Address of Mr Yandraduth Googoolye, First Deputy Governor, Bank of Mauritius at the opening ceremony of the Seminar on Risk Based Supervision organised by AFRITAC South, Ebene, 10 July 2012

Mr Kamarenko

Ladies and Gentlemen

It is a great pleasure for me to address you this morning on the occasion of the opening ceremony of this Seminar on Risk Based Supervision (RBS) organised by AFRITAC South.

Let me start by extending a very warm welcome to our distinguished speakers and all the participants from Africa for travelling to Mauritius to attend this event.

We must also be grateful to the organisers for deploying so much resource in the preparation of this seminar. We are very privileged to have at our doorstep a reputable centre of learning. AFRITAC South, as you know, is the fourth centre in Africa. This centre, inaugurated on 17 October 2011 by Dr Min Zhu, Deputy Managing Director of IMF, is the culmination of a series of initiatives taken by the Government and the Bank of Mauritius. The launching ceremony, which I may recall, was a special occasion where we had the pleasure to welcome in Mauritius a large crowd from the IMF.

We are very pleased to see that the AFRITAC South is filling in our expectations by delivering a wide range of training programme that suit the 13 member countries that it would be serving from Angola to Zimbabwe. This year, I am made to understand that AFRITAC South will organise some 10 workshops, three of which will deal with banking supervision.

This seminar on RBS is the kind of training that we would wish to provide to every staff in our supervision outfit. So, for those of you participating at this seminar today, you must feel very fortunate. AFRITAC centres have been successful in assisting many countries in the region to introduce and implement RBS for banking institutions. I would strongly recommend all participants to consult the Guidebook on RBS prepared by AFRITAC East. This Guidebook, is a reference for those who have already implemented RBS in Africa, but also for others who consider introducing it. I do hope that the South will be as successful as our neighbours in the East in developing and implementing RBS.

Ladies and gentlemen

The turnout of the organisation of this event could not have been a better time. This is because, on one hand, the process of regional integration calls for greater harmonisation of banking supervision practice in Africa and, on the other hand, the financial crisis has revealed many shortfalls in the regulation of financial institutions that need to be improved.

As banking supervisors, it is our duty to protect depositors' interest against the risks posed to financial stability by our regulatees. We need to identify and deal with those risks promptly before they materialise. RBS provides a comprehensive framework to examine the weaknesses in corporate governance, risk management techniques and internal controls

before financial performance deteriorates rather than being satisfied with identifying what went wrong after the event.
RBS is an ideal framework but not an infallible one. It has not helped to avert the financial crisis, although it has been applied rigorously in many of developed economies engulfed in the crisis. But this should not discourage us to move forward in our implementation of RBS. In fact, in other jurisdictions RBS has been quite successful in preventing bank failures.

The financial crisis has generated important lessons for RBS, which among others, include:

- the need to develop more intensive and effective framework to supervise global and domestic SIFIs;

- the need to maintain an active oversight of key risks, such as liquidity, which have been downplayed;

- the need to focus more on system wide risks and the ability of individual firms to withstand them, and to integrate macro-prudential analysis into supervision; and

- the need to participate more actively in the supervision of institutions with cross border activities.

We have to learn from those lessons to take tougher and more challenging actions, and exercise more supervisory judgment to accommodate those needs into RBS.

Ladies and gentlemen

Let me continue my address this morning by sharing with you some of our experience in banking supervision. We have been conducting RBS for much of the past years. Our Banking Act requires us to conduct an on-site examination of every institution every two years.

Our prudent approach to regulation and supervision has enabled our banks to withstand the financial crisis. Banks have not been dealing in complex products and did not have exposure in the toxic assets that were at the source of the crisis. The Mauritian banking sector has continued to grow by 2.3 per cent in 2011 and remain profitable with the profit before tax reaching Rs16.0 billion (*Unaudited*).

Corporate Governance Framework

At the moment, we are bringing in improvements in the corporate governance framework of our financial institutions. The revised guideline on corporate governance, which has been submitted for consultation, has been aligned to the new recommendations of the Basel Committee. A lot of emphasis has been put on independent criteria for directors. We are requiring, amongst others, that the chairperson of a board be an independent director. We are also requiring the setting up of advisory committees/local boards for the branches of foreign-owned banks. Furthermore, more transparency is being required regarding the role of the board of directors in particular on ethical standards and corporate values. The responsibilities of senior management have also been revisited to enhance accountability.

Basel III

We are committed to adopt best international practices. The Bank was among the few jurisdictions in the region to adopt Basel II, which have brought in notable improvements in the risk management practices of banks. The ICAAP has contributed in enabling banks to provide capital commensurate with their risk appetite.

The Bank has expressed its commitment to implement Basel III in Mauritius and a Discussion Paper in this respect will be issued shortly to the industry together with a timeline for its implementation. Since banks in Mauritius are already well capitalised and have so far been shielded from the effects of the financial crisis, the Bank do not foresee that banks in Mauritius would be having difficulties in meeting Basel III. The capital adequacy ratio currently stands at 16.0% against the minimum legal requirement of 10 per cent under Basel II and a simulation exercise conducted by the Bank revealed that banks would be in compliance with the minimum Common Equity Tier 1 Ratio under BASEL III.

CAMEL Ratings

The Bank has been conducting CAMEL ratings evaluation of individual banks since 2004. This has enabled us to better evaluate the risks faced by our banks. We have started by communicating the results of our CAMEL ratings to banks to help them to improve their management of risks. With a view to promote greater transparency, we have gone one step further by embarking on public dissemination of the CAMEL ratings which an IMF's Article IV Mission in 2010 has described as a positive move. Mauritius is among the few countries and may be the only one in the Sub-Saharan region to have gone public with those ratings. I believe that the publication of the CAMEL ratings has brought in more market discipline in banking system.

Systemically Important Financial Institutions

The impact of failures of globally systemic banks cannot be undermined in view of their size, interconnectedness and complexity. National authorities will be required to work on a framework for domestic SIFIs. To address cross border externalities, the principles would have to be compatible with those of globally SIFIs.

To this effect, it is important to note that in Mauritius we have a few banks which control around 70 per cent of the domestic market. This is further worsen by a few group of borrowers having large exposures in the banking sector. The failure of any one group may have far reaching consequences on the banking sector. This calls for a constant review of the risk management framework of banks. In this connection, the Bank is improving its database to monitor the risk posed by these large concentration of risks. The Bank is also bringing in new regulatory requirements to simplify corporate structure of Domestic SIFIs by requiring our complex banking group to separate their banking from non-banking activities to better manage their risks. The Bank is also looking for new players to bring competition in the banking sector.

Cross Border Supervision

We have also signed various memorandum of understanding with foreign regulators, which amongst others, have helped us to have a better oversight on the regional operations of our local banks. The Bank also participates in regional financial stability initiatives, whether at the level of the Regional Consultative Group for sub-Saharan Africa of Financial Stability Board, SADC Sub-Committee of Banking Supervisors or COMESA. We also conduct regular risk based on-site examination of the overseas operations of our local banks. The Bank is envisaging to set up supervisory colleges for SIFIs.

Macro Prudential Supervision

As part of our macroeconomic oversight, the Bank also conducts periodic on half yearly basis stress test on the health of whole financial system. Comparable, stress test exercises conducted by the IMF's article IV mission at the beginning of the year have concluded that our banking sector is resilient and well capitalised. The stress tests conducted by individual banks are also evaluated as part of the review of their ICAAP.

Consumer Protection and Financial Education

The increased complexity of many consumer products is arguably one of main causes of the current crisis. We are also much in the business of regulating banks' charges, fees and commission to safeguard the interest of public. Not later that last Wednesday, the Bank has set up a Task Force on Unfair Terms and Conditions in Banking and related financial contracts to investigate into the terms and conditions of contracts including fees, commission and charges. A working group has also been set up with the participation of the Mauritius Bankers Association to simplify the language used in contracts to make them more understandable for customers.

Conclusion

Risk Based supervision has enabled us to challenge the businesses we regulate. It has helped us to achieve our objective of maintaining a stable financial system. However, this approach is not infallible - we cannot guard against all risks. I believe, the Bank of Mauritius has been able to achieve that objective and will continue to aim higher to build a more robust financial system.

Let me end by wishing all the foreign participants and speakers a pleasant stay in Mauritius and very fruitful deliberations over the next four days.

Thank you for your attention.