

Amando M Tetangco, Jr: Strengthening financial inclusion and social protection

Speech by Mr Amando M Tetangco, Jr, Governor of the Central Bank of the Philippines (Bangko Sentral ng Pilipinas), at the 57th Annual National Convention and Corporate Meeting of the Rural Bankers Association of the Philippines (RBAP), Manila, 31 May 2010.

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Ladies and gentlemen of the Rural Bankers Association of the Philippines, fellow advocates of the rural banking sector, special guests, good morning!

I am happy to be here at the 57th Annual National Convention of the Rural Bankers Association of the Philippines, for several reasons. First, it is always good to meet rural bankers from different parts of the country to learn about operating conditions in our local communities, as well as the opportunities new government policies present. To us at the Bangko Sentral ng Pilipinas, this signifies a continuing commitment on your part to provide responsive banking services by investing time and effort to understand and adapt to an environment that is constantly shifting and changing. For this, we salute all the officers and members of the RBAP who have taken the time to participate in this annual convention. Let us give all the RBAP members here today a well-deserved round of applause.

Second, your conference theme “Towards Greater Financial Inclusion and Social Protection” communicates very clearly that once again the RBAP and the Bangko Sentral ng Pilipinas are on the same page, insofar as our quantitative and qualitative aspirations are concerned. Indeed, bank programs to grow the business should be balanced with efforts to educate and protect bank customers. As responsible bankers, this win-win strategy is the way to go and grow. For this, I commend RBAP under the leadership of President Joseph Omar Andaya and the members of your board of directors. Palakpakan po natin sila!

Ladies and gentlemen of the rural banking sector. You are the natural front liners in our national program to broaden and deepen the reach of responsible and empowering financial services to local communities.

Aside from your proximity to the clients in the countryside, your deep understanding of their needs makes you effective catalysts for financial inclusion and social protection.

In addition, rural banks as a sector continue to hold the lion’s share of the banking industry’s network in the countryside. For instance, while the ongoing consolidation in the banking sector reduced the number of rural banks by 4% – from 658 in 2008 to 631 in 2009 – the branching network showed a significant 45% increase – from 1,362 to 1,974 branches.

Equally important, rural banks continue to expand their non-traditional service delivery channels. Between 2008 and 2009, the number of rural banks with Automatic Teller Machines – or ATMs – increased from 113 to 119 while rural banks providing electronic banking services moved up from 47 to 52.

Through rural banks, therefore, we expect that more unserved and underserved Filipinos will gain access to responsible and dependable financial services. It can be a simple savings account, a time deposit, an efficient way to pay bills, an insurance product, a microfinance loan, or even just a safe channel to send and receive money.

After getting clients through your doors, it is important that in words and in deeds your customers are assured that their trust in you and your bank is well-deserved.

The challenge therefore is to ensure that the Filipino’s confidence in the banking system and in rural banks in particular continues to grow and strengthen.

What are the magnitudes involved in working on financial inclusion? Well, rough estimates indicate that at the most, only one-third of our households have bank accounts. In other words, at least two out of every three households in the Philippines do not maintain bank accounts. This means an untapped market of about 11 million households!

Some sceptics maintain that many households have no means to maintain bank accounts. That may be true; but we maintain that there are millions more households that can open and maintain bank accounts given enough information, attention, incentive, and protection. In fact, these new customers could very well boost the profitability of rural banks. There is also the added potential of engaging both new and existing customers to have multiple transactions with your bank to further deepen their financial inclusion.

Ladies and gentlemen. "Financial Inclusion" became a global buzzword with the launching in 2005 of the United Nations International Year of Microcredit. Since then, the resounding success of microfinance proved, beyond any doubt, that an activity once seen as marginal or even charitable could in fact be undertaken in a sound, sustainable and profitable manner. This success catalyzed the push to look beyond microfinance and find ways to further expand the reach and scope of financial services.

The concept gained further traction in light of the recent global financial and economic crisis. There is now a growing acceptance in global debates that the crisis reinforced the adverse effects of financial exclusion, resulting in increased burden for those segments of the population that are already vulnerable. Thus, influential bodies such as the Group of 20 major economies more popularly known as G20 have incorporated financial inclusion in their agendas. In fact, the recent G20 Leaders Meeting resulted in the creation of a Financial Inclusion Experts Group to work on broadening access to a full range of financial services as a strategy to provide the foundation for sustainable growth worldwide.

Here in our country, we have been putting policies and programs in place to provide both financial inclusion and social protection. In fact, you will be pleased to know that the Bangko Sentral ng Pilipinas is one of the first central banks in the world to have an office dedicated to the pursuit of financial inclusion.

As a result, we now have policies that empower strong and capable banks to have a wider scope and scale of operations to make them effective and meaningful providers of financial services to more Filipinos.

In 2006, for instance, the Bangko Sentral issued Circular 522 authorizing rural banks to offer FCDUs or Foreign Currency Deposit Unit accounts so that you can take a strategic and active role in the growing remittance business that has since grown into a 17 billion-dollar industry.

In 2007, the Bangko Sentral authorized rural banks to make equity investments in ATM networks through Circular 563 and engage in limited trust activities under Circular 583. In 2008, qualified rural banks were even allowed to participate in select derivatives activities under Circular 594.

In 2009, the Bangko Sentral issued Circular 649 or the electronic money circular which provides the regulatory framework for the fast-growing electronic money business, where rural banks play a central role. With a wider network of cash in/out agents, you will be able to leverage your existing offices and deliver your financial services to an even broader market with potentially greater efficiency and lower costs.

So far this year, we have issued new regulations that significantly broaden business opportunities for rural and cooperative banks. In the first two months, we approved Circulars 678 and 680 covering Housing Microfinance and the Micro-Agri Loan Product under which banks are able to manage their microfinance operations better, with a more diversified portfolio and lower risk of business loans applied to agriculture or housing.

To further expedite the provision of these services, just two weeks ago, the Monetary Board approved the RBAP-MABS housing microfinance program. Through this approval, the RBAP will take a leadership role in the qualification or screening process of participating banks that wish to offer housing microfinance. This develops a strong sense of product ownership and makes the process more efficient.

Also this year, we issued Circular 683 authorizing rural banks to market, sell and service micro insurance products, subject to certain prudential rules and regulations. This enables rural banks to deliver a full range of financial services needed by your clients, which may include protection against injury, loss of property, and other contingent events. This is a groundbreaking policy that places rural banks on the same footing as universal banks which previously held this business.

The Bangko Sentral has also issued this year Circular 685 covering the rules and regulations in recognizing Microfinance Institutional Rating Agencies. This is important as the use of objective, credible, and competent third-party ratings of microfinance institutions enhances transparency and possible inflow of resources into the industry. Altogether, this should facilitate the further growth and development of microfinance in the Philippines which has proven to be an effective medium for liberating millions of Filipinos from poverty.

Ladies and gentlemen of the RBAP, all these policies are in place and the opportunities this brings are well within your reach. All you need to do is to continue to strengthen your institutions by aligning governance practices with global standards, strengthening your capital positions, putting in place a proactive risk management system, improving business operations and following industry best practices.

I also wish to say that the Bangko Sentral ng Pilipinas remains responsive to issues raised by RBAP, including those pertaining to the implementation of certain policies.

Take for instance Circular No. 688 issued only last week – May 26 to be exact – implementing the Revised Risk Based Capital Adequacy Framework for Stand-alone Thrift, Rural and Cooperative Banks or the so-called Basel 1.5 framework. Unlike the full Basel 2 framework for universal and commercial banks and their subsidiary banks and quasi-banks, the Basel 1.5 framework involves only a few key changes on the existing framework under Circular No. 280 dated March 29, 2001, as amended.

The main changes include the increase in risk weight from 0% to 100% for foreign currency denominated exposures to the Philippine National Government and the Bangko Sentral. The increase in risk weight shall be phased-in over a three year period: that is, 1/3 of the applicable risk weight shall be applied by January 2, 2012; 2/3 by January 1, 2013; and the full risk weight by January 1, 2014.

Another major change is the increase in risk weight for Real and Other Properties Acquired exposures from 100% to 150%, which shall also be applied gradually for three years: 115% risk weight shall be applied by January 1, 2012; 130% by January 1, 2013; and 150% by January 1, 2014.

This revision is consistent with the BSP's thrust of reducing the level of non-performing assets of banks to strengthen the overall asset quality of the banking system. Another new feature in the revised framework is the capital requirement for operational risk which is based on 12% of the average positive gross income of the bank for the past three years.

The new guidelines also require important items to be disclosed in the Annual Reports and the Quarterly Published Balanced Sheet to enhance market discipline and transparency. The Bangko Sentral has considered delaying the effectivity of this new Circular to 1 January 2012 to give concerned banks ample time to adjust to this new capital adequacy framework. And to make the transition more manageable, the implementation is on a staggered basis.

Ladies and gentlemen of the rural banking sector. It is important that you see these circulars not as mere issues of compliance undertaken to satisfy the regulator; rather, it is our hope

that there is a clear understanding and appreciation on your part that these measures are crucial to your growth and viability as a business. Ultimately this will benefit your customers in terms of stronger social protection and your shareholders in terms of better returns.

As it is, the rural banking sector as a whole is already on the right track, as far as operational bottom line is concerned. I base this on 2009 consolidated figures. In fact, even with the global financial crisis and isolated closures of some banks, consolidated return on equity of the rural banking sector in 2009 reached 12.12 centavos for every one peso equity investment, even better than the commercial banking sector which posted an aggregate ROE of 11.38 centavos per peso of equity.

Total assets of the rural banking sector also continued to expand, rising from P146 billion in 2008 to P157.4 Billion in 2009. Yearend 2009 figures also showed that rural banks' gross total loan portfolio was more than P98 Billion, while deposits stood at over P105 Billion.

By any measure, these are respectable figures posted at a time when the global financial crisis triggered the most serious world recession since World War II. Ladies and gentlemen, let us celebrate the accomplishments of the rural banking sector with a well-deserved round of applause!

To the Bangko Sentral, all these represent concrete evidence that our rural banks are indeed ready to take on a more strategic and competitive place in the Philippine financial system.

We are confident therefore that in cooperation with our rural banks through the leadership of RBAP we can work toward greater financial inclusion and social protection for Filipinos.

Mabuhay ang RBAP! Mabuhay ang Pilipinas!

I wish you all a successful convention. Maraming salamat sa inyong lahat!