

**INAUGURATION OF THE LALLMATIE BRANCH OF THE
MAURITIUS POST AND CO-OPERATIVE BANK Ltd.**

Address by Mr. R. Basant Roi, Governor, Bank of Mauritius

21 September 2004

Hon. Deputy Prime Minister and Minister of Finance

Hon. Ministers

Chairperson and Chief Executive of the MPCB

Ladies and Gentlemen

Good afternoon

I am pleased to address you on this special occasion of the opening of the Lallmatie branch of the Mauritius Post and Co-operative Bank Ltd.

We are all well aware that banks play a key role in the process of economic development. In the last twenty years deregulation of domestic and international banking transactions and the rapid growth of financial markets have had consequential impact on the business of banking. Deregulation and financial sector liberalization with the resulting financial integration of national economies have brought about many benefits, including dramatic increases in global investment that have stimulated global trade and prosperity. However, there have not been benefits only. Deregulation and financial sector liberalization have, at the same time, brought with them a number of risks. These risks include reckless

management in the pursuit of profit-making, quick transmission of problems from one country to the other and, more importantly, the risk of serious banking crises as in the case of the recent Asian crisis. The risks have necessitated a reappraisal of bank regulation and supervision in order to protect domestic financial sectors from crises.

One of the lessons learned from crises resulting from deregulation and financial sector liberalization in the recent past is that maintaining confidence of domestic and foreign investors requires a credible bank regulatory system enabling a close supervision of banks, strict enforcement of banking laws, restoration of the financial health of ailing banks and expeditious expulsion of insolvent financial institutions from the financial system the world over. In the competitive world we live today such regulatory pruning helps preserve and promote vitality and dynamism of a financial system.

To support the growth and expansion of our banking sector, it has since long been recognized that the laws governing banking activities needed to be modernized and aligned with international standards. We have had in Mauritius the Bank of Mauritius Act and the Banking Act. The present Bank of Mauritius Act dates back to 1968. The Banking Act dates back to 1971. These two Acts remained broadly the same ever since despite the mounting pressures for changes in our bank legislations exerted by the need to innovate as well as by developments in the international monetary and financial systems. The two Acts overstayed their welcome. They have now undergone significant changes that will have far-reaching implications for our financial sector and our economy.

Let me highlight a few of the major features of the new Banking Act that will soon be promulgated.

The Act provides for the integration of offshore banks with domestic banks. This integration has a very important implication for our banking industry in so far as we can now shed the use of the term ‘offshore banking’ from our financial landscape. We may rightly say that Mauritius does international banking rather than offshore banking. ‘Offshore banking’ is often perceived as harmful to the image of financial centres. The integration of the two types of banking activities in the new Act is a landmark in the financial history of Mauritius.

The Act also provides for the appointment of an ‘Ombudsperson’ who will be independent from any kind of influence. In the last five years or so, I have received many complaints from bank customers. Few of them are justified; many are not. What we have observed is that many of the complaints arise out of the fact that bank customers are not appropriately informed by their bankers of their rights and obligations. The Act makes it compulsory on bankers to disclose clearly to their customers all the terms and conditions governing the facilities made available to them. The fees and charges applied on banking transactions will be made known to bank customers beforehand. Should you have any complaint against your banks, I invite you to address them to nobody but to the Ombudsperson at the Bank of Mauritius once he is appointed.

An outstanding feature of the two new Acts is the strengthening of the supervisory arm of the Bank of Mauritius. The Bank of Mauritius has had to

revoke the banking licences of at least 4 banks so far. All the four banks have had one common problem: neither some of the senior staff nor even some of the board members inspired confidence. Reckless behaviour of board members that led to poor management brought the downfall of the banks. Persuasive attempts by the Bank of Mauritius to bring back order and discipline in these banks served no purpose. The existing Bank of Mauritius Act and the Banking Act have never been of any assistance to the Bank of Mauritius in tackling the problems involving senior banks staff and board members. In the new Act, the Bank will now be vested with appropriate legal powers to rid banks of senior staff and board members whose conduct could threaten the viability of banks.

Much has been said about the independence of the Bank of Mauritius. Unfortunately this is an issue that is often misunderstood by those not so much conversant with the philosophy underlying in central bank independence. Let me concisely put the issue of independence of the central bank in its proper perspective. By independence of the central bank it is essentially meant that the bank decides on interest rate policy independent of political influence. In the past, governments the world over used to dictate the policies of central banks. The tendency was always to systematically pursue a cheap money policy, that is, low interest rate policy so that governments could borrow at far below market rates of interest even if prevailing economic conditions warranted otherwise. Governments abused central banks. It is this consideration that led governments in advanced countries to give independence to their central banks with the specific assignment that their policies should bring about low and stable inflation on a sustainable basis. The new Bank of Mauritius Act has been aligned with

international standards. Independence of central banks does not mean absolute freedom to one or two persons at the Bank of Mauritius to orchestrate tango dancing. The Bank of Mauritius would not be an island unto itself. There goes with it responsibility, transparency and accountability.

Finally, let me convey to you a message from the Bank of Mauritius. The financial sector in Mauritius has been running short of personnel with the desired skills. Banks have been poaching staff from each other. There are plenty of employment opportunities for people who are not simply qualified but people with the right skills, people with a sense of discipline, people with a sense of integrity, people with the right attitude to work, people who are competent, people who can be trusted with depositors' money.

Let me wish the Mauritius Post and Co-operative Bank Ltd the very best of success.

Thank you.

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