BOTSWANA STOCK EXCHANGE OPENING BELL CEREMONY

Official Remarks

by

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Distinguished Guests, it is my great pleasure and honour to have been able to accept the invitation from the Chief Executive Officer of Botswana Stock Exchange Limited (BSEL), Mr Thapelo Tsheole, to make a few remarks on the occasion of today's event, marking the sixth "Opening Bell" ceremony.

Let me start by acknowledging the important symbolism surrounding the "opening bell" ceremony. This refers to the signal that a stock exchange is open for business. A bell itself is only used in a few instances, notably in New York, where the current practice of ringing the bell at the start and close of each day's trading dates back to 1895, initially using a Chinese gong. But the phrase is used more generically across exchanges and, needless to say, among financial journalists. The use of a bell is, of course, most appropriate in the environment, typically hectic, of "open outcry" trading where the volume of the bell is an effective means of directing proceedings. In other words, the bell was necessary as a form of regulation, albeit self-regulation.

This traditional system of trading has been largely overtaken by more efficient technologies, first by telephonic and then electronic trading systems. The New York Stock Exchange still conducts a small proportion of trades (although typically high-value) through floor traders. In Europe, the famous "ring" London Metal Exchange (LME) remains a bastion of the tradition; although it too has recently been experimenting with the use of more modern systems.

Director of Ceremonies, the rapid advances in technology, more so in financial services, appears inexorable; indeed, this has long been the case. Today, the power of the internet; super computers, social media and "big data"; as well as the potential opportunities offered by new technologies, such as block chain, dominate financial news and public discourse. But innovation and disruptive technologies have been a recurring feature of progress and development for centuries. For financial services, it is progress in communications technology, including the collation, storage and transfer of information, that has often been the key. There are many examples in this regard, including:

- The origins of iconic City of London institutions such as Lloyds and the London Metal Exchange coffee houses where like-minded patrons gathered to share news;

- “Cable”, the colloquial term used by currency traders for the United States dollar-sterling exchange rate; it relates to a nineteenth century undersea communications cable used to transmit key financial information across the Atlantic Ocean; and

- American Express, the financial services multinational, began as an express mail business.

Recognising the historical context, it should be little surprise that financial and communications regulators must in many cases operate in tandem, while adopting smart and cost-effective ways to deal with risks. Today, given the current, dizzying, pace of ICT development, it is more crucial than ever that central banks and financial sector regulators are alive to these trends. This adds a further dimension to the challenge, in both developing and developed economies, of finding the right balance between being, on the one hand, a prudential regulator and, on the other, a facilitator for market development.

The latter goal is something to which the Bank of Botswana is unreservedly committed. As I have observed elsewhere, informed research has repeatedly indicated a causal connection between financial sector development, economic growth and poverty reduction. However, in many Sub-Saharan African countries, Botswana included, financial systems remain mostly small, fragmented and un-diversified, providing only limited services to an exclusive section of the population at a relatively high cost. Equally, while Botswana's financial sector is comparable in size to other countries in the region; it remains relatively smaller and less developed compared to that of its middle-income peers.

Notwithstanding, during the past ten years, Botswana financial sector has expanded rapidly, both in size and the range of services covered. In this period, cumulative growth of the financial sector, in real terms, has been almost exactly 100 percent, compared to 52 percent for the economy as a whole. A major driving force in this development has been the rapid growth of the domestic pension fund industry. Indeed the role played by the financial sector in supporting inclusive and sustainable economic growth was the central theme of the 2017 Bank of Botswana Annual Report.

Distinguished Ladies and Gentlemen, in broad terms, how should we go about addressing this challenge? Here, I start by making an obvious, but nonetheless important, point. A well-functioning, liquid and regulated market is good for development. It gives both investors and consumers confidence that their interests are protected in an industry where information asymmetries remain a chronic problem. At the same time, regulation can help confer legitimacy on regulated service providers.

As central bank Governor, I should also extend this point further. The sustainable development of financial markets is supported by macroeconomic and financial stability. Botswana has been lauded for its strong macroeconomic environment, a position which was recently reaffirmed by the 2018 Global Competitiveness Index. The macroeconomic environment was the best performing pillar for Botswana, with the country ranked first, globally, supported by a public debt to GDP ratio of 15.6 percent and inflation of just about 3 percent. To further support financial markets development, the Bank has recently initiated important changes in the communication of monetary policy, including the launch of the inaugural Monetary Policy Report (MPR) on September 9, 2018 at National Business Conference in Francistown. And on Monday, this week, the Bank published the second MPR following the Monetary Policy Committee meeting of October 22, 2018.

But, important as these developments are, neither observations address the key issue. That is, how can central banks deal with the problem that, at some point, developments in financial services that are otherwise legitimate and desirable may be held back, discouraged, or even halted by over-, or outdated, regulation? Here, I would highlight two distinct risks that must be addressed:

- First, the nexus between prudence and innovation may prove to be a challenge and too often financial sector regulators favour the status quo which, in turn, almost inevitably works to frustrate radical, but beneficial innovation. Moreover, this risk may be amplified by lack of appreciation for trends in modern technologies;

- Second, there is also a danger that the regulators overcompensate against this risk, by adopting too lax an approach, and welcoming all kinds of start-up entities so as not to stifle innovation. This may be aggravated in cases where more than one regulator has an interest, a situation which calls for greater collaboration, proper coordination and effective communication.

Navigating these risks remains work in progress, with central banks across the world adopting a wide variety of approaches. From my perspective key elements of a robust approach by central banks should include the following six elements:

First: clear leadership, guidance and consultation on the desirable direction for the development of the financial sector, including reforms to the regulatory environment. For this reason, the Bank of Botswana strongly advocates the updating of the Financial Sector Development Strategy, which is now two years past its end date of 2016. In terms of consultation, the Banking Committee, Botswana Financial Markets Committee and the recently established Financial Stability Council, provide important channels for consultation.

Second: leadership through advocacy and by example. The Bank is keenly aware that key legislation is out of date or missing. Regulations to support the growth of electronic payments have been finalised, while both the Bank of Botswana Act and Banking Act are in the process of revision. The Bank is also providing strong support for key developmental initiatives, including the development of the government bond market, within the established parameters of fiscal discipline, both through more active primary issuance and supporting the secondary market through establishment of a Central Securities Depository.

Third: as I have already indicated, central banks should invest time and resources to have necessary awareness in developments in ICT. Here, the subject of distributed ledger technologies (DLT), fintechs and crypto-assets comes to mind.

Fourth: where practicable, there should be some scope for easing the burden of regulations to allow innovations to be tested. Here, a particularly promising approach is the use of so-called regulatory “sandboxes” and other proof of concept frameworks, adopted by many jurisdictions including Singapore, Indonesia, Canada and, nearer home, in South Africa, where the South African Reserve Bank, working alongside commercial banks, recently successfully led the "Khokha" project to test the viability of DLT for processing wholesale interbank payments. Such sandboxes allow small-scale experiments under live conditions while being exempt from some legal requirements to keep down start-up costs and remove constraints on innovation.

Fifth: in scrutinising innovations in financial services, a simple five-fold test should be applied: is it a solution to a real economic problem, in a cost-effective way; does it offer a better service; is it faster; does it democratise access (improves financial inclusion); and, are there serious negative side effects? Many recent developments, notably the use of mobile payments systems, would pass these tests with flying colours. In contrast, despite the headlines and the hype they generate, the so-called crypto-currencies, such as bitcoin and ethereum, at least at their present state of development, would fail on all counts. For example, these crypto assets cannot serve as a reliable unit of account, trusted store of value or universally accepted means of payment. By the way, Bitcoin turns 10 today.

In conclusion, Paul Volcker, the former Chairman of the United States Federal Reserve, once famously said that the ATM was the only really useful financial innovation in banking. This was undoubtedly going too far: as I have already made clear, many Fintech innovations hold tremendous promise for improved security and speed of transactions and, importantly, financial inclusion. But it makes the point that central bankers have conservatism, and with it scepticism, ingrained in our DNA. This is how it should be. Not least, together with our co-regulators, Non-Bank Financial Institutions Regulatory Authority, the Financial Intelligence Agency and Botswana Communications Regulatory Authority, we act and serve public interest; collectively and in our respective statutory roles, are responsible for alleviating system-wide risks that are not always so readily appreciated by individual operators. As a case in point, measures to combat money laundering and other forms of financial crimes are undoubtedly inconvenient at the individual level. But this would be nothing compared to the inconveniences that would be experienced if international sanctions were imposed against Botswana for falling short of the required minimum standards on anti-money laundering and the combatting of the financing of terrorism.

That said, central bankers must also do their part to avoid the risk of what might be termed “reckless conservatism”, and embrace opportunities that not only meet customer needs but also, in many instances, reduce systemic risks.

Chairman of BSEL, Director of Ceremonies and Distinguished Ladies and Gentlemen, I thank you for your kind attention.