

## **Amando M Tetangco, Jr: BSP & BMAP – continuing partnership for a stronger banking system**

Speech by Mr Amando M Tetangco, Jr, Governor of the Central Bank of the Philippines (Bangko Sentral ng Pilipinas), at the Induction of the Board of Directors and General Membership Meeting of the Bank Marketing Association of the Philippines (BMAP), Manila, 6 February 2007.

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

First, I wish to congratulate the BMAP board of 2006 for a job well done. As your President reported, much was accomplished during the year, even as you had fun as well. Let us therefore give all of you a well-deserved round of applause.

I especially thank BMAP members for your support for the National Coin Recirculation Program of the Bangko Sentral ng Pilipinas and the “Tulong Barya Para sa Eskwela” campaign. Clearly, it was a successful campaign as both the public and your banks are now more conscious of recirculating our barya. We also thank the BMAP members who provided promotional support for the campaign.

Equally important, banks cooperated fully by accepting millions of coin donations and by making direct contributions to “Tulong Barya.” If we are to combine the donations raised and the production savings of the Bangko Sentral ng Pilipinas, “Tulong Barya” generated benefits worth P13 million for our public elementary schools!

Let us therefore give another round of applause for this successful partnership between the Bangko Sentral ng Pilipinas and the BMAP!

Moving forward, I am very pleased to know that the 2007 Board of BMAP is unique, and possibly a trendsetter, insofar as representations are concerned: you have universal banks (Metrobank and RCBC), commercial banks (Security Bank, PBCOM, Phil. Veterans), a thrift bank (World Partners Bank), a government bank (DBP) a private development bank (Plantersbank), an ATM consortium (Bancnet) and, for the first time, a rural bank (Green Bank in Mindanao)!

I am confident therefore that BMAP, in 2007, will be able to implement its programs in a more comprehensive and responsive manner.

To us at the Bangko Sentral ng Pilipinas, this is good news indeed. As one of several core organizations in the banking sector, BMAP’s continuing advocacy for banking reforms and for strengthening consumer information and protection...is certain to strengthen our partnership in working toward a responsive and globally competitive banking system.

With the economy on the rise and savings rate on the upswing, this is the perfect time for BMAP members to take the lead in ensuring that marketing of bank products and services are done in accordance with the good governance tenets of fairness, accountability and transparency.

You and I know a bad egg can unfairly spoil and soil the well-guarded reputation of banks. It is imperative therefore that BMAP does its share in policing its own ranks in accordance with the standards set in your brainchild that is the “Service Code for Consumer Banking in the Philippines.” This is the only way we can sustain public confidence in the banking system.

As BMAP itself said: “bank-client relationship is based on mutual trust, and fair banking practices produce optimum results for both parties. Therefore, adherence to high service standards remains to be the primary concern of members of the banking industry.”

I hope therefore that BMAP will sustain its efforts in providing truthful, useful information, and responsive service to its clients.

I am pleased to note that some of our recommendations are being implemented by some banks. For instance, several ATM machines now indicate its fees before a transaction is initiated. I hope that within the year, we would see all ATM machines doing the same.

As a public service, I also recommend that all banks and its branches prominently display in their premises the names and contact details of bank officers they can call or write to for concerns that remain unattended.

I say this because the Bangko Sentral ng Pilipinas has been receiving more and more complaints against banks which do not respond to their queries or request for clarification.

Ladies and gentlemen of the banking community. Listen to your clients...take care of them...fulfill the promise of service you gave them when you marketed your products and services. You have it in you to facilitate the deepening of our capital markets by nurturing public confidence in the banking system.

To anchor your marketing efforts, I will give you a brief overview of our economy in general and our banking sector in particular.

As you all know, our economy continues to expand, with the services sector, to which banks belong, remaining as the main engine of growth, supported by the agriculture and the manufacturing sectors. On the demand side, resilient household spending and robust exports were the key drivers of growth.

Other positive indicators are the strengthening peso; the steady decline in inflation – 3.9% as of January 2007; and generally stable food prices.

Fundamental improvements in the fiscal sector resulting from higher revenue collections and prudent spending have been instrumental in shaping this much better economic picture.

The external sector likewise significantly improved, with overall balance of payments (BOP) yielding a surplus of US\$3.7 billion in 2006. In addition, gross international reserves (GIR) rose to a new record-high level of US\$23 billion as of end-December 2006 on the back of strong dollar inflows from overseas Filipino workers remittances and from foreign investments.

### **Banking system performance**

These positive economic trends augured well for the sustained growth and stability of the banking system.

Financial indicators as of end-November 2006 revealed key strengths of the banking system: double-digit growth in resources and deposit base; strong capital position; and enhanced profitability.

We also achieved positive results in the ongoing asset cleanup in the banking system. The level of non-performing loans (NPLs) in the banking system as of November 2006 was at P171 billion, an almost 50 percent reduction from its peak of P306 billion in December 2001. Consequently, NPL ratio of the banking system further improved to 7.3 percent.

Meanwhile, non-performing assets (NPAs) have dropped to 7.8 percent after peaking at 14.6 percent in December 2001. This improvement in asset quality was complemented by a steady increase in provisioning for probable losses, demonstrating banks' resolve to strengthen their balance sheets.

We also saw an expansion in lending activity in 2006, with total loan portfolio increasing by 8.4 percent year-on-year to P2.0 trillion as of end-November 2006.

Given its intrinsic function as an intermediary of funds, the banking system should continue to be at the forefront of channeling resources to the productive sectors of the economy that can, in turn, provide a solid basis for a more balanced and sustainable economic growth.

With these sound fundamentals as base, we can look forward to brighter prospects for the banking system in 2007. Nevertheless, let me emphasize that these prospects also rely heavily on the banking system's sustained ability to rise to the challenge of a rapidly changing financial landscape.

While the profitability of the banking sector has been on the rise, these are not exactly easy times for the banking industry. Given an increasingly integrated financial world, the banking system is up against a scenario that, on the one hand, holds fresh opportunities and on the other, presents a myriad of complex challenges.

### **Policy directions**

Ladies and gentlemen of the BMAP. This year, the banking system's flexibility to adapt to market changes will again be put to the test. That means you have a lot of work to do.

We are in for another hectic agenda as we move onward with our task of implementing substantial reforms that would ensure basic safety and soundness and promote greater efficiency of the banking system.

Foremost in our agenda is the ongoing asset cleanup in the banking system. We are now implementing the second phase of the cleanup process as an aftermath of the approval of the two-year extension of the SPV Law in May 2006.

To date, asset disposition under SPV II has reached 31 billion, involving the sale/transfer of NPAs to SPVs. In the coming months, we expect more transactions to be completed as an estimated P51 billion of applications are now in the pipeline.

Equally important in our reform agenda is our continuing initiative to upgrade domestic prudential standards in line with international best practices, specifically in the areas of corporate governance, risk management and capital adequacy.

A highly anticipated development is the forthcoming transition to Basel II in July 2007. Unlike the existing BSP risk-based capital adequacy framework, the new Basel II-based framework will not only focus on the computation of the appropriate level of capital given a certain level of exposure, but will also highlight the need for more market disclosures by banks on their risk management exposures and practices.

Preparatory regulations have been laid down to ensure a smoother implementation of the Basel II framework.

Another major policy thrust of the BSP is to foster a strengthened environment with the full implementation of consolidated and risk-based supervision. The aim is to provide a more comprehensive assessment of the policies, processes, personnel, and control systems of banks rather than on regulation compliance audit. We believe this is a more dynamic and forward-looking approach that is more compatible with modern banking practices.

This is being complemented with enhanced regulations on risk management as a way of developing appropriate standards suited to banks' risk-taking activities. These include: (1) guidelines for the development and implementation of banks' internal credit risk rating systems; (2) guidelines on the supervision by risk; (3) guidelines on technology risk management; and (4) guidelines on market risk management and liquidity risk management.

Another related issuance of the BSP is the revision of the prompt corrective action (PCA) framework. The aim is to encourage banks to take early action to align capital with actual risk exposures, implement business improvement measures through better risk management and strengthen corporate governance.

We will also carry on with our task of fostering the development of our financial markets through support for various legislative measures, such as the creation of a centralized credit information system. A centralized credit information system will further strengthen our efforts to improve the quality of financial information available to investors, enhance private sector access to credit, and minimize exposure to risks of financial intermediaries.

On other key fronts, the BSP will also give priority to the development of the domestic capital market, in partnership with the private sector and other government agencies. We will continue to work toward creating a sound market infrastructure, enhancing transparency and market discipline mechanisms, promoting greater investor protection, and supporting the passage of key legislative measures.

As supervisor of the banking system, the BSP is also deeply committed to ensure there is adequate consumer protection when it comes to banking and other related financial services.

In fact, we remain steadfast in promoting financial literacy nationwide. Our primary objective is not only to enhance awareness of the basic consumer rights but also the inherent responsibilities of all market participants. Hence, we have been conducting briefings for special interest groups and local authorities in selected provinces. Let us therefore work together on more projects to promote financial literacy.

Meanwhile, our internal capacity building initiatives included the creation of a "Consumer Affairs Unit" in our Supervision and Examination Sector to have a more focused, efficient and consistent handling of consumer complaints. However, to more directly address the problems, we strongly encourage banks to strengthen their customer care efforts and be more responsive to your clients in dealing with their issues. After all, goodwill is the long-run key to your success as financial institutions.

As bank marketing professionals, we will be relying on your continued assistance in promoting greater consumer protection and upholding financial literacy in the banking system. As the umbrella organization of bank marketing professionals, BMAP is expected to be at the forefront of these initiatives.

These reforms all form an integral part of the BSP's continuing reform agenda geared toward further strengthening the financial sector and improving overall confidence in the banking system.

Ladies and gentlemen of the BMAP, we are counting on your support in reaching this goal. We can do no less in ensuring the continuous development of our country and in improving the quality of life of all Filipinos.

Again, my congratulations to BMAP. Maraming salamat po sa inyong lahat. Mabuhay!