Amando M Tetangco, Jr: Working together for a better nation

Speech by Mr Amando M Tetangco, Jr, Governor of the Central Bank of the Philippines, at the General Membership Meeting and Induction of 2006-2007 Officers and Directors, Bank Marketing Association of the Philippines (BMAP), Makati City, 26 January 2006.

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Distinguished officers and members of the Bank Marketing Association of the Philippines (BMAP), colleagues and friends in the banking industry, special guests, ladies and gentlemen: good evening!

Thank you for this privilege of once again witnessing your first general meeting for the year and the induction of your newly elected officers.

It is comforting to note that your 2006 officials are mainly re-electionists, led by your President Mr. Roberto Banaag. Your membership made a wise decision as this move ensures, among others, continuity and consistency of your programs and advocacies.

We expect this to consequently translate to BMAP's sustained support of the priority reforms that we, at Bangko Sentral, continue to implement for a more stable and dynamic, more efficient, more depositor- and customer- friendly banking system.

BSP reform initiatives

The BSP indeed has taken bold and decisive moves. We believe we have already mounted the appropriate regulatory framework for the prudent conduct of banking business in these challenging times through the reforms initiated by my esteemed predecessor.

The next thing to do is to make this work.

Foremost on our must-do-list is the alignment of existing regulations with international standards and the promulgation of policies more responsive to the growing competitiveness and sophistication of the financial services industry.

We are now following through on the enhancements of regulations to strengthen corporate governance, risk management, and capital adequacy in our banks, which would be complemented with effective and efficient enforcement.

In line with these commitments, the Monetary Board (MB) recently approved the issuance of three major regulations covering:

- The new financial reporting package (FRP);
- The guidelines on supervision by risk; and
- The guidelines on information technology (IT) risk management

The new FRP effectively amends the Manual of Accounts MOA) and revises the reportorial requirements for banks to align these with the provisions of the Philippine Financial Reporting Standards (PFRS) / Philippine Accounting Standards PAS). To the extent possible, we have integrated in the new FRP the requirements of the PFRS/PAS and the Basel 2 capital adequacy framework. The new FRP will also facilitate an enhanced off-site surveillance for the BSP on its supervised entities.

On the other hand, embodied in the guidelines on supervision by risks are BSP's expectations on how banks and other financial institutions should manage their risks. These are also designed to provide guidance on how the risk-focused supervision will be applied to these risks.

Likewise, the guidelines on I.T. risk management are intended to communicate BSP's expectation of banks in the area of I.T. risk management process. These would effectively identify, measure, monitor and control banks' technology risk exposure.

To ensure healthy competition and promote growth, we have also liberalized certain aspects of banking. We have lifted the moratorium on bank branching. We have opened up outsourcing possibilities and allowed an increasingly wide array of treasury, consumer and wealth management products.

Many more meaningful changes in the banking industry can be expected this year and in the coming years as we further move to fully adopt international best practices. For instance, you will be seeing more binding standards on connected party transactions come into force after a 2-year transition period. There will also be more standards and better enforcement of risk disclosure and client suitability to better protect customers.

Moreover, the BSP is coming out with a stricter “fit and proper rule” to ensure that officials tasked to manage banks and other financial institutions possess the required integrity and competence.

These regulatory enhancements will naturally affect the conduct of banking in our land.

Banking prospects in 2006

We envision a banking landscape dominated by a handful of major banks complemented by many smaller banks that serve various well-defined market niches. We expect an accelerated consolidation process in the banking industry in the next 3 years that will be principally driven by:

1. a stronger regulatory framework that will hasten the exit of weak banks (hopefully on voluntary basis);
2. the increasingly stronger competition by existing foreign banks and new foreign investors coming in into existing banks; and
3. the rigorous technical demands posed by modern banking and finance standards.

We also see parallel exciting developments in the capital market. The BSP will continue its active collaboration with other government agencies and the private sector for the completion of much-needed market infrastructure to enhance system integrity and overall market confidence. In the end, our vision is that all these changes in the capital market will provide:

- A richer array of investment opportunities for the public,
- Greater funding flexibility for public as well as for the private sectors;
- Greater scope for interest rate risk management, and
- More reliable signaling mechanism for pricing financial assets

BSP’s own transformation process

We are complementing the industry’s transformation process with our own.

In fact, we are in the process of fully adopting a consolidated and risk-based supervision approach. International best practice on banking supervision has adopted this approach primarily because of its more forward-looking orientation rather than the after-the-fact view of traditional supervision. Accordingly, the focus of our attention now is on the most significant risks within a particular financial institution and within the industry as a whole.

Consistent with this new approach, we are reorganizing the BSP supervision and examination sector. We expect to generate benefits particularly in terms of operational efficiency, cost efficiencies, as well as greater value-added to BSP supervised entities through better-focused post-examination recommendations.

We are also continuing our lobbying efforts in congress for the amendment of the BSP charter. This will make the BSP a more effective monetary authority and banking regulator.

We are likewise strongly advocating for the enactment of the Credit Information System (CIS) Act, which will pave the way for the establishment of a truly comprehensive credit information system. This is expected to lower the cost of credit, provide greater access to credit in general, and reduce the dependency on collateral-based lending.

Toward a seamless supervision of the BSP’s supervised and regulated entities, we are also further strengthening our ties with our co-regulators, both here and abroad.

I am happy to report that we are making real progress on various initiatives being undertaken under the umbrella of the financial sector forum (FSF). Discussions during the sixth FSF meeting centered on programs aimed at deepening consumer literacy and further strengthening of coordinating arrangements between and among the member agencies (SEC, BSP, OIC and PDIC).

The Financial Sector Forum, through its Consumer Protection and Education Committee (CPEC), shall mount a consumer protection and education campaign plan. This plan aims to equip consumers with adequate, timely and relevant information about financial products and services, not only for their protection but also for maintaining the stability of the financial sector.

This is a specific area where the expert assistance of BMAP will be most welcome. Actually, we are counting on BMAP to respond to this campaign with the same vigor and dedication as it did to our call for the crafting of a consumer code in the Philippines. The BSP attributes to BMAP's strong political will the expedient launching of the "Service code for consumer banking in the Philippines" in October 2005. (Only 14 months after BSP challenged the industry to make one for the Philippines).

The FSF, through its Reporting, Information Exchange and Dissemination Committee (RIED), has also moved to supplement its current Memorandum of Agreement (MOA) covering bilateral information exchange among FSF members. The amendments will allow the establishment of an overall framework for the exchange of relevant reports and/or data which in turn shall facilitate the development of comprehensive statistics on the financial system.

To address cross-border supervisory issues, we have already established contacts with our foreign counterparts in ten (10) countries where Philippine banks also operate. Two of them, the China Banking Regulatory Commission and the Nederlandsche Bank, have already made commitments for the exchange of information on areas of common interest as supervisory authorities. Meanwhile, we are confident that we shall be able to see the fruits of our negotiations for the adoption of a minimum set of ground rules for the exchange of similar information with the remaining eight foreign supervisors[1].

A call for support

BMAP, together with the other captains of the banking industry, has undoubtedly made significant contributions towards the realization of many of our reform initiatives. However, we still have a plateful of them to complete.

We believe that BMAP remains strategically positioned to continue to enlist the support of industry primemovers in these endeavors. You have the power to promote synergy amid a mixture of divergent plans to achieve our shared vision for the banking industry and for our country.

We look forward to another year of closely working with you. Once again, congratulations to your officers!

Thank you very much. Mabuhay tayong lahat.

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[1] Namely: Monetary Authority of Singapore, Hong Kong Monetary Authority, Germany's Federal Financial Supervisory Authority (FFSA), Taiwan's Financial Supervisory Commission, UK's Financial Services Authority, Japan's Financial Services Agency, and the US Federal Reserve Bank