

## **Amando M Tetangco, Jr: Capital market education – a tool for market development and financial stability**

Speech by Mr Amando M Tetangco, Jr, Governor of Bangko Sentral ng Pilipinas (the central bank of the Philippines), at the First National Convention of the Capital Market Institute of the Philippines, Manila, 30 October 2012.

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Capital Markets Institute of the Phils. (CMIP) Chairman- Reynaldo Nograles, President- Leo Quinto, officers and members; distinguished speakers; special guests; fellow workers in government and in BSP; ladies and gentlemen, good morning.

At the outset, allow me to congratulate the Institute for holding its 1st National Convention. Anyone who has tried to push an idea or an initiative forward realizes early on the great difficulties one endures to start off. Many good ideas have perhaps fallen by the wayside, unable to remain viable in a market of competing ideas and differentiated approaches.

Yet as one gets to that first milestone of success, there is that immediate realization that moving beyond the last success is in fact the enduring challenge. It may be hard to start but it is more difficult to stay relevant by keeping on moving forward.

As I look around this national convention, I must say that the Capital Market Institute of the Philippines has indeed moved well past your initial milestone of success. This day no longer stands simply as a reunion of your past graduates of the Investment Teaching Accreditation Program. It manifests how far and how wide your efforts have had an impact.

Let me then congratulate the leadership of the CMIP, the members and the graduates of the Capital Markets Investment Teaching Accreditation Program.

### **Challenges of financial education in capital markets**

Having gone this far, the task now is to set our sights forward. In thinking about the financial education needs of capital markets and investments, the hurdles ahead do take on specific dimensions.

Foremost of these challenges is the fact that our targeted constituents cut across 17 administrative regions, are of different faiths and speak several dialects. That diversity should surely tell us that the learning interventions for Apayao up north may be different from those which will be extended to the Zamboanga Peninsula down south.

In addition, there are capacity and needs differences across the regions. The latest Family Income and Expenditure Survey (FIES 2009) provides us with useful lens through which we can view the saving – and thus investing – capacity of families.

It tells us for example that roughly 90 percent of the total saving is generated by only 30 percent of families. The numbers then paint a rather narrow base since nearly 13 million families out of the estimated 18.4 million families could only provide 10 percent of total saving.

In practice, this means that the cash flows are different across regions, and the preferences differ from person to person.

These hurdles may seem daunting but I assure the CMIP that you are not alone. The BSP faces the same challenges in our own Economic and Financial Learning Program. Like you, we believe in the advocacy of financial learning. And like you, we appreciate the difficulties of pursuing such a learning campaign within the context of the nuances of our market and our stakeholders.

## Capital market development and financial stability

Although the difficulties are defined, the consequences from not pursuing a financial education campaign are even less enticing. Financial education creates the platform for raising responsible market agents, who are able to look beyond their own bottom lines. Without an appropriate national financial education program, the development of stakeholders who can make well-informed financial decisions who can then take the “the next step” from being cash hoarders to become savers and ultimately to become investors who will form the capital base for sustained economic growth will be a slooooww process. And if our country is to take advantage of opportunities at this time and move up the global economic ladder, we need to accelerate this process!

But while financial education is a challenging objective on its own, there are equally important goals that must be considered as well. These objectives include the development of the capital market and achieving financial stability.

We all know that developing the capital market provides both the “buy side” and the “sell side” of the market with choices. For the “buy side”, choices to reflect its longer-term investment needs. And for the “sell side”, choices to adjust product offerings to where there is felt need. Developing the capital market, alongside financial education, makes the meeting of an informed risk-responsive investor and a responsible product provider efficient.

The development of the capital market is also critical because it relieves the pressures off the spot market. The capital market is the anchor that filters the intra-day and the day-to-day volatilities of the cash market into underlying longer-term trends. Investors, providers and regulators need not react to every market blip. Instead, decisions can be premised on long-term signals, filtering all the shorter-term noise in the process. A well-developed capital market provides this avenue for users and sources of long-term funds.

But capital market development is itself not the end goal. That delicate balance between servicing needs in a dynamic cash market and the developmental nature of a thriving capital market creates a measure of financial market stability.

In a narrow sense, the absence of forces that can instigate financial market instability is certainly always welcome. However, under today’s prudential framework and policy perspective, the term “financial stability” takes on the broader context of mitigating the build up and spread of systemic risk.

This elevates the issues to a much higher plane because the recent and on-going global difficulties as well as the ensuing international reform agenda are all about the ability of economies to contain systemic risks.

At the BSP, we take financial stability quite seriously. We have created a high-level Financial Stability Committee (FSComm) which I have the pleasure to chair.

With me in this committee are six of the most senior officers of the Bangko Sentral. In this committee, we pro-actively look into possible pressure points that may be brewing but are still not evident in the headline data. From the ability of banks to take on stressed conditions, to potential channels of risk from internal and external shocks as well as the impact of international reforms, all of these are taken up at the Financial Stability Committee.

Conferences on financial stability are constantly being run and the agenda can take several days. We can certainly do that here in the Philippines as well and we look forward to engaging all stakeholders. But let me reserve that for another time and another place.

For now, I simply wish to point out that neither developed capital markets nor mitigated systemic risks are possible unless we have a well-informed public and market agents who look beyond the bottom line. Both of these must stem from a financial education campaign that nurtures the awareness of the general public while developing responsible market agents.

## Final thoughts

Ladies and gentlemen, I have deliberately painted on a larger canvass the various big dots which we believe currently define the market landscape. The dots must and do connect.

But unlike the pictures that we used to draw by connecting the dots many, many moons ago, we collectively have the ability to shape the landscape that make up the dots.

With the favourable sentiments towards the Philippines and its financial market, it is tempting to be lost in the glory of the accolades. While we have worked hard and over long hours to achieve these developments, the real challenge for all of us must be in providing a better tomorrow to future generations.

The BSP has long held the view that financial education, financial inclusion and consumer protection form the triumvirate that holds the key. Each mutually reinforces the other.

While financial inclusion and consumer protection do require regulatory intervention, financial education will have to be a commitment that all of us puts forward.

CMIP has already invested itself into this agenda by pursuing a passion that became an advocacy that is now a program. The Institute has taken great steps but it cannot end here.

Let us use this 1st National Convention as a springboard for setting milestones of performance going forward. Will you simply want to have more graduates of the CMITAP? Or will you measure yourselves against what the graduates themselves can do individually and collectively as part of the CMIP family?

How do you pay forward the investment that you have made for yourself? How does this investment pay off when working with your students, interacting with office colleagues or operating with fellow market practitioners?

How can CMIP contribute to the development of the Philippine capital market in resolving longstanding issues? How will you ensure financial stability knowing that your individual actions may have macro-prudential consequences?

There are many questions that can be raised. What is clear is that the answers must come from you, just as other stakeholders must have their own answers.

Pause and take time to recognize what you have already achieved. But I enjoin all of you to use that success as a commitment to a better tomorrow.

I do not have any doubt in our collective ability to make a better tomorrow for future generations. I also am firm in my belief that financial education is a key element in developing markets and instilling systemic stability.

CMIP has taken major strides forward to-date. And I look forward to hearing, seeing and being part of your future successes.

Maraming salamat po. Mabuhay ang CMIP. Mabuhay ang ating bansang Pilipinas.