

Amando M Tetangco, Jr: Fostering a culture of good governance and compliance

Speech by Mr Amando M Tetangco, Jr, Governor of Bangko Sentral ng Pilipinas (the central bank of the Philippines), at the induction of new officers and general membership meeting of the Bankers Institute of the Philippines, Makati City, 17 July 2013.

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The officers and members of the Bankers Institute of the Philippines under the leadership of President Francis Puzon, SEC Chairperson Tess Herbosa, my colleagues at the Monetary Board Ignacio Bunye and Armando Suratos, former PM Cesar Virata, friends from the banking community, fellow BSPers, distinguished guests, ladies and gentlemen, good afternoon.

It is always a pleasure to join events of the BAIPHIL, a partner of long standing of the Bangko Sentral ng Pilipinas. In particular, today is special as we witnessed a transition of leadership.

This gives me the opportunity to thank the previous set of officers led by immediate past president Salvador Serrano for a job well done and to congratulate brand new BAIPHIL President Francis Puzon and his fellow officers on winning the confidence of their peers to lead them for the fiscal year 2013–2014.

I learned that by tradition, incoming BAIPHIL leaders should have served earlier as an officer or in working committees. This is a good practice: it reflects a long-term commitment to serve BAIPHIL and the interests of the industry.

In your case, the baton is passed on to runners who have run previous legs of the relay. This represents a great opportunity to leverage from the experience of the past and to apply this perspective to what lies ahead.

As we all know, industry association work is never easy; but it can be most fulfilling and quite educational – literally and figuratively.

BAIPHIL as a Partner for Good Governance

Francis and his team have chosen as their underlying theme “Fostering a Culture of Governance and Compliance”. For us at the Bangko Sentral ng Pilipinas, this is a good theme. It is simple and direct. It shows clarity of vision. And it is aligned with the continuing thrust of the Bangko Sentral.

Indeed, having a culture of good governance and compliance not only within the banking system but across all sectors as well is what we should aspire for.

Over the years, the Bangko Sentral has been working on ensuring good governance and compliance systems in banks. We benchmark against international standards and adapt to emerging challenges.

In January last year, for instance, the Bangko Sentral adopted revised guidelines under Circular 749 and 757 to strengthen governance standards that have been largely patterned after the paper on “Principles for Enhancing Corporate Governance” by the Basel Committee on Banking Supervision (BCBS).

The BSP also adopted rules under Circular 747 to strengthen banks’ compliance systems. Only last May, the BSP deployed its Compliance Rating System (CRS), an assessment tool that we developed to comprehensively evaluate during an on-site examination the effectiveness of a supervised institution’s compliance system in mitigating business risk.

In crafting new policies on governance and compliance, the Bangko Sentral adheres to the principle that good governance is the primary responsibility of the particular bank’s board of

directors and its senior management. We respect the mandate of the leadership of each bank to make strategic decisions and it is the risk choices in these decisions that differentiate one bank from another as a business proposition.

Thus, when the BSP intervenes in the conduct of any bank, governance has broken down and remedial action is needed. For the record, we intervene in the conduct of a bank only to protect the broader public interest.

It is critical for a bank therefore to embrace a mandate on good corporate governance. Having a pool of officers who can preach, practice and promote good corporate governance is clearly an essential facet of success.

Two challenges to the BAIPHIL as Partner in Governance

On this point, BAIPHIL is faced with two challenges.

First, data culled from the BAIPHIL Secretariat show that 2,273 individuals have taken your governance course between August 2002 and June 2013. A quick work on the numbers tells us that it comes out to about 17 course participants per month or a little over 200 on average every year.

I believe these numbers can be significantly improved and the new board may want to look into this as a key result area. In an industry of over 140,000 officers and staff, we need to find ways to ensure that good governance is not only a nice-to-have training but a must-have perspective among bankers.

The governance perspective that we seek must be fundamentally entrenched as a core competency of any banker. Banking is about mobilizing other people's savings. Intermediating these funds to borrowers... only to be faced with collection issues gives rise to conflicted interests. We can point to internal checks and balances but what better mitigant is there than practitioners who shun unacceptable behavior and practices.

In my view, developing a broad and deep pool of practitioners should mean more than the 200 individuals completing governance courses a year. Not only is this a game of numbers for an industry that is growing both in size and complexity, governance standards themselves are central to the on-going reforms of global best practices. Thus, not only should there be many more advocates of good governance, there is much to re-learn of governance standards in the first place.

The second challenge is the natural consequence of the first. If we are to develop training programs for corporate governance in banking, there must be a way to evaluate whether the training is itself an "effective" intervention.

Is the program content reflective of the modified global norms? Is the training itself making a difference?

These questions must be addressed. The metric, in our view, is properly developed at the bank-level since it is bank leaders who have the appropriate perspective of the extent to which conflicts of interest arise and how these are resolved. Banks also possess the needed information to directly assess progress.

Governance and Consumer Protection

As an intermediary, you serve the interests of the saving and investing public as much as you look to meet the needs of those borrowing and raising funds. You provide great service as you are able to regularly do as an institution what individuals and entities will find very costly to do on their own.

In an ideal world, this symbiotic relationship will generate benefits mutually agreeable to all parties. Left to its own, however, the subsequent results may not always be positive.

As defined in academic literature and repeatedly confirmed in practice, finance in general is fraught with conflicts of interest.

This is the reason why good governance and the general ambit of consumer protection must be inherently intertwined. The ultimate measure of success cannot be simply summarized either by a Capital Adequacy Ratio that is above regulatory norms or by the extent of profits banking operations generate.

Instead, banking must be about addressing the financial needs of various stakeholders. Not only are we talking about making the system more inclusive, we need to step up to protect the financial consumer, from improved awareness to redress mechanisms.

The mantra of good corporate governance therefore cannot be just about the bank or its personnel. It has to go beyond compliance with regulatory directives. It must consider fair and acceptable behavior, among others, to those who are more vulnerable, even if it means accruing less to the bottom-line. This is the very essence of why banking is imbued with public interest.

In this connection, the Bangko Sentral is preparing to release a Consumer Protection Framework (CPF) that is applicable to its covered institutions. Built upon the pillars of consumer empowerment, market conduct and collective responsibility, the governance standards put into practice by each BSP-covered institution will play a central role within the CPF.

The introduction of the CPF is a milestone for us. Consumer protection is now part of the core practices for which the BSP exercises supervision and regulation. In this initiative, I expect that BAIPHIL will again be one of our key partners.

What Lies Ahead: A Challenge to BAIPHIL

Ladies and gentlemen, we can always talk of governance at length. The challenge, however, is not in extolling the virtues of good corporate governance. Rather, it is what happens after THAT is the key challenge.

If a “culture of good governance” is meant to define our set of values, beliefs and practices on governance, then we are clearly along the proper path. This cannot be delineating the shades of grey between “acceptable” and “unacceptable”. When it involves the interests of several stakeholders, we need to be categorical about what is “right” and “wrong”.

The challenge is measuring how far we moved forward. I am not referring to specific instances of compliance or breaches. What we want to achieve is having that comfort that values, beliefs and practices are fully in place and updated even when no one is looking.

Certainly, it is this last part that is at the core of the issue.

BAIPHIL has always been the advocate of training and capacity building. The industry benefits from your course offerings and capacity building programs. But BAIPHIL’s mandate cannot and should not stop when the courses end or when we choose to mount a new training.

Is BAIPHIL up to this critical task? Abangan!

Actually, given your track record, I trust that BAIPHIL will find new and creative solutions to meet these challenges.

Finally, I thank and commend BAIPHIL for its continuing commitment to support the Bangko Sentral’s financial education program for parents and teachers in our public schools. This is a parallel program that complements the lessons on saving, money management and entrepreneurship being taught in public elementary schools under a joint program of the Bangko Sentral ng Pilipinas and the Department of Education.

As the members of your education committee and other BAIPHIL volunteers can attest, the learnings on personal finance are deeply appreciated by teachers and parents, some of whom are moved to tears when they share what they go through to make both ends meet.

It means a lot to them that BAIPHIL and the Bangko Sentral spend time with them to help improve their lives. Think about it. Education Secretary Brother Armin Luistro has learned of our joint project and is interested in scaling it up to help teachers get out of debt and handle their finances properly.

I remember that this BSP-BAIPHIL financial education program has been in place under four consecutive BAIPHIL presidents. It started with Susan Uranza-Alcala who signed a MOA with the Bangko Sentral in 2009 under the Banking on Your Future Program which was launched when we celebrated 60 years of central banking in the Philippines. BAIPHIL continued the program under Emmanuel Barcena, Agnes Brillante-Santos and Salvador Serrano. I have been informed Francis has been joining the group that goes to public schools. I am optimistic therefore that Francis and his board will continue this program that is already being requested in elementary schools and by some NGOs.

Ladies and gentlemen of BAIPHIL. You are used to training bankers. Now, you are reaching out to the underbanked and the unbanked. Truly, I can say that BAIPHIL is aligned with the Bangko Sentral's goal of promoting good governance and the development of a financial system that is inclusive and able to sustain inclusive growth.

Mabuhay ang BAIPHIL!

Mabuhay ang ating mahal na bansang Pilipinas!

Maraming salamat sa inyong lahat.