

BOTSWANA INSTITUTE OF BANKERS ANNUAL DINNER

Fifteen Years of Leadership Excellence, Redefining the Banking Landscape in Botswana

by

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August 15, 2013

Salutations:

Director of Ceremonies, distinguished guests, colleagues:

It gives me particular pleasure to be afforded the opportunity to address the professional community with which I have the strongest and longest-standing connections. Not surprisingly, therefore, I accepted the invitation, without hesitation, to officiate at this function from the host, the interim Managing Director of Barclays Bank, Mr Aupa Monyatsi.

I also agreed to speak to the topic: **Fifteen Years of Leadership Excellence, Redefining the Banking Landscape in Botswana**. In doing so, I will not only review developments in the domestic banking sector in the last fifteen years but, perhaps more importantly, I will take the opportunity to comment on the unfinished agenda as we collectively continue to strive for excellence in the banking sector. Having been at the Bank of Botswana for many years, including being at the helm of it for much of the fifteen-

year period, I have been well placed to observe events and draw conclusions. I will indeed look back and reflect on how far we have travelled together. I will look back at events that created the tapestry of challenges we faced; and how we responded to the opportunities that were afforded us.

For a start, and to provide a general sense of perspective, let me share with you some statistical data of interest in respect of the period in question (1998 to date). The population of Botswana grew by some 30 percent, while the economy expanded by about 80 percent in real terms.

When considering the performance of the banking sector in the context of these basic benchmarks, the extent of its growing importance in the domestic economy is abundantly clear. In real terms, commercial banks' assets have risen by almost 180 percent. The growth of loans, at about 290 percent in real terms, is even more pronounced, compared to an increase of 190 percent for deposits. These rates of growth are more than twice as fast as overall economic expansion, which means that there has been a significant improvement in financial deepening. In contrast, banknotes and coin in circulation, again adjusted for inflation, grew by a relatively modest 47 percent. This also reflects the development of banking in Botswana, as non-cash means of payment are more widely used. Indeed, various forms of

electronic payments that are suitable for both large and small transactions have grown rapidly in importance.

As a result, the contribution of the banking sector to the country's GDP increased markedly, from 2.2 percent in 1998 to approximately 4 percent in 2012. This may not sound like much, but the fact is that banking is now one of the largest sub-sectors in the economy, outside mining and government.

I could go on: for example, by citing figures on employment which show that jobs in the banking sector increased at an annual average of almost 6 percent between 2001 and 2012. But, such aggregates provide little insight into the dynamic development of banking in Botswana during the early years of the new millennium.

Perhaps the most obvious sign of this dynamism is the number of banks now operating in Botswana; they have increased significantly in both size and diversity. Today we speak of the "*big four*" out of a total of thirteen banks, excluding the three statutory banks. In 1998, there *were* only four banks, led by a comfortably entrenched "*big two*". The first investment bank had yet to be licensed; and the International Financial Services Centre, which is now merged with the Botswana Export Development and Investment Authority to become the Botswana Investment and Trade

Centre, was still to be established, as was the office of the Banking Adjudicator. Furthermore, the bureaux de change have sprung up across the country and are contributing towards the broadening and deepening financial services sector.

One good result of the increasing number of banks is that it has stimulated the much-needed boost to competition. This is indicated by the range of products now available and the expanding branch network. The traditional dominance of large banks is being progressively eroded and the new generation of “small” banks are making impressive gains in market share.

I should also add my personal satisfaction on the degree of localisation that has been effectively and progressively achieved. Fifteen years ago, there were no Batswana running banks at the level of CEO; now many are requisitely qualified and appropriately experienced to occupy senior level positions in the sector.

The Bank of Botswana has been complementing these developments in more ways than one, some of more consequence than others, but all of which have helped shape the development of the banking sector. These include the steps undertaken to ensure that Bank of Botswana

Certificates remain a tool for bona fide liquidity absorption. There has also been the capping of the upper limit for cheques; there are guidelines on maintaining deposit interest rates at reasonable levels and retail banking services that were provided by the Bank of Botswana were terminated.

Not all of these have been popular, especially at the time of introduction, and perhaps this is inevitable; such directives are only instituted when less explicit interventions have proved ineffective. You will agree that leadership and popularity never make easy bed-fellows; on balance, however, I believe that the benefit of hindsight has confirmed that these changes have been for the best. In particular, restricting the issuance of Bank of Botswana Certificates has been the driving factor behind the more dynamic approach by banks in identifying viable lending opportunities. The beneficial effects of this dynamism will soon be felt in that banks will be more supportive of the country's economic diversification drive.

Distinguished ladies and gentlemen: A review of the past fifteen years would not be complete without reference to the stability of Botswana banks in the face of the global financial crisis and economic slowdown that started to be felt domestically in late 2008. It is, of course, correct to observe that Botswana banks benefitted from a lack of linkages to

banking systems in economies at the epicentre of the crisis. In addition, banking in Botswana remains focused on conventional products; so there were no undue worries over the so-called “toxic assets”. But we would be doing ourselves a disservice if we did not acknowledge the role played by the consistent observance of appropriate prudential safeguards in support of safe lending, which has characterised the Botswana banking system for many years. This is underpinned by sound regulation and supervision, as well as good governance that is a feature of the banking sector. But the generally cooperative approach adopted by the regulated institutions has added to the robustness of the framework. This has been consistently reported as among the economy’s key strengths by external observers such as the credit rating agencies, Standard and Poor’s and Moody’s Investors Service, as well as the International Monetary Fund and World Bank.

I hasten to add, however, that the purpose of a historical review is not so much to relive past victories, especially from the perspective of leadership. It is to learn lessons and to plan for the future. I think we would be misleading ourselves if we failed to recognise that, however much we extol the achievements of the past 15 years, the fact is that some challenges remain, pretty much in line with the saying: “the more things change, the more they stay the same”. Although

the banking landscape has been redefined in many ways, this process is not complete.

Director of Ceremonies, Distinguished ladies and gentlemen:

This is not a forum to pursue this point to the extent that would do it full justice. But as I have said earlier, competition among banks has become more intense in a number of respects, and with demonstrable benefits for customers. Yet the complaint that banks charge rather highly for poorly delivered services continues to resonate, seemingly undimmed from fifteen years ago. In part, this may reflect higher standards required by modern-day customers. But failure to make progress on reducing the period for cheque clearance, or reducing the long queues in banking halls and at ATMs are symptomatic of under-investment in banking infrastructure.

Similarly, the continuing insufficient investment by banks in human capital development is so glaring; improving financial literacy of bank customers is also almost non-existent. This is as if banks in Botswana are oblivious to the fact that return from investing in staff training and development, and empowering the consumer with financial knowledge and business guidance, will ensure dynamic profitability and sustained business growth. The almost zero to minimal corporate social responsibility, including endowments for

major social projects that benefit society, is also disheartening, particularly given that banks deliver so generously in this respect where their headquarters are domiciled.

Surely, Botswana banks' narrow profit-centric business paradigm that is characterised by a static short-run perspective needs to change.

A further challenge is that of financial inclusion. Independent surveys have shown that Botswana ranks relatively well in Africa in terms of financial access, especially in terms of access to banking products. This is a notable achievement of which we should be proud. But, as banking increasingly becomes regarded as a mainstream service, rather than one reserved for a privileged minority, the questions as to why a substantial proportion of our people do not yet have access become more pointed. It is incumbent for all the players in the banking community (whether large or small), as well as the regulator, to work constructively to advance this important agenda.

We would do well to continue to look for ways to make effective use of new technologies to reach out to all communities, without undermining prudential standards. Recent initiatives to improve the platform for the effective sharing of credit information are certainly welcome. In this

way, greater inclusivity in banking services will be supported, particularly if it can be properly implemented such that it is able to provide a balanced picture of borrower profiles.

Distinguished guests, ladies and gentlemen:

One element of good progress that is evident is the development of pension fund and insurance industries. Overall, the size of the non-bank financial sector is on a par with the banking sector and, as you are aware, this has resulted in the establishment of a separate regulatory authority.

It is apparent that the development of the broader financial sector remains very much work in progress, with notable gaps in the market remaining. For this reason, the Government, with the full support of the Bank of Botswana, has recently adopted the Financial Sector Development Strategy for the five-year period to 2016. This lays out a holistic agenda for sectoral development in support of the strategic objective set out in 10th National Development Plan, which envisages a financial sector that supports the expanding and more sophisticated needs of the economy through competition, innovation and improved financial access. It is vital that banks, which remain the bedrock of the financial sector, are fully committed to the effective implementation of this strategy.

Director of Ceremonies, Distinguished ladies and gentlemen:
We can look back with pride, both individually and collectively, to the achievements of the past fifteen years. These have been evident in a range of areas with clear benefits to the economy as a whole. But there remains an unfinished agenda for the financial sector as a whole, where banks must continue to take a leading role. The remaining challenges will need to be at the top of the agenda. They include investment in staff training, more investment in infrastructure in aid of, among others, identity fraud prevention, efficient service delivery, proactive lending, financial inclusion and increased social responsibility. This is where excellence in leadership will be required more than ever.

I wish to conclude by acknowledging the ground work done and solid foundation built by those who were there before us. They handed over a good infrastructure for a viable financial and/or banking sector. We have a responsibility to grow the sector further so it can become one of the pillars of the country's economy. Clearly, there is an enabling environment. The Bank of Botswana is committed to the transformation of the banking sector going forward. We have come this far together; I have no doubt that we can make it for the benefit of the country.

Director of Ceremonies, Distinguished ladies and gentlemen:
This concludes my submission.

I thank you for your attention, and wish you an enjoyable evening.