

Rundheersing Bheenick: “We need to shine the torch of transparency on everything connected with banking”

Address by Mr Rundheersing Bheenick, Governor of the Bank of Mauritius, at the opening ceremony of the Bank of Baroda Branch, Rose Belle, 25 July 2012.

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I am delighted to be here with you this morning at the opening of this new branch of the Bank of Baroda in Rose Belle. This makes it the ninth Bank of Baroda branch in Mauritius and also the ninth bank branch in Rose Belle. As demonstrated here in Rose Belle, the branch network of our banking sector continues to expand, thus giving the lie to observers of the financial scene who have been predicting the end of the brick-and-mortar model of banks. The Minister will be pleased to know that this now allows Rose Belle (his constituency) to pull ahead of Triolet (the Prime Minister’s constituency)... but it is still one branch behind Flacq (the Vice Prime Minister’s constituency)... and trails behind Curepipe by two branches.

Our banks in Mauritius value close proximity to their clients. Since I took over as Governor in 2007, I have seen the number of branches growing by 30 per cent, to 217. This translates into some interesting ratios regarding financial access: we have one branch for every 9.4 square kilometre of territory and for every 6,000 inhabitants – among the highest in the world. This banking model has served us well and I can safely say that it has contributed to bolster confidence in banking while adding to its resilience.

The Bank of Baroda is, of course, no stranger to proximity. Soon after it set up shop in Mauritius, and drawing on its experience of more than a century of taking banking services to remote areas of India, the bank introduced *Mobile Banking* in Mauritius. These days when we speak of “mobile banking”, we refer to banking and financial services and payments enabled by cellular technology. In those days, Baroda’s mobile bank was empowered by an altogether different technology – the internal combustion engine. Bank of Baroda mobile banking was a bank on wheels. It would go – as it still does – from village to village, bringing banking to rural and unbanked areas. There are many who can still recollect the flurry of activity that would greet the van as it arrived in a village. At that time, banking was concentrated in urban areas. Transport facilities were not as developed and made it difficult to reach certain localities where population was sparse. The Bank of Baroda mobile thus contributed to financial access in rural areas. It helped many agricultural labourers, farmers and entrepreneurs to have access to basic banking services. This was a revolutionary step for the rural community at the time.

Let me sincerely congratulate the management of Bank of Baroda for their involvement here and for their contribution to the economic and social development of our country for nearly half a century now. I understand you will soon be celebrating the golden jubilee of your presence in Mauritius. The Bank of Mauritius is five years your junior! We owe you some respect, don’t we? Bank of Baroda has a long-standing relationship with our country. It opened its first branch in Mauritius in 1962, when it became the fourth full-fledged commercial bank in the country after Mauritius Commercial Bank, Barclays Bank DCO, and Mercantile Bank of India, and broke a monopoly that had reigned through colonial times. Since then, Bank of Baroda has pioneered many developments. It was associated with the development of our offshore sector since the very outset. When offshore banking was launched in Mauritius in the late 1980’s, Bank of Baroda was among the first to establish an offshore banking unit. Today, this segment has grown into a profitable business. Over the years, our banking landscape has witnessed the emergence of new players. We now have 21 banks and Bank of Baroda is now solidly in the middle, ranking 10th, with an asset size of Rs 24 billion.

I am sure this new branch will bring added value to the locality and the surrounding areas and instil more competition for the benefit of customers. Banking has to become more customer-centric. The financial crisis has changed the rules of the game. Only two weeks ago, at the Bank of Mauritius, we have taken very forceful steps to protect bank customers. We set up a Task Force on unfair terms and conditions in financial contracts, including fees, charges, commissions and other levies imposed by banks. By now, you should all know what prompted this initiative of the Bank. At the risk of repeating myself, I have spoken out about the many grievances spanning a wide range of issues from dissatisfied customers knocking at the door of the central bank. They complain about practices that are crying out for reform. Your central bank cannot remain indifferent to such calls from the public.

The global economic downturn is impacting on our exports, on our employment and on our standard of living. This difficult and delicate situation requires that all stakeholders look beyond their narrow self-interest and share in the pain of adjusting to the new realities. It is a matter of continuing surprise to me that in the fifth year of an unprecedented financial and economic crisis of global proportions, some of our banks are still insolently reporting record profits.

I am happy however to see that, at least on this score, I am no longer a lone voice in the desert. Others have recently joined me in denouncing this state of affairs. The Competition Commission has just completed an exercise on the bundling of insurance products where some banks were suspected of taking unfair advantage of their customers by selling them possibly overpriced insurance products from associated suppliers. It is currently investigating into credit card charges – another area where malpractices are rife, at least internationally. The government authorities have also stepped in. They set up a second Commission of Inquiry on the procedures and practices of sales by levy to which banks have recourse when they foreclose on properties secured as collateral. It started work earlier this month. You may rest assured that the Bank will take corrective actions to remedy the situation.

It may be appropriate here to point out a growing trend to impose very hefty fines on global banks in other countries for all manners of misdemeanours and transgressions, ranging from conspiracy to rate-rigging. Bank CEO's and Chairmen have been seen off the stage for their failures and violations, including money-laundering offences. These are not just corporate banking failures; corporates only act through individuals. These are therefore also **individual** failures. Criminal prosecution of the individuals responsible is something that we shall be hearing more about in the weeks and months ahead.

To my mind, this places individual responsibility at the centre of things. The reforms that are now being envisaged to prevent future crises, will hopefully address this issue.

We feel strongly that banks – and those working in them at whatever level – should be held accountable for their actions. Eight months ago, at the Bank's Annual Dinner for economic operators, I had invited bank executives and directors to reconnect with reality – and not to do things that would resurrect the image of banksters. I understand some bankers had then toyed with the idea of a walk-out. Two weeks ago, the very respectable *Economist* magazine – in its UK edition for the week July 7th-13th – had "Banksters" emblazoned on its cover in large characters, complete with gangster-like cut-outs of bankers in dark-goggles by way of illustration. The only thing missing from the picture was some machine-guns or AK 47 rifles in their hands. But who needs these crude weapons when bankers can go around in total impunity toting the much more powerful "weapons of mass financial destruction" – as Warren Buffet put it.

Two days ago, the respected Chairman of the British Financial Services Authority, Lord Turner, used the "bankster" word on Bloomberg. Banksters, the world over, cannot walk out. There is no place to hide! Instead of walk-outs, we need work-outs – to purge the system of crooked practices and crooked individuals. We need to shine the torch of transparency on everything connected with banking. Corporate governance is key. We, at the Bank, have examined the matter at length. We are issuing a revised *Guideline on Corporate*

Governance. Very shortly, we will also issue a consultation document on Basel III. On a separate note, we are in the final stages of setting up the Deposit Insurance Scheme, which is a missing link in our financial infrastructure.

Let me say a word on the Special Line of Credit in foreign currency that we have offered to banks for on-lending to exporters. With this measure, the Bank is using its own balance sheet in an attempt to resolve issues faced by enterprises at the micro-level. This has a cost to us. The Bank cannot keep this line of credit open indefinitely. Judging from some press reports, it would seem that some banks are able to meet the demand at comparable terms on their own. If that is so, well and good! Let them get on with it. Others claim there is no demand for such foreign currency loans in the first place as exporters are apparently quite happy with their foreign currency exposure – and that includes the very real depreciation risks of their export currencies. Let us bear in mind that micro-economic matters *are not* the normal business of the Bank and we have taken extra pain to explain the rationale behind our unusual move aimed at a very specific segment of our constituency. Rest assured that we have no difficulty in re-focusing our efforts back on the macroeconomic front, and on the broader needs of our complex multiple constituency. We will, therefore, soon start redeploying progressively some of the funds earmarked for this Special Line of Credit, if, for whatever reason, the demand is not there.

Again, congratulations to the management of Bank of Baroda for adding this ninth branch to your network. I have no doubt that you will do your utmost to serve the best interest of the community.

Thank you.