

Debate No. 26

Answers to Private Notice Questions - 08 July 2003

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MCB/NPF AFFAIR - BANK OF MAURITIUS - POLICIES

The Leader of the Opposition (Dr. N. Ramgoolam) (*By Private Notice*) asked the Ag. Prime Minister and Minister of Finance whether, regarding the MCB/NPF fraud, he will, for the benefit of the House, ascertain from the Bank of Mauritius -

- (a) the specific steps it called upon the MCB Board to take on 24 June as stated in its communiqué;
- (b) what were the management restructuring efforts of the MCB to which it expressed its commitment on the same day; and
- (c) what specific policies the Bank of Mauritius has adopted since Moody's downgrading of the MCB's financial strength in order to –
 - prevent reoccurrence of such failure systems and controls; and
 - guard our international financial integrity and credibility.

The Ag. Prime Minister (Mr P. Bérenger): Mr Speaker, Sir, it would not be in order for me to go into details of the discussions that have taken place and are taking place between the Bank of Mauritius and the Mauritius Commercial Bank concerning the MCB/NPF affair. It is, however, public knowledge that the Mauritius Commercial Bank has taken and is taking a series of measures to strengthen its internal control system, risk management structures and corporate governance. These measures include -

- (a) the implementation of an extensive business process re-engineering project, including the setting up of a credit risk function;
- ⇒ commissioning of a complete risk review of the MCB's risk processes;
- ⇒ recruitment of a consultancy firm to advise on treasury risk management processes;
- ⇒ recruitment of an international IT expert to take charge of IT functions at the MCB; and
- ⇒ strengthening of its corporate governance functions.

The MCB is also in the process of recruiting a top executive of international standing to act as Chief Risk Officer, and has submitted a claim to its insurers for an amount of Rs737 m in respect of the losses suffered. I am informed that other measures are being discussed at present between the Bank of Mauritius and the Mauritius Commercial Bank. The Bank of Mauritius is also conducting, with the assistance of an external consultant, Ntan Corporate Advisory Limited, an examination of the operations of the MCB. Appropriate action will be taken by the Bank of Mauritius in the light of the findings of the examination.

As regards part (c) of the question, the House is aware of the downgrading by Moody's of the MCB on 30 June 2003. The Bank of Mauritius is currently discussing with the MCB the measures to be taken to restore the rating to its former level. It should, however, be kept in mind that this downgrading has not affected the share price of MCB, nor its deposits.

The MCB share price, which stood at Rs27.60 at the close of trading on 01 July 2003 dropped to Rs25.00 on 02 July 2003, but has since picked up to Rs27.40 on 07 July 2003. On the other hand, total deposits at the MCB, which crossed the Rs50 billion mark in December 2002, currently exceeds Rs51 billion.

Further, it should be emphasized that the MCB has publicly confirmed its intention to go ahead with its development projects, including the setting up of its own Equity Fund.

Finally, Government, the Bank of Mauritius and the Financial Services Commission are taking all necessary measures to safeguard the international financial credibility and integrity of the country.

Dr. Ramgoolam: Mr Speaker, Sir, I am really more interested in what the Bank of Mauritius has done rather than what the MCB is doing. Can I, first of all, ask the Ag. Prime Minister and Minister of Finance whether he is aware that the Bank of Mauritius actually issued a public communiqué which mentioned specifically the "specific steps" and the "management restructuring efforts of the MCB"? So, what I want to know is: what are the "specific steps" that the Bank of Mauritius asked the MCB to take?

The Ag. Prime Minister: The communiqué is before me, but I have nothing to add. The Bank of Mauritius and myself, we are all bound by the law of the country, both the Bank of Mauritius Act and the Banking Act which provide for the required confidentiality. It would not be in order for me to go into details of the discussions that have taken place and are taking place. What the legal advisors found fit to put in a public communiqué is public knowledge, as I said earlier.

Dr. Ramgoolam: Mr Speaker, Sir, the Bank of Mauritius issued the communiqué on the morning of 24 June. Presumably they got assurances from the Chairman and Vice-Chairman of the MCB, because they have met before and on these assurances I take it they issued a communiqué. In the afternoon of the same day the MCB does not, in fact, do anything and issues a communiqué which does not, in fact, address the question. Has not the Bank of Mauritius made a fool of itself by issuing a communiqué and then having it contemptuously rejected by the MCB?

The Ag. Prime Minister: I do not think so at all, Mr Speaker, Sir. The Governor of the Bank was not in Mauritius at the time that communiqué was brought out by the Bank of Mauritius. The Ag. Governor who is an able professional and the Managing Director issued their communiqué. For its part, on the same day, the Board of the MCB found it fit to issue their own communiqué.

Dr. Ramgoolam: The institution continues, Mr Speaker, Sir. But does he not agree that, therefore, the image that the Bank of Mauritius sends to the financial community is extremely bad for the country? They issued a communiqué expecting that specific steps would be taken, expecting that there would be management restructuring and nothing happens. We ask ourselves why did he actually issue a communiqué? As it was done in the past, issuing communiqués and then nothing happens.

The Ag. Prime Minister: Well, I do not have the same definition of "nothing" as the hon. Leader of the Opposition. I gave a list of the measures that have been taken, and are being taken, by the MCB. I do not think that that amounts to nothing.

Dr. Ramgoolam: I am talking about the reputation of the Bank of Mauritius. I am not talking about the MCB Ltd. at all. I am talking about the Bank of Mauritius which issues a communiqué expecting that specific steps would be taken, expecting that management structuring will take place and on the very day it issues a communiqué contemptuously doing nothing about the communiqué of the Bank. That is why I am saying that the image of the Bank of Mauritius and the credibility of our institution is being put into question by the way they are acting. Does he not agree?

The Ag. Prime Minister: I can't go along with that at all. The Leader of the Opposition passes a valued judgement that the Board of the MCB has been contemptuous of the Bank of Mauritius, that is his opinion. But I can understand that he makes such a comment on the Board of the MCB, that is also his opinion. That does not reflect in any way on the work of the central Bank of Mauritius. They came out with a communiqué; they are following up; measures have been taken by the MCB; other measures are being discussed right now and other measures again have already been announced.

Dr. Ramgoolam: I want to ask the Ag. Prime Minister whether it is not an example of two-speech syndrome, that in certain cases the Bank of Mauritius issues communiqués and instructions to ensure that its regulatory authority is maintained. We have another case here where it refers to undertakings that it expects to be taken and nothing is taken. That is why I am saying that the reputation of the Bank of Mauritius is being put into question.

The Ag. Prime Minister: My definition of "nothing" is not the same definition as the hon. Leader of the Opposition's. I have a list of the measures taken by the MCB; and the Leader of the Opposition keeps

on saying that nothing has happened, nothing has happened. Things were already happening before the recent events. A lot of measures have been implemented; now there have been other measures agreed upon and there are still other measures being discussed right now, discussed yesterday and being discussed today.

Dr. Ramgoolam: What I am saying, Mr Speaker, Sir, is not what the MCB is doing. We have noted what the MCB is doing. But there have been serious charges against the No. 1 and No. 2 of the MCB, whether they are proved to be true or not, we are not going into that. But the Bank of Mauritius is supposed to act as a regulator and in a supervisory capacity. Is the Ag. Prime Minister satisfied that it is doing so?

The Ag. Prime Minister: Definitely, yes. But on the other hand, it is a fact that our law calls for amendment; and this has been pointed out in numerous reports in the recent past including the IMF and the World Bank. We have *des lacunes* in our legislation. This will be taken care of in due course, *mais à tête reposée*. I don't want to amend our banking laws in a way that will add to the big difficulties that we already have. But I would advise the hon. Leader of the Opposition to consult his legal advisers to see, because he used words which I didn't use. I heard him use the word "instructions". I would advise the hon. Leader of the Opposition to take time to consider what the Bank of Mauritius can and cannot do under existing legislation. I am satisfied that both the Governor and the Managing Director are performing well as a regulator doing perfectly their job; and in due course we will learn from all this still more. And on the basis of reports received, we will amend the Banking legislation, but coolly, *à tête reposée*.

Dr. Ramgoolam: I totally agree with the Ag. Prime Minister that this has to be done *à tête reposée*. It will be dangerous to just go in headlong and try to modify things and then find that we are getting into a bigger mess. I just want to remind him that, in fact, when I am saying "instructions", the Bank of Mauritius, if you will remember, issued a communiqué some time back giving instructions to the Delphis Bank in that communiqué. That is why I am saying "instructions". Since we are talking about the Governor of the Bank who was away, does the Ag. Prime Minister think it was right for the Governor of the Bank who sits at the head of the regulatory and supervisory institution to say that he is *solidaire des banquiers*?

The Ag. Prime Minister: Well, I would advise the hon. Leader of the Opposition to ask him. I have tried to understand exactly what, if the press report is word for word exact, he seemed to express apprehension on the issue of suspicious transactions. I would advise the hon. Leader of the Opposition to follow up with the Governor. I am sure the Governor will be only too glad to offer a cup of tea.

Dr. Ramgoolam: I don't know whether he would offer me a cup of tea.

(Interruptions)

Regarding the other statement that the Governor of the Bank of Mauritius made while he was still abroad, I believe, about the extreme difficulty to detect money laundering, does the Ag. Prime Minister not think that this will affect our image of a credible banking and financial centre, especially with the institution like the OECD which is fighting, as he knows very well, relentless battles against money laundering all over the world?

The Ag. Prime Minister: No, I don't remember the Governor making that statement on money laundering. I can look at the press reports. I can remember him expressing his solidarity with bankers being given the difficult job of identifying in every case suspicious transactions as far as bankers go. I can't remember him at all saying what has just been referred to anywhere. I can reassure the hon. Leader of the Opposition and the country that we are fully equipped both in terms of legislation, institutions, staffing and expertise to control money laundering in Mauritius, if any.

Dr. Ramgoolam: Does the Ag. Prime Minister agree that if these unfortunate utterances have been made, they will affect our financial credibility?

The Ag. Prime Minister: No. First of all, with due respect to the press, we have to be very careful, especially on issues like that, one word makes a big difference. We have to be very, very careful. That is why I advise the hon. Leader of the Opposition to get it - I don't know if with due respect I can say that - from the horse's mouth, that is, the Governor of the Bank of Mauritius's mouth, exactly what he meant and what are his concerns.

Dr. Ramgoolam: Let's leave the horses for now, but I was actually astonished when I heard this. So, I tried to check whether this was actually said. But can I tell the Ag. Prime Minister that this was actually repeated on radio? Will he check into that?

Mr Speaker: Hon. Leader of the Opposition, the hon. Ag. Prime Minister has said that he cannot comment on what the Governor said. He advised you to get it from the horse's mouth, from the Governor's mouth. I think, we should not lose the time of the House going on the same issue.

Dr. Ramgoolam: I just wanted to mention that it has been repeated on the radio. So, his voice was there, unless it was somebody else speaking in his name, but it was his voice that said that it was extremely difficult to control money laundering. I will not pursue the matter, Mr Speaker, Sir. But can I ask why the Ag. Prime Minister thinks the Bank of Mauritius has been totally silent since Moody's downgrading of the MCB's financial strength?

The Ag. Prime Minister: They must be working so hard that they don't have time or they don't find the need for communiqués. But they are working very very hard.

The press statement dated 27 June is before me where the Governor declares himself "*solidaire des banquiers*". I see absolutely no reference in that to money laundering.

As far as radios are concerned, those voices on radios are too high for me to be able to follow these utterances. But I was right, there was no reference in his press statement to money laundering. The reference is to *transactions douteuses*.

Dr. Ramgoolam: The fact that the sanction had not come from the Bank of Mauritius which is supposed to act as a regulator in a supervisory capacity, can the Ag. Prime Minister say why the sanction had to come from the international rating institution which is Moody's and not from the Bank of Mauritius which has remained completely passive in all this?

The Ag. Prime Minister: It is not true that the Bank has been impassive. It is not true at all. But, Mr Speaker, Sir, I take this opportunity to again invite the hon. Leader of the Opposition to check with his legal lawyers what the Bank of Mauritius, as our law stands right now, can and cannot do. But anyway I don't think that the term "sanctions" would be helpful. The Bank of Mauritius issued a communiqué. The Bank of Mauritius is suggesting measures to the Mauritius Commercial Bank; and, as I said, yesterday further progress was made and I am sure that in due course communiqués will come out from both ends, Bank of Mauritius and Mauritius Commercial Bank, as we progress along.

Mr Duval: Whatever be the outcome of the case against the No. 1 and No. 2 of the MCB, would the Ag. Prime Minister not agree that something has to be done against the perception in the international banking community that the Chief Executive Officer and his assistant of the biggest bank of Mauritius are out on bail on very serious charges, including money laundering? Would he not agree that something has to be done in the very short-term to protect not only the reputation of the Bank of Mauritius as an effective regulator, but also of the whole banking system in Mauritius?

The Ag. Prime Minister: I am sure that this is being discussed between the Bank of Mauritius and the Mauritius Commercial Bank.

Dr. Ramgoolam: I understand that the Ag. Prime Minister is being very careful in his answer, but a perception is being created outside. Here we have two institutions which are supposed to be independent, one is ICAC which has decided to proceed on the way it has proceeded on the charges the way it has done and then the Governor of the Bank of Mauritius making utterances, practically passing judgment on ICAC. That is the perception that is being created and that is what is damaging our reputation and credibility. Does he not agree?

The Ag. Prime Minister: I don't agree at all. I haven't see anything from the Bank of Mauritius that could be interpreting as directed against ICAC. There have been press reports of statements made by the Governor and supposedly by somebody on the radio - I didn't hear that. But as far as the Bank of Mauritius is concerned, I have seen nothing that can be interpreted as targeting ICAC in any way.

Dr. Ramgoolam: He did say, I am sorry to be pressing the point. But he did say - the way he has expressed himself - that ICAC practically does not know the banking sector and it doesn't take into account procedures of the banking sector. That is what was implied in the way he replied. That is why

I am saying there is a confusion between the two supposedly independent institutions, one attacking the other, it seems.

Mr Speaker: I don't know to which statement or report the hon. Leader of the Opposition is referring. I don't know whether he is referring to what has been said on the radio also. Is that so?

Dr. Ramgoolam: Mr Speaker, Sir, I am talking about the fact that he comes and says that he is *solidaire des banquiers*. The Ag. Prime Minister has confirmed that the Governor said that. *Solidaire des banquiers*, in other words, saying that ICAC is acting in the wrong way.

Mr Speaker: Well, this would be going too far. When he said that he is *solidaire des banquiers*, and when seen to interpret its meaning we are trying to pass value judgement on what he has said. The hon. Leader of the Opposition cannot ask for the opinion of the Ag. Prime Minister on what was said and what it means by being *solidaire des banquiers*. It is a value judgement.

Dr. Ramgoolam: I bow to your ruling, Mr Speaker, Sir. But, does the Ag. Prime Minister not believe that the downgrading of the financial strength of the MCB will impact negatively on the capacity to raise loans for the country?

The Ag. Prime Minister: No. Certainly, we were and we are very concerned by this downgrading and, as I said, everything is being done for the MCB to be back where it was, and still better. At this stage, there is nothing targeting the country; there is no fallout on the country. But it doesn't help and, that is why everybody is doing his best to progress, to get back the rating as far as the bank is concerned and to send the right signals. If I can add, I can understand that the Governor is concerned about the way we handle the 'suspicion transactions' in the banking sector. We are breaking new ground; we have to be very, very careful. And, I am sure, everybody is being as careful as need be.

Dr. Ramgoolam: The Governor of the Bank should realise that we have taken commitments on money laundering and that, therefore, we have to act with due respect to these commitments; that is the impression that he gives when he says that it is very difficult. I know the Ag. Prime Minister doesn't agree...

(Interruptions)

He has said that on the radio.

Mr Speaker: Again, the rule says that we cannot take heed of what is being said in the press. I think this extends to what is said on the radio, because I don't think that all the hon. Members in the House had listened to that programme.

Dr. Ramgoolam: It was not only said on the radio, Mr Speaker, Sir, but it was also publicised then in the press, but, maybe he does not know.

Mr Speaker: Again, the press. What is said in the press? If there is an official document, we can discuss on that. Unfortunately, we cannot take heed to what is said in the press.

Dr. Ramgoolam: In that case, the Governor of the Bank should be asked not to make utterances and not to issue communiqués for the moment and it would be safer for the country.

The Ag. Prime Minister: Mr Speaker, I have explained to the House, time and again, that this Government respects the independence of the Bank of Mauritius, contrary to the past - I won't go into that. We genuinely respect the independence of the Bank of Mauritius and of its Governor, and of its Managing Director. And, this is the way we are going to keep on behaving, until legislation is amended, because the intention is to put in legislation for the independence of the Bank of Mauritius. I don't think it is in the interest of Mauritius at all, in terms of the signal that we send, the image that we project as a state-of-the-art financial sector. If we send the signal that the Central Bank is taking orders from the Central Government, this is the worst service that we can do to Mauritius and to its financial sector. Of course, I regularly meet the Governor of the Bank of Mauritius and the Managing Director. I meet regularly the Governor of the Bank of Mauritius, including on this affair, but I do not give instructions to the Bank of Mauritius; and this Government means to move in that direction, of genuine recognised independence of the Bank of Mauritius.

Dr. Ramgoolam: Well, I suggest that, perhaps, on a cup of tea, when the Ag. Prime Minister meets him next time, to quietly give him some advice as not to make these wild utterances and communiqués.

We are all concerned with the damage that can be caused to the country and I understand the fact that the Ag. Prime Minister is trying to be very careful. I, too, am being very careful and I am not putting certain matters in my questioning. But, Mr Speaker, Sir, this perception is there unfortunately. Perhaps the Ag. Prime Minister should do that.

The Ag. Prime Minister: I would not go along with the description of whatever the Governor has said as being 'wild statements'. It's not my responsibility; these are the words used by the hon. Leader of the Opposition. I must say I am fully satisfied with the tact, the thoughtfulness and the way the Governor is going about this issue. It's very, very serious. We are in a very serious situation, although as I said, the Mauritius Commercial Bank is as solid as ever; the figures are there. But, there are certain measures that need to be taken, especially to get back the MCB to the same rating by Moody's. I don't think this is the time and I see no reason to target the Governor; on the contrary, he has come back, he has been very active since he has been back, including yesterday, he was very active the whole day. I am fully satisfied that he is doing all that needs to be done in a delicate situation.

Dr. Ramgoolam: I hope he is active every day! Moody's has not only downgraded the MCB's financial strength, but it has also given a red card and it says that it is reviewing matters, including the foreign currency deposit ratings, with the possibility of downgrading...

(Interruptions)

Downgrading not only the financial strength rating, but also the foreign currency deposit ratings and, it says that it is reviewing it with a view of possibly further downgrading. So, this is a red card. Does the Ag. Prime Minister not agree that it is so?

The Ag. Prime Minister: Yes, I agree fully. We have been in touch with Moody's, not me, of course. Others have been in touch with Moody's on a daily basis. We are very concerned and, as I said, all measures are being envisaged to get back the rating to where it was. But, you know life is life. We have been in touch so much with them, the officer directly in charge went off on holidays, and will see to it as soon as he is back. He is briefed fully on all measures taken and so on. So, we will keep on doing all that is necessary to get the MCB back to the rating where it was and still better.

Dr. Ramgoolam: Moody's mentioned that the fraud spanned over a period of 11 years and that it should have been detected, which shows that there are major failures in the internal systems and controls. That implies not just the MCB, but also the Bank of Mauritius. Does the Ag. Prime Minister not agree, therefore, that Moody's statement is itself a condemnation of the regulatory and supervisory ability of the Bank of Mauritius as it is now?

The Ag. Prime Minister: I don't go along with everything that Moody's has said in its revaluation, but as I told the hon. Leader of the Opposition, before the MCB/NPF affair, we were already in presence of reports from the World Bank, IMF and others. We must start with where it all starts, that is, the legislation, on how the legislation needs to be amended, to give to the Bank of Mauritius adequate regulatory powers, which they don't have at present. They are doing their job, but the law is weak on certain points. Yes, we take all these comments on board and, as I said, *à tête reposée*, coolly, certainly the legislation will be changed in the days to come.

Dr. Ramgoolam: Is it not a fact, therefore, that the inspectors and the supervisors of the Bank of Mauritius failed, it seems, for 11 years to detect this massive fraud? What were they doing? What were the inspectors doing? What were they going there for? Was it for chitchat and a cup of tea?

The Ag. Prime Minister: No, Mr Speaker, Sir, I don't go along with that. I think they did their work. I am not going to prejudge what is going to be found as far as the MCB/NPF affair is concerned; it's too early. The inquiry is still on. I am not going to prejudge of the results of the inquiry, whether charges, finally, will be laid against whom, what charges, etc. In due course, we'll see all this. But, I am satisfied that the Bank of Mauritius, within existing legislation, has performed as best it could as a regulatory body.

Dr. Ramgoolam: The fact that the Bank of Mauritius had to get an expert from Singapore to come and tell it what to do, is that not in itself an admission that it has failed in its regulatory and supervisory capacity?

The Ag. Prime Minister: If they go and get the most *pointu* advice, will they be blamed for that? Of course, it costs money, but I congratulated them. They took that decision and I was informed

that they had taken that decision. I congratulated the Governor and the Bank of Mauritius. We get advice from the IMF, from the World Bank and now, we get advice from the best consultants on good governance in banking circles and so on, so much the better, we will take on board what should be taken on board from these different reports.

Dr. Ramgoolam: In fact, I am repeating what Moody's has said. It said that there has been a failure of internal control and supervision of the internal system and control for eleven years; and the Bank of Mauritius is supposed to be acting as a regulatory and supervising body. Why have they not found anything?

The Ag. Prime Minister: Mr Speaker, we are in Mauritius here, we are not Moody's. I don't think we should follow Moody's in passing judgement already on the case that is before ICAC. I think we should be different from Moody's. They look at it from a distance, they rate banking institutions, and they rate countries. We are in Mauritius. We know that the MCB/NPF affair is ongoing. The inquiry is on; it has not been proved, established what exactly took place, that is why the hon. Leader of the Opposition will have noticed that whereas he speaks of fraud, I talk of affair, because we have to be fair in every case. The inquiry is on, let it go on and then maybe we will use the same words as Moody's. But Moody's is jumping the gun; we, in Mauritius, should not follow Moody's; we should wait for the inquiry to be completed for the conclusions and then we will know what exactly took place, whether something took place for eleven years or for one year, in due course we will know.

Mr Speaker: Time is up. I am allowing a last question to the Leader of the Opposition.

Dr. Ramgoolam: Will you allow me two questions, Mr Speaker, Sir, because it is a matter of public interest. First, I used the word 'fraud', because the MCB, itself, has used this word; it has admitted there was a fraud. Is he aware that the Singaporean expert has already said in his report that there has been a failure of internal control and supervision?

The Ag. Prime Minister: That there has been a failure, the MCB has recognised it. Everybody agrees that there has been a failure and everybody agrees that it must be corrected, that it is being corrected. I don't have to use the same words as Moody's and I don't have to use the same words as the MCB either. The MCB is a party; they are claiming this from their insurers, and they are claiming that from individuals and so on. They use the words that they want to use. As far as I am concerned, there is an inquiry ongoing. ICAC and the Police are at work. Let us wait for the completion of the inquiry, then we will know exactly what took place on the MCB/NPF affair.

Dr. Ramgoolam: Can the Ag. Prime Minister say who is in charge and since when was he appointed as Director in a supervisory capacity in the Bank?

The Ag. Prime Minister: I don't have it in mind. I deal with the Governor and with the Managing Director. They deal with the officers down the line.

Dr. Ramgoolam: Can I ask one last question, following this, Mr Speaker, Sir? The fact is that I would ask the Ag. Prime Minister to look into that properly, because there has been nobody in charge there.

The Ag. Prime Minister: I am satisfied that what is being done at the Bank of Mauritius is being done, as it should be. I'll take the point with the Governor, but I must say that it is the first time a reference is made to such an eventual state of affairs. Certainly, I'll take it up.

Mr Speaker: Questions addressed to the Ag. Prime Minister.