

Amando M Tetangco, Jr: RBAP – sustaining reforms for an economically vibrant countryside

Speech by Mr Amando M Tetangco, Jr, Governor of the Central Bank of the Philippines (Bangko Sentral ng Pilipinas), at the inaugural dinner for the newly elected RBAP Officers and Board of Directors, Manila, 14 July 2009.

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The leadership of the Rural Bankers Association of the Philippines (RBAP) led by President Omar Andaya and immediate past president Mitch Gomez, the officers and members of RBAP, good evening.

I am delighted to be part of this inaugural dinner celebrating your new set officers at RBAP. To me, this seamless transition in the association's leadership is a strong indication that the rural banking sector will continue the many significant initiatives that have characterized the past year. United, your initiatives under RBAP have kept the rural banking sector resilient in the midst of a particularly challenging environment.

Let us therefore give the RBAP leadership a well-deserved round of applause!

Indeed, the past year was full of challenges, for the economy in general and for the rural banking sector in particular. And yet, latest available figures indicate that the rural banking sector continues to perform relatively well. It appears that our rural bankers have turned this period of challenges as an opportunity to further strengthen your institutions.

Thus, even with the series of bank closures affiliated with one group, total capitalization of the rural banking sector actually improved further from P24.8 billion in December 2008 to P25.4 billion as of March 2009.

Less measurable, but no less important, is RBAP's success in maintaining public confidence in rural banks in the face of successive bank closures. Through vigilance and proactive measures, RBAP ensured that your clients understood that these high profile bank closures basically involved a single group that is not representative of the management of other rural banks.

I also wish to acknowledge RBAP's pioneering work on inclusive banking through technological and product innovations, as well as your continuing efforts to be more responsive and efficient in serving your clients. In particular, the rural banking sector continues to expand its operating network to reach more clients.

What we have today, therefore, is a more solid and more inclusive rural banking industry. And so, once again, ladies and gentlemen, let us celebrate our rural banking sector with another round of applause!

However there is much more that we have to accomplish and we are looking at RBAP's new set of officers and members of the board of directors to provide leadership for this.

Among others, it is important to sustain reforms we have started. In this context, your banks' risk management infrastructure should be a priority. This is the infrastructure that allows you to identify risks and to act on these in a responsive manner. In the case of rural banks, particular focus must be given to credit risks and liquidity risks, because your position as community-based financial institutions magnifies these risks.

Equally important is your commitment to maintain strong capital positions. Banks must fully appreciate that capital adequacy is not merely a compliance issue, but is central to the prudent control of leverage. Banks must have sufficient buffer for risks which could turn into losses. While we will not dictate your specific allocation decisions, maintaining capital

adequacy above the BSP's regulatory floor rate of 10% is itself reflective of a bank's commitment towards prudential control and financial governance.

I am sure you have heard me discuss these key reform issues in other occasions. However, for as long as we have not reached our desired destination, I assure you, you will continue to hear from me on these issues.

You can also be sure that the Bangko Sentral will continue to do its part toward creating the appropriate policy and regulatory environment that enables more innovations, greater efficiency, better risk management, stronger capitalization, improved disclosure and transparency practices, and enhanced corporate governance standards in the banking system. High on our agenda is to open doors for you in housing microfinance and microinsurance, as well as possibly grant you more flexibility to use non-bank agents as a way to expand your reach.

We are also looking at the use of independent rating agencies to attest to your inherent strength and secure market credibility. We are also designing a program with PDIC to encourage mergers and acquisitions through targeted financial incentives to would-be "white knights" of rural banks.

Ladies and gentlemen. The rural banking sector has stood up well to the difficult challenges of the past.

Now, I look forward with optimism to the future of our rural banks. While I am sure rural banks will be facing new challenges moving forward, I am heartened by the fact that we are on the same page insofar as the need, and the wisdom, of adhering to good governance principles; of implementing appropriate policies for credit and liquidity risks management; and of working on having stronger capital positions.

We all know, the path toward these goals will be complex; but if our rural banks remain committed in serving their role as catalyst and enabler of productive activities in the countryside, I am confident that the rural banking sector will contribute a lot toward ensuring balanced and sustainable economic growth in our country.

This calls to mind how the great artist Michelangelo responded to comments about this genius in completing his Sistine Chapel masterpiece. He said: "If you knew how much work went into it, you would not call it genius."

Ladies and gentlemen. A lot of work is clearly ahead of us. But if we are committed and focused, it will be a matter of time before our coordinated efforts create a strong and lasting foundation for a healthy, resilient and vibrant rural banking sector. Together, let us continue to walk the path of sustained reforms.

Again, my congratulations and best wishes to the leadership of RBAP.

Mabuhay ang ating rural banks! Mabuhay ang Pilipinas!

Thank you all and good evening.