

Amando M Tetangco, Jr: Capacity-building and the Bangko Sentral ng Pilipinas' reform agenda

Speech by Mr Amando M Tetangco, Jr, Governor of Bangko Sentral ng Pilipinas (the central bank of the Philippines), at the induction ceremonies of BAIPHIL's 2012–2013 officers, Makati City, 11 July 2012.

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To the incoming and outgoing officers of BAIPHIL, led by Mr. Buddy Serrano and Ms. Agnes Brillantes-Santos, members of the organization, MB members Ignacio Bunye and Armando Suratos, SEC Chair Tess Herbosa, PDIC President Val Araneta, fellow bankers led by BAP President Abet Villarosa, distinguished guests, my colleagues at the BSP, ladies and gentlemen, good afternoon.

It is a pleasure to join you today to induct your incoming officers. Of all the organizational activities, the passing of the baton is truly meaningful. Similar to the relay races in athletic competition, moving the baton typifies continuity as the next leg takes over from the last one.

On this basis, I would like to laud the outgoing officers for completing yet another successful, activity-laden chapter in the story of BAIPHIL. I also congratulate your incoming officials for accepting the challenge of leadership and for taking their turn in carrying the baton.

Reaping the fruits of investing in ourselves

Managing change is certainly not alien to any of us here. From the persistent difficulties we endured in the past through one financial crisis after another, we now find ourselves in a position of strength. For some time, we referred to this as a mark of our resilience. Perhaps, it may be more appropriate to simply describe it as “investing in ourselves” but with a clear view of the changes that we would like to effect.

The net result is open for everyone to see. With total assets of Php 2.95 trillion in 1999, the Philippine banking system has grown to Php 7.33 trillion as of the end of 2011.

This expansion has of course been accompanied by a corresponding increase in both deposits and loan levels. However, what is striking is not just the increase. Rather, it is that we have been actually growing faster in this time of global difficulties than in the years of relative global calm.

Deposit balances have grown by 13.40% per year between 2007 and 2011 even though it is only growing by roughly 8% annually between 1999 and 2007. The loan book is more impressive, expanding at 10.62% per year in the last 4 years which is much higher than the 3.67% p.a. growth in the 8 years from 1999.

With a strong banking core firmly in place, the economy grew by 6.4 percent year-on-year in the first quarter. Prices have remained stable with inflation averaging 3.0 percent during the first semester.

The country's balance of payments position also remains healthy. During the first five months of this year, the country posted a BoP surplus of USD 1.3 billion. This has contributed to record level of gross international reserves which as of end-June now stood at USD 76.3 billion.

Capacity-building: a key to reforms

These positive macro-financial indicators should not be taken as simply the “aggregate view”. They are the result of and not independent of the inputs of stakeholders on the ground.

To be sure, BAIPHIL is one of those stakeholders. Through the years, you have been a vital institutional partner in ensuring a healthy banking industry. Not only have your initiatives been essential in extending the competencies of your member institutions, you have likewise reached out to other constituents to broaden awareness towards saving and financial literacy.

Your corporate governance course is now part of our market landscape, together with other trainings such as Forgery Detection and various aspects of risk management.

Of equal importance are the activities that you have pursued with other constituencies in mind. Our partnership on the “Banking on your Future” kiddie account program as well as the financial literacy program for teachers and students are high marks that deserve the public’s gratitude and commendation.

It may not have been front-page news, but your recent undertakings in Bayambang, one for the Tugatog Elementary school, and another in Barangay Highway Hills in Mandaluyong certainly take front-and-center stage in making a difference. And with your donation for the victims of typhoon Sendong and the earthquake in Negros, BAIPHIL has truly made a difference in the lives of people.

These are all efforts towards expanding the core competencies of different target audiences. I cite them because they are critical to the future of our financial market and our reform agenda. We do understand that without the adequate retooling of existing skills and the buildup of new ones, policy initiatives would not have much of an anchor from the constituents who either must execute or those that can benefit from these reforms.

It is for this reason that I truly appreciate your theme for the coming fiscal year of “Levelling-up: Linking Action with Vision”. In a short phrase, you emphasize the need for direction through vision but likewise realize that success requires affirmative action.

Towards this end, the BSP values the efforts of BAIPHIL to step up its capability-building initiatives. We also welcome BAIPHIL’s move to thoroughly align its varied activities with its vision of providing excellent banking support at par with the best in the Asia Pacific. Achieving this singular goal alone will demand unity of purpose throughout the organization.

Down the road, we see that this will result not only in a rise in the number of seminars for bank personnel. More importantly, we expect this to translate to responsive training programs that enable bankers to keep up with the fast-changing global environment.

It is clear to us that today’s financial market norms are markedly different compared to practices just a decade or two ago. We now live in an era of stricter capital requirements, steeper yardsticks of governance and higher standards of consumer protection. We certainly expect banking practices to evolve as global markets grapple further with the lingering global financial crisis.

Indeed, the only thing that remains constant is change itself. But financial markets rarely give us the opportunity to pause and dictate the changes that are evolving before us.

Banks – with all the formalities of an organization and its brick and mortar structures – must always be ready to adjust if they are to meet the changing needs of their own publics.

This is a hurdle...but not an impossibility. To be able to put themselves in a position to be this flexible, banks must ensure that both skills and knowledge are already in place before change takes root.

The reform agenda as a training guide

This seems to be an oxymoron: to ask banks to have skills and knowledge in place well before these competencies will be demanded by the changes in front of us.

However, this investment in capacity is precisely what is dictated by today's market landscape. We need to anticipate change and by doing so, we allow ourselves the opportunity to parlay the uncertainties of change into opportunities that come with vigilance.

There is then a convenient nexus between the agenda of reform and the dictates of capacity-building.

From our perspective, nothing is more urgent than the policy agenda of pursuing financial stability and mitigating systemic risks. Regulators talk of this continuously and we have set this as a threshold of prudential policy moving forward.

Many may argue however that financial stability is best left to regulators. After all, each bank is well aware of its own actions, its balance sheet and performance metrics but certainly not of each and every other bank out in the market. Should you not then focus on the bottom line and leave the "big picture" to the prudential authority?

This is an easy argument to make. But I believe it to be only half true. While regulators need to understand and take action on what can impair the system as a whole, this cannot be simply a task of one stakeholder.

How can the greatest good be achieved if not all stakeholders assume collective responsibility?

We believe that it is useful for all other stakeholders to have a working appreciation of that same big picture that regulators routinely worry about. From a capacity-building standpoint, this is ground zero. All other training initiatives will emanate from this.

Capital market issues such as products and markets, pricing and valuation, and market infrastructure easily emanate from the same framework. All these training topics are quite technical in their own regard but there is a direct way to make them part of one common objective.

Training opportunities in the Basel Accord, ICAAP, stress testing, risk management, good governance, compliance framework, among others, can then be brought to bear on this singular prudential goal of achieving stability.

Final thoughts

Ladies and gentlemen, while we have made strides, we should not rest on our laurels. To say that much more needs to be done is an understatement. The truth is that a lot more than "much more" must be done if we are to continuously move forward.

But the tasks ahead are not independent strands but should instead be seen as part of a single process. Just like the relays in athletics, each stakeholder plays a unique role so that the baton is faithfully passed on from one leg to the next.

Those of you who know the 4-by-100 relays understand that the winning team is not always made up of the four fastest runners. Relays are not only about sheer speed. Rather, most races are won – and lost – in the baton hand-off.

Capacity-building is just like these competitive relays. The skill set that one develops is the speed that allows us to be in this race. But it is knowledge – that keen perspective of when and how things fall into place – that generates results and ensures eventual success.

Relays are about continuity in motion so that momentum is not impaired but actually built upon in a coordinated and smooth passing of the baton. This continuity in motion is how we evolve from simply building capacities to becoming enablers of change.

Make no mistake about it; we are in the midst of a relay in instituting change. We led off with a strong start and despite the staggered positions, we can see some early gains. Our second runner has taken the baton and built momentum in the straight-away leg.

Now comes the harder part of this relay. We have the speed and momentum but we must now run the next leg while navigating a curve. Only after we get through that can we hand-off to the anchor who must then take this race home to the finish line.

I ask you now: with the investments of your previous and outgoing boards plus the unbridled potential of the incoming board, has BAIPHIL built enough future capacity so that our industry can take this race home?

Thank you very much and good afternoon to all of you.