A New Digital Ecosystem for Banking?

Address by Mr Rundheersing Bheenick, Governor, Bank of Mauritius, at the opening of a new branch of AfrAsia Bank, Ebène, Mauritius, 24 October 2014

It gives me great pleasure to address you this evening on the opening of this *avant-garde* branch of AfrAsia in Ebène. It is not quite branch-less banking. But it is nothing like any other bank branch in the country. It is a denizen of the new digital ecosystem for banking whose birth pangs we are witnessing.

AfrAsia was the first bank that I licensed on taking office in 2007. In my address, at the inauguration of the bank, when they unveiled their logo, with the taunting tagline "Bank Different", I had observed:

> *... your business model is your business and the business of your directors, your Chief Executive and your shareholders. It's up to you to ensure that you are profitable. "Bank Different", yes, but "Bank Prudent" as well. "Bank Prudent, Always!" is what I say.*

In less than eight years, AfrAsia has turned into a force to reckon with, with assets worth Rs50 billion. It has extended its footprint beyond our borders. On the way, it has garnered a rich harvest of accolades, both locally and internationally.

It is fitting, therefore, that AfrAsia should be revolutionising the staid world of domestic branch-banking, with this modern and digitalised branch, the first one of its kind in Mauritius to be using such state-of-the-art technology. It boasts pioneering digital features, which they have dubbed the three *I*'*s* – the *I*-Wall, the *I*-Table and the *I*-Display. The thought occurred to me that they have perhaps overlooked the fourth *I*, *I*-Location, I for *Ideal,* to make it the *Ideal* Location. Indeed, Ebène, also known as our Cybercity, is the right pick for such a pioneering branch. It is ideally located amidst the highest concentration of tech-savvy population in the country. These digital natives will no doubt push AfrAsia to go ever deeper into the world of digital banking.

So congratulations to you, the management team of AfrAsia, for this innovative move! I secretly nurse the hope that where AfrAsia leads today, others will follow, fast on their heels, keen to compete away any momentary advantage resulting from this move.

Age of digitalisation

Banking is in a state of flux. This has little or nothing to do with the financial crisis that has rocked the industry and put both banks and regulators on the firing line. It is the result of the continuing digital revolution, building successively on the transistor, the microchip, faster and more powerful computers, broadband connectivity, cloud computing, smartphones and other communication devices. The media and entertainment industries have borne the brunt of the digital revolution so far. It may now be the turn of the banking and payments sector to benefit from a similar radical transformation. Paul Volcker, former Chairman of the US Federal Reserve, once said that the last truly great financial innovation was the invention of the ATM: "It really helps people, it's useful." What would he say about what we are unveiling today? This goes beyond cash and payment transactions of the ATM, and transforms the entire banking experience.

Conditions are certainly ripe for such a transformation here in Mauritius. With a mobile phone penetration rate of 121%, of which 35 to 40% are smartphones, mobile banking is set to lead the way and take us to the Brave New World of digital banking.

Customer behaviour and expectations

What is driving this transformation in the delivery of banking services? Pressure to lower the costs of financial intermediation is obviously a powerful driver. Changing consumer behaviour and higher, more demanding, expectations are even stronger push factors. The biggest driver is, of course, technology. The digital ecosystem, now in the making, can disrupt – and even dislocate – myriad activities, traditionally dominated by banks.

How are banks responding to this?

The banking industry finds itself in the delicate position of the proverbial cat on the hot tin roof. It stands on a "burning platform", red-hot with technological innovation, and attracting intense competition from mobile operators, internet companies, and many others occupying adjoining space. Bankers must not only defend their territory but also need to venture out to take on their nimble challengers. Their long-term survival depends on how well they respond to the growing expectations of consumers. As consumers become more confident in the use of the full range of current digital banking offerings, banks must be constantly on the lookout to offer products more tailored to individual needs. In the process, banks need to re-engineer outdated approaches and procedures: they must re-invent themselves to adapt to the new digital ecosystem.

If banks are to remain as the core of financial intermediation, they must retain customers, now increasingly susceptible to be poached away by non-banks offering cheaper, more convenient services. To do so, they must move with the times. This was very much at the back of my mind when we empanelled a Task Force to examine the terms and conditions in banking contracts in response to growing customer complaints. A report containing 100 recommendations for improving the bank-customer relationship is currently under public consultation.

While the need for a fair and inclusive banking sector is the *raison d'être* of this report, we also want to drive home the point that the long-term survival of banks rests on the extent to which they are able to place the customer at the centre of their business. Banks must work with their customers, not against them, and look for win-win outcomes. This is the "burning platform" I mentioned earlier which pits traditional banks against new entrants in financial services, offering peer-to-peer lending, crowd-funding, and cheap settlement in crypto-currencies, amongst others.

Innovation is key. It will emerge as the single most important factor driving sustainable top- and bottom-line growth in banking. Innovation is not just the provision of new products or the creation of a new customer experience. It goes beyond this. It implies doing things differently right across the entire business model. Archaic structures need to be dismantled, and old mindsets discarded, to create a new, nurturing environment. Consolidated IT platforms will provide the launch pad for new successive waves of change.

Digital banking will force-feed change in back-office procedures, payment and clearing processes, and bank documentation. One example among many is trade finance documentation which is changing very rapidly to adapt to the world of e-commerce and e-tailing.

Implications for the regulator

What about the regulator in all this ferment of change going on all around us? The Bank could hardly stand by as a spectator. We have been preparing for transition to a new business era. We are rejuvenating our staff, renewing and updating our skills set, and rolling out new rules and regulations. We have inducted a Director of Technology in the highest echelons of the Bank. Coping with the "Bank Different" credo of AfrAsia has itself been a learning experience for the Bank! We must continue on this path, enhance our supervisory agility, and step up our processes to remain effective in our oversight functions. Wherever possible, the Bank must catalyse change in our jurisdiction. Let me mention three such Bank-driven catalysts.

First, the Cheque Truncation System. In July 2011, we transformed the clearing of cheques with the introduction of the Cheque Truncation System (CTS). This did away with the manual processing of cheques that had been going on for more than 44 years. The physical exchange of cheques was eliminated and replaced by their digital image, transmitted electronically by the presenting bank to the paying bank through the Clearing House at the Bank. A daily volume of 20,000 cheques for a value slightly more than Rs1 billion goes through the CTS. It has reduced processing time and brings efficiency in the entire banking system.

Second, the XBRL project. XBRL – or the Extensible Business Reporting Language – will completely transform the entire data chain from collection, management, to processing, with powerful analytics as an added advantage. The Bank expects the project to be commissioned by next year. It provides for an advanced online reporting platform for banks, as well as a data warehouse, and a Business Intelligence platform for the central bank. The new system will bring efficiency gains in data processing and analysis, and timely availability of information which can be expected to improve policy formulation and decision-making. No wonder, therefore, that our fellow regulator, the Financial Services Commission, our fellow data gatherer, Statistics Mauritius, and the Registrar of Companies are all showing a keen interest in XBRL. The benefits are by no means limited to the providers of banking and financial services and their regulators. Customers also stand to gain. ING, a Dutch bank, announced last week that borrowers filing loan applications in XBRL will receive a reduction in costs. We are paving the way for similar initiatives in Mauritius.

Third, the National Payment Switch. This is yet another transformative project which we have under way. It is slated to become a key element of our national payments infrastructure, serving as a sound, low-cost platform for future e-payments. It will enable us to handle domestic ATM and POS transactions without the extra charges now incurred as processing is done through card networks. Once the National Switch is in place, our payment system infrastructure can stand comparison with the best in the world.

Bank Different, but Bank Prudent, Always

These three projects show that the Central Bank is also moving rapidly to harness the power of new technology. We are working closely with our commercial banks and the Mauritius Bankers Association to ensure that these potentially disruptive projects proceed smoothly. AfrAsia is now stealing a march over its local peers.

I had urged AfrAsia, at the launching ceremony of the bank, seven years ago, "Bank Prudent, Always!" These words of caution ring even truer today, in the aftermath of a little accident AfrAsia has had recently in Zimbabwe. Domestic depositors' money was never at risk. The Central Bank had taken extra pains to ensure that "ringfencing" was in place before we gave our green light to this overseas foray. And, just to make assurance doubly-sure, we had also insisted on, and secured, a capital buffer – the kind of approach that will become more common once Basel III kicks in. I note that the Zimbabwe issue is being adequately addressed, in consultation with the host regulator. On looking back on the AfrAsia/Zimbabwe problem, one can wonder how the Central Bank could have been so pre-scient … but were we really pre-scient? I would like to believe it was more a case of prudence, not pre-science. The Bank practices what it exhorts its regulatees to do: "Bank Prudent, Always."

I acknowledge that you at AfrAsia bank differently. The evolution of your off-balance sheet business is very telling – it does show that your appetite for risk is different. There is nothing wrong with that. But, shareholders, directors, and executives of AfrAsia should always remember that their bank does not operate on a stand-alone basis, that it is one of several players, that it is part of a system, and that any laxity can spread contagion and inflict reputational damage to the jurisdiction.

Our relationship with AfrAsia has often been marked by tension, occasionally by mutual incomprehension, but I know that you never doubted our motivation. You learnt to work with a regulator which you found intrusive at times. We at the Bank had to learn to work with a bank that was constantly pushing in new directions – and in the process, pushing my Bank inspectors beyond their comfort zone. But it has been worth it.

Starting from a standing position, your bank has determinedly made its way up. Your growth has been remarkable. Over the six-year period to December 2013, your assets have risen 35 times, your deposits 38 times, and your loan book more than 40 times. We shall soon be opening the club of DSIB's – Domestic Systemically Important Banks. In July last, we issued the conditions of membership by way of a guideline. Your explosive growth would appear to qualify you for membership of this exclusive club. You will then be held to even higher standards of behaviour and compliance. This is a matter that we shall be discussing with your management and your board of directors in the coming months.

Concluding Remarks

Let me conclude. The banking industry is in transition. Banking and financial services can no longer be conducted according to a model where customers are the ones who have to adapt to the banking products on offer. The shoe is on the other foot: it is the product which must be designed around the customer.

We are in a futuristic setting. AfrAsia's new branch, with its pioneering digital features, promises what is, for now, the ultimate client experience. The customer has access to a range of information on markets and rates at his finger tips, and he can conduct banking transactions by a simple click of the mouse, or a tap of his finger on the smart screen.

As we look around us this evening, we are left wondering what the banking landscape of the future will look like? Will there be fewer branches? Will they be fully digital? How do we retain the personal touch? We cannot halt the march of technology and its impact on so many areas of human activity. In banking, are we looking at a branchless, paperless, contactless banking? How distant is the prospect of a cashless society? Such questions, I am sure, must be exercising the minds of many bankers, their technology providers, and their potential competitors. What we are witnessing today is the strategic orientation of one bank which is already projecting itself in the future.

I congratulate the management and board of AfrAsia for undertaking this first mini-transformation which will take it nearer to a more digitalised bank. I wish you all the best as you branch out in this new direction.

Thank you for your attention.