ADDRESS BY MR RUNDHEERSING BHEENICK, GOVERNOR, BANK OF MAURITIUS AT THE LAUNCHING CEREMONY OF CIM VISA CARD BY CIM FINANCE LTD ON 23 MARCH 2011 (As prepared for delivery)

Let me begin by thanking CIM Finance Ltd for their invitation to be the guest of honour at the launching ceremony of the CIM Visa card. Outright I can say that you have moved today a step further in the financial sector by introducing your second credit card. You took your first step in 1996 when you started offering leasing services. In 2005, you became the first and to-date the only non-bank financial institution to issue a credit card with the MasterCard accreditation in Sub-Saharan Africa. Today your company has assets of around 4.4 billion rupees, including your HP and factoring business, and you describe yourself as a leading provider of consumer credit in Mauritius. Your company has come a long way indeed!

You demonstrate your desire to continue to expand your financial products. The impetus does involve globalization. The Visa Card will enable your customers to gain access to the Visa global payments network, which reportedly operates in more than 200 countries. The launching of the Visa Card is in line with economic openness, an objective pursued by the Bank. May I therefore congratulate the Management and staff of CIM Finance Ltd for their commitment to enhance the quality, depth and outreach of the services that they provide?

I understand that you will soon be launching the *PayMobile,* a mobile payment system. May I digress a little to comment on this new product which falls into what I would call a grey area? Let me share with you some of my thoughts on the matter. The Bank of Mauritius is not empowered, according to our interpretation of the law, to authorise mobile money transfers. On the other hand, the law requires us to manage the national clearing, payment and settlement system, in collaboration with other relevant supervisory and regulatory bodies, and if the *PayMobile* is a mode of payment, then it would come under our purview. These issues raise many questions, namely that of "e-money" regulation, consumer protection, stability of the financial system, and competition and interoperability.

E-money has in some countries moved from a payment product to a full transactional banking product that could be used in other ways, such as a savings account. In Mauritius, where our mobile penetration rate is 99 per cent for a population of nearly 1.3 million (and around 375,000 fixed telephone lines), this means of payment seems very convenient for low-value transactions. If the service runs in the low-value segment, it would not have systemic impact. But the matter needs to be discussed further with all parties concerned – CIM Finance, the telephone service provider, the carrier or gateway, and other regulators, namely the Financial Services Commission and the Information and

Communication Technologies Authority (ICTA). There should be some coordination between financial and telecoms regulators. In fact I have already had meetings with the ICTA in this respect. Regardless of what the law says, I don't believe that it was the intent of the legislator that a payment product would go unregulated. Please do not get me wrong – we are not against this new product! But we need to be prudent and alive to any possible danger and ensure that there are not any pitfalls ahead.

To come back to CIM VISA card – the Bank of Mauritius fully backs such developments and pledges the necessary support to all financial institutions which roll-out new products for the benefit of their clients. But as the regulator, we are fully aware that along with such initiatives comes a wide range of inherent risks. These risks should be carefully evaluated and credible mitigation measures must be put in place to ensure the safety of depositors' funds and preserve the soundness of the financial system.

My first advice to you is that you should conduct a proper screening of your clients to ensure that your credit card advances do not turn into bad loans. You should ensure that you have in place procedures to chase the bad clients and a good fraud investigation framework. Your recent participation in the Mauritius Credit Information Bureau will certainly contribute to a better assessment of the creditworthiness of your prospective borrowers and reduce your non-performing loan ratio. Therefore, prudence in credit risk management should be your priority.

Growth in the use of credit cards has been, to say the least, spectacular. Between 2000 and 2010, credit card advances increased by more than 175 per cent. The credit card has grown to become a ubiquitous financial product used by households. There are presently more than one million credit cards in circulation for total advances amounting to 1.6 billion rupees – the biggest chunk, 1.5 billion rupees, represent personal and professional sectors – which means that there has been a notable change in consumer behavior.

Consumers use credit cards for two purposes: (i) as a substitute for cash and cheques, and (ii) as a source of revolving credit. Therefore my concern is whether the consumer fully understands the costs and implications of using credit cards and whether credit cards are encouraging over-indebtedness, particularly for those least able to pay? In the US, for example, many households have thus been caught in the so-called "plastic trap" – consumers do not seem to be able to repay their balance, especially those who opt to pay only the minimum repayment amount by the due date of each month. In Mauritius, credit card advances currently represent around 3 per cent of total household credit. Concurrently, credit to the household sector by banks has been growing at a faster pace than nominal GDP (although the credit was mainly for property acquisition, generally viewed as a low risk investment.) As a regulator we need to remain vigilant and keep an eye on the delinquency rate of credit cards. And so should you for the health of your loan portfolio.

My second concern which of course is more in the nature of an inducement, not a concern, for you is that card business is very good business. Financial institutions that are in the card business know that they make very good money from card-related fees. Since credit cards are unsecured in nature, interest rates on credit cards are very high – around 2 per cent monthly. There are also fees for late payments, fees for cash withdrawal, and other penalties, on top of the hidden “swipe fees” that banks and credit card companies collect each time a customer pays with his credit card. Unfortunately, most of the time, such costs are passed on to the customer. And I can tell you, time and again we receive complaints from the public that credit card fees are prohibitive. In the US there is what I call the Battle of the Swipe Fees raging on. The Senate passed an amendment directing the Federal Reserve to reduce “swipe fees” (on debit cards) and to limit them to the “reasonable and proportional” cost of each transaction. You can imagine the intense lobbying from banks to push for changes, or outright repeal of such a legal requirement, arguing that they are being deprived of a significant source of revenue and that they would be forced to trim down on some of their services to recoup the loss. On the other hand, you have merchants arguing that the fees levied by banks are too high and that without those fees, they could offer products at reduced price to customers. The battle over the swipe fees is in full swing – each party hotly defending his position. My concern as a regulator here is that financial institutions should of course be able to cover their costs but, at the same time, the customer should get a fair deal.

This leads me to my second advice to you: Make sure that information on credit terms is available to your customers, and equally important, that they fully understand them – this will enable them to use their cards wisely. We can draw our inspiration from US Credit Card Accountability Act of 2009. The law protects consumer rights and abolishes the “predatory” lending practices I referred to earlier. One of the requirements is that monthly credit card statements should include information on how much that credit is actually costing the consumer. The statement now indicates the amount of time it will take for the client to pay off his balance if he only makes the minimum payments. It also indicates how much he needs to pay each month to get rid of that balance in three years. Such requirements go a long way towards a better management of credit card debt in a country which has about 54 million households with credit card debt – each carrying over 3,000 dollars. If these requirements are good for post-crisis US, they surely have some interest for us.

Our Banking Act (2004) makes it mandatory on financial institutions to disclose information on credit terms, while not being as specific as the more recent US law. I would urge customers to pay attention to those terms to avoid paying interest which could instead have gone in a savings product.

Financial institutions do not spare any effort to promote the use of cards – they offer exclusive discounts in restaurants and shops, insurance covers, gift vouchers; frequent card users can even win cars. We are becoming a consumerist society – which brings me to my third concern: The savings culture is losing ground. Over a ten-year span, we note that the savings rate nearly halved, declining from 26.3 per cent in 2000 to 14.4 per cent in 2010. Concurrently final household consumption has risen from 60.3 per cent in 2000 to 74.8 cent in 2010. We are witnessing a radical societal change since the last decade. A new economic model is taking shape – lenders are manufacturing more credit facilities, and consumers are borrowing more in order to keep spending. We in Mauritius need to be cautious about this drastic transformation – we should not fall into the trap of a credit culture but find ways to go back to our savings traditions.

Many analysts relate the low savings rate to the fall in the Key Repo Rate – an argument that I do not fully endorse. In simple economic terms, savings is income minus consumption. So as our standard of living rises, our needs increase, consumption rises, and our disposable income gets squeezed. This is why we at the Bank of Mauritius have always resisted pressures from certain sectors to take monetary policy decisions in their favour – our major concern has always been the interest of the wider economy.

Turning to the state of our financial sector, the last IMF Article IV Mission made positive comments on the supervision and regulation of the banking sector by the Bank. The regulatory and supervisory framework greatly contributed to the resilience of the sector. We will therefore continue to strengthen our supervisory framework, and our supervisors will continue to remind and badger institutions to hold firm to sound risk management principles.

Another issue is competition in the banking sector. We believe that the best way to enhance competition in the banking sector is to make it more transparent and as competitive as possible so that consumers can make more informed decisions in their choice of financial products. The issue of transparency is very important for the Bank. Transparency enhances competition and competition is good because it promotes economic efficiency and ultimately growth. It maximizes welfare by ensuring that the greatest quantity of credit is supplied at the lowest price. After almost two years of hard work and consultation with banks, our framework for assessing the financial strength of banks, the CAMEL Rating has been refined and will be made public at the beginning of next month. For those who may not know it, the CAMEL rating framework is made up of five components – **C**apital, **A**sset quality, **M**anagement, **E**arnings and **L**iquidity – in respect of which each financial institution is assessed. We are working on devising a similar framework for non-bank deposit taking institutions (NBDTIs) to provide the public with vital information on the financial standing of NBDTIs.

One final point I would like to raise is that the Banking Act stipulates that NBDTIs with a strong capital base be encouraged to graduate to full-fledged banks and go for a full banking licence. In June 2010, I had the pleasure of issuing a banking licence to our first NBDTI to convert into a bank – I would certainly like to see CIM Finance Ltd move in the same direction.

I therefore congratulate your board, your management and staff for taking another step in widening the scope of your operations. I certainly welcome all initiatives that will deliver innovative financial services to the public.

I wish you every success in your future plans and I have now the immense pleasure of launching the CIM Visa Card.

Thank you for your attention.