Address by Mr Rundheersing Bheenick, Governor, Bank of Mauritius, on the occasion of the grant of a new banking licence to Barclays Bank Mauritius Limited, Port-Louis, 23 May 2013

I am delighted to welcome you all at the Bank this afternoon. A special word of welcome to His Excellency Mr Nicholas Howard Leake, the British High Commissioner. We are very pleased to have you all with us on this occasion.

Today is an important day in the history of Barclays in our country. After almost a century of operation in Mauritius, Barclays Bank PLC, Mauritius Branch is converting into a wholly-owned subsidiary to be henceforth known as Barclays Bank Mauritius Limited. Early this week, the President of the Republic, acting on the advice of our Prime Minister, Dr The Hon Navinchandra Ramgoolam, FRCP GCSK, appointed me to a new term as Governor of the central bank. I am reminded that in August 2008, I revoked the banking licence of the now-defunct First City Bank and the equally-defunct South East Asian Bank to issue a new licence to their successors who are still thriving here which makes this a concatenation of four 3's. It is thus on the 3rd day of my 3rd three-year term as Governor that I am proceeding to announce the revocation[1] of the 3rd banking licence, and I believe the Barclays people are actually rejoicing at this revocation!

So are we at the Bank of Mauritius. A century ago, the central bank did not even exist – we are younger than Barclays Mauritius by almost two generations. Today, as regulator and regulatee, we have a strong bond of partnership. We are placing this partnership on even firmer foundations by extending the legal arsenal available to the Bank of Mauritius and deploying it to such good effect in the Barclays case. Let me explain.

Nearly six years have passed since the global financial crisis unfolded. Central bankers, commercial bankers, financial commentators, academics and other finance professionals have been on the case ever since, busily drawing lessons from this prolonged crisis. Countless international fora have examined the appropriate policy frameworks to deal with issues identified as having exacerbated the crisis such as structures that were too complex and banks that were too-big-to-fail or too-connected-to-fail. An international agreement on a cross-border resolution mechanism for internationally-active banks is not likely to be reached in the near future. We are waiting with bated breath for more rapid progress with the banking union at the level of the European Union. We cannot wait for all the lessons to be learned and new institutions to be forged, before we, as regulator, reflect on how these lessons can be applied to our own banking system.

Our problem is somewhat smaller, and certainly less intractable — provided we have an open mind about it. Someone has said:

"More powerful than the will to win is the courage to begin."

In the case of Barclays, we have amply demonstrated the courage to begin the process of restructuring. Our banking sector is made up of 21 banks, of which five operate as branches of

[1] Technically, it is a surrender of licence under Section 11 (7) of the Banking Act 2004.

foreign banks. Of these, we consider a few to be Domestic Systemically Important Banks (DSIBs), in view of their size and complex structures. The global crisis highlighted two sources of vulnerability that the Bank needs to address to ensure the stability of the domestic financial system. The first is the need to protect affiliates of cross-border banks operating in our jurisdiction from any potential problem affecting their parents in their home country. The second vulnerability stems from the fact that the failure of a DSIB could not only impair the provision of key financial services but also have knock-on effects on other parts of the domestic economy. These issues have been exercising my mind for quite some time. This is why I have been encouraging branches of foreign banks operating in Mauritius to convert into locally-incorporated subsidiaries, and urging our DSIBs to reduce the complexity of their structures by resorting to what is now labelled as "ring-fencing." We have been setting the stage for some time.

That is where Barclays enters the scene, in pursuit of its "One Africa Strategy". It is seeking to align the legal structure of its Mauritius branch business with the rest of Barclays Africa entities. Barclays sought our approval to become a wholly-owned subsidiary of Barclays Bank PLC. Barclays was the first of the targeted banks to do so. Just as it had also been the first to set up a Local Advisory Board for its branch operation in February 2012, well before we enshrined this in the revised Guideline on Corporate Governance in August 2012.

Rarely have two simultaneous objectives, coming from opposite sides of the decision chain, from the regulator on the one hand and from the regulatee on the other, meshed so well to trigger an important change in the banking landscape. The effects of the change will translate into more muscle for both the Bank of Mauritius and Barclays. Barclays will undoubtedly emerge stronger from this restructuring, and the Bank will have more room for manoeuver to exercise an effective oversight of the system and reduce its financial stability concerns. But in spite of the clear and expressed support of the regulator, the road leading to Barclays restructuring its operations into a subsidiary was like an obstacle course.

From the moment Barclays started the legal procedures to restructure itself, after obtaining the blessing of the central bank, it became evident that our laws and processes were not designed to meet today's needs. Banking legislation did not provide the regulator with the powers to enable a "seamless transfer". And Barclays had to have recourse to a Scheme of Arrangement, to be approved by the Supreme Court, in line with the general provisions of the Companies Act. To our mounting frustration, the project led to prolonged litigation and became mired in procedural entanglements. We realized that, had we found ourselves in a crisis situation, the legal procedures would not have allowed us, as regulator to act rapidly to resolve matters and ensure financial stability. In times of crisis, no regulator can afford to wait for months on end for a bank to reorganize itself. The problem was exacerbated by a number of objections — some of which came from within the banking sector itself. As we went from court hearing to court hearing, the whole restructuring process gradually became lengthier and more cumbersome, with the outcome increasingly unclear and uncertain. Of course, the Bank had a Plan B up its sleeve to fall back on. This had in fact been raised in the early days when we first discussed the restructuring plan but we thought it was a very remote possibility that we would ever have to resort to it. Well, how wrong we were!

Plan B involved an amendment to the Banking Act to provide for an expedient process for banks to restructure their respective businesses − always subject of course, to the approval of the central bank. Interestingly, this piece of legislation was welcomed by both sides of the House when it was debated at the National Assembly with a Certificate of Urgency. Our legislators fully understood that the Bank needed more specific provisions in the banking legislation itself given the systemic importance of banks, and the legislative amendments were approved *illico presto*.

The new provisions are quite wide-ranging. They allow a financial institution to restructure its business with the approval of the central bank. They also empower the central bank to direct a bank to restructure its operations. These provisions make the restructuring process clear, leaving little room for controversy or for differing interpretations. When Barclays petitioned the court under the Companies Act, there had been different interpretations of the proper procedure to be followed. Objections were raised by some parties. I thank those parties who objected to Barclays' initiatives, as they have indirectly contributed to a rapid resolution of an issue that would otherwise have dragged on and on.

With the new law and the clarity it now provides, such a situation should not arise again. However, I am told lawyers are reserving their rights to object – this is fair enough. Lawyers will be lawyers. As a breed, lawyers do not like clarity. If laws were always crystal clear, just imagine what a negative impact this would have on the demand for highly-paid legal services!

The legislative amendment has positive repercussions on the ease of doing business in the country. It highlights the capacity of Mauritian authorities to expedite changes in the legal framework. It projects Mauritius as a jurisdiction capable of coming up with *avant-gardiste* legislation, which allows it to take appropriate, timely and specific actions.

Our banks continue to perform well and have proved to be very resilient. The Global Competitiveness Report 2012-2013 of the World Economic Forum ranks our banking sector 15th out of 144 in terms of the soundness of banks. In 2012, seven of our banks ranked among the top 100 banks in Africa according to the magazine *African Banker*, a major achievement for a small country like ours with a GDP of only 0.02% of the GDP of the African continent as a whole. Banks everywhere remain fragile institutions on account of their high leverage and the constant concern over the trade-off between profitability and liquidity. We, as regulator, want our domestic banks to go beyond narrow profitability concerns and to become internationally competitive. To do this, they need to become more efficient and come closer to international benchmarks. Therefore, the regulator needs to be constantly on the alert against vulnerabilities and possible weaknesses and malpractices within the sector. We cannot wait for problems to occur to act — we need to be proactive. Our rules and regulations need to be constantly revisited. Between 2007 and now, 11 guidelines have been revised and 13 new ones have been issued by the Bank. There are other areas that the Bank is now addressing in consultation with the Mauritius Bankers Association.

First, the issue of DSIBs: a framework is currently being designed to identify DSIBs. We did not wait for it to be formalized before initiating a dialogue with two of the largest banking groups, and some of the others as well, to simplify their structures. We started it two

years ago. The new provisions of the law allow us to require big banks to separate their banking and non-banking activities in an expedient manner. Our objective is to reduce the complexity of large banking groups, make them easier to manage, make them more transparent to outside stakeholders, and easier to resolve in case they run into difficulties. These in turn contain moral hazard and strengthen market discipline. The good news with regards to our DSIBs is that we are already in presence of proposals to reduce the complexity of their structures and I hope to see this happening in the near future.

Second, these newly-acquired powers will facilitate the implementation of *living wills* for a rapid resolution of financial institutions in distress, without systemic disruption, and specifically without putting public finances or bank depositors at risk.

Third, we are working towards establishing supervisory colleges in Mauritius for banks of which we are the home regulator. This year we intend to set up our first such supervisory college. This will result in effective information exchange and coordination among regulators and supervisors to minimize financial stability risks. With the setting up of a resolution regime and the establishment of supervisory colleges, we will be looking at a banking sector relatively insulated from financial stability risks.

Today, one of the five branches of the foreign banks present in our jurisdiction is converting into a wholly-owned subsidiary. Others will surely follow suit. Our big banks are simplifying their structures. Many other countries have already adopted such structural bank regulation measures in response to the global financial crisis. These structural measures mark a paradigm shift in the banking and financial landscape and aim at shielding the real economy from certain types of financial activities.

Ensuring the financial stability of the system is part of the mandate of the Bank. However, there seems to be a disconnect between our mandate and the scope of our regulatory purview. We do not supervise all the players in the financial system. Non-bank financial institutions fall under the purview of another regulator while still other regulatory agencies are responsible for other parts of the financial system such as cooperative societies and credit unions. The Ponzi Schemes that have been dismantled recently have turned the spotlight on the regulatory loopholes in supervision and regulation beyond the banking sector which have allowed the scammers to perpetrate their financial crimes. This calls for a system-wide review of the regulatory and supervisory framework to minimize the risks of any such recurrence in future.

Before I conclude, let me share with you a few thoughts on the banking sector in the near-future. In the next couple of years, I expect a more competitive banking sector with room for more players, domestic and foreign — diversity has proved to be a source of resilience. I look forward to our banks becoming more efficient for the benefit of customers. Their profitability would rest on that competitive edge that they would develop, and not so much on the wide net interest margins on which they rely today. The whole economy will gain from a more competitive banking sector as this will result in lower cost of capital for the real sector, and help stimulate private investment and growth. We expect our banking sector to have more responsible practices, including a commitment to achieve socio-economic goals. These are the prerequisites for the Bank of Mauritius to achieve its primary mandate of balanced and orderly

economic development while ensuring the stability and soundness of the financial system. By the end of my third three-year term at the helm of the central bank, I hope to leave as legacy a more innovative, more competitive, more resilient and a more stable banking sector.

I will now announce the revocation of the licence of Barclays Bank PLC Mauritius Branch – trust me engineering the revocation of a banking licence is a regulator's equivalent of the nuclear option — but in the present case, this revocation is effected with much pleasure and leads to the still greater pleasure of granting a new banking licence to Barclays Bank Mauritius Limited.

Congratulations and the very best of success at this new juncture of your banking history in Mauritius.

Thank you.