

Amando M Tetangco, Jr: Navigating the new rural banking landscape – challenges and opportunities

Speech by Mr Amando M Tetangco, Jr, Governor of Bangko Sentral ng Pilipinas (BSP, the central bank of the Philippines), at the induction ceremonies of the Rural Bankers Association of the Philippines' officers for 2014–2015, Pasay City, 1 July 2014.

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The members of the Rural Bankers Association of the Philippines, headed by newly sworn in President Jose Misael Moraleda, members of the Monetary Board, PDIC President Valentin Araneta, colleagues from the BSP, fellow advocates of rural banking, distinguished guests, good evening! Once again, on behalf of the Bangko Sentral ng Pilipinas, I congratulate the new officers and directors of RBAP led by President Moraleda. Let us also thank the previous board and officers of RBAP under the leadership of Mr. Vittorio Almario.

Rural Banking in Broad Strokes

Ladies and gentlemen. You will be pleased to know that the Philippine rural banking sector continues to grow and expand as indicated by key performance indicators including consolidated assets, deposits, and loans.

As of March this year, the total resources of rural banks stood at 209.4 billion pesos, representing a year-on-year growth of 8.8 %. At the same time, total loan portfolio increased by 6.5% to 138 billion pesos... while deposits climbed 10.6% to 145 billion pesos. That these figures were achieved even as natural calamities devastated wide areas in the Visayas is unquestionably commendable.

Indeed, the story of our rural banks has been one of resilience.

Challenges and Opportunities

Moving forward, what does the future hold for our rural banks. Well, we see new challenges as well as opportunities emerging from the ongoing changes in the environment where rural banks operate.

Among others, rural banks face increasingly stiffer competition from both smaller and bigger players. More cooperatives and non-government organizations (NGOs) now operate in the countryside with relatively lower costs than most rural banks. As such, these entities may acquire portions of your market – not only from frontier areas but possibly even those you have nurtured through time.

We also see the increasing presence of larger financial institutions in various municipalities. While larger banks may have their own reasons for expanding their branching footprint, the net effect is that rural banks now face more competition.

Furthermore, the passage of legislations allowing the infusion of foreign equity in rural banks is also bound to be a game changer.

Ladies and gentlemen. All these call for decisions on the part of your rural banks. Do you want to continue operating on your own? Will you consider taking in new investors – whether local or foreign? Are you looking at possible mergers? Is there a good fit?

In making your decision, it is important to remember that size is not the only determinant in facing competition. You may not be the biggest in your area, but you certainly know the countryside better than anyone. Indeed, your expertise and knowledge should translate into a premium on efficiency, a definite advantage over your competitors.

Let me give you an example. Compared to Indonesia, Malaysia, Singapore and Thailand the Philippine banking system is smaller. Nevertheless, among 72 jurisdictions monitored by

Moody's, a major international credit rating company, only the Philippine banking sector was given a "positive" outlook.

Indeed, in assessing your rural bank or your potential partners/investors for that matter, there are many factors to consider. These are: right-sizing which is crucial, efficiency, risk management, good governance, capitalization, and the ability to adapt to a constantly shifting environment.

Interventions

Given all these, it is only logical to ask this question: is the industry ready to face up to the challenges of a changing market landscape?

Well, an objective assessment leads us to conclude that much has been done to prepare the industry. Our banking reform agenda in the past 20 years has been structured to strengthen our local banks and to be more responsive to the needs of stakeholders.

In particular, our efforts to bolster risk management systems, enhance corporate governance standards, build-up capital and adopt international best practices are intended to improve the efficiency and competitiveness of our banks.

The Bangko Sentral is mindful that in aligning ourselves with global best practices, we at the same time should take local conditions into consideration. Thus, while commercial banks are required to be Basel III compliant starting January 2014, the BSP's requirement for rural banks is the less stringent Basel 1.5.

Another program tailor-fit for rural banks is the Strengthening Program for Rural Banks, a joint undertaking of the BSP and the PDIC. Launched in 2010 to strengthen rural banks and to minimize bank closures, the program has been extended as SPRB Plus until December 2014 to encourage more mergers, consolidations and acquisition of eligible rural banks and thrift banks by strategic third party investors.

As of 30 June 2014, seven merger/consolidation applications involving fifteen (15) banks have been approved by the PDIC and are being processed by the BSP. In addition, there are five (5) other applications for consolidation/acquisition that are in the pipeline.

Capacity building is another area we have focused on. In particular, the BSP's Supervision and Examination Sector developed a completely new four-day training program targeted for the Board of Directors and senior officers of rural banks which we now refer to as the Rural Bank Management Course. The BSP worked with RBAP on the coverage of such a program. After a series of pilot and early runs we are now ready to hand over to RBAP the course materials and the conduct of this well-received and highly rated course. If needed, the BSP is prepared to extend further assistance on this program to RBAP.

Redefining a Strategic Direction

While these programs are meant to enhance the operations of rural banks, we recognize that there is still a lot more that can and should be done.

A good starting point is a fundamental review of your banks' strengths and weaknesses. After this is completed, identify the needs of your constituents in the context of the competition that has emerged.

Such a review is likely to show that different communities require different forms of access and delivery of financial products and services. This is the direct result of having an archipelago where demographic differences across localities are significant.

This may seem like a stumbling block but this also represents opportunities for rural banks. For instance, our experience in microfinance and financial inclusion shows that alternative delivery channels are viable. You can therefore find a balance between alternative delivery mechanisms vis-à-vis the brick and mortar approach of traditional branching.

As you move from one locality to another, you will discover that one approach is more viable than the other, depending on the economics of the locality itself. For other areas, it may be economically feasible to offer both approaches to the community.

In the current environment, we do see a silver lining: in the face of rising competition, we see the market growing as the benefits of development programs and fresh investments increasingly find their way to the countryside.

We see for instance the positive impact of infrastructure development, tourism and even the conditional cash transfer program. In small communities, such inflows can serve as catalysts for sustainable and inclusive growth. Microfinance presents another growth opportunity for rural banks, with microentrepreneurs emerging as both depositors and investors who generate jobs.

The Crucial Steps Moving Forward

Ladies and gentlemen, the unfolding scenarios certainly create opportunities for those who are determined to pursue the path of success.

For rural banks, this is an impetus to boost operational efficiency, expand product lines, reach out to more markets, increase diversity, lower operating cost and simply right-size the way you do business.

After long discussions on such concepts as regionalization, market integration and global reforms, these buzzwords are now a reality.

The broad strokes are evident. Now you have to decide where to take your bank and how to achieve your vision. You can be proactive or you can simply maintain the status quo. It is all up to you.

One thing is certain. The BSP stands ready – as it always been – to be the partner of the rural banking sector in responding to the financial needs of the Philippine countryside to reach out to those who remain unserved and to promote sustainable and inclusive growth across our country.

Maming salamat sa inyong lahat!

Mabuhay ang ating mahal na bansang Pilipinas!