R Basant Roi: Corporate governance guidelines and monetary policy stance in Mauritius

Address by Mr R Basant Roi, Governor of the Bank of Mauritius, at the opening of the Goodlands Branch of the Indian Ocean International Bank Ltd, Goodlands, 20 August 2004.

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Hon. Deputy Prime Minister and Minister of Finance
Chairman of the Board of Directors of the IOIB
Chief Executive and staff of the IOIB
Ladies and Gentlemen

Good Afternoon

I am pleased to be here in your midst for the opening of the Goodlands branch of the Indian Ocean International Bank Ltd.

I understand that the Indian Ocean International Bank has for quite sometime been implementing a plan for strengthening its financial standing and is also in the process of enhancing its corporate image. The bank has so far made a good measure of progress in this endeavour. I would like to urge its board of directors to maintain the speed of progress with the same zeal and vigour to the finish.

Poor corporate governance has been the major cause for the weakness of banks and bank failures in Mauritius. To the board of directors of the Indian Ocean International Bank and to the boards of directors of all other banks operating in Mauritius, I would like to say that adherence to good corporate governance principles is indisputably the key to the maintenance of the sound and solid financial standing of financial institutions. A bank, however small, with good corporate culture is far stronger than any big bank with poor corporate governance principles.

In the past few years the Bank of Mauritius has issued to banks a comprehensive set of guidelines, including corporate governance principles that they are required to adhere to. While virtually no banker disputes the necessity to impose those principles and other guidelines, many in the industry view them as cumbersome and too demanding. It is true that relative to way banking business used to be conducted until very recently in Mauritius, the regulatory requirements are indeed demanding. We cannot, however, overlook the fundamentally important fact that regulatory requirements do serve the best interests of depositors. And the Bank of Mauritius, as regulator of the industry, is here to protect the interests of depositors.

Regulations are not designed to shape good behaviour of bankers. They aim at establishing discipline in the conduct of banking business and promoting corporate habits that are not only fair but also transparent to market participants. In this process, regulations do also help create conditions conducive to the sound development of financial markets. Often we come across rogue shareholders and rogue board members. Companies commonly face a typical problem; it's the agency problem that sits at the very heart of corporate governance. Certain board members in the banking industry, rather than being guided by such principles that best serve the interests of their banks, often use their authority to advance their own agenda. This attitude is anathema to the principles of good governance.

In the banking industry, integrity should be a palpable mark of distinction. By integrity I mean that board members do not make decisions just for a quick buck. It means board members are not solely transaction-driven; they are in for the long-term benefits of their companies as well as of their clients. It also means that, if things do not go well, board members stand by their clients and if things do go well they do not take unfair advantage of it. While profit making remains the principal motive for any enterprise in a capitalist system, a usurious attitude in the banking business does quite often bring with it the seed of self-destruction. The good banker formulates an educated view before executing any decision in his professional life.

I have been receiving many complaints from bank customers in the last five years. Few of the complaints that I receive seem reasonable. Most of the complaints, after investigations, are found to be unreasonable. It is a common feature that borrowers do not pay sufficient attention to the contents of contracts they sign before borrowing. Often borrowers tend to swallow more than they can chew. It's panic when the banker finally applies the sword. My appreciation of such a situation leads me believe that both bankers and borrowers share the blame. To borrowers I would like to say: refrain from borrowing sums of money that is beyond their repayment capacity. To bankers, I would like to reiterate that they should, right from the outset, ensure that borrowers do have the repayment capacity before disbursing funds to them. Some banks do it; some don't. We are contemplating anti-collusive measures.

Lately, various interpretations have been given to the monetary policy stance of the Bank of Mauritius. Five years ago, the Bank of Mauritius tightened its monetary policy stance with the rate of interest having gradually risen to high levels. The then prevailing conditions did warrant the tightening. It is commonplace that economies do undergo cyclical changes. The same set of policies that is appropriate for a particular phase of the economic cycle may not necessarily be appropriate for a different phase of the cycle if the objectives of the Bank's policies are to be achieved. That is why the Bank of Mauritius re-oriented its policy stance and brought about reductions in the rate of interest during the last two years. The successive reductions in the rate of interest helped alleviate the financial burden of enterprises in the Export Processing Zone (EPZ). To what extent monetary policy can go on accommodating the interests of the various economic sectors without compromising the very mandate of the Bank of Mauritius is clear to the enlightened observers. There are limits to what monetary policy of the Bank can deliver.

The problems of the EPZ are mostly management and market-related. The emerging problem of our sugar industry is also market-related. The problems are definitively not rooted in the exchange rate of the rupee. It is inappropriate to speculate that a deliberate step to cause the rupee to depreciate is in the policy agenda of the Bank of Mauritius. This perception is incorrect.

World price of oil has attained unprecedented levels. It will evidently impact on the domestic price level. A depreciation of the rupee, triggered by oral stimulus, would exacerbate inflationary pressures in the economy.

Ladies and gentlemen, having said that let me reiterate my support to the Board of Directors and the management of the IOIB for the efforts they have been putting in so far to steer the bank out of troubles. I wish them the very best of success.

Thank you.