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**AfrAsia Bank CEO
James Benoit:
“Africa is the next
emerging market”**

The CEO of AfrAsia Bank, Mr. James Benoit, is our guest this week. He answered the questions of Jean Paul AROUFF on the Mauritian economy and the banking sector. Mr. Benoit assessed the performance of AfrAsia Bank in 2009 and spoke about his plans for this year. He also gave his views on the next phase of growth for local banks and the debate between local authorities and the export sector.

AfrAsia Bank CEO James Benoit

• Recent figures released by the Central Statistics Office show that Mauritius has sailed through the crisis with little pain. How could you explain this performance?

— I would have to clarify that there has been more than just a little pain. We can now see the large drop in profits and cash flows of several large hotel groups, textile groups and even of some of the biggest banks. We also know that the SME sector has faced considerable challenges.

But the pain indeed could have been worse. I would credit it to good diversification of the economy in the last decade and the government has also taken various pro-growth Stimulus Package approaches very early in the crisis. The very extensive private sector and public sector cooperation that we have in Mauritius is quite unique and has jointly implemented numerous initiatives to mitigate this crisis.

And we continue to get good FDI flows which are helping the real estate and construction sectors considerably.

• Is it true to say that Mauritian banks also emerged the crisis in good shape?

— Yes, without a question about it. Yet, industry returns on equity and margins have started to drop noticeably with the combination of new competition and slower overall market growth. We can also see that the smaller or boutique banks, of which I would classify AfrAsia, have recorded some good results in the past year.

It's the type of economic cycle at the moment that favours nimble competitors who can adjust quite quickly with new products and services and don't have slow growing legacy business with large overheads.

• According to the IMF, local banks are vulnerable to credit quality. Does this pose a threat to the stability of our financial system?

— Banks anywhere in the world are always vulnerable to credit quality - so that is rather a silly sound bit from the IMF in my view. Credit risk is at the heart of banking; always has been and always will! Seems that was forgotten in the "lost decade of financial engineering" that we just saw.

Take for example the statutory rules in Mauritius whereby banks can have only 10x leverage of their capital base, which is far more conservative than in many countries.

But that is why it's important to have sensible leverage, diversification and other controls of the banking sector. I feel very confident that Mauritius has good controls. It's a shame that a crisis that started in the developed markets and a few extreme cases like Greece and Iceland put hard working emerging markets like Mauritius under needless suspicion.

That said, I could still see some real pain for certain industries here if the global crisis continues and hence that could

hurt some banks profitability quite severely. But I would not see a credit crisis here that is systemic in nature. Should only be from individual banks not diversifying adequately.

• Finance Minister and Central Bank claim that banking fees and interest rates applied by the industry are too high. Do you agree?

— With the greatest respect and due consideration, speaking from my position as CEO of AfrAsia Bank, I would say no. In fact, banks like ours have come to the market only recently and are bringing new banking models and collaborations - forming a new competitive landscape. Our interest margins, fees and forex spreads are, I believe, lower than many other established players and offering customers good and new choices. Now, I am not saying other banks are too high but banks like AfrAsia are offering customers distinctive and competitive choices and, I am pleased to say, the growth in our customer base is excellent.

I think we will see this trend of rather fierce competition continue for quite some time and I think consumers will take notice of these things and reward banks that offer a new value proposition. Let the market forces prevail. AfrAsia for one would not like new regulations to help us compete; we are doing just fine as it is.

• What are the major challenges facing banks in 2010?

— Regulatory risk is my top concern. There is a confusing cupboard full of regulations or taxes or restrictions on offer across the globe these days on nearly every aspect of banking. In the early days of the crisis, there was talk of consistent and coordinated global regulations to address the worst aspects of the crisis. Now we cannot even get Greece and the IMF and EU to sort out a problem which was never supposed to happen in the first place if the rules for EU membership like budget deficits had been enforced.

I fear that emerging markets and countries like Mauritius will get whipsawed and pressured into bad policy or regulations. There were plenty of useful regulations on offer before which never got used. How will more help?

• Where do you see the next phase of growth for our banks?

— Africa and particularly the flow of trade and investment into the continent from China, South-East Asia and India. Africa is the next emerging market. Right now, it's entering a transition phase from frontier market to emerging market. Look at the growth in Angola, for example, and the overall growth across the continent. It gives me the impression it's the new India and there will some Africa tigers emerging in the next decade. Look at the deal Bharti Telecom just did to buy Zain. I expect you will

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see some of the top tier global banks announce major deals in Africa this year.

South South trade and the nexus of India, Africa and Asia should be the most compelling growth story in banking soon.

• AfrAsia is looking more and more towards Africa. Why?

— As I said, we have just opened a representative office in Johannesburg and in Cape Town. We are also about to finalize a significant investment into a Corporate Finance house in Cape Town which will be rebranded as AfrAsia Corporate Finance.

We are looking at other financial services businesses in Africa too. No shopping list, but we take an opportunistic approach to various markets and ways to enter them.

• Are you satisfied with the performance of AfrAsia in 2009?

— We must admit that July to October was a very sluggish and inconsistent global economy which sentiment also hits Mauritius. But since then, it seems that confidence has returned somewhat and for niche players like ourselves, we have seen quite strong growth for the past 5 months. We have record profitability in two of those months and our deposit base has just surpassed Rs 7 billion equivalent equally split between rupees and forex. We are on track to well surpass our results of last year.

Our shareholders, led by Groupe Mon Loisir, also substantially increased our capital base during 2009. So, we are well placed to grow as the overall economy recovers in 2010 and beyond.

• Have your wealth management operations been hit by the global crisis?

— A bit. Customers have been nervous to invest obviously. However, we offer a range of structure investment products with our sister company Axys Capital and JP Morgan and these essentially remove the chance of capital loss. We had one product, the Golden Ladder, linked to gold which just matured and the investors made a satisfactory return over a two year period. A lot of other investments would have lost money in the past two years. Some other products we have launched last year are performing extremely well. So we feel quite good about our track record.

And just this last week we announced that we are investing to own a 50% stake in Axys Capital. This will really consolidate the depth and breadth of our AfrAsia Private Bank offering. So for us, it's still very early days in Private Banking and Wealth Management and we are confident that Mauritius is going to emerge as a regional private banking hub sooner than later.

• What about competition in this segment?

— The competition is mainly from other jurisdictions in Europe, Middle East and Asia. For Mauritius, we are not known yet as a private banking and wealth management centre. And to do that, we must be a regional player in scale not limited to the domestic market only. So, the more entrants the better as a rising tide will lift all boats in this segment for the next decade at least. The challenge for Mauritius to compete regionally/globally in this segment is extremely tough and we need a few banks like ours and the global players to give the jurisdiction profile and credibility. It will happen but it's not for the faint hearted or uncommitted.

• What are your plans for AfrAsia this year?

— Consolidate our position as a regional corporate and private bank and to use our new investments in Axys Capital and South Africa to do that. We are also doing quite well with our global business and FII licence business with India.

• You mention your FII licence to invest in India. Do you have any apprehension with regard to the coming into force of the tax code in 2011?

— Not really. We are focussing on regional growth not just India, which for too long has been too dominant a force of Mauritius' global business. It's just unhealthy for Mauritius and many big companies in the global business sector to be so reliant on essentially one major customer. We must all use this as an opportunity to evolve.

• The export sector is lobbying for a weaker rupee and the Central Bank insists that the exchange rate reflects the economic fundamentals. When are we going to see the end of this debate?

— We won't. That's what market prices do — they set an admittedly imperfect and fluctuating price that reflects the ongoing debate. It's indeed extremely unfortunate that the export sector is hurting. Let me be clear on that: we as banks can only do well when our customers do well.

But I am not sure that Mauritius or any other country can manage its currency against the euro these days. This is a euro story, not a rupee story. And the euro and the EU are in a mess of their own doing and I am not sure any country or central banker could change that.

The euro could fall 20% to 40% more, maybe even collapse, according to some pretty smart global investors. How do we manage against that? Tough issue. I would not bet on a magic solution any time soon. But of course, we can help exporters and investors to better manage the risk rather than face the full extent of the losses. We are doing that. ■