in this rapidly-changing world.

I therefore congratulate Standard Bank for yet another milestone and wish you every success with this new suite of products. I hope it will help you to live up to your promise to deliver corporate and business banking “at your [client’s] finger tips with its 24-hour availability, anytime, anywhere..... and access to... entire... banking portfolio(s) across products, countries and currencies” and all this with a single login.

Thank you for your attention.