

KEYNOTE ADDRESS AT THE 25th ANNIVERSARY GALA DINNER OF STANBIC BANK BOTSWANA LIMITED

by

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Governor

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It is an honour and, indeed, I am most grateful to the Board and Management of Stanbic Bank Botswana Limited for the invitation to officiate at this Gala Dinner, celebrating “25 Years of Stanbic Bank Moving Forward”. This event marks a significant milestone in the history of the bank in Botswana, more so coming shortly after the commemoration of the Bank of Botswana’s 40th Anniversary on March 31, 2016 and the 50th Anniversary of our country’s Independence, on September 30, 2016.

Distinguished guests, allow me to start by thanking, in particular, Standard Bank Group Chief Executive, Mr Sim Tshabalala; Chairman of the Board of Stanbic Bank Botswana Limited, Mr Craig Granville; Chief Executive, Mr Leina Gabaraane, and the entire management and staff of Stanbic Bank for ensuring that we are here, today, celebrating the Silver Jubilee of Stanbic Bank Botswana Limited. The efficiency, effectiveness and safe conduct of banking operations cannot and ought not be taken for granted because, as many would know, banks are accident-prone entities. It is for this reason that the Board, Management and Staff of the Bank of Botswana congratulate you, Mr Gabaraane, your Board and the entire team, for the many achievements of your bank to this day

and, thus far, having conducted the affairs of the bank in a prudent, sound and sustainable manner.

Distinguished Ladies and Gentlemen, the first part of my remarks this evening will highlight the accomplishments of Stanbic Bank Botswana Limited over the last 25 years in the areas of governance, financial performance, innovation and corporate social responsibility. Thereafter, I will offer a few perspectives on expectations relating to banking sector regulatory compliance and the role of banks in policy implementation.

The entry of Stanbic Bank into the Botswana financial sector should be placed in the context of the major financial sector reforms undertaken in the early 1990s. These reforms were informed by the report entitled “Botswana - Financial Policies for Diversified Growth”, derived from a study by Government with the assistance of the World Bank.

The key elements of these reforms included deregulation of interest rates, adoption and use of indirect instruments of monetary policy, introduction of the Bank of Botswana Certificates to influence liquidity in the banking system and manage short-term interest rates, liberalisation of banking licensing requirements to spur competition in the financial sector and enhanced prudential supervision of banks. Hitherto, there were only three commercial banks operating in Botswana. In 1991, two additional commercial

banks were licensed, namely, ANZ Grindlays Botswana Limited and Zimbank Botswana Limited. A year later, in 1992, the Bank of Botswana granted UnionBank Botswana Limited, a subsidiary of Standard Bank of South Africa, a banking licence, making it the sixth licensed commercial bank in the country. Shortly thereafter, in the same year, UnionBank merged with ANZ Grindlays, each with an initial capital of P10 million, to form the bank we know today as Stanbic Bank Botswana Limited.

Director of Ceremonies, today, 25 years on, Stanbic Bank is ranked 4th among the 10 commercial banks operating in the country, in terms of staffing, branch network, capital and deposit liabilities. From a modest beginning, with only 24 employees in 1993, Stanbic Bank currently employs over 600 staff members across 10 branches, and serves in excess of 80 000 retail and business customers. The bank asset base has grown significantly, from P138 million in 1993 to P12 billion as at December 31, 2016. During the same period, the bank has also consistently made profits; with its net income after tax increasing from P2.2 million in 1993 to P192 million in 2016. At present, Stanbic Bank is regarded as one of the systemically important domestic banks operating in Botswana, with a 15 percent market share of total banking industry assets and deposits.

Distinguished Guests, Stanbic Bank offers a wide range of traditional and innovative corporate, retail and investment products

and services including, more recently, like some of its peers, the introduction of on-line and mobile banking services. I have no doubt that these technology-based platforms, products and services will enable Stanbic Bank to continue to be a significant player in the industry and broader economy, as well as adapt to the emergence of financial technology (Fintech) operators for the benefit of customers and the economy at large. Somewhat uniquely, while embracing technology-based banking, Stanbic Bank continues to reinforce its position in corporate and investment banking. Amongst other Awards in the recent past, it was named the best investment bank in Botswana in the 2016 Europe, Middle East and Africa (EMEA) Finance African Banking Awards. Congratulations, once again.

Distinguished Ladies and Gentlemen, another highlight is the evolution of leadership and governance at Stanbic Bank. Notably, the Chief Executive position was localised in 2008 with the appointment of Mr Gabaraane, while the majority of the bank's Board members (six out of 10) and 80 percent of the senior management staff of the bank are citizens. These are significant developments in two respects: first, they reflect the attention given to staff development and enhancement of relevant skills across the spectrum of banking operations; and, second, the alignment of leadership, management and operational processes to the local context, in order to better serve the domestic economy. I can confidently state that, based on the latest statutory returns

submitted monthly and quarterly to the Bank of Botswana, the bank is solvent, profitable, well governed and prudently run, in the main, by Batswana.

Director of Ceremonies, in the area of corporate social responsibility, Stanbic Bank has a long-standing relationship with the Cheshire Foundation; it donated therapeutic equipment to the Rehabilitation Centres; mosquito nets to the Ministry of Health to fight malaria; and a mobile clinic for the Shakawe community and surrounding areas. I am informed that the bank also supports vulnerable groups, such as orphans and underprivileged children, through various initiatives, including a partnership with SOS Children's Village, St Peters Day Care Centre, Metsimotlhabe Recreational Centre and Kagisano Women's Shelter, as well as promoting culture, arts, health and wellness.

Distinguished Guests, there is, however, one missing part of this good story, namely that, unlike its peers, Stanbic Bank is not listed on the Botswana Stock Exchange. To be clear, the Bank of Botswana does not prescribe that the shares of banks operating in Botswana be listed on the domestic stock exchange. This is consistent with accepted best practice and governance norms that the Board and Management of individual firms should be allowed to determine the appropriate capital structure and economic capital management for a bank, subject, of course, to meeting the minimum thresholds for prudential regulatory capital adequacy

requirements. That said, the non-existence of Stanbic Bank on the domestic bourse could be misinterpreted to mean lack of long-term commitment and willingness to have the Botswana public participate in the ownership of the bank. This point assumes particular significance in the context of a country where all the 10 licensed commercial banks are subsidiaries of foreign-owned entities.

Distinguished Guests, Ladies and Gentlemen, Stanbic Bank is a wholly owned subsidiary of Standard Bank Group, the largest Pan-African banking group by assets amounting R1.95 trillion; equivalent to approximately P1.6 trillion or 154.5 billion US dollars. Therefore, Stanbic Bank Botswana is supported by a strong parent and a well-recognised franchise, regionally and globally. This presents both opportunities and challenges. As regards opportunities, the Standard Bank Group is a Pan-African bank that also has significant representation in other international markets. This places the Group in an advantageous position to fill the gap that may be left by some of the global banks as they decide to move out from certain markets, a process euphemistically referred to as “regulatory deconsolidation” or “global de-risking” and, in certain cases, withdrawal of correspondent banking services, for a variety of reasons. In contrast to such disengagement, as we witnessed recently, Stanbic Bank played a leading role in the syndicated facility for the financing of the Morupule Power Station project. I hasten to add that, as an internationally active financial

conglomerate, with appropriate risk management and governance structures, resources and expertise, Standard Bank Group is well positioned to support regional businesses and infrastructure projects through the provision of long-term finance.

Distinguished Guests, this leads me to my second sub-theme; and I wish to offer some thoughts on 'Moving Forward' in the next 25 years and beyond, with a special focus on the Bank of Botswana's expectations regarding Stanbic Bank and other banks from a policy and regulatory perspective. The global, regional and domestic economies are projected to grow modestly in the years ahead, constrained by a number of factors, including policy uncertainty, change of growth models in China, low commodity prices, slowdown in global trade and potential event risks emanating, especially, from the Brexit negotiation process and some European countries electoral outcomes in 2017.

Distinguished Guests, notwithstanding the foregoing, the agenda for transformation of Botswana's economy, from a resource-based to a well-diversified economy, supported by good public infrastructure, a sound macroeconomic environment and a vibrant financial sector, must continue. As indicated in the 2012 - 2016 Botswana Financial Sector Development Strategy, "a healthy and vibrant financial sector is crucial for the future of Botswana. Financial institutions and markets safeguard savings, provide the financing required for a growing private sector, and make an important and growing direct

contribution to employment and economic growth”. It is in this context that the presence of Stanbic Bank and its parent bank, Standard Bank Group, in banking, insurance and other forms of financial services in Botswana becomes critically important.

Distinguished Guests, banks are, by definition, risk traders and, invariably, should be compensated for taking such risks. However, in the context of economies, such as Botswana, there is a tendency for some large banking groups to engage in some form of “cherry-picking” of best corporates and wealthy customers for credit support to the exclusion of SMMEs, non-salaried persons, low income groups and other underserved segments of society. In order to continue to contribute positively to sustainable economic development, the Botswana banking system should be more inclusive. Banks ought to invest more in risk management infrastructure (staff and systems) to be able to tap into new resources and opportunities, including identifying and funding bankable projects originating from low-income groups and small enterprises, and, I must add, in a safe and prudent manner. In the long-term, failure to do so could marginalise banks, as we know them today, as fintechs and block chain technologies increasingly satisfy the demand for financial services in more innovative and cost-effective ways.

According to the World Economic Forum Global Competitiveness Report of 2016/17, the Botswana financial sector’s overall ranking is 66 out of 138 countries, representing a slight deterioration from a

ranking of 63 in 2015/16. According to the Report, “this is largely due to weak performance in the soundness of banks, (ranked 68), and ease of access to loans, (ranked 69)”; these aspects were ranked 55 and 56, respectively, in the 2015/16 Global Competitiveness Index”. It is also a matter of public policy concern that the ratio of private sector credit to GDP has increased only marginally, from 25 percent in 2011 to 31.8 percent in 2016. Furthermore, the proportion of mortgage loans to total GDP has been, on average 5.2 percent in the last five years. This compares, for example, with a ratio of 69.3 percent for Norway, 67.6 percent for the United Kingdom and 84.3 percent for Sweden. Overall, therefore, these particular financial indicators for Botswana are below international norms and suggest that it may be true that lack of cost-effective access to appropriate finance and credit is a constraining factor towards a more diversified economy.

Distinguished Guests, post the global financial crisis, the Financial Stability Board and other international standards-setting bodies have been spearheading regulatory reforms aimed at enhancing the resilience of banking systems, globally. In this regard, the Bank of Botswana has demonstrated foresight with respect to the minimum prudential capital requirements for banks, which has been set at 15 percent of risk-weighted assets, compared to the international benchmark of 8 percent, since 1997. As some will be aware, effective January 1, 2016, the Bank of Botswana implemented those elements of the revised International Convergence of Capital

Adequacy Measurement and Capital Standards, called Basel II, deemed relevant and proportionate to the nature of the risk profile of banks, as well as the structure and the needs of the Botswana economy. Furthermore, the Bank of Botswana is, along with other stakeholders, taking steps to strengthen the framework for banking sector safety nets and system-wide crisis management. This project requires all systemically important domestic banks to develop recovery plans in conjunction with their parent banks.

Distinguished Guests, the Bank of Botswana recently issued a guidance note on cybercrime risk, imploring banks to put in place effective risk management systems and maintain sound internal controls, specifically designed to counter the growth of increasingly sophisticated cyber-attacks and other forms of financial crimes. Furthermore, there continues to be a worrisome upward trend of cases of fraud, in the form of identity theft, scanning and cloning of bankcards and unauthorised cash withdrawals from Automated Teller Machines (ATMS) by individuals and organised crime syndicates. Cybercrime, fraud and other forms of criminal activities, including money laundering and the financing of terrorism, impose heavy financial and economic costs on society as banks, customers and regulators have to allocate large amounts of resources on preventive measures. Moreover, these forms of crime have the potential to undermine public confidence and trust in the banking system. Given the nature of these operational risks, there is a need for sound leadership and governance of banks, both individually

and on a consolidated basis. For banking regulators and supervisors, these developments call for smarter and more responsive supervisory frameworks, as well as effective collaboration, cooperation and communication across jurisdictions.

Distinguished Guests, despite these challenges, banking institutions, such as Standard Bank Group and its subsidiaries, in Botswana and elsewhere, should remain strong, continuously evolving operating environments, agile in decision making and adapting as necessary to provide the much-needed financial resources for economic development and job creation. There is no doubt, in my mind, that technology is the future of banking, particularly in a sparsely populated country such as Botswana. However, weak, ineffective and inappropriate governance and risk management infrastructure may compromise the safe conduct of banking business. You will agree that for a large Pan-African bank, such as Standard Bank Group, any deficiencies, in this regard, could be far reaching, and have an adverse impact on business and economic performance in several countries, including those that are anchors of regional growth.

Distinguished Ladies and Gentlemen, as I mentioned recently at the launch of the 2017 Monetary Policy Statement, the Bank of Botswana's primary objective is to achieve price stability and safeguard the stability of the financial system. I also indicated that a sound and stable financial system is potentially more effective in policy transmission. Put slightly differently, banks in distress, as

well as unsound and imprudent behaviour, can undermine transmission of monetary policy signals, macroeconomic stability and economic performance. To be absolutely clear, however, let me note that the Botswana banking system, of which Stanbic Bank is a significant player, complies satisfactorily with the minimum prudential requirements, which is indicative of a generally healthy, sound and stable financial system.

Distinguished Ladies and Gentlemen, effective monetary policy transmission is also premised on wider financial inclusion. Therefore, the leadership of the financial sector and policy and regulatory authorities need to continue to work together to broaden financial inclusion, and bring more unbanked enterprises and households into a bankable population. It is only when there is a formal economic relationship between a great majority of businesses and individuals and the banks that changes in interest rates, for example, can affect saving and borrowing decisions on a large scale and, therefore, have the anticipated effect on price developments, economic activity and employment creation.

From the Bank of Botswana's perspective, it is important that the formulation of monetary policy and effective discharge of the central bank's primary mandate are not constrained by perennial concerns about the health of banks; and, in turn, that banks are not so encumbered by internal weaknesses that they are unable to

respond to, and effect, changes in the Bank Rate, that is, implement a policy decision.

As I conclude, Distinguished Ladies and Gentlemen, I wish once again, to recognise the role of Stanbic Bank in supporting economic development through involvement in savings mobilisation, prudent lending, provision of payments and risk mitigation, as well as participation in community initiatives in Botswana.

Honourable Cabinet Ministers, Distinguished Ladies and Gentlemen, I wish Stanbic Bank prosperity as it moves forward and, together with other players in the financial sector, foster economic activity and wealth creation in Botswana.

I thank you for your kind attention.