

**Transcript of an Address by  
Mr Rundheersing Bheenick, Governor, Bank of Mauritius  
at the Reception held on the occasion of the official opening  
of the Head Office and Main Branch of ABC Banking Corporation Ltd  
9 December 2010**

For a central bank governor, it's always a pleasure to give a licence, it's not that much of a pleasure to be one when you withdraw the licence. So I hope that we will not see many licences being withdrawn this year or in the coming years. But in case banks believe they can get away and flout rules and regulations, and that applies as well to the newcomer on the block, we can withdraw licences. And I did use that privilege when I was wearing a different hat, and former Governor was my good friend, Dan Maraye. We withdrew two licences in the same year very quickly. So, just to warn you very gently while we are welcoming new players, we also have a very tight punch, we pack a powerful punch. We may be wearing two gloves but don't stray from that narrow path of prudent banking. Do not play hard and fast with depositors' money or we shall be falling on you like a ton of bricks!

I did start the day by cutting the ribbon jointly with the Honourable Vice Prime Minister and Minister of Finance and Economic Empowerment, Honourable Pravind Jugnauth, when we inaugurated the Head Office and Main Branch of ABC Banking Corporation. Most of you were not there this morning, so I can repeat some of the things that I said this morning, and perhaps add a few things in the light of what I heard the Chairman and the CEO say earlier.

First of all, I said that this morning marked a double first for me as Governor. A double first why? The first first was that it was the first time since the Honourable Vice Prime Minister and Minister of Finance was appointed and I was reappointed as Governor that we were officiating jointly anywhere any function. And it was good that we were taking this first step with a bank that's called ABC. And we thought that having gone through that we should walk our way right through the alphabet.

The second first was that ABC Banking Corporation is the first institution to graduate from NBF, which is non-bank financial institution to NBDTI, non-bank deposit taking institution, to what is now a full bank. And this is entirely in keeping with the Banking Act and the Bank of Mauritius Act where the capital requirement which distinguished banks from non-banks has disappeared. And since then, the Bank has been encouraging non-banks to graduate to full bank status so that the full discipline of banking regulation would apply to them.

And I could now probably add a third first to that and that is the first time in my life that I am starting the day making a speech to open an institution and I am closing the day making a speech to celebrate that opening as well. So ABC Banking Corporation is at its very start and I hope you will go from strength to strength. But don't count on me to speak for you night and day in future.

You are taking your first steps in the banking world at a time of great challenge. Everybody knows that the world is living through the biggest banking and financial crisis that this generation knows. Therefore one must be very brave to engage one's capital in this particular area. But you must have heard on this same podium when I spoke last week or the week before, banks in Mauritius are making 50 million rupees per day. So perhaps it's quite normal that ABC should try to get a fair share of that lolly. So I must say I was sitting almost next to the Chairman of the MBA – they had provided a small space in between us. And the Chairman of the MBA inquired two things from me: Do I intend to give more banking licences? The second question he put to me: Do I intend to talk about the profits again or should he leave right away? But he was not present at the opening this morning and whatever I said here at the Annual Dinner in honour of Economic Operators was child play in comparison with what the Honourable Vice Prime Minister and Minister of Finance said. Basically we feel that banks should have been doing a much better job in channeling credit to parties that need credit. I talked about the credit not going to the manufacturing sector. The Minister spoke of credit not going to the SMEs. The message is the same – one of convergence. Reward the banks that play a full role in the economy to help us to reposition ourselves in a world that is rapidly changing around us.

So while ABC hopes to get his fair share of this big pot of profits that comes every day, it also has quite some advantages on its side – its closeness from just across the road from two giants of the local banking scene. No matter how small you are in the banking world, the fact that you have a banking licence allows you to take on this big competition confronting you. And the great advantage you have is that all the former banks, all the old banks may have great brand image, they have brand loyalty, they have customer loyalty, they have a balance sheet that probably impresses all people in the world for a small country like ours – but what you have is what they don't have. They have bricks and mortar, you can build on clicks and mouses. They have an overdeveloped branch network, you are starting off lean and small and fit. So without becoming big, you can harness technology to take on the competition and perhaps deliver on that logo I saw this morning unveiled in front of us which said: "Count on us". I hope that we at the Central Bank can also count on you, ABC Banking Corporation to deliver all these promises that yourself, Mr Chairman and your CEO, Mr Alkushari so eloquently made here on this

platform publicly. Just in case you don't, I got a whole army of bank inspectors who will make sure that you stick to the letter and the spirit of the guidelines that we keep revising all the time to ensure that the financial contingency and the banking sector misdemeanours from elsewhere do not contaminate our domestic banking sector. So I wish you good luck as you harness new technology to take on the big competition because at the end of the day why we give you a bank licence is to enlarge competition, is to give a better deal for the consumer and to make sure that the banking sector is efficient and competitive. Yes Mr Chairman of the MBA, I will be licensing additional banks because that brings in more competition. Cartels are off; oligopolies don't exist in our book. So we will be putting out the welcoming mat for additional banks. So watch this space for few more bank launches.

Secondly, the question you put to me, whether I am going to continue on these "excess" profits – excess in inverted commas – that banks are making. The answer is No. Because we do want you to make profits! Because we don't want you to become wards of the state! Because Bank of Mauritius is not big enough to bail out the entire banking sector in Mauritius! So we want you to be profitable but it must be carving a little more profit in a way that you accompany the economic operators in the country and thus help the cause of economic development in this country. So we won't bother too much about your bottom line but we really insist that more credit goes to the priority sectors which are being starved of credit right now. And that is something I do intend to discuss further at the Banking Committee Meeting tomorrow. And I hope that the CEO of ABC Banking Corporation will be present to get a feel of what it means to be in that club with the Central Bank, where you have a dialogue on all subjects that have an impact on the banking sector so that we continue to fulfill our mandate both us as a regulator and you as bankers. So that's the general message and we welcome heartily this new kid on the block and we hope we will be joined by many other players, all motivated by the same noble sentiments that we heard on stage this evening.

The last point I wanted to make has a bearing on what the Minister said this morning. The Minister referred to many initiatives in his Budget that he handed down a couple of weeks ago. Among the things that the Minister raised, that I consider very important for the regulator, is the announcement he made that there will be a detailed study carried out to ascertain whether it is not more efficient for us as a small island state to have a single bank and financial sector regulator instead of the twin peal model regulator that we have. And this is something which we at the Central Bank attach tremendous importance. Already we see a shadow banking emerging under our very eyes. You know what they say – if it looks like a duck, if it quacks like a duck, then it must be a duck. So, here we have an institution which looks like a bank, which forks out

like a bank, takes deposits under one licence and starts giving credit from a different licence, then in my book, they are banks. This kind of shadow banking is emerging firstly because there are cracks in my regulation where two competing regulators are vying for space. And this is exactly what led to the debacle that we know with the Northern Rock fiasco in the UK, which provoked the merger of the Financial Services Authority and the Bank of England in the UK. We are very keen on this merger and we are bringing in noted experts on matters related to banking. A gentleman by the name of Sir Alan Budd who was a chairman of a college in Oxford, a professor for Queens College, before that he was the Head of Government Economic Services, he was Group Economist for Barclays Bank, he was a member of the Monetary Policy Committee of the Bank of England, and at his last installation, he was the first director of the Office for Budget Responsibility, newly created by the last Labour Government in the UK. So he will be coming out here to advise us after having a dialogue with all the participants on how we can give effect to this better, stronger unified regulator that the country needs, if we are to avoid the pitfalls of shadow banking and banking operators who may exploit any gaps in our regulatory coverage.

The second point I want to talk about is the Sovereign Wealth Fund (SWF) that was also mentioned in the Budget speech. And there I am a bit more apprehensive. I am apprehensive because when I first raised the issue of the creation of a SWF in Mauritius about three years ago, my motivation was quite different from the one I hear being talked about everywhere now. I never thought of the SWF as a Fund which is going to stabilize the exchange rate. I never thought of the SWF as a Fund that will dip in the reserves of the Central Bank and take it away to another pot to be managed by somebody else. Why I don't believe that, for two reasons: To remove the reserves from the ambit of the Central Bank, by definition they do not count as reserves any more in the definition of the IMF. Therefore our reserves coverage goes down immediately, our rating – sovereign ratings – our credibility as a nation goes down, our standing in the African League where we are doing very well right now on macroeconomic convergence criteria in SADC, will go down immediately. And worse if that SWF uses our reserves of Central Bank which are our national reserves, puts them in a pot separately and uses them for its own foreign exchange policy, betting against central banks, I think it is a mud game. And we can do better to avoid that kind of thing – so here we will really be making a detailed study. And one model for that was what's happening in Norway. Norway has completely different considerations – they use their oil money, not for today's consumption but for future consumption when the oil runs out. They put that under the aegis of the central bank, a dedicated office but under the aegis of the central bank. And the gentleman who runs the SWF is actually paid more than the Governor of the central bank because he takes more risks. I

think that is a much better model for a small country like ours than to create an independent SWF managed externally, jousting with our reserves, attacking our currency and working across the central bank whose job it is by law to manage both the reserves of the country and the exchange rate of the country. I thought I should express my concerns on this since the debate is open. And any of you who have different views may express them to our consultants who will be coming to discuss the ideas further.

But to come back to the event of this evening, I thought that ABC Banking Corporation can take its cue from the motto of that first shop corner that Donald Ah Chuen, my good friend Donald, tells me about his father. That corner shop started at the height of the Great Depression when the world economy was in the doldrums and few people would think of investing for the future. That was when ABC started. And the next generation, the generation of today, the board of ABC, its chairman, its directors are deciding to hazard in the banking field in already troubled times when few people can take a bet on the contours of the global economy in the coming months. So, the spirit of daring is there. So I congratulate you for that!

The other area that you can take a cue from what Sir Jean Ah Chuen did, was his motto for his ABC corner shop. It was “House of Quality and Service”. So you can also take your inspiration from him and provide quality services with a range of products lauded by your Chief Executive and Chairman so that you can wow your audience and you walk away with all the clients throughout the competitors. So I hope ABC Banking Corporation will get closer across the street the two gleaming towers that seem to be dwarfing it now.

I wish you plenty of success to you, your board and your staff as you work in that direction.