Rundheersing Bheenick: "On the High Street of High Finance…"

Address by Mr Rundheersing Bheenick, Governor of the Bank of Mauritius, at the opening ceremony of the new Bramer Bank Headquarters, Port Louis, 15 November 2013.

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It is a pleasure to be here this evening for the inauguration of these impressive new premises of Bramer Bank.

A prime location and imposing buildings have long been at the heart of the business proposition of banks. The serious inroads of technology in the banking space have not altered the equation for traditional banks. It is hardly necessary for bank decision-makers to embrace tenets of economic geography and spatial theory to identify the capital-city as a place to set up shop in Mauritius. Port Louis boasts more branches than any other location in the country.

As a central banker, I welcome this clustering, and the competition that it brings. It is also a boon for customers, keen on shopping around for better services. These new premises in a tastefully-restored centennial building, on the high street of high finance in Mauritius, in an exclusive area once reserved for the colonial elite, brings a certain added prestige to this bank. Within a radius of fifty metres, we have the *grandes dames* of banking in the country, such as MCB, State Bank of Mauritius, Barclays Bank, and HSBC. Within a stone's throw, we have SBI, Century Bank and Bank of Baroda. Jostling for space on this very street, in look-alike buildings, are ABC Bank and Banque des Mascareignes. Just across the street, we can see Afrasia Bank. Which means that 10 of the 21 banks in the country are next door to you. Bramer Bank could not have chosen a better location.

A bold move, indeed! For if there is already a *marchand briani*[1] operating in the street, a new one would not set up his stall on the next corner unless he planned to offer the best *roti chaud*[2] in town. In the case of Bramer Bank, the move to Place D'Armes sends a strong signal to all the big players on the market. With this ultra-modern branch, it takes competition to the next level. Competition is something that we at the Bank of Mauritius have been encouraging with, if I may say so, some measure of success.

Mauritius is the eponymous leader in extinct species – and no laggard in threatened species, either! We have hardly learned the lesson of the Dodo. But when we look at the biogeography of the banking species over the last few years (that is since I arrived in the banking habitat), you will see that the pasture has proved rich enough to support many new varieties of the species. What is more, the young *biches* are not only flourishing, but successfully challenging the main stags of the herd in their erstwhile *chasses gardées*. The habitat of banking in Mauritius has changed; and Bramer Bank is changing it further.

Five years ago, the dominant stags in the banking pasture, the four largest banks, held over 87 % of total domestic private sector credit. In just five years, that share has fallen by nearly 10 points under pressure from the new breed of banks, of which Bramer Bank is a vigorous example, taking a larger share of a growing market. Our banking sector has indeed flourished and met the needs of our growing economy. Today, 13 of our banks are among the Top 200 banks in Africa, so says the ***Africa Report Ratings, 2013***. Bramer Bank will surely carry forward this momentum.

The British American Investment Group has done a worthy job of transforming Bramer Bank into a strong alternative to the mainstream brands. This started with the acquisition of South

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1 A *marchand briani* is a food-hawker, selling spicy rice favoured by the locals.

2 A *roti chaud* is a flat pancake made from dough, a Mauritian fast-food equivalent.

East Asian Bank, which it levered up by the merger with Mauritius Leasing. Starting with just six branches in 2008, Bramer Bank now has the fourth largest branch network in the country. Moving ever closer to its customers, Bramer Bank's business has grown three-fold in the last five years with 21 branches. It tries to live up to its tagline: "the bank that is built around you".

I note that Bramer Bank has been very mindful of our national history. It has charmingly transformed an historic colonial legacy, into a modern and warm place to offer a tailor-made space for its private banking and trade finance customers.

Private banking provides tremendous scope for growth. The latest ***World Wealth Report*** indicates that the wealth of high net worth individuals grew by 10% in 2012 to reach a record level of USD46.2 trillion. We should set our sights on attracting a bigger share of global private banking business to our shores. I am sure that our banks will take up this challenge. Bramer's private bankers and their private banking customers could hardly ask for a better environment than this classic setting to conduct their business.

Today, it is customers' evolving needs and technology that are driving the business models of banks. An ever-increasing share of bank revenues is now derived from digital channels. Banks must embrace new technology as much to offer a better and more efficient service as to resist competition from non-bank sources, such as telecommunications operators in mobile payments. We can harness technology to promote greater financial inclusion in the country. We score quite high in the African continent in the matter of inclusion. It will be recalled that, according to the World Bank Study, ***Banking the Poor,*** published in 2009, Mauritius then had the highest density of accounts in Africa, i.e. 2,010 accounts per thousand adults, and came just behind Singapore. However, access to banking services is lower than suggested by this figure.

More recent data do not give us much cause for complacency. Indeed, the latest ***Global Financial Development Report***, published by the World Bank in November 2013, indicates that 80% of the population above 15 years of age have accounts at a formal financial institution. The comparable figure for Singapore is 98%. Some 20% of the adult population is still unbanked. A basic no-frills account should be part of the basic human rights of any citizen in a modern monetised economy. We, bankers, have our work cut out for us to make finance accessible to every citizen in this country.

The inauguration of the new branch-cum-registered office of Bramer Bank today comes at a time when regulators across the world are struggling to erect more safeguards against future global finance and banking crises. The perimeter of regulation and supervision is being extended. Supervisory failures are being remedied. An increase in supervisory intensity is on the cards. The regulator's toolkit now includes macro-prudential measures. This is a new label for a range of policies and measures, themselves certainly not new, to address systemic issues, going beyond individual regulated institutions. They seek to ensure that banks do their core job of safeguarding the savings of their customers while optimising the allocation of capital. The, global, madness of casino banking is being closed down, but it is not forgotten, nor indeed forgiven. For globally we have yet to see just how many of those banksters, our rash colleagues abroad, will end in jail, as the multi-billion dollar fines they are paying are not nearly the end of this story.

Happily, here in Mauritius, with judicious regulation, prudent local bankers, and a good bit of luck, we escaped the worst of that phase of irrational trading, and set our compass on a more ethical course. Yet, rapid credit growth and asset price bubbles have made regulators worldwide question their domestic micro- and macro-prudential policies to cope, amongst others, with the unintended consequences of the lingering low-interest-rate environment. The loan-to-value ratio, that we recently introduced, aims to contain speculative pressure in our property market, which has been pushing prices beyond their real value. First-time buyers will not be adversely affected by these measures for we recognise that first-time buyers are an important segment of housing demand. Moreover, the risk of default is minimal as they are more committed to honour their obligations. Wider home-ownership is also a source of social stability. This is the rationale for extending the loan-to-value ratio for first-time buyers from 80% to 90%, which the 2014 budget has improved to 95% for eligible borrowers, subject to a partial state guarantee.

We also introduced a debt-to-income ratio, for two reasons: first, to prevent households from getting trapped in excessive debt; and second, to force borrowers to make informed decisions when buying a property. These will save them from the sale-by-levy trap of foreclosures against defaulting borrowers. These macro-prudential measures, together with the adoption of Basel III early next year, will do much to improve the resilience of our financial system.

Over the years, we have been building our financial infrastructure to transform the country into a respectable international financial centre. It is a slow and patient undertaking which forces us to keep abreast with international best practice. Occasionally, those who are comfortable in what they have been doing so far may feel that we are moving too fast. They fail to recognise that we are now operating in a very dynamic environment. We just cannot afford to have a domestic financial sector where core elements are resistant to change. We are overhauling corporate governance practices in banks, with particular emphasis on the responsibility of the Board of Directors, on the choice of Board members, and on their tenure of office. I have no doubt that the management and Board of Bramer Bank share our belief that a sound corporate governance framework is the bedrock on which to build a successful bank.

We expect to initiate a National Payment Switch soon. This will connect all transactions by card and mobile phone to a central point, and lead to significant cost savings for all stakeholders. It will level the playing field for all banks by removing the barriers to entry which the costly initial investments represent for small banks, acting singly. We also recognize the importance of protecting depositors and we sincerely hope we shall overcome remaining pockets of resistance and set up a national deposit insurance scheme, which is a critical missing link in our domestic financial architecture. The *bien-être* of consumers of banking services is a key concern. Customers are in a weak bargaining position vis-à-vis banks. The Task Force on Unfair Terms, that we have set up, is hard at work and will soon come up with its recommendations on how customers can get a fairer deal. So, these are some of the priority areas for us in our quest to ensure that consumers are treated fairly and get the protection that they deserve.

As regulator, I would not earn my keep if I did not use the occasion to offer some words of advice to my regulatees. I am inclined to caution banks against undue risks. I greatly appreciate the efforts of our banks in technological innovation but this must not be at the expense of any relaxation in controls and risk management processes. By all means, venture into new areas but, first, do put in place safeguards to mitigate the potential risks! Banking is becoming increasingly transnational and it only takes a click of the mouse for funds to switch jurisdictions. We must remind ourselves that the risks of money laundering are ever-present. Banks should always be on the alert to combat money laundering and to prevent our financial system from being used as a conduit for such crimes. I welcome the recent measures in the budget to combat financial crime.

My final comment is prompted by a recent press remark attributed to a local banker. The banking industry differs in crucial respects from other business sectors and I would expect a banker to be aware of it. Locally, the shareholding of non-bank corporates in some domestic banks is very significant – which is not permitted in many jurisdictions. The return on equity (ROE) in the banking sector is well above those of the real sector – at 30 June 2013, the highest ROE was 28.6%. I am not aware of any real sector operator posting nearly 30 % returns in 2013, do you? Banks earn returns not just on their own initial equity, but also on the deposits which they mobilise from the public, which are far in excess of their own equity.

Some banks have deposits-to-equity ratios of up to 2,200%, that is, in plain language, deposits are 22 times the initial equity capital of the owners, excluding reserves and accumulated surplus. The yields on their assets go to their bank equity holders. Few businesses can leverage their capital that much. It is normal that in return, they are subject to tight supervision and occasional recourse to special levies to finance government expenditure. If some are complaining about banking being overtaxed, they can always move out of the banking space to other sectors of the economy. I can assure you there is no dearth of demand from outsiders to gain entry to the domestic banking scene.

Let me conclude! I sincerely congratulate the Board, management and staff of Bramer Bank on the inauguration of these premises. I wish you success in your endeavours to fulfil your priorities for innovation and quality of service, to your customers and to the country.