

## **Amando M Tetangco, Jr: Thrift banks – moving forward through responsive, responsible banking**

Speech by Mr Amando M Tetangco, Jr, Governor of the Central Bank of the Philippines (Bangko Sentral ng Pilipinas), at the Annual Convention of the Chamber of Thrift Banks, Makati City, 13 March 2009.

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Ambassador Alfredo Yao, Immediate Past President, Mr. Pascual Garcia III, Incoming President of the Chamber of Thrift Banks, Distinguished officers and members of the Chamber, colleagues from the BSP, members of the media, special guest, ladies and gentlemen, Good morning.

It is always a pleasure to keynote the Chamber's annual convention. This year, you have certainly chosen a very appropriate and constructive theme – "Thrift Banks: Moving Forward Through Responsive, Responsible Banking". I see being responsive and responsible as two sides of the same coin – one side balances and completes the other. To illustrate, if you were only reactive to changes around you but not mindful of the impact of your actions on those around you, that could lead to discord. If, on the other hand, you are fully aware only of your own obligation, without being sensitive to changes in your surroundings, that could lead to stagnation. You have to be both – responsive and responsible – to be able to push forward.

A convention's theme is only as good as the actions that will spring forth from it. So I ask the question, what can the public expect from a responsible and responsive thrift banking industry?

The thrift banking industry should be able to make the convention theme come to fruition, despite the distractions of the current crisis. Ladies and gentlemen, you have a gem of an opportunity to build upon a stable foundation. Through the difficult reforms that together we had put in place over the last few years, our banking system has remained sound, considering the scope and enormity of the current global financial crisis. In particular,

- The banking industry's balance sheet grew in 2008, despite stressed global conditions, while both NPL and NPA ratios remained relatively stable. This is critical when one recalls what it was like in the early months of the Asian Financial crisis when comparable ratios were rising in large discrete increments.
- While profitability has and could be under further pressure, the capital of the banking system as a whole is considerably well above international norms and our own prudential standards.
- In addition, our real GDP growth of 4.6% in 2008 was not only notable vis-à-vis other economies, it was further supported by the continuing deceleration in inflation, which in February stood at 7.3%.
- On the external front, our Gross International Reserves is growing (all-time high of \$39.3 billion in February), the BOP was in surplus in 2008 and will also be in surplus in 2009, and remittances from overseas Filipinos continue to flow, even though the Peso has lost some ground since last year.

In sum, the banking system continues to be fundamentally sound and stable, and operates in a macroeconomic environment that has stood resilient.

Given these, the material question that needs to be asked is: what do all of these banking and economic indicators mean for your public?

Perhaps, it would be useful to go back to the law which created thrift banks. The Thrift Bank Act of 1995 says that thrift banks are supposed to “promote agriculture and industry and at the same time place within easy reach of the people the medium to long-term credit facilities at reasonable cost”. In other words, it is about developing a targeted economic activity and providing term financing.

Building on this mandate, the thrift banking industry has developed itself, so as to offer far more services and products to its banking public.

Today, under clear guidelines and appropriate approvals, thrift banks can perform trust operations, act as a Foreign Currency Deposit Unit (FCDU), open domestic and foreign letters of credit, engage in quasi-banking activities and undertake, where allowed, derivative activities. These new functions are proof of the continuing progress of the industry, led by your hardworking officers and directors of the Chamber. Recently, the Monetary Board approved the lifting of the requirement to execute a Surety Agreement by any single stockholder, natural or juridical, owning more than 50 percent of the voting stock of a bank with an approved rediscounting line with the BSP. This was with the expressed intent of facilitating the faster processing of rediscounting loans. The total rediscounting budget has also been trebled to P60 billion and the loan value increased from 80 to 90 percent.

Herein lies the real challenge of your convention theme. To provide responsible and responsive banking services, different types of banks must be able to cater to the varied needs of differentiated constituents. It's not simply a matter of having access to as many product types, but how one maximizes that privilege to serve his public best.

In the context of our financial infrastructure, we have commercial banks, thrift banks, rural banks, and cooperative banks. We have do-it-all institutions like universal banks. In terms of products, we have created curious concoctions like a “quasi-bank” which in the vernacular translates to “parang bangko” and “deposit substitutes” which some have described as “deposito na rin”.

Clearly, thrift banks share many of the facilities and services that your commercial bank brethren can employ. In fact all of the recently-BSP approved functions and products that you could enter into are similarly possible for your counterparts in the commercial and universal banking industry.

Thrift banks are also like rural banks, in that thrift banks remain positioned for the financing requirements of the general public across the archipelago.

Now, however, with commercial banks positioned at the corporate high end and the rural banks addressing the needs of the countryside, that leaves the “viable middle” as your natural market. Ladies and gentlemen, you are well-positioned to take the cudgels for the MSME sector, including the microfinance sector. I urge you to appreciate that you are much closer to SMEs which represent the backbone of the Philippine economy. Instead of seeing a disadvantage in allowed and disallowed activities, I encourage you to see the advantage of your target market. This is not to be taken as a response to the on-going crisis. It goes beyond the challenges of the current environment. It is to clearly define your target market, and towards that be responsive and responsible.

Where does this leave you from a strategic and tactical stand point? One easy option is to continue what you are already doing. As of September 2008, about 59 percent of the industry's loan portfolio was in real estate, business activity and loans to individuals. Another option, is for you to increase your loan portfolio for manufacturing and construction, two vital industry segments that could help ensure that our domestic economy continues to grow above long-term trend.

What is really critical for thrift banks at this juncture is to determine how to incorporate the new facilities and offer new services to your public. With newer tools and more opportunities, I expect that beyond improving your loan industry mix, the thrift banking industry would expand its balance sheet and continue the improvement in your NPL ratios. As of September

2008, I see P482 billion in total assets, P334 billion in peso deposits and an NPL ratio (inclusive of IBL) of 6.6 pct. These provide useful benchmarks against which we envision significant improvements this time next year.

Ladies and gentlemen, I will not pretend that the road that lies ahead is free and clear for all of us. We live in a global market that is experiencing a global shock and to a large extent then, achieving improvements in our balance sheets is something we have to work for.

Perhaps, the biggest threat for us moving forward is if we persist to traverse the road of financial risk without having a clear idea of our target market. If we try to become everything to everyone, we become lost in a sea of look-alikes. However, if we specialize too much, we narrow our target markets that it may become untenable for us to continue.

Let me then ask you the same question: what do all of these challenges mean to your banking public? In answering this question, the key lies not with the public, your customers, your clients. Instead, it remains with you and your ability to balance yourselves within myriad needs. The way forward is for your institutions to develop core competencies in various facets to allow you to co-exist with other financial institutions in a competitive world. There too is no denying that each one of us needs to define and live within our target market. For thrift banks, let me once again encourage you to focus on MSMEs even though in many respects the label of "SME" is itself a simplification of complex requirements from evolving clients.

Going back to the convention theme, I felt it was necessary to ask the difficult question: What do all these mean for your public, your customers, your clients? If our financial market is to make headway with the banking public, this is the question that always and continuously should be asked. Remember, the evolution of the structure of our financial market must constantly be guided by the best interest of the public that this market serves.

I realize that we can all move forward more expeditiously only within the confines of a strong and stable financial and macroeconomic environment. This is why the BSP endeavors through its policies to create an operating framework where financial markets could efficiently function. It will, however, be important to remember that the relative strength and stability that our markets enjoy today have come about through the lessons from our own past. The BSP together with the banking industry will remain steadfast in our reform effort.

If we are to serve our public, we must continue to be responsive to their needs and to ensure that we act responsibly, mindful of the trust bequeathed by our public on us. The term "fiduciary responsibility" is not just a mantra that is conveniently brought out as the need arises but it is instead a social contract with our most basic constituent.

This is the way forward and this is the high bar that must be set if we are to see responsive and responsible banking bear fruit.

I have seen our market rise with resiliency when it was down. I have every bit of confidence to know that it will find the answer to the difficult questions when our present position is that of relative strength. It is after all, all about who we are who we serve, and, now is the time to show what we are made of.

Thank you very much and good morning.