Address by Mr Rundheersing Bheenick, Governor of the Bank of Mauritius, on the occasion of the Re-branding of First City Bank Ltd to Bank One Ltd

'Thou art translated'

A very good evening to all of you.

Today is a propitious day. Indeed a palindromic day. A day when forwards and backwards it remains the same. We have the quintuple palindromic zeros of the Olympics, opening today. Then today itself of course is palindromic (the triple 8's of today's date: the 8^{th} day of the 8^{th} month of the 8^{th} year of this century). So I am delighted to be present here on this occasion when we witness the translation of the First City Bank Ltd into Bank One Ltd. The first Bank into Bank number one! How fitting a symmetry for a palindromic day!

My name is Bheenick. Manou Bheenick. And I am a double O too; or perhaps a double O three. For those of you who are familiar with the *opus* of Ian Fleming, that's one better than the eponymous James Bond. I have three licences; and for the very first time, I shall be operating all three licences on the same propitious day.

I have a licence to print money: we are always doing a bit of that, though in the name of St. Milton, not too much! Then I have two other licences: a licence to open banks and a licence to kill them. Mercifully, today I am operating those in reverse order. Killing off one Bank and then opening Bank One! Here, I have to confess to a secret dream…a monthly recurring dream, about applying this power to certain of my committees operating at the Central Bank!

But let us examine how the translation procedure for this bank has come about. Our hosts have had, if I may use the phrase, a rather chequered past. No secret this. First in the guise of BCCI, which became quite notorious in international banking. Then a makeover to become Delphis Bank Ltd, whose promoter seems to have done a fair bit to live up to BCCI's unsavoury reputation. Then transmuted to be fashioned as the First City Bank which became the first bank in the city which I had to worry about when I became Governor. And now, its warmly anticipated reincarnation. The new management of Bank One Ltd is in the hands of a well-regarded Kenya-based Investment and Mortgage Bank and a prominent local business house, CIEL Group. Bank One Ltd. is now being set up to become a fresh and exciting player on the field for a new premier banking season full of promise.

You might ask, what's in a new name? But changing names is often a special event. On marriage for example; what was she before she was Mrs. Thatcher? On stardom: to take a couple of well-known examples from Tinseltown, what was the name of John Wayne or Marilyn Monroe? On religious conversion; that great Olympian with that great punch will surely be always renowned as Mohamed Ali. And it was not just for a change of name that we as a nation underwent mass conversion into the Republic of Mauritius.

Thus a new name is an integral part of re-branding. It is a signal to the world; a break from the past. A much-needed one in this case. But as such it must not be merely a signal for the outside world; it must also be internalized in the very spirit of operation of the bank. The essence is in the transformation of the inner space. This re-branding exercise must renew the very gears of this bank, to give it the capacity to adjust effectively to the ever more challenging banking world.

New customers come to you if you offer a distinct and improved level of service. The new branding makes the promise; it is now for you and your staff to deliver on it. These good first impressions will only yield returns if they are matched by the lasting reality of the accessibility, profitability and security of transacting business with you, and your positive contribution to the economic growth and development of this country.

We at the Central Bank, share in the joy of this occasion with you today. Yet we shall keep an ever-watchful eye on your development, as a watchdog must, to safeguard this country's reputation for probity as an international financial centre. A central bank always welcomes new ventures; and a failure or two: '*pour encourager les autres*!'. Today we have in a nutshell one of each; a demise and a resurrection.

Looking beyond our shores, it is not a good time for banks. Many, today, are suffering from a liquidity crunch from the extremes of the credit delinquencies of the past. Can we be sure that the Basel II framework can provide greater protection in the future? Capital adequacy, even when risk-based, is no substitute for liquidity when markets dry up. You will know that we at the Central Bank have also embarked on a review of the operational guidelines to give banks more functional freedom, without losing sight of prudence. Growth in the financial sector must be matched with the best standards of governance.

It is heartening to note that the banking system in Mauritius has remained insulated from the meltdown in the west in the wake of the sub-prime mortgage lead crisis. Today, looking back over the twelve months ended June 2008, we are seeing strong growth in the banking sector. The number of bank branches in the country has increased from 178 to 186. The number of ATMs has gone up from 334 to 382. We are now on the threshold of issuing licenses for the first Islamic Banks. These fresh players will keep you all on your toes.

June to June figures show the total balance sheet of our banks growing from about Rs 624 billion to Rs 729 billion in June 2008, that is an increase of over Rs 100 billion in one year. There is more than adequate liquidity in the system. The declining trend in the percentage of NPLs to total loans continued. Profits during the year shot up by Rs 1 billion, or 11 per cent higher than the previous year, and were just shy of Rs 10 billion. The capital base of banks continues to be strong. The shares of the two listed banks have held steady on the local stock exchange. So much so that these two banks now account for an astounding 42 per cent of total market capitalisation, compared to little above 30 per cent in June last year. We trot out these figures with some satisfaction. We are nevertheless, aware that there is no room for complacency either on our part as regulator or on the part of the banks themselves. We will maintain our vigilance and we will be proactive in dealing with any asset bubble or liquidity crunch, should we foresee any on the horizon.

As a regulator on banking, one has to say, that in the past there has been rather too much inertia in the area of consumer choice, unrelated to evidence-based assessment. We want to achieve greater transparency regarding spreads, fees, charges, commission and the like. We are currently looking at ways of promoting both more 'shopping around' and enhancing consumer financial literacy.

We are also working with our friends in the Mauritius Bankers Association to stimulate competition in the cash segment of the foreign exchange market. We have just licensed 14 new money changers. To bring them on stream in an orderly manner we are putting in place an on-line real-time monitoring system. This is all part of the vigilance necessary to improve on our record in the implementation of the Financial Intelligence and Anti-Money Laundering regime.

You are all aware of the tough times we are going through now and the even tougher times that lie ahead as inflationary pressures intensify. Sustained monetary and credit expansion have compounded these pressures. Broad money and private sector credit have been accelerating, almost doubling their rate of growth. Credit to the private sector increased by 22 per cent during the fiscal year 2007/08, compared with 12 per cent last year: Broad money supply expanded by a hefty 17 per cent, as against an increase of 8.6 per cent in the fiscal year 2006/07. Headline inflation has climbed to 9.1 per cent in July 2008, while the year-on-year inflation, has crossed into double digits to stand at 11.5 per cent at the end of July 2008. How I wish I had been wrong when I forecast precisely this kind of outcome two months ago!

At this present juncture, we at the central bank have been examining the various options available at hand. Here, I feel I must preface what I am going to say by pointing out that I was actually looking forward to abolish the Cash Reserve Ratio. Such a step would level the playing field between domestic and offshore banks, or more precisely in our jargon between Segment A and Segment B activities of banks. It would enhance our status as an international financial centre. It would naturally have to be preceded by other measures relating to depositor protection and prudential requirements. These are all issues that we have on the drawing board. I still hope to be able to implement them on my watch. But they are not to be ….. not just yet. We have to put them on the back burner. We have other, more urgent, fish to fry. We cannot allow an inflationary psychology to take hold. We must protect the purchasing power of the people. Much as we would have liked to avoid it, we seem to have very little option than to raise the Cash Reserve Ratio requirement. Let us remind ourselves that this tool is being resorted to by several central banks around the world in their own fight against inflation, often in conjunction with steep rate hikes. Therefore, after careful consideration of all aspects, the Bank has decided to raise the Cash Reserve Ratio from 4 per cent to 6 per cent.

I must reiterate here that any tightening of monetary policy stance is always a painful exercise for central bankers.

Finally, while I am on this subject of inflation, let me add that in the debate surrounding the recent discussions of our Monetary Policy Committee and on inflation generally, it is important to distinguish between the medium and the message. I depart somewhat from Marshall McLuhan's message that the medium <u>is</u> the message. This is certainly not the case here. As Chairman of the Monetary Policy Committee, I am reminded of some other more appropriate words of McLuhan who said on one occasion ‘I don’t necessarily agree with everything I say’. As Governor, I must stay on message with the mantra of monetary stability. Let us focus the debate on the evidence, the options in dealing with inflation and the signals to be made. Forget the medium. Hear out the message. And yes, don’t shoot the messenger.

With these words, I sincerely hope that this re-branding exercise will steer a new path for this new bank. I wish the new owners and the new management all the very best in their endeavour.

So, as Governor of the Central Bank of Mauritius, on this most propitious day, I do now exercise two of my powers and hereby revoke the licence of the First City Bank……Oh yes, of course, ….. and it is my great pleasure to inaugurate a new licence for Bank One Ltd.

Thus in the words of Peter Quince:
‘Bless thee …Thou art translated!’

Thank You.