

## **Amando M Tetangco, Jr: Building broader horizons in 2013**

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, Makati City, 20 March 2013.

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The officers and members of the Chamber of Thrift Banks, under the leadership of outgoing president, Patrick Cheng, and incoming president, Jose Teodoro Limcaoco, Members of the Monetary Board, Fellow BSPers, my colleagues in the banking industry and in government service, ladies and gentlemen, good morning.

The Bangko Sentral ng Pilipinas is pleased to once again take part in your annual convention. As I begin my remarks this morning, let me take this opportunity to thank the outgoing officers and members of the board for your efforts. I am pleased that we were able to move forward on several fronts, even as we still have a full plate of reforms. Let me also congratulate your incoming officers. Indeed, to be elected to the CTB board shows the confidence that your peers have in you. More importantly, your accepting such a challenge underscores your commitment to work for the greater good.

A part of the tradition of your convention that I appreciate is the row of display booths one has to pass through as one enters the ballroom. Stalls of the various companies that have grown because of partnership with the industry. To me, the variety and quality of the displays have been an indicator of the state of the thrift banking industry. If this year's display continues in that tradition, I believe it is telling us that good things are in the offing for the CTB and our economy.

### **What is in the horizon?**

This brings me to your chosen theme. "Building a Broader Horizon for 2013."

Horizon is an interesting word. It has a couple of meanings and evokes several feelings. One meaning of horizon is that it is the "apparent intersection of the earth and sky." We're coming into the summer months. And I am sure, if you find yourself on the beach in the next few weeks, you will discover that it is hard to escape the temptation to stand on the shoreline, maybe barefoot, and then fix your gaze towards the vastness of the ocean – just to see where the ocean and sky seem to meet the horizon.

Another meaning of horizon in the Webster dictionary is that it is the "range of one's perception and experience".

Putting these two meanings together suggests to me that when you chose this topic for this year's convention, you were actually asking your members to find ways of enlarging "what the industry knows about what it can experience and what it is able to do". You were, in a sense, asking your members to find ways to enlarge these things to the point where the sky and earth seem to meet.

I wish to tell you even now, that in this journey you have chosen, the industry can expect the BSP to provide an operating environment that would allow you to traverse this path, but in a way that makes you also mindful of the impact of your actions – not only on yourselves but also on the rest of the members of the financial eco-system you are in.

### **How shall we broaden the horizon?**

Your goal for 2013 is clear – to broaden the industry's horizon. But how would you achieve this? In geometry and in nautical science, I am told practitioners have derived a mathematical formula for calculating the distance to the visible horizon. The exact equation

will depend on whether adjustments for refraction, i.e., the distortions due to light, are done or not. But the common element in any of the equations is this – that the distance to the horizon is a function of the height from which you are taking your view. More specifically, the visible horizon will be further from you, the higher you are above the ground.

This natural law is quite interesting in that it also applies to the laws of economics. If I were to apply this law to your chosen goal, I would paraphrase as follows. If the CTB wishes to broaden its horizon, the Chamber needs to raise its vantage point.

### **The stage is set**

Using 2012 as our gauge, I believe you will agree with me that the country has certainly raised its vantage point. When we consider our markets, the environment is indeed more favourable now than it has been in the recent past. The economy expanded by 6.6 percent in 2012 and this growth was matched by generally stable prices as inflation averaged 3.2 percent last year.

The high growth-low inflation scenario was further supported by our robust external position. The country's balance of payments remains in surplus due to investment growth, business process outsourcing receipts and the steady rise in remittances. This led to the further build-up in our Gross International Reserves, which stood at 83.8 billion dollars at end-February. This is about one year's worth of imports of goods and services, more than adequate by any of the standard measures of adequacy.

These positive developments have heightened investor confidence in the country while further expanding the financial services extended by our banks.

For the thrift banking industry, your assets rose to Php 666.17 billion last year (up from Php 607.43 billion in 2011 or a growth rate of about 9.7 percent). This was on the back of Php 529.80 billion in deposits and matched by Php 449.27 billion in loans.

Given this starting point for 2013, I ask the officers and members of the CTB, can we broaden our horizon? I think the answer should be a resounding yes. We have entered 2013 from a position of strength, and with some momentum. The onus is on you, on us, to make the most of this advantage, to bring you forward in your chosen objective.

### **Opportunities abound – some specific directions**

I'd like to spend the rest of the time allotted on some specific suggestions for broadening your horizon.

A quick review of the industry's loan portfolio shows that about a third of the industry's total lending continues to be towards the Real Estate and Construction Businesses. In addition, while such lending remains concentrated toward the acquisition of residential property, there has been an improvement in the take up of loans for commercial purposes, principally from the BPO sector.

These trends make the recent approval of the BSP of prudential reference standards for Contract-to-sell (CTS) financing important. Furthermore, against the backdrop of low interest rates and the constant temptation among banks to chase after higher yields, this market approach dovetails quite well with the prudential thrust of the BSP to strengthen credit underwriting practices for real estate activities. The BSP has not yet moved to formal prescriptive regulations at this stage. But, it appreciates the fact that the market itself sought to define the guidelines to streamline market practice since no common standards have been recognized to date.

In the context of this year's convention theme, a market approach such as this can be seen as the industry's way of broadening its horizon, with financial stability specifically in mind. As we have already taken the steps forward on mortgage finance, perhaps the Chamber can

likewise consider similar standards for auto loans in order to ensure that banks don't end up financing "lemons". We would also like to see the Chamber actively contributing towards an equivalent effort for credit card receivables and other modes of consumer financing.

Business cycles come and go, and therefore it is important that we have the rules of the game squarely in place, so that any market inflection points will not cause instability in the market. As market opportunities expand, we need to also work together so we can maintain strong credit discipline and avoid imprudent lending and investments.

Ladies and gentlemen. We are an economy of 96 million Filipinos spread over 7,101 islands. It stands to reason that consumer-related financing, your bread and butter, will be a major factor in the economy. Hence, the BSP's push to improve credit underwriting standards for consumer loans. But in parallel with this, we believe thrift banks should also actively participate in the culture and practice of financial education and consumer protection.

These are not just fancy buzz words. In fact, in the BSP, we take these twin advocacies seriously. Through our economic and financial learning centers (EFLCs) in our head office and 21 regional offices and branches, we undertake outreaches to raise the awareness of the financial consumer so that each of them can make informed saving and investment choices. The BSP has partnered with the Chamber on some of these programs and we look forward to engaging the Chamber even more. We would also like to see individual members of the Chamber embark on your own literacy programs.

As a complement, we have created a specialized department in BSP called the Financial Consumer Affairs Group (FCAG). It is set up as a clearing hub for complaints and as a redress mechanism so that those who have clearly been victimized through no fault of their own do not have to suffer the added penalty of delayed attention. Furthermore, the BSP is in the early stages of formalizing specific standards for consumer protection, including how banks should handle consumer complaints. This move is aimed at elevating consumer protection to a stature of a core bank function, and not simply an ancillary advocacy.

Let me now leave the world of real estate and consumer finance. And turn to another sector that the Chamber is well-equipped to support. Here I mean the world of Micro, Small and Medium Enterprises. The Philippines is traditionally an MSME market. And if we are to raise our national economic vantage point and take advantage of the momentum coming into 2013, thrift banks need to consider lending more to this economic segment. I say this because MSMEs provide great employment opportunities. A healthier MSME sector will help ensure our economic growth is broad-based and inclusive.

Thrift banks, however, must not just lend more in terms of nominal amounts. The challenge to the industry really is to ensure that such lending continuously creates further opportunities. In this way, MSMEs can be assured of viability, regardless of mandated credit programs.

## **Final thoughts**

Friends, you want this convention to be a discussion on broadening your horizon, our horizon. In trying to look ahead, I took us through the more scenic route of our recent past. The numbers tell us an encouraging story of growth and consistency of economic and financial stability.

However, the paradox of financial stability is that we may just be at our weakest when we believe we are at our strongest position. Complacency often sets in when positive news is continuous and this is reinforced by encouraging market parameters. If we fall into this trap of complacency, we risk losing our focus.

For the thrift banking industry, the growth trajectory that many are anticipating suggests even better times ahead. It is therefore in our collective interest, if we wish to truly broaden our horizon, to agree on a common vision where thrift banks have a definitive role to play.

In my remarks, I have suggested specific action points you may consider in order to accomplish just that, and over time broaden your horizon. I challenge the industry to 1) further improve credit underwriting standards for real estate and consumer loans and raise your vantage point by looking at your processes with the lens of financial stability, 2) interact with your clients and raise your vantage point by enhancing your practices with the heart of consumer protection and financial education, and 3) increase lending to MSMEs and raise your vantage point by lending with the mind to create greater value. But much more can be done. As the old Board takes its place in CTB lore, your new Board is now at the helm to guide the industry forward.

It is never an easy task to move forward but rest assured that the Bangko Sentral ng Pilipinas will be with you as we take that journey together into broader horizons.

Thank you very much and good day to all of you.