

Rundheersing Bheenick: Strong regulatory measures... the prerequisites for banks to do business, stay in business, thrive in business

Address by Mr Rundheersing Bheenick, Governor of the Bank of Mauritius, at the Annual Dinner of the Mauritius Bankers Association, Port Louis, 6 June 2013.

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I am delighted to be in your midst this evening. Thank you for your kind invitation to say a few words on the occasion of the Annual Dinner of the Mauritius Bankers Association (MBA). It is indeed a great honour for me. Those of you who were present, the week before, at the function during which I granted Barclays Bank Mauritius Limited its banking licence, would remember that I had highlighted that there was a gap of two generations between the Bank of Mauritius (Bank) and Barclays. Tonight we are on an equal footing – the MBA and the Bank are both 46 years old – and the occasion is very auspicious for a man-to-man chat.

Tonight's function demands that I touch upon the relationship between the central bank and commercial banks. Almost two decades ago, a Fed Governor¹ observed that the relation between commercial banks and the central bank is an important and far-reaching one, with potentially significant implications for a country's economic performance. I quote from his address: *"...a nation's commercial banks and central bank are reflections of each other. They are likely to succeed or fail together. A healthy, efficient banking system goes hand-in-hand with a dependable, independent central bank. The activities of both are inextricably intertwined, and the institutions undeniably share a commonality of interests."* How relevant such a statement is in our current environment!

Tonight we are here to celebrate the strong bond of partnership that exists between the MBA and the Bank and for which we have every reason to rejoice. In 2007, a month after I had joined the Bank, I chaired my first Banking Committee Meeting. At the time, there were the CEO's of 17 banks sitting around the table and of course, our Chief Executive of the MBA. Since then, four banks have joined in, AfrAsia Bank, ABC Bank, Century Bank and Banyan Tree Bank. So far we have held nearly 25 meetings of the Banking Committee, and since 2008, in between the quarterly meetings of the Banking Committee, we have had in all nine meetings of the Bureau of the MBA. A strong regulator and regulatee bond has thus been nurtured. However strong our bond is, our relationship is not an easy one to manage. Our perspective does not necessarily converge at all times. Tension arises between us from time and time.

There are times when the regulator takes measures that banks may believe to be wrong or misconceived. We understand your fears that the proposed regulations may be too complex, inappropriate in geographical scope, or not conducive to level playing fields. We, as regulator, may not only see strong regulatory measures as the prerequisites for banks to do business, stay in business and thrive in business, but essential for the stability of the financial system as a whole. Sometimes, banks may decide not to challenge or criticise existing or new regulatory requirements in order not to upset the regulator – of this also we are aware. But it is important that you understand that criticisms of regulations which you believe are going to impact the sector, are wholly welcome as part of the constructive dialogue to get regulation right. Nonetheless, together we have been able to take forward the banking sector. The banking industry in Mauritius has traversed a long way to assume its present stature.

¹ Governor Gary Stern of the Federal Reserve Bank of Minneapolis at the International Conference on Russian Banking, 1994.

Following the biggest financial tremor in the history of banking in Mauritius in 2003, many efforts have been made by banks to step up their internal control systems. Despite all care and diligence, banks are not totally shielded from fraud risks or financial crimes. Recently the banking sector has been shaken again out of its comfort zone. It was not a moment of glory for bankers and the central bank to realize that they have been outwitted by scammers using the loop holes in the regulatory framework. As of date, the total amount reported at our help desk has crossed Rs769 million, with 2,031 victims and if you take into account those who did not come forward, the total amount of the scam may be estimated as being quite close to the billion. It was certainly not flattering to any of you to learn that a number of your bankers may have fallen prey to the Ponzi Schemes – we cannot put this on their financial illiteracy, can we? It is rather a worrisome fact.

It is my duty as regulator to remind you of the importance of stepping up your compliance functions to protect your institutions from being used as conduit for illicit activities. It is a matter of focusing on the “Know Your Customer” principles and applying them to your internal customers as well. It should not be just a ‘tick-box’ approach but rather a ‘judgment-based’ approach. Most of the time, it is at the level of the front-liners that the application of this ‘judgment-based’ approach starts. The front-liners need to be well-versed in compliance legislation, manuals and procedures and be able to detect suspicious transactions at an early stage, thus minimising the risks of fraud. It is important that ongoing reviews of bank personnel are conducted at all levels as bank officers may be involved in promoting such schemes. Our investigation has revealed that some banks have not been abiding scrupulously by anti-money laundering laws and guidelines. Five of them would be imposed hefty fines with the concurrence of the Director of Public Prosecutions.

Recently four of our banks made a very bad deal with Indian corporates. Rs2.7 billion out of total facilities of Rs3.5 billion turned out to be impaired. They represent 0.9% of the total assets of the four banks and if we take into account provisioning already made, this ratio comes down to 0.3% only. This is only a drop in the bucket and there is no need for the public to be alarmed. Depositors’ money is not at risk.

This bad deal sends a warning signal to the banking sector about the level of non-performing loans (NPL). Historically the NPL of the Segment B business has been low, dragging down the overall NPL of the banking sector. Banks need to be extra careful when extending cross-border credit. They need to have a proper understanding of the legal infrastructure, the banking and regulatory landscape and the debt recovery processes of the country with which they intend to do business. In India, the cumbersome process of crystallizing collateral led some banks to resort to naming and shaming their non-performing corporate customers. In the midst of growing protest, the Central Information Commission of India “is convinced that the benefits accruing to the economic and moral fabric of the country far outweigh any damage to the fiduciary relationship of bankers and their customers if the details of the top defaulters are disclosed”. The naming and shaming of bad borrowers apply to wilful defaulters of public sector banks, who, according to the Reserve Bank of India Guidelines, are those who do not repay deliberately despite having sufficient funds and a solid net worth. The public sector banks have even started publishing photographs of the borrowers in newspapers. Maybe it is high time that we start considering to bring amendments to our own law to disclose the name of the top defaulters. Or even consider the coordinated efforts of the four banks, with or without the blessing of the central bank so as to ensure a favourable and rapid outcome.

The bad experience of our bankers sheds light on the fact that however meticulous they may have been, banking remains a risky business. The Bank has lately been considering a system of information-sharing on cross-border loans although we do recognize the difficulty of accessing information on foreign clients.

A good reputation requires conscientious regulatory compliance. The rapidly evolving financial landscape is keeping the regulator on its toes to ensure that we are up to the mark

when it comes to international best practice. We champion a proactive and thorough approach to fraud risk management which includes among other things, putting in place a whistleblowing procedure and where it already exists to review it, and educating staff about fraud. We need to be alert to the growing impact of the prevalence of gambling in our country for it is *l'appât du gain* which motivated the public to invest in placements that offered unrealistically high returns.

Over the years, the Bank of Mauritius and the Mauritius Bankers Association have developed a strong partnership. More than ever, we need to consolidate this partnership and live up to the four **Rs** of a sound banking sector – **Regulation, Reputation, Results** and **Resilience**. Together we can continue facing the daunting challenges that await the financial sector when it comes to the next-generation regulation.

Thank you.