

Amando M Tetangco, Jr: The thrift banking industry amid an evolving global landscape

Speech by Mr Amando M Tetangco, Jr, Governor of Bangko Sentral ng Pilipinas (the central bank of the Philippines), at the annual convention of the Chamber of Thrift Banks, Manila, 21 March 2012.

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The officers and members of the Chamber of Thrift Banks under the leadership of President Patrick Cheng, distinguished leaders of the banking community, fellow workers in government, special guests from the media, ladies and gentlemen, good morning.

On behalf of the Bangko Sentral ng Pilipinas, I commend the CTB for the choice of its convention theme this year. It is simple and straightforward: “Thrift Banks: Partner in National Development”.

There is a clear understanding of the role you play in our economy. Indeed, by accumulating savings of depositors to finance small and medium enterprises... as well as consumer loans,... thrift banks continue to help the economy grow and generate employment.

The resources of thrift banks deposits, loans and capital have all grown substantially.

A review of industry figures indicate that increases in deposits in thrift banks were matched by similar increases in loans to consumers... as well as to micro, small, and medium enterprises... or what we call MSMEs. As a result, thrift banks in general are comfortably above the minimum threshold ...mandated for MSME lending.

Nevertheless, given that our banks remain quite liquid, thrift banks can help more deserving MSMEs. The importance of MSMEs in our country cannot be overemphasized. The MSME sector provides employment for most Filipinos; it is, in fact, the backbone of our economy. This is where the members of the Chamber of Thrift Banks can make a lot of difference in terms of moving our economy forward.

Ladies and gentlemen. Our country is poised to achieve solid growth this year ... with both our monetary and fiscal engines running. The BSP’s recent monetary policy decisions have kept our interest rates at low single-digit levels. This keeps the cost of money down and provides stimulus for our economy. At the same time, Government has been raising more revenues and will be spending more this year for infrastructure, education, and other public services. Steady investment inflows provide additional impetus for growth.

Thus, while the global economy continues to grapple with the adverse impact of the debt crisis in Europe and slower growth in developed countries, the Philippines continues to generate good macro-economic numbers.

Among others, our economy grew 3.7 percent last year; the stock market is touching record high levels; inflation rate dipped to 2.7 percent in February; overseas remittances remain strong and continue to beat expectations; and our strong external position is underscored by gross international reserves that set a new record high of \$77.7 billion in February 2012.

Nevertheless, even with these positive indicators on hand, much still needs to be done if we are to sustain our growth momentum.

This is the reason why the Bangko Sentral continues to pursue a reform agenda that encompasses different facets of market conduct and the enabling prudential environment. Our reform agenda includes continuing capital-buildup... for our banks to prepare for the challenges that lie ahead.

For stand-alone thrift banks, the era of Basel 1.5 is upon you. The rest of the thrift bank industry is under Basel 2, but for those with parent universal and commercial banks, the window for Basel 2.5 and Basel 3 has likewise been opened.

It is easy to get lost in all the technical nuances of the Basel versions. We have in-between standards like 1.5 – our local variant – and 2.5 of the Bank for International Settlements.

We can discuss its finer details later ...but I trust that its fundamental message is not lost on the thrift banking industry: the Basel core principles and the Basel Accord itself...regardless of version... have always been about recognizing the risks in the banking business as a protection to our ultimate constituents.

Indeed, banks must not only redirect the flow of depositors' savings into investments and loans, they must also manage the risks that arise as a consequence. This is not a trivial task.

Whether your focus is consumer or corporate finance, the stakes are high. Bank failures always have adverse consequences: whether to the depositors who have invested their faith and funds in the bank, the bank employees who lose their jobs, and the community which depends on the economic activities funded by the savings of others.

For this reason, we have been active proponents of the Basel framework. This is not mere adherence to the letter of provisions ...but rather a commitment to what it stands for: risk awareness and risk management.

For the same reason, we have pushed the frontier with recent issuances on the compliance program under Circular 747... and on corporate governance under Circular 749.

We want banks to put in place a compliance system that is best suited to their needs. While the circular establishes the senior role of the Chief Compliance Officer, it is the compliance system that is truly the central feature of the policy direction. We are not interested in citing one-off deviations; rather, we want to nurture a culture of compliance among our banks.

This dovetails with the revised corporate governance framework... as approved recently by the Monetary Board. As you know, corporate governance is about managing the potential conflicts of interest that will invariably arise. The Board of Directors, board-level committees... as well as senior management ... all have distinct roles to play in managing the conflicts of interest between handling public funds and deploying the same at a margin.

Independent directors, in particular, are increasingly critical components of a check and balance system that can oversee any breaches in agreed protocols ... and maintain an appropriate system of compensation and rewards.

At this point, I also wish to cite the valuable contribution of some members of the CTB to the Bangko Sentral's stress testing program. By participating in this exercise, you provide us with a holistic view of potential system-wide effects from extreme events.

We understand that tests – especially those conducted by regulators – can be daunting exercises. However, the gains we stand to make... are considerable. We look forward therefore to increased participation of more thrift banks in due course.

Ladies and gentlemen. The Basel framework, the new circulars on compliance and governance, ... and the stress tests... will serve as catalysts for change in your banks. Certainly, change is not easy; on the other hand, standing still is not an option. We either innovate... or stagnate.

Today, in your convention, I hope you will maximize the opportunities available to you to identify possible areas for improvement, ... for streamlining, ... for upgrading,... and for innovation.

As I look around, I see many familiar faces. To me, this is a welcome sight: it tells me that the industry is in capable hands. At the same time, I also see new faces who should bring fresh perspectives to the sector. This mix of seasoned and fresh bankers is bound to keep the thrift

banking sector innovative, exciting and dynamic. Yes, innovative, exciting and dynamic – the opposite of complacent.

Indeed, there should be no room for complacency in banks... and bankers. Filipinos trust you with their money. You are accountable to them. Shape up, ...level up, ... and never betray their trust.

If you are faithful to your clients, they will be faithful to you. Then you can grow together as partners.

On our part, we at the Bangko Sentral will continue to work with you in actively pursuing our reform agenda and in crafting policies and programs that will empower thrift banks to become more effective partners... for national development and growth. Growth that is sustained, and growth that is inclusive.

Mabuhay ang thrift banks! Mabuhay ang ating mahal na bansang Pilipinas!

Maraming salamat sa inyong lahat at taus pusong pagpati sa inyong bagong Board of Director.