Monetary Policy Committee

Risks and Vulnerabilities in the Domestic Banking System

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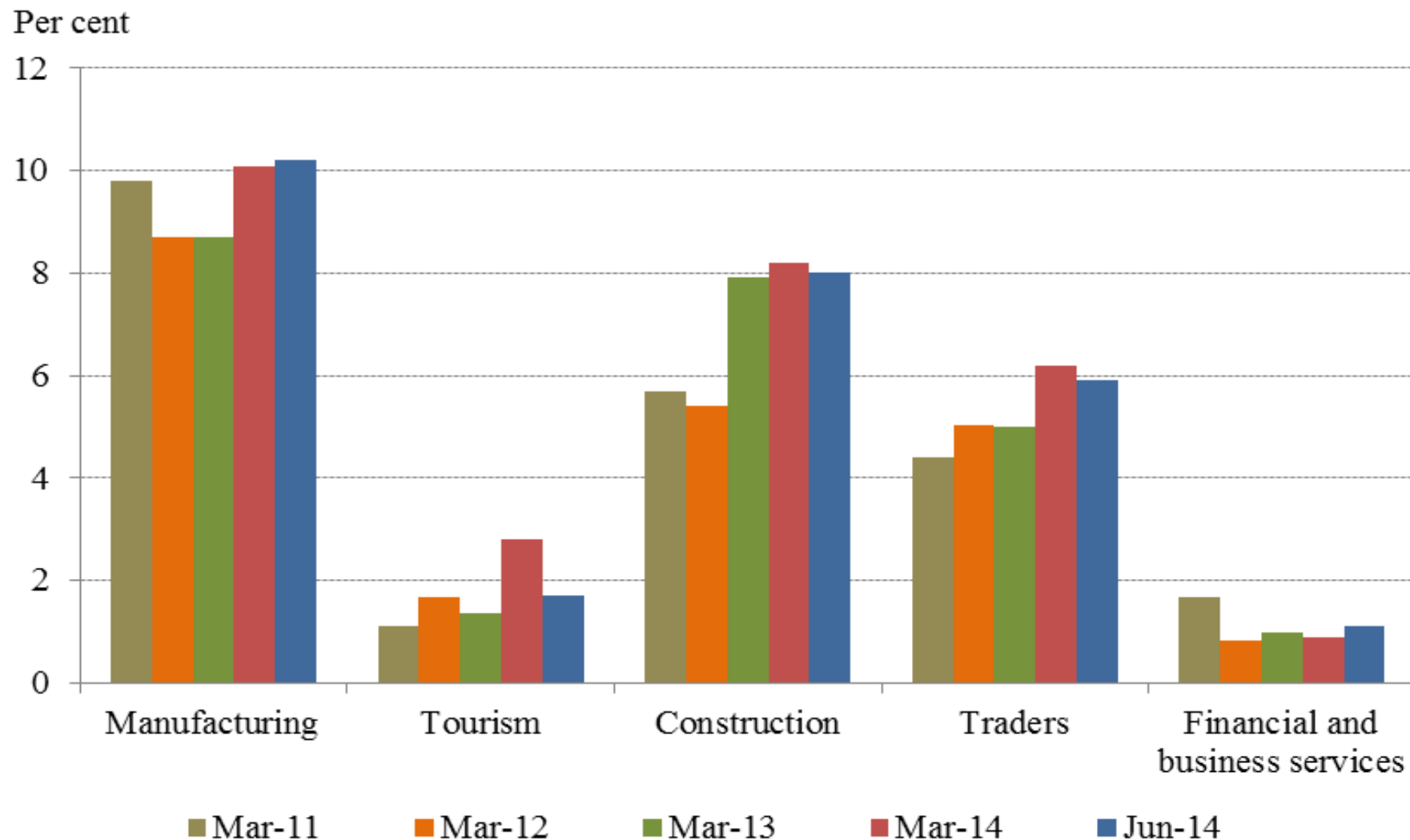
Overview

- **Risks Exposure**

  - **Non-Performing Loans**

  - **Loan Concentration**

  - **Excess Liquidity**

  - **Technology Risk**

Non-Performing Loans

Non Performing Loans to Total Credit -2008 to June 2014

- NPL to total credit outside Mtius
- NPL to total credit in Mtius
- Total NPL to tal credit (in & outside Mtius)(RHS)
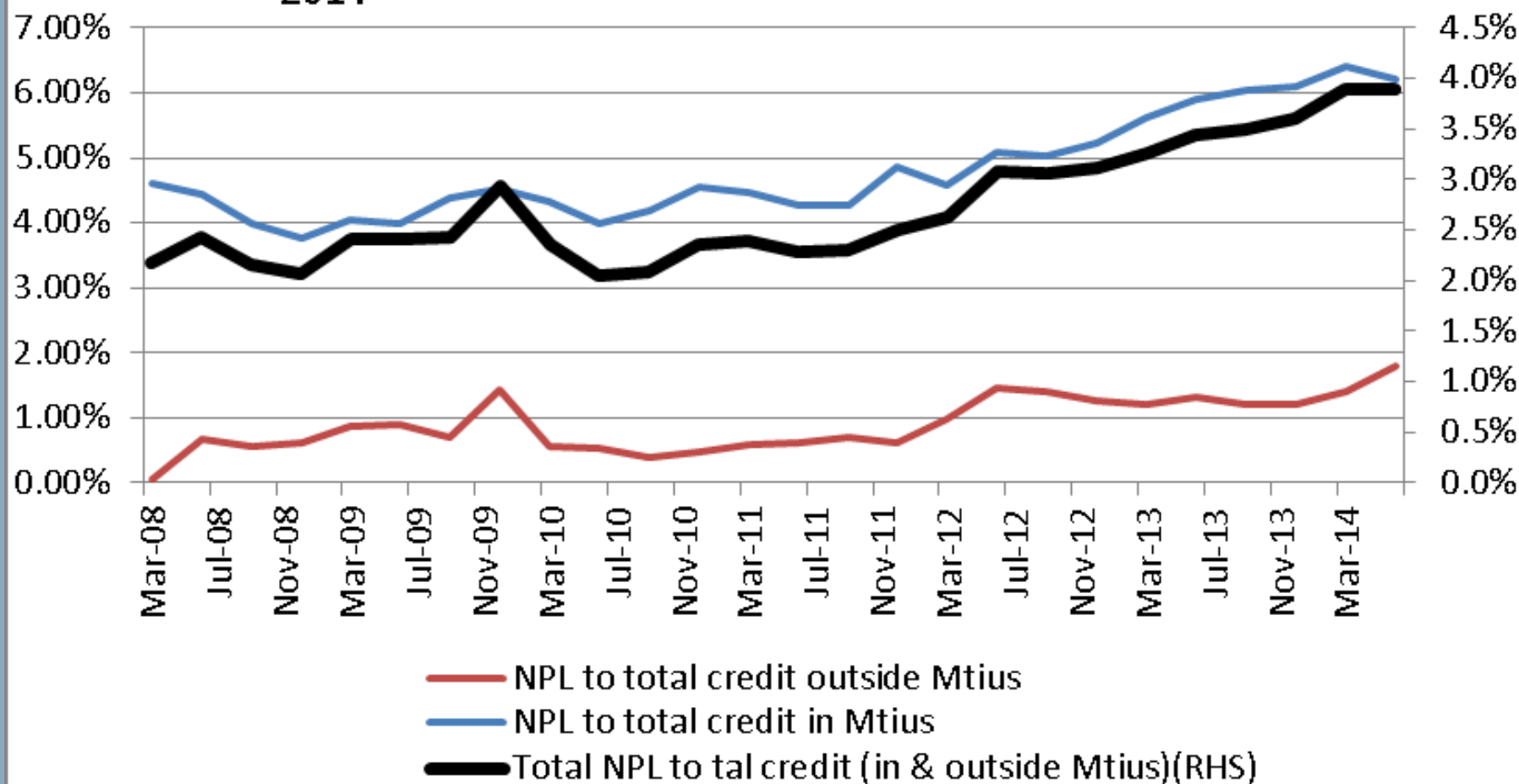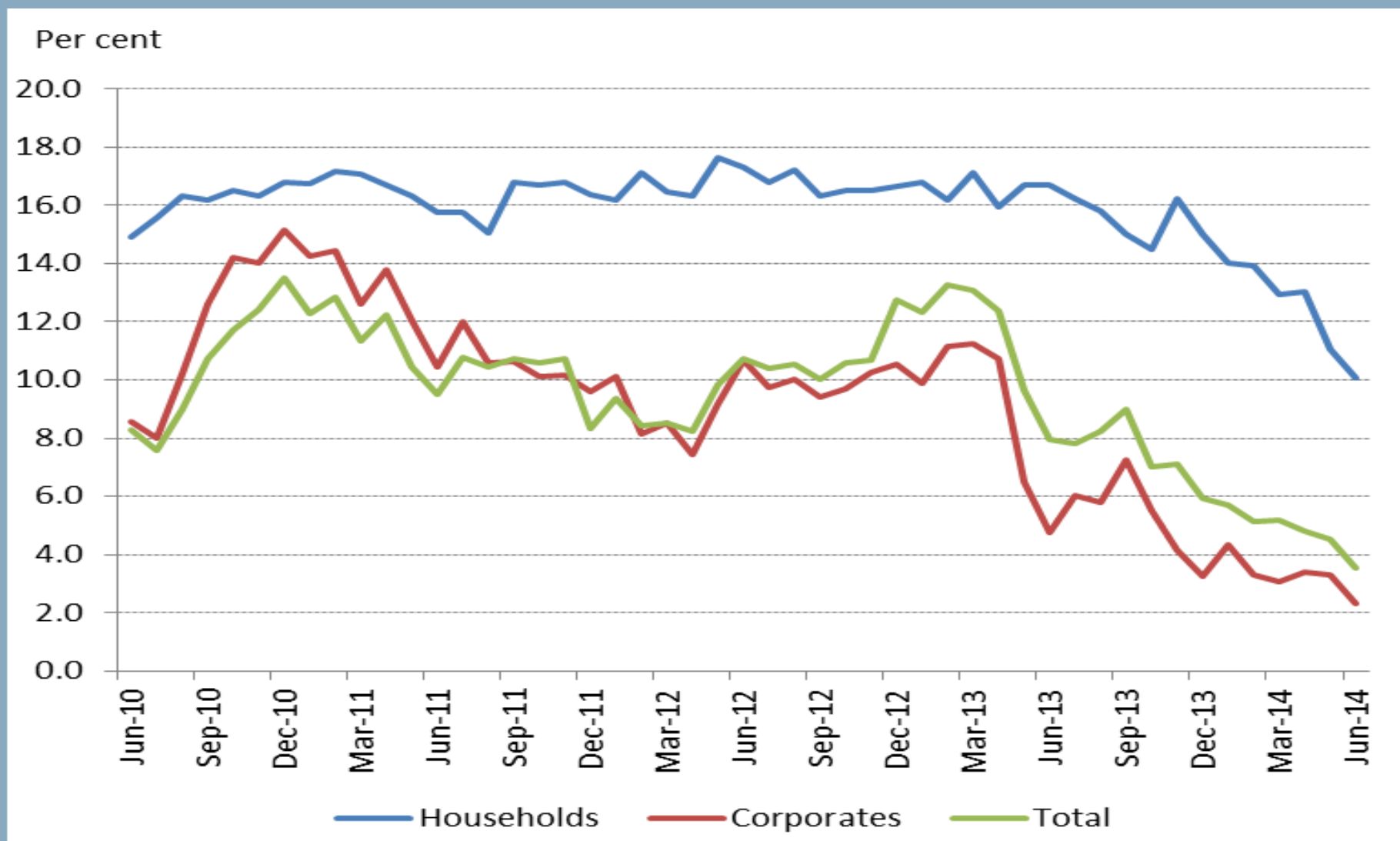
NPL as a percentage of Credit

Concentration of Credit

➢Lopsided Credit Allocation

➢Tourism and Construction account for 46% of Credit

➢Deceleration of credit as from 2012

Credit Extended to Household & Corporates

Credit Concentration Risk

	Percentage of aggregate large exposures to capital base	Percentage of aggregate large exposures to total credit
Mar-13	182.4	25.0
Sep-13	200.3	28.3
Dec-13	209.9	30.5
Mar-14	207.4	31.7
Jun-14	210.7	31.2

- Large exposures of banking sector refer to all exposures above 15 per cent of the capital base.

- Credit concentration ratio: Large exposures to capital base at 210.7 per cent.
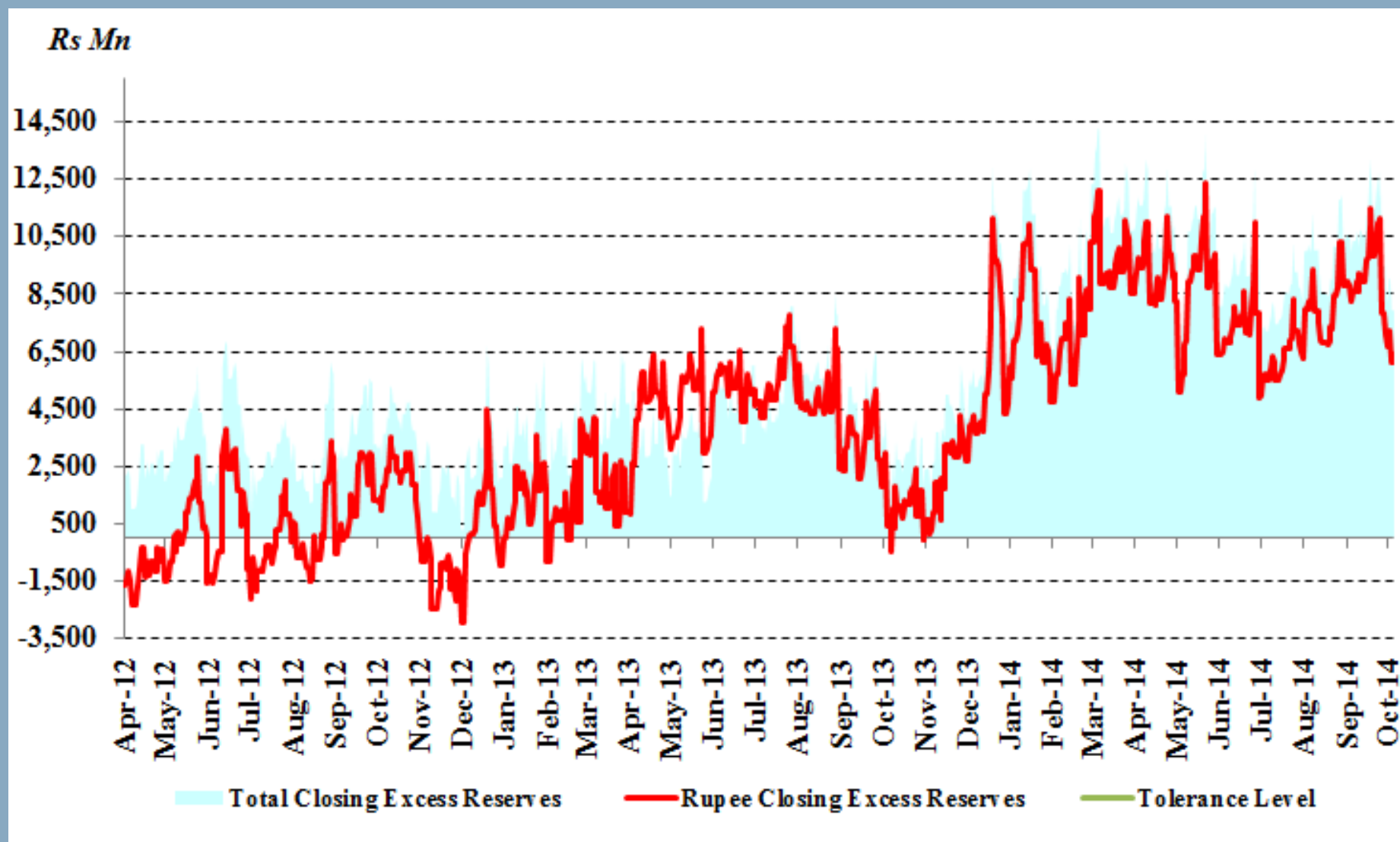
Excess Liquidity

- What is excess liquidity? ➞ cash held by a bank above the usual requirement for that bank [**Banks' Excess Reserves = Balances held with the central bank less**

  Required Balances under cash ratio

- ❖ How does it occur?   For instance, this could occur through increased borrowing by Government to finance fiscal deficit to the detriment of domestic financing, thereby saddling banks with surplus liquidity

  - ▪ Lower demand for credit;
  - ▪ Accumulation of Foreign Exchange Reserves

- Economic Implications and Costs to Society: Distort interest rate structure and stifles the transmission mechanism, adversely affecting Financial Stability

- The Central Bank's Response to Excess Liquidity Problem Should BOM absorb the excess liquidity through Open Market Operations, there is risk of operational loss [operational risk]. GOVT will have to inject money (BOM Act 2004)

- Adversely affects the market efficiency. Raise cash reserve ratio from 8% to 9%

- Limit to which this can be raised and cost to banks and depositors

Total and Rupee Excess Reserves

Interest Rate and Excess Liquidity

- Excess Liquidity Leads to Low Interest Rate, theoretically Inflationary Spiral, and a deterioration in the Balance of Payments

- Hurts the Poor and Vulnerable

- Inflation Adversely Affects International Competitiveness and Harms Exports and the Tourism Sector

- May lead to an increase in NPL as banks may be tempted to dish out loans to marginal or less viable projects

Return on Assets and Equity
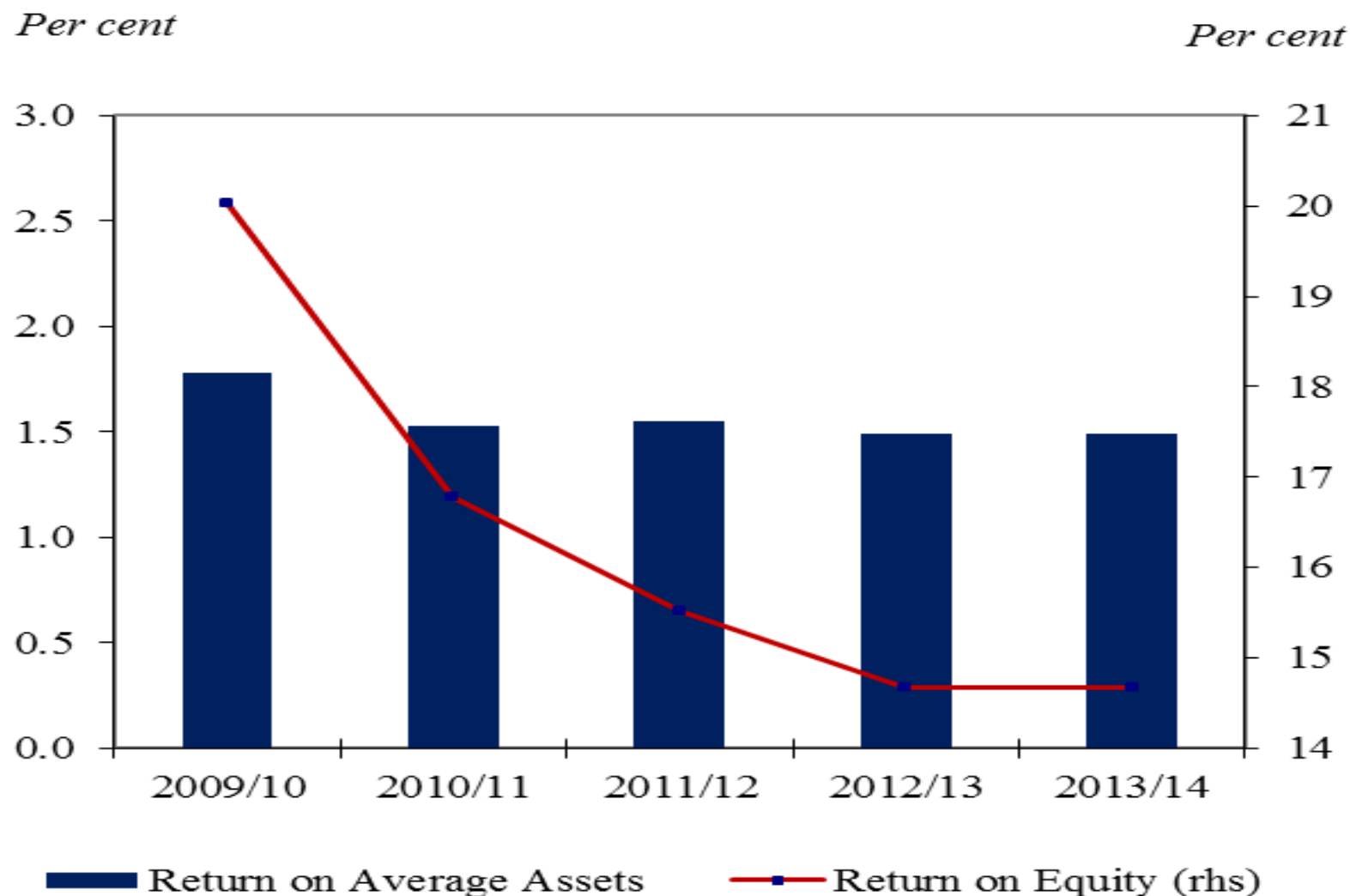
Camel Rating of Banks

✦ Published since March 2011

"1"   Strong
"+/-2"   Satisfactory
"+/-3"   Fair
"4"   Marginal
"5"   Unsatisfactory

Bank	Jun-13	Dec-13	Chang
ABC Banking Corporation Ltd	3+	3+	←
AfrAsia Bank Limited	2+	2-	↓
Bank of Baroda	2+	2+	←
Bank One Limited	3+	3+	←
Banque des Mascareignes Ltée	3+	3+	←
BanyanTree Bank Limited	3+	2+	↑
Barclays Bank Mauritius Limited	2-	2-	←
Bramer Banking Corporation Ltd	3-	3+	↑
Century Banking Corporation Ltd	4	4	←
Deutsche Bank (Mauritius) Limited	2+	2+	←
Habib Bank Limited	2+	2-	↓
HSBC Bank (Mauritius) Limited	2+	2+	←
Investec Bank (Mauritius) Limited	2+	2+	←
Mauritius Post and Cooperative Bank Ltd	3+	3+	←
PT Bank Internasional Indonesia	2+	2+	←
SBI (Mauritius) Ltd	2-	3+	↓
Standard Bank (Mauritius) Limited	2-	2-	←
Standard Chartered Bank (Mauritius) Limited	2-	2-	←
State Bank of Mauritius Ltd	2+	2+	←
The Hongkong and Shanghai Banking Corporation Limited	2+	2+	←
The Mauritius Commercial Bank Limited	2+	2+	←

- Almost every system that permits automatic money transfers is exposed to a critical bug. This bug allows an attacker to steal money from users and the bank itself.

- Mitya Kolsek illustrates the 'example circuit' in which an attacker can steal from the system online banking a large sum of money, without violating any laws or user agreements.

- In this circuit is activated function of rounding amounts at an exchange rate so that with $ 100 an attacker can get 100 euros, despite the difference in the course.

Thank you