

Amando M Tetangco, Jr: Banking on social safety nets

Speech by Mr Amando M Tetangco, Jr, Governor of Bangko Sentral ng Pilipinas (the central bank of the Philippines), at the Balikat ng Bayan Awarding Ceremonies and the launching of the Personal Equity and Savings Option Fund of the Social Security System, Quezon City, 25 September 2014.

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On behalf of the Bangko Sentral ng Pilipinas, I congratulate the SSS for making its 57th anniversary truly meaningful for two things: first, by recognizing its partners in the challenging task of bringing social security services to its members; and second, by introducing service enhancement to its members through the SSS Personal Equity and Savings Option or what you call the PESO Fund.

As an institution that has accumulated 31 million members over 57 years, the SSS has its hands full not only in preparing its members for retirement, but also in helping members face intermittent financial challenges from maternity, sickness, disability and other contingencies.

In this connection, the SSS PESO Fund provides a viable option for members with excess earnings to contribute more to this tax-free fund to receive higher benefits in the future.

With such a big customer base, the SSS and its PESO Fund could be a game-changer in terms of promoting the habit of saving and investing regularly among Filipinos.

The BSP's Consumer Expectations Survey released early this month indicated that 26.9% of our households have savings. Of these households with savings, 67 percent have bank deposit accounts; 10 percent put their money in cooperatives, paluwagan and other credit/loan associations; while 23 percent kept their savings at home.

It is also interesting to note that 35 percent of households said they could set aside money for savings during the third quarter this year. Moreover, one-third of these households said they could save 10 percent or more of their monthly gross family income.

According to the respondents, they save money for the following reasons: for emergencies; retirement; health & hospitalization; education; and business capital & investment.

In other words, there remains a lot of opportunities for scaling up savings mobilization. What magnitudes are we looking at?

Well, as of March 2014, the Philippine banking system had 37.8 million depositors who had saved 7.7 trillion pesos in 46 million deposit accounts.

On banking and pension

It may not be pronounced, but there is a significant convergence between banking and pension planning. Several aspects stand out.

First, both reinforce the value of saving on a regular basis. After all, preparing for life after retirement is the prudent thing to do. The ideal situation is to have sufficient funding of our own after we retire. In the absence of private capacity, it is essential for countries to have effective public pension services. This underscores the importance of a strong SSS. Without a doubt, pensions are important. They epitomize the value of preparing for your future – a validation of the significance of our lifelong career.

Second, each time SSS extends benefits to its members, they are reminded of the value of regularly setting aside part of their income for the rainy days. This is important for the banking industry as well. It is the accumulated savings of our people that allow our banks to lend for economic activities that create and keep jobs.

Third, banks are essential channels for the collection of SSS premiums as well as for the distribution of the benefits to its members and their beneficiaries. This synergy between the SSS and our banking system is bound to continue moving forward.

Fourth, is the importance of the capital market to both the banking sector and to the SSS. From the accumulated contributions of its members as well as earnings derived from its fund management, SSS has become a significant market player.

I understand that as of July this year, 38 percent of the total investments of SSS is in government securities, 26 percent in equities, and 5 percent in corporate notes and bonds.¹ This portfolio structure of the SSS is important because you accumulate assets today but your liabilities are in the future. You need a market that bridges the idea of “today” with that of the “future” and that is the capital market. In this connection, the BSP’s initiatives to help develop and deepen the domestic capital market will present the banking sector and the SSS with more opportunities for investment diversification.

Because of the fiduciary role of the SSS, your ability to manage both sides of your balance sheet is crucial. In particular, investing your reserves prudently, while being mindful of the short and long-term financial requirements of your membership.

The SSS needs to be strong to service the social need for our pension system – to take care of us when we are past our retirement age. In an economy where not everyone is born with enough resources, we need a social safety net when we are no longer working.

Finally, the state of the economy, employment, and capital markets are vital factors for both the banking system and the SSS in charting their course.

Let me therefore spend the next few minutes to speak about our macroeconomic environment.

The Philippines has been experiencing strong growth in a low inflation environment. In particular, we have had 62 quarters of consecutive positive real economic growth and five consecutive years of within target inflation. In the second quarter this year, our GDP grew 6.4 percent, making the Philippines, together with Malaysia, the second best performing economy in Asia, next only to China. At the same time, inflation was 4.9 percent in August, still within the 3–5 percent target band for this year.

Having said these, I will be the first to say that risks to growth remain. External factors – including the uneven growth in major economies, uncertainties surrounding monetary policy in the advanced countries, and geopolitical concerns – could impact the Philippine economy through trade and volatilities in domestic financial markets. Here at home, weather disturbances and recurring concerns about power rates and supply could also affect growth.

Still, I believe the Philippines will overcome these challenges and continue its growth trajectory. Our economic fundamentals remain sound and solid. This is because we have been instituting purposeful reforms; we have been keeping our own house in order, so to speak. Sure, we are far from perfect, but our continuing reform agenda has served us in good stead in this highly interconnected global environment.

Among others, we have a sound, stable, well-capitalized and liquid banking system that continues to attract record high deposits and provides credit to our productive sectors.

We have a strong external position that provides sufficient buffers from possible external shocks. For instance, our gross international reserves amount to \$80 billion, enough to support 11 months of imports and payments of services and income; in the past, three months was good enough. Sustained strong remittances from overseas Filipinos, export

¹ Investments and Assets as of July 2014. Fact and Figures. Social Security System.

earnings, BPOs and tourism are behind this strong external position. In this period of external volatility, this is an anchor for stability.

Final thoughts

Ladies and gentlemen, if banking is about taking care of our financing needs, pension is about taking care of us when we are no longer working. As has been said, “Banking is saving ... pension is the reward for saving.”

In this context, we look forward to a stronger and self-sustaining SSS. For the SSS, sustained economic growth can only mean more members and better yields on its funds.

In the case of SSS and the BSP, we share a common goal of financial education to empower and help improve the lives of Filipinos. The BSP has a national economic and financial learning program that reaches out to all age groups starting from Grade I to college students to young professionals as well as overseas Filipinos and their families.

The capability of SSS to reach out to millions of its members gives it tremendous advantage in promoting financial education. We are confident that SSS, under the leadership of Chairman Santos and Pres. De Quiros will not pass on this chance to nurture financial literature and more financially-stable Filipinos.

We can work on this together. The BSP and SSS. In the process, we will help maintain the stability of our financial system and promote sustained economic growth that is truly inclusive.

Once again, congratulations to the women and men of the SSS on your 57th anniversary.

Mabuhay ang SSS! Mabuhay ang ating mahal na bansang Pilipinas! Maraming salamat sa inyong lahat.