

## **Yandraduth Googoolye: E-payment developments in Mauritius**

Keynote address by Mr Yandraduth Googoolye, First Deputy Governor of the Bank of Mauritius, at a Visa Briefing on the Economic Benefits of E-Payments, Port Louis, 8 October 2008.

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Good Morning

I am indeed glad to be here to share a few thoughts on the importance of Electronic Payment System for economic development. There is no doubt that the advent of Electronic Payment System has resulted in numerous benefits for consumers and suppliers in both developed and developing economies. Empirically, it has been established that increased use of credit cards is positively co-related with economic growth and exports.

In Mauritius, the growth of e-payments, which cover the entire spectrum of use of the electronic media for settling transactions and would hence include among others, credit and debit cards, internet banking and mobile banking, has been tremendous. We, thus, had 382 ATMs in July 2008 as against 334 a year before and 293 in June 2005. The number of transactions using credit and debit cards went up from 3 million in June 2007 to 3.7 million in July 2008 while the aggregate value of monthly transactions increased from about Rs 5 billion to Rs 6.8 billion during this period. More than 1.1 million credit and debit cards were in circulation at the end of July 2008, an average of more than one card per head of adult population. A few banks are already offering internet banking facilities while some others are in various stages of doing so.

It is heartening to note that the use of electronic media is spreading to many other types of transactions rather than being confined to purchase of goods and services at points of sale, withdrawal of cash and to put through transactions on the B2C portals. Thus, for instance, this year MRA allowed on line payment of taxes through select banks which, coupled with e-filing of tax returns, is a major step forward.

The Central Bank has the responsibility of maintaining the stability of the payments and financial system. The Bank of Mauritius operates and manages Mauritius Automated Clearing and Settlement System which is the communication backbone for inter-bank settlements and for the Real Time Gross Settlement. We also play an enabling role by adopting a positive, though cautious, approach to development of e-payments in the country. The orderly development of any segment of financial sector would require sound regulatory framework. The present approach requires financial institutions under its purview to seek the Bank's prior approval for offering internet banking services. At the same time, banks are free to open ATMs at any location they choose without the prior approval of the Bank of Mauritius. Before granting approval for introduction of internet banking, we at the Bank look at the risk management framework, the data and physical security and safety of the processes apart from the technological platform. We are in the process of revising the existing guideline on internet banking to make it more comprehensive and to align it with recent developments.

Let me now dwell on some of the major benefits of e-payments. At the macro level, it enlarges consumer market, and thus contributes to economic growth. I am sure you are all aware of the tremendous advantages of e-ticketing, for instance. The advent of B2B and B2C portals enhances transparency and facilitates better price discovery. Further, e-banking helps spread banking facilities to areas that might, for economic reasons, have been unviable for opening a brick and mortar branch. Thus, e-banking could facilitate greater financial inclusion. At a micro level, e-payment reduces the threat of physical loss of funds to the holder of a card and for the seller too, the ease of settlement helps in better cash flow management.

There are some concerns too. The safety of the system is highly dependent on the robustness of the technology, the anti-hacking features, continuous effort at improving risk management framework and regular information system audit. The cardholder faces risks arising from the threat of counterfeiting; now cards can be morphed in quick time and used for unauthorized withdrawal of funds. The Bank encourages financial institutions to have adequate anti-counterfeiting features in their cards, insists on 24 hour help lines and requires safe delivery of PINs etc. Simultaneously, the Bank of Mauritius also embarked as part of its 40th Anniversary celebrations on a customer education programme to create better awareness among the public.

Another significant risk arises from the use of cards for trans actions with the B2C portals through less secure payment gateways over the internet. There is need for adequate caution in using such websites for making purchases through e-cards. In some jurisdictions, financial institutions issue separate cards exclusively for on-line payments, with such cards having a smaller sub-limit out of the main cards. Perhaps, issuers of cards in Mauritius could explore this possibility.

Credit cards are subject to high delinquency; in most countries the nonperforming advances pertaining to credit cards as a percentage of the outstanding dues under the cards are very high. These often arise as a result of inadequate appraisal of the cardholder and to an extent can also be attributed to the high interest rate charged on the carry forward balance. In fact, one could see a chicken and egg relationship here since the high interest rate is sought to be justified by the high percentage of delinquencies in the card segment.

Another manifestation of e-payments is the use of e-money which is popularly called e-wallet. This product is not yet available in Mauritius. They are like prepaid cards which can be used for different types of transactions. These cards could cause problem for the payment system, may result in loss to the card holder or merchant in the event of failure of the issuer and has implications for the monetary policy formulation as they function as store of value.

But we will all agree that the benefits of the e-payment system for economic developments far outweigh the concerns which, moreover, can be mitigated through proper systems, processes and adequate awareness among the public. The fact that at the initiative of European Commission and European Central Bank, efforts are underway to develop a new European Payment Card System within the implementation of Single Euro Payment Area agreement shows how important e-payment cards are becoming for the stability of payment system both from a financial and the social stand point. In the Mauritian context, it might be worthwhile to explore the feasibility of introducing Shari'ah compliant e-payment instruments given that we have decided to introduce Islamic Financial Services in the country.

No address by a Central Banker at this juncture would be complete without a reference to the current global financial crisis. The present turmoil which originated in August 2007 as a fall out of what is now famous as the sub-prime crisis has accentuated in the wake of it taking a toll of systemically important financial institutions in the USA and later in Europe. The various measures being taken by the different central banks and governments are also too well known.

As far as Mauritius is concerned, we can vouchsafe that the banking system is stable and sound. However, we have constituted a multi disciplinary cell comprising Senior Officials from different functional areas of the Bank of Mauritius to monitor the domestic and international events on an on-going basis. This cell meets daily, reviews the developments and makes its assessment of the situation.

The banking system in Mauritius of late witnessed some tightness because of local seasonal factors. As you are aware, September end is a tax payment time and around this period importers start procuring goods for year end sales. To ease the situation, the Bank of Mauritius intervened both in the rupee market by conducting repo transactions in quick succession and on the foreign exchange market by selling foreign exchange and our last intervention was on 6 October when we sold USD20 million.

Thus, the Bank of Mauritius will continue to play an effective role whether in the orderly operations of the financial markets or ensuring the safety and soundness of the financial system or for that matter the development of e-payments in the country.

Thank you all for your attention.