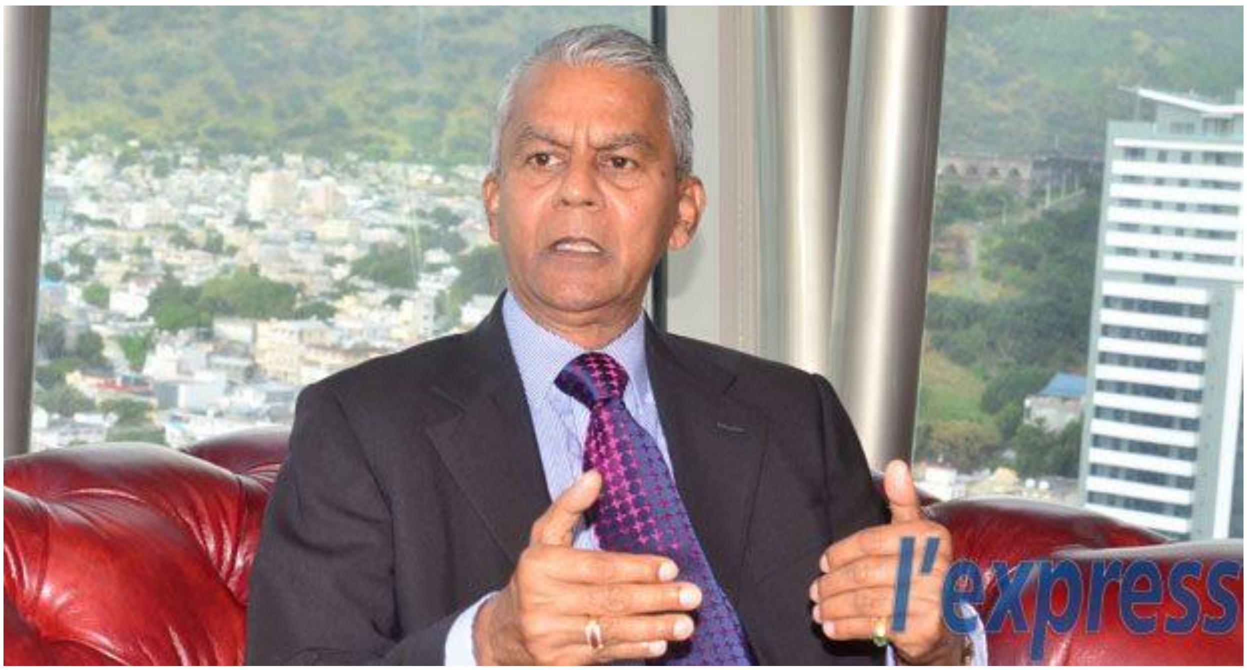
Interview de M. Ramesh Basant Roi, Gouverneur, Bank of Mauritius, parue dans *l'express* du 11 mai 2015

Affaire Bramer-BAI: «La BoM a évité la contagion», selon Ramesh Basant Roi



Selon le gouverneur de la Banque de Maurice, la révocation de la licence de la Bramer Bank s'imposait, vu le niveau alarmant des liquidités de l'institution bancaire.

Dans un entretien exclusif accordé à *l'express*, le gouverneur de la Bank of Mauritius (BoM) lève le voile, pour la première fois, sur le scandale Bramer-BAI. Selon lui, la révocation de la licence de la Bramer Bank s'imposait, vu le niveau alarmant des liquidités de l'institution bancaire. Il insiste sur le fait que si cela n'avait pas été effectué, Maurice aurait été témoin d'un crash, avec des risques systémiques à l'horizon et des effets de contagion sur d'autres établissements bancaires du pays.

Ramesh Basant Roi révèle également comment les officiers de la BoM avaient reçu des directives pour ne pas poser de questions embarrassantes aux représentants de la défunte banque lors de réunions trilatérales (BoM, Bramer et des auditeurs externes) précédant la révocation du permis. Une critique à peine voilée contre l'ancienne direction…

LE GRAND MENAGE

Au passage, le patron de la Banque centrale déclare, qu'aujourd'hui, des institutions clés comme le Fonds monétaire international, la Banque mondiale ou Moody's reconnaissent que Maurice passe par une phase de grand ménage.

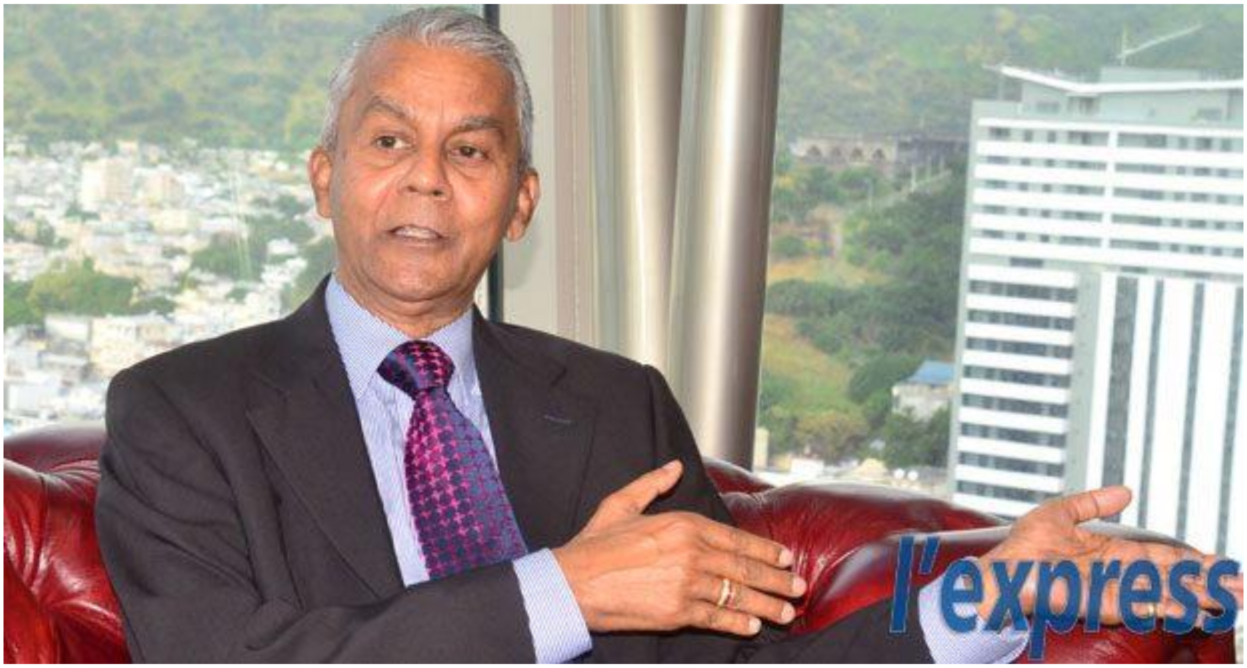
Interrogé sur l'incapacité des régulateurs, plus particulièrement la Financial Services Commission (FSC) et la Banque de Maurice, de ne pas avoir pu détecter, à temps, la crise financière qui se dessinait pour la Bramer Bank, Ramesh Basant Roi soutient que ces deux régulateurs étaient assis «*on a hemorrhoid donut*» des années durant.

«TOO BIG TO FAIL»

Une des explications, dit-il, est que la FSC pensait que la BAI, à l'instar de Leyman Brothers, était «*too big to fail*» et qu'il y avait peut-être d'autres forces qui nuisaient à l'indépendance de cet organisme de régulation. Pour ce qui est de la BoM, il relève de sérieux cas de vandalisme liés à sa zone de surveillance et de réglementation.

Cette interview franche et incisive apporte un nouvel éclairage sur la chute du Groupe BAI : Affaire BAI-Bramer: Basant Roi nous dit tout.

"There was no silver bullet left to save the Bramer Bank"



The Governor of the Central Bank sat down for an exclusive interview with *l'express* on the still unfolding Bramer/BAI saga. Ramesh Basant Roi details the sequence of events leading to the revocation of the license of the Bramer Bank. Whether it is the IMF, the World Bank, Moody's or other credit agencies, he posits they are all saying in one voice: "Mauritius is undergoing a cleansing process." Before December 2014, "BOM Officers used to be warned that they should not set 'embarrassing questions' to the representatives of the defunct bank." On the role of our regulatory institutions, the Governor says "the BOM and the FSC had been sitting on a hemorrhoid donut for years (…) there have been serious acts of vandalism, albeit localized, in the regulatory and supervisory area…"

› Governor, what's your general view about the recent debacle in the financial sector?

The ground shakes when a big tree falls. The BAI Group had grown into a huge undertaking by local standard. Mr. Dawood Rawat, the man behind this huge enterprise, appears to have had a great vision in the years before the suspension of the Exchange Control Act in 1994. The Group seemed to have known the road, but lost its way somewhere in its evolutionary path since. In my opinion, the ills of the Group were largely self-inflicted. You don't burn the furniture in your house to keep yourself warm; it feels good for a moment. But the sense of well-being is short-lived. There are hard-to-hear useful truths that will perhaps never be told and there are also dishonest spins cut out from the same old cloth that will be recycled again and again.

Time and again, seemingly strong balance sheets of banks and non-bank financial institutions have often turned out to mask unsuspected vulnerabilities. There was a compelling case for the revocation of the banking license of the defunct Bramer Bank on April 2, 2015. It was our Lehman moment, certainly not a happy moment for the BoM. The liquidity tide had gone down; defunct Bramer Bank was found swimming naked. In the best interests of financial stability and of our economy, the decision to revoke the license had become unquestionable; it was indisputably warranted. The future will outlast all of us, but I believe that all of us will live on in the future we make. The best interests of our society had to prevail over all other considerations.

‣ Both the BoM and the FSC are said to have failed in their regulatory and supervisory responsibilities. How do you react to this allegation?

The BoM and the FSC had been sitting on a hemorrhoid donut for years. I am not in as privileged a position to speak about the FSC as I am about the BoM. With regard to the FSC, I can only surmise that the concern about ‘too big to fail’ haunted the regulator. Perhaps there might have been other forces that undermined the independence of FSC. As far as the BoM is concerned, there have been serious acts of vandalism, albeit localized, in the regulatory and supervisory area. They are best left unsaid.

‣ Is there anything wrong about our regulatory framework?

The intellectual backbone of our regulatory framework is indeed strong. The BoM’s regulatory framework is comparable to those of advanced jurisdictions. Our supervisory framework is far from the box-ticking kind of exercises carried out in many other jurisdictions. On-site examination of deposit- taking institutions is legally binding on the BoM. Off-site surveillance is a well-established function at the BoM. The dynamism of our banking industry has kept the BoM active with regard to changes in banking legislation and in regulatory guidelines since the beginning of the new millennium. There is, however, one strand of view that it is inadequate. It’s a view that has more to do with the FSC and co-operation between the FSC and the BoM. It’s a lesson learned already.

‣ If there is nothing wrong with the regulatory framework for banks, how come the Bramer Bank dropped dead?

Does it always mean that the rules of the road are necessarily inadequate whenever a fatal accident happens? The revocation of the banking license of the defunct Bramer Bank gave rise to a saloonbar-like brawl. We have had a sudden onslaught of loud and vociferous opinions – an emulsion of revulsion – that were at times delightfully provocative. Some went ballistic. Fanciful conspiracy theories ran galore. The colourful narratives about the financial strains and stresses of the BAI Group were, however, known for many years to most watchful observers in the country. They were read with lying eyes. The ingredients of a Greek tragedy were clear and present. The predictable downfall was uttered in hushed up voices. An epidemic of political correctness had broken out. Our regulatory authorities had kept the bar open; no one had dared to disrupt the party.

As I said earlier, our regulatory framework, though not perfect, is qualitatively great. The credentials of the persons at the helm of regulatory authorities are as important as the character of our regulatory framework. A mix of sly intelligence and unbruised suavity constitutes an essential quality of a regulator. A regulator who cannot play fairly and prudently on both sides of the fence must never sit on the fence and let the rot worsen. When I say 'play fairly and prudently on both sides of the fence' I mean a display of desired flexibility in the implementation of the regulatory rules on the one hand and discipline and rigour on the other. My reading of a few remaining files at the BoM gives the clear impression that excessive regulatory forbearance was the name of the game in certain cases.

‣ What do you mean by "credentials of the persons at the helm of regulatory authorities"?

Do you believe that it's appropriate to appoint any person who has a history of loan defaults in the books of banks as Governor of the BoM which is the regulatory authority of banks and other deposit-taking institutions in the country? Is it acceptable to have a Chairman of the FSC who has conflicts of interest that are detrimental to the system as a whole? As long as the individuals at the helm of the regulatory authorities are lacking in terms of the essentials that go into the making of an effective regulator of financial institutions, even the best regulatory framework can't be foolproof. Our decision makers must bear in mind that regulation and supervision of financial institutions are not taught at Universities; it's not a specialized field of study. Proficiency in the area of regulation and supervision of financial institutions is acquired on the job over a number of years. One does not become a regulator overnight – by the simple stroke of a pen.

‣ Do you mean that anyone else from outside the regulatory bodies would necessarily fail to deliver the goods?

Well, the guy would be much less reliable than fortune tellers and marriage counselors in the initial years of his tenure of office. By the time he masters all the tricks of the trade, his tenure of office is over.

‣ Let me put a straight question to you. Did you personally issue a banking license to the Bramer Bank?

Let me put things in their proper perspective. There were two applications for banking licenses sometime before December 2006, the very month when I was on my way out of the BoM. One was from the CIEL Investment Ltd and the other from Group Mon Loisir. In December 2006, the British American Investment (BAI) had submitted an application for a banking license. They were all given approval subject to a number of conditions being fulfilled prior to the grant of a banking license. The applicants were all also informed that the BoM reserved the right to withdraw the approval should they fail to comply with the conditions normally imposed on applicants of a banking license.

The BAI had, however, abandoned its project to open a new bank. Instead, the BAI had decided to take over the South East Asian Bank and a banking license was issued to the Bramer Banking Corporation on August 27, 2008, eighteen months after I had stepped out of the BoM. Lately, there has been an attempt to suggest that I had issued a banking license to Mr Dawood Rawat way back in 2006. So what? Why so much of fuss about it? Let's be fair. I find no reason why Mr Dawood Rawat should have been denied a banking license if he had satisfied the terms and conditions for the issue of a license.

‣ Did the BAI satisfy all the conditions for a banking license in 2008?

It's best for me to leave this question unanswered. Some important files have disappeared from the Governor's office.

‣ Why the defunct Bramer Bank suffered a liquidity crisis in 2015 and not before?

A study of the monthly balance sheets of the defunct Bramer Bank reveals that it did occasionally suffer from serious liquidity problems before 2015. For instance, in the years before 2015, the BoM granted lines of credit to the defunct bank on such terms and conditions that no other central bank would have done so under normal central banking practices. Defunct Bramer Bank is the only bank to have benefitted from the exceptional generosity of the BoM on a few occasions.

The size of public sector deposits of over Rs 4.0 billion with defunct Bramer Bank begs some probing questions. Government is owner of two banks. Why would public sector bodies favour a private bank with so much of deposits? Did defunct Bramer Bank face liquidity problems in the past? Does it not suggest that defunct Bramer Bank had a serious balance sheet problem already? Did Government try to bail out the Bramer Bank from time to time in the past by other means, i.e. by placing additional public sector deposits? If yes, the repeated bailouts did not help at all. Why did defunct Bramer Bank borrow so much from the BoM that it no longer had any eligible collateral left for further borrowings? Why did the BoM lend US dollar to defunct Bramer Bank against rupee collateral? These are questions suggesting that defunct Bramer Bank badly needed a balance sheet repair since long before 2015.

‣ Government withdrew its deposits from the Bramer bank, which explains why the bank found itself in a liquidity problem. Do you agree with this view?

Public sector bodies held deposits exceeding Rs 4.0 billion with the defunct Bramer Bank. This represented as much as over 33 per cent of its deposit base. Any banker with the slightest common sense knows that having such a high level of concentration of deposits from a single source, i.e. the public sector, is very risky. It's a very elementary principle in banking not to have such a high proportion of deposits from a single source. I am given to understand that the Banking Supervision Department had cautioned defunct Bramer Bank about the need to diversify its deposit base on a few occasions. Defunct Bramer Bank did not heed the caution.

Besides, there is a moral hazard issue for Government. The more a bank succeeds in mobilizing public sector deposits, the more it is likely to be reckless in its lending operations. The reason is that the larger the size of public sector deposits with a bank, the more compelled would be the Government to bail out that bank should it fail for some reason.

There seems to have been an effortful attempt to divert attention from issues of material importance to non-issues. That some public sector bodies withdrew deposits from the defunct Bramer Bank is a non-issue. After all, at the time of the revocation of the banking license public sector bodies had deposits amounting to over Rs 2.0 billion. Defunct Bramer Bank should have resolved the deposit concentration problem rather than relying on it for its survival. Without being uselessly argumentative, commentators should ask the honest question as to why, for instance, did the BoM approve the purchase of Rs 1.7 billion hire purchase debts of Courts? Why did defunct Bramer Bank not disclose pertinent information regarding transactions with its related parties? Why did the defunct Bramer Bank grant loans to its related parties that were recycled as capital into the bank?

‣ The BoM issued a letter on February 27, 2015, to Bramer Bank requesting for an injection of Rs 3.5 billion by the end of December 2015. Were these related party lending that had gone bad?

Several large transactions of the defunct bank with its related parties and with other non related parties had impaired its capital and financial soundness and hence the request for the injection of capital amounting to Rs3.5 billion.

‣ Were these related party lending known and closely monitored by the BoM before December 2014 and was there any 'work out' program being followed?

Yes, the BoM knew them. Let alone 'work out' program, before holding trilateral meetings with the defunct Bramer Bank and its external auditors, BoM officers used to be warned that they should not set 'embarrassing questions' to the representatives of the defunct bank!!!

‣ Could you please outline the sequence of events that led to the revocation of the banking license of the Bramer Bank on April 2, 2015?

With pleasure. On February 27, 2015, the BoM requested defunct Bramer Bank to inject Rs 3.5 billion by the end of December 2015. The BoM played a fair game. With all the best intentions, the BoM decided that the defunct bank needed to be given breathing space and time to repair its balance sheet. That is why the BoM asked for the injection of capital in a phased manner.

On March 24, 2015, the defunct bank requested for a special line of credit of up to Rs 1.0 billion. Its borrowings from the BoM already stood at about Rs 800 million at the time of the request. The bank had no more eligible securities left for further borrowing from the BoM.

On March 25, 2015 the BoM replied to the defunct bank stating that its request could not be entertained on the grounds that the bank did no longer have any unencumbered eligible security to pledge for the requested credit facility. On the same day, the defunct bank reiterated its request for the Rs 1.0 billion loan on the strength of security to be created on immovable property. When a gambler at the racecourse finally gambles his house, the desperation is perceptible. But when an ailing bank, overwhelmingly owned by a single person, does it, the right message has to be registered by any responsible regulatory authority. Remember Walter Bagehot's (author of Lombard Street, a definitive book on money market operations) famous line: in a liquidity crisis central banks should provide plenty of liquidity at a high cost against good security. On March 26, 2015, the BoM turned down the request.

Meanwhile, we noted that the liquidity position of the defunct Bramer Bank that was deteriorating for weeks had aggravated further. The bank could not obtain overnight funds on the inter-bank money market. The BoM however allowed the bank to kind of rollover its overnight facility. Withdrawal of deposits by its customers intensified as a result of which the liquidity problem of the bank kept aggravating. By way of a letter, the bank admitted that its liquidity position was seriously affected. Our constant monitoring of the bank's liquidity position had revealed that even its own director, employees, BAI's pension funds, etc. were drawing down their deposits.

On March 31, 2015, the deadline for the injection of Rs 350 million as capital was not met. On the same day, the defunct bank informed the BoM that it was prepared to inject the required amount of capital provided that it obtained the necessary approvals from the relevant authority and of BAI shareholders.

In the morning of April 2, 2015, the BoM exceptionally informed the bank that it was willing to make a special accommodation for the bank to avail itself of an overnight facility up to April 30, 2015, on the understanding that it would take necessary steps to inject capital in the meantime. But in the afternoon of April 2, 2015, the BoM became aware that the capital would not be forthcoming.

On the one hand, the bank was facing a serious liquidity crisis and on the other, it could not bring in the required capital for injection into the bank. On the basis of information available to the BoM, the run on the bank had gathered momentum. Some banks had consequential exposure to the BAI Group. In particular, some small banks had exposure to the defunct Bramer Bank. A collapse of the Bramer Bank could have triggered a contagion effect on other banks. The systemic risk had heightened. There was no silver bullet left to save the bank. The BoM had no other alternative than to revoke the banking license of defunct Bramer Bank.

‣ The timing of the revocation of the banking license was unusual. Why the rush? And is it normal to revoke a banking license around midnight?

The logistics required to close a bank and its branches during business hours are highly demanding. For instance, in the case of defunct Bramer Bank, the BoM would have needed not less than 63 officers with the support of police forces at the main office and its 20 branches to close down their operations. Once the initial step of pulling down the shutters was over, the BoM officers would have been required to take stock of cash holdings, books and records and carry out reconciliation in each branch and taking custody of the vaults in each branch. In addition to the 63 officers, at least 22 IT technicians would have been needed to shut down the IT system in each of the branches and the main office. The IT system of the defunct Bramer Bank had links with the IT system of BAI. Shutting down the connections with respect to Credit Cards and the S.W.I.F.T system by BoM staff had to be performed without any kind of disruption for businesses of third parties. These are very tedious operations; they are painful, too, in the sense that the BoM officers have to witness employees of the de-licensed bank going through the trauma of humiliation for no financial crime committed by them at their levels. Moreover, there would also have been a question of security risk for BoM staff.

Revocation of the banking license after a bank has completely settled its business for the day obviates the need for such cumbersome logistics; it's simply an efficient process when it's carried out in late evening. There is no such thing as voodooism in the timing.

‣ What about the reputational damage caused to our jurisdiction?

Many jurisdictions around the world had their breed of financial scandals. The UK had the BCCI and the Robert Maxwell cases. The Americans had the Madoff case. The Singaporeans had the Barings episode. The Caribbeans had CLICO. We are having the BAI case. As long as financial crimes, scandals etc. are uncovered and remedial actions are taken to preserve and protect the integrity of any jurisdiction, I do not believe reputation of the jurisdiction concerned should suffer consequential damage. I have been receiving foreign investors and Ambassadors lately; the feedbacks have been encouraging. Overall, we are being seen as a jurisdiction decidedly undergoing a cleansing process. It's the way forward.

‣ Given the size and the force of personalities behind the BAI Group, did you at any time capitulate while taking the decision to revoke the license of the bank?

The reasons leading to the revocation of the banking license were crystal clear; they were incontrovertible. Capitulate or not? A Governor often has to make a decisive choice in the execution of his responsibilities: to be unpopular doing the right thing or to be popular doing the wrong thing. The choice essentially boils down to what kind of a timber he is made of.