

Linah K Mohohlo: Developing and diversifying Botswana's banking sector

Keynote speech by Ms Linah K Mohohlo, Governor of the Bank of Botswana, at the official launch of Bank of India (Botswana) Limited, Gaborone, 9 August 2013.

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I would like to thank the Managing Director of the Bank of India, Mr Mishra, together with the Board and Management of Bank of India (Botswana) Limited for inviting me to launch the opening of the bank's subsidiary in Botswana.

I wish to recognise the presence of His Excellency, the High Commissioner of India to Botswana, Mr Chandra, and extend a warm welcome to Botswana to two distinguished guests from India, the Chairperson and Managing Director of the bank, Mrs Viyalakshmi Iyer, and the Head of the bank's International Division, Mr Narayanan. I can assure you that the Bank of Botswana, and significant others in the country, couldn't be more grateful that you chose Botswana as the preferred destination for your business expansion.

You are, therefore, warmly welcome to Botswana's banking sector, which has come a long way from the 1950s when there were only two banks in the country. The country is now home to 13 licensed banks from which we deservedly expect to have an even more diversified banking product range and improved service delivery.

I now know that the new bank is a wholly owned subsidiary of Bank of India, which is headquartered back home in India. The parent bank was incorporated in 1906 in Mumbai (India) and is majority-owned by the Government of India. It is a well-established international banking group with over 4 000 branches in India and 52 operations in 20 other countries. Botswana is now home to the 53rd overseas centre of the bank. The many years of accumulated experience of the parent bank puts the Botswana subsidiary at an advantage from which to leverage the managerial, operational and technical expertise. The subsidiary bank should also have at its disposal the technological infrastructure and financial resources of the parent bank.

It, therefore, comes as no surprise that the Bank of India (Botswana) Limited, intends to provide a full range of commercial banking services that will cater for all sectors of the economy, with particular focus on the Small, Medium and Micro Enterprises (SMMEs) and the mining sector. As we are all aware, SMMEs play a critical role in contributing to economic growth, employment generation and poverty reduction, especially in developing economies; Botswana is no exception. Indeed it is these small enterprises which ultimately grow into big businesses which, in Botswana's case, would be a welcome development for the economic diversification drive.

As a way of making effective inroads into the competitive business environment, the new bank is advised to attract and employ qualified citizen staff, in order to tap into their knowledge of the local market and business contacts. It is also important that your staff should be trained and exposed to relevant work processes on an ongoing basis.

I can assure you that the fruits of investing in human capital will be as bountiful as they are elsewhere in the competitive parts of the globe. As all banks in Botswana are constantly reminded, the success or otherwise of any institution is reflective of the quality of its personnel. As a matter of fact, relative competitiveness of the parent Bank of India is testimony to the fact that India's financial institutions have some of the most highly trained and competent experts, a large number of whom work at institutions of note internationally. Similarly, it is hoped that the enlightened competent, efficient and effective staff of the Bank of India in Botswana, including the local Board, will be given the space to exercise and discharge their respective responsibilities in an appropriate manner. They should have the necessary authority to make independent judgments on adjusting business strategies and

operations in line with local market conditions and national aspirations. In other words, the local oversight responsibilities should not be undermined or weakened.

While the parent bank has the overall responsibility for major strategic and policy decisions affecting the group, it is crucial that, within this hierarchical structure, important business decisions relating to the day-to-day operations of a subsidiary bank are made and tailored to the needs of Botswana. Routine referrals for decision-making to the regional office or headquarters can only undermine the subsidiary's course. Unnecessary referrals could also have the potential to deny the bank the opportunity to make timely and proactive business decisions that could grow the bank's operations and ensure that it is able to compete favourably in the local market.

In this connection, you should be able to take advantage of the relocation of some functions of the Diamond Trading Centre International from London to Gaborone, in the fullness of time, as this will generate downstream business activities associated with the beneficiation of rough diamonds. As indicated in your bank's business agenda, it is Botswana's expectation that you will have an important role in contributing to the national policy on economic diversification, by supporting the diamond and related business ventures.

Honoured Guests, the entry of another bank in the Botswana's financial sector can only heighten expectations of better and cost effective service delivery as the sector responds to the needs of the economy. We are, however, aware that the realisation of this goal still faces some challenges.

To begin with, and as eloquently highlighted by His Honour the Vice President earlier this week, there is public concern (some would say outcry) about bank charges that are out of sync with the quality of service. The insidious effect of these high charges is that they impede progress towards financial inclusion; they also discourage saving and the all-important activity of financial intermediation.

This is against the backdrop of research which has shown that, in Sub-Saharan Africa, 27 percent of men and 22 percent of women have access to financial services; this includes bank accounts, credit and insurance. These very low financial inclusion ratios are less than half of those of developed countries, where 92 percent of men and 87 percent of women have access to financial services. I trust that the entry of the Bank of India into the country's banking sector will contribute positively to the country's efforts to enhance access to financial services by all segments of the population.

Please allow me to sing from the same hymn book with His Honour the Vice President again, when he expressed the expectation that, as primary operators of the payments system, banks need to put in place modern banking and payments technologies to enhance the efficiency and timeliness of the clearing and settlement systems. The Bank of Botswana is confident that the entry of the Bank of India (Botswana) Limited to the Botswana clearing system, will provide the added impetus to the Cheque Imaging and Truncation project, the objective of which is, among others, to reduce the cheque clearance cycle. Time is of the essence in this respect.

Furthermore, distinguished ladies and gentlemen, you will agree that it's about time the country had a well-developed and functioning interbank market which would provide an enabling environment for funds of any quantum to flow between and among banks on the one hand, and their customers on other hand; and at the same time lending a hand to the monetary policy transmission mechanism.

So far, the Bank of Botswana efforts of fostering the development of an efficient inter-bank market have not yet borne desirable fruit. These efforts are frustrated, in part, by the conduct of some major banks which discriminate against other licensed commercial banks for no apparent sound reasons. This unjustified conduct does not distinguish between inter-bank and other forms of lending activities. It is also anti-competitive and constitutes unwarranted

discriminatory practice. All banks in Botswana will know that time is not on our side in this respect too. The practice must be nipped in the bud.

The banking sector also faces the challenge of imperfections in attracting long-term funds from institutional investors. There are cases where these market imperfections have resulted in financial deals for long-term deposit placements at great cost to some banking institutions, mainly because related contracts contain terms and conditions that are patently unfair and asymmetrical. Invariably, this practice unduly raises the cost of banking services to customers in general. The Bank of Botswana expects to work with all interested parties, if need be, to rid the market of such near unethical business conduct.

Not all is lost, however; it is encouraging that, in some quarters, discernible improvements are evident in containing the level of bank charges. There is also progress in the direction of diversification of banking products on offer. I hasten to add that the concern about the exorbitant charges should not be construed to mean that bank profitability is frowned upon. On the contrary; the Bank of Botswana and the country take pride in having a profitable, well capitalised and regulated banking sector which operates in a safe and sound environment, even in the face of the ravages of the global financial crisis and economic recession in some parts of the world. Indeed the sector can still be relatively profitable within the strictures of prudential standards on safe and responsible lending, without having to unnecessarily impose high charges for the services rendered.

Honoured guests, you will recall that one of the major lessons from the recent global financial crisis is that unsound banking systems and imprudent credit underwriting standards can undermine macroeconomic stability. It is very important, therefore, that we need to guard our own banking sector jealously and vigilantly so that it can continue to be healthy, sound and well run, and ultimately develop into one of the engines of sustainable economic growth and development for the country.

Speaking of the need for prudent banking, I wish to stress the importance of banks continuing to play a proactive role in preventing opportunities for financial fraud and other forms of crime that can only tarnish the integrity and reputation of the country's financial sector. Among other initiatives, banks must ensure that their internal control environment is up to standard and effective; for example, compliance with "Know-Your-Customer" (KYC) requirements must be up to date. Indeed, Botswana banks have vested interest in ensuring effective compliance with both the spirit and principles of the global standards on anti-money laundering and the financing of terrorism.

Director of Ceremonies, distinguished ladies and gentlemen, as I come to the end of my remarks, I wish to reiterate my commendation of the Board, management and staff of Bank of India for bringing additional banking services and facilities to Botswana.

I invite the bank and its personnel to settle in well and relatively quickly, and make your presence felt in the Botswana banking sector; in which case, it would not be unreasonable to expect expansion of the bank's operations to other parts of the country sooner rather than later. Please rest assured of the Bank of Botswana's support, at all times, in more ways than one, including through regulation and supervision. I know I am speaking to the converted as I remind you of the merits of maintaining cordial working relations with relevant organs of the banking sector, particularly the regulator. It does make life easier.

Your Excellency, the High Commissioner of India to Botswana, honoured guests, distinguished ladies and gentlemen; this concludes my remarks.

It is now my distinct privilege and honour to declare the Bank of India's presence in Botswana officially launched.

I thank you for your attention.