

Linah K Mohohlo: Promoting competitive, cost-effective banking in Botswana

Keynote speech by Ms Linah K Mohohlo, Governor of the Bank of Botswana, at the official launch of Capital Bank Limited GICC, Gaborone, 28 May 2008.

* * *

I am most grateful to the Board and Management of Capital Bank for inviting me to be the guest speaker on the occasion of the launching of their bank in Botswana. Let me begin by recognising the presence of the Governor of the Reserve Bank of Malawi, Mr Victor Mbewe, who has timed his visit to Botswana to coincide with the official opening of Capital Bank. His welcome presence this evening is testimony to the regulatory and supervisory collaboration between the two sister central banks; the Reserve Bank of Malawi and the Bank of Botswana.

Capital Bank Limited (Capital Bank) is a subsidiary of First Merchant Bank of Malawi, and was granted a commercial banking licence by the Bank of Botswana in December last year. At the time of licensing First Merchant Bank (FMB), which is headquartered and operating mainly in Malawi owned 51 percent of the shares of Capital Bank. The remaining 49 percent of the shares are held by citizens of Botswana, Kenya and the United Kingdom. One of the attractions of the bank's application for a banking licence was the parent bank's proven track record and strength in financing small and medium scale enterprises (SMEs). As you know SMEs play a major role in contributing to sustainable economic growth and poverty reduction. Therefore, access to credit is crucial for their survival. Based on the performance of the parent bank in Malawi, it is my hope that Capital Bank will leverage on its experience and infrastructure in servicing this niche market in Botswana, and in so doing, contribute to sustainable economic growth and job creation.

I am further encouraged to learn that Capital Bank has expressed commitment to offer good quality service, accompanied by positive real interest rates on savings and competitively priced banking products. This suggests that the bank is fully aware that it will grow its business and prosper only when customers receive the standard and quality of service to which they are entitled.

Master of Ceremonies:

Capital Bank establishes its presence in Botswana at a time when competition in the banking sector is intensifying. You will recall that in 2006, the market witnessed the entrance of a regional bank; and hot on the heels of that bank, Capital Bank has come to being; this brings the number of commercial banks operating in our country to seven. This is a welcome development for the Botswana banking sector and the wider financial industry.

I would, therefore, like to take this opportunity to implore Capital Bank to immediately make its presence felt in the domestic market and contribute positively to the promotion of a competitive, soundly-based and growing financial sector.

As we are all aware, a major development challenge for many countries in our region is the need to increase the availability and access to high quality banking facilities and services at affordable cost to both businesses and households.

Not so long ago, a survey sponsored by a consultancy on financial sector issues, Finmark Trust, found that almost 57 percent of the population in Botswana do not have access to any form of banking. In addition, the branch network, marketing and other banking services were found to be highly concentrated in urban and semi-urban areas. The survey also found that the criteria and the initial deposit required for opening a bank account were restrictive. As a result, large segments of the population could not gain access to financial services.

The Bank of Botswana had also obtained credible evidence that the reasons for this undesirable state of affairs included very high transaction costs arising from, among others, high bank account maintenance fees and multiple bank changes, which were regrettably not matched by the quality of service.

My appeal is made against the background of a public outcry with regard to the cost and quality of financial intermediation, as well as public perceptions of a lack of transparency, particularly in respect of bank charges. Commercial banks continue to be regarded as not operating in conformity with their pledge to serve and deliver world-class service and satisfy market needs. Overall, the banking industry is still considered to be solely profit-oriented, and interested only in high returns and not in offering high quality service.

These findings suggest that it is imperative for all players in the financial services industry to turn the right corner and embrace a more "financial inclusive" approach in reaching out to the unbanked members of society.

It is no secret that the high cost of banking services retard efforts to encourage financial saving and discourage full use of the banking facilities, at a time when banking is no longer a luxury but a need. While it is appreciated that the cost of providing banking facilities and infrastructure in a vast but sparsely populated country such as Botswana can be significant, it is important that the level of banking charges should be seen to be commensurate with the quality of banking services.

The Bank of Botswana has continued to engage in a healthy dialogue with all interested parties on the matter. While a lot remains to be done, the Bank of Botswana is encouraged by the progress made towards making banking more cost effective.

I realise, however, that it is important to strike an appropriate balance between bank profitability, on the one hand, and the provision of top-class banking services to all sectors of the community, on the other hand. Indeed the discernible progress is exemplified by the many banking halls which have been revamped to look modern and a lot more welcoming to customers. Furthermore, the products on offer are increasingly diversified and responsive to the needs of the public and wider economy. The volume of business has also increased, as indicated by the growth of total banking assets, deposit liabilities, loans and other forms of credit, particularly in the last five years. It is expected that the entry of Capital Bank will further boost these and other performance ratios.

In Botswana, we take pride in a sound, profitable and solvent banking system which ranks among the best in the continent. Even third party observers have attested to the fact that Botswana has a highly profitable banking sector which operates in a solvent, soundly managed but not overregulated financial system. We must build on this foundation in all facets of our business and aim at providing excellent service at all times.

We must also instil a positive attitude in our staff and create an enabling environment for international exposure so that staff can be in a position to meet modern day customer expectations with confidence.

As I have intimated to the Chief Executive Officers of banks, the realisation of lofty ideals such as competence, efficiency and effectiveness depends on the quality of staff. This can be achieved through a lot more staff training and exposure than has been the case so far. In this regard, it is my belief that the concern expressed by observers about shortage, if not, absence of skills in banking and finance and related disciplines is, to some extent, of our own making. It appears that somehow there is a mistaken belief that it is the Government's and/or Bank of Botswana's responsibilities to train staff for the banking and/or financial sectors. Even if that were the case, what about on-the-job training! Surely, it is the employers' responsibility.

I have no doubt Capital Bank will find that the issue of training, about which I feel very strongly, is debated at for a such as the Bankers Association of Botswana, the Botswana Institute of Bankers, Financial Markets Committee, National Payments Committee and the

Banking Committee. I am confident that the Managing Director of Capital Bank will make a meaningful contribution to the deliberations on this and other issues as he engages in industry-wide consultations, collaboration and information sharing with his counterparts.

You are rest assured of support from the Bank of Botswana through the existing enabling regulatory and supervisory framework, within the context of strict adherence to prudential norms that are in line with best international practice of governance.

On a related matter, I want to believe that Capital Bank's local Board of Directors will have corporate responsibilities that include ability to make independent judgements in adjusting business strategies and operations in line with local market conditions. While a parent bank has the responsibility to make major policy decisions affecting the group, it is crucial that, within this hierarchical structure, important decisions relating to the day-to-day operations of a subsidiary banks are made in the host country, and not referred on a regular basis to either regional or head offices abroad. Otherwise there is a risk of undermining and weakening local management as they will be denied the opportunity to make decisions on the operation of the local business.

The fact is that staff will not realise their potential unless there is an enabling environment for them to discharge their responsibilities. Some, if not all, of your staff are skilled individuals, and I know that I am speaking to the converted, when I say that successful companies revolve around their people, so long as they are equipped with the requisite ability and room to perform. From this perspective, you are encouraged to identify the best of our citizen staff for key positions in your staff complement, obviously not at the expense of competence, efficiency and effectiveness.

Last, but not least, I want to believe that customer service will be extended courteously. The staff of Capital Bank should live up to the Setswana sayings: "Maitseo ke namane ya moroba! Tlhong botho!" In English one could say, "manners maketh a man", and a dose of humility makes it even better. Needless to say, your customers deserve to be treated with utmost respect.

I hasten to add that we live in difficult times as it seems money and morality appear to have meeting point, and greed seems to occupy centre stage. I am referring here to the current major economic turning point in the face of the bubble that burst due to the unsustainable debt in the US housing market that sent undesirable ripple effects across major banking and financial centres. No wonder observers are now cynical about banks in the face of plummeting shareholder value and foreclosure on housing loans in affected markets.

In the circumstances, you in banking business are well advised to put in place robust and effective internal controls environment and risk management infrastructure, and educate your staff so that they are in a position to prevent fraudulent transactions.

On a slightly different but related matter, the Chairman of Capital Bank commented on the upward adjustment of interest rates that was effected earlier this week. I took it as an invitation for me to comment briefly on the Bank's primary objective of maintaining price stability. While monetary policy has to respond to a sustained increase in inflation, as it is currently the case due to the escalating oil and food prices, this is done in the context of the framework articulated in the Bank's Monetary Policy Statement. As I stated at the launch of the Statement in February this year, monetary policy indeed focuses on the containment of inflation within a medium-term (3-year) horizon on the basis of inflation forecasting. This is in view of the significant transmission time lag before policy action takes effect. Accordingly, therefore, monetary policy will be preemptive, as necessary, in order to mitigate second-round effects relating to unsustainable demands for wages and other domestic resource increases, which would lead to a further spiralling of inflation. It is just as important to anchor expectations of low and stable inflation. It is against this background that the bank rate was increased by half a percentage point to 15 percent on May 26, 2008.

As I conclude, I wish to applaud the Board, management and staff of Capital Bank for bringing additional banking services and facilities to Gaborone. In the not too distant future, I would like to see expansion and extension of your services to other parts of the country. The magnificent premises I viewed last night are no doubt a benchmark for others to follow. My first impressions are that you will settle down to business at the speed of lightning.

I thank you for your attention.