Amando M Tetangco, Jr: From saving to investments and to retirement – the role of inclusive growth

Speech by Mr Amando M Tetangco, Jr, Governor of Bangko Sentral ng Pilipinas (BSP, the central bank of the Philippines), at the Philippine Pension and Investment Summit, Makati City, 20 October 2014.

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I am pleased to join you today for the "Philippine Pension and Investment Summit."

This Summit is yet another venue to discuss, strengthen and see how best to employ the synergies that link banking, trust and pension fund professionals. At the outset, let me say that at the level of the macro-economy, we urge our consumers to develop the discipline of saving. To move further forward, however, we would want these savers to eventually migrate into retail investors.

This transforms the paradigm from protecting principal only (saving) to building capital (investing). While it is understood that investments carry financial risks, it is also well appreciated that preparing for the uncertainties of the future cannot be fully addressed by protecting principal alone.

It is likewise accepted that preparing for the future cannot be properly done without an organized approach. Such an approach requires setting viable financial targets for each saver-cum-retail-investor in a way that responds to their own unique situation. That in turn means managing financial risks within the realm of what can be tolerated by each of those financial consumers.

This is why banking, trust, and pensions are inherently interconnected and symbiotic. But this does not mean that they are interchangeable. Instead, each has a distinct role to play, offering savers a value chain that they may want to consider.

The same symbiotic relationship must also exist between individuals, the financial market and the real economy. The expansion of the macro-economy must ultimately translate to welfare gains for individual consumers, broadening the economic base which financial markets can service both as depositors and as borrowers.

This measure of inclusiveness – in the form of the general public's access to financial products and services as well as the ability of growth to reflect and reward collective effort – is the hallmark of stability. This is what we aspire to achieve as a nation, the same norms which the BSP has consistently been advocating and working on for some time now.

Underpinnings of quality growth

An interesting question does arise: Can we not allow growth to simply define the prospects and fortunes of each individual?

The answer to this query is a definitive "NO" and it goes back to the socio-economic profile of our economy.

Official data[1] show that 69.3% of saving can be attributed to 20% of families while the bottom 50% of Filipino families can only generate 6.2% of total saving. We also know that 37% of our 1,634 cities and municipalities do not have even one banking office.

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1 2012 Family Income and Expenditure Survey.

These data suggest that there is much that needs to be done. It is not just growth but the quality and inclusiveness of such growth that will allow our financial consumers to better prepare for their future.

Perhaps, before I go any further, it is useful to take a quick look at the broad indicators of economic and financial well-being.

Certainly, the economy continues to grow. To-date, we have had 62 consecutive quarters[2] of positive economic growth which has been achieved while keeping prices stable. Inflation has been within the government's target range for the last five consecutive years. We expect this year to be the sixth year of within–target inflation. These alone suggest that opportunities are being created through the real economy and these gains are not being dissipated by inflation.

Moreover, we have sizeable buffers for external shocks. As of end-September this year, the country's gross international reserves stood at US$80.43 billion, enough for 11 months' worth of imports of goods and payments of services and income. While economic endowments often dictate our external trade dynamics, our current level of reserves do tell us that the flow of goods and services will not be immediately at risk if unforeseen external shocks arise.

The financing of this growth and expansion likewise show strength. As of June this year, the total loan portfolio of banks reached Php5.21 trillion, continuing its double-digit growth trajectory over the past five years.

Banking data confirm inclusiveness

All of these data confirm that we have been experiencing not just growth but rather increasingly participative growth. Let me take a look at developments in the banking sector.

True enough, the numbers speak for themselves. Bank deposits, for instance, sustained their growth both in value and number of accounts. As of June this year, the industry posted outstanding deposits of Php 7.9 trillion after growing annually by about 13 percent for five years.

Supporting the view of inclusiveness, data from the BSP indicate that there are about 47 million deposit accounts held by 38.4 million accountholders in June 2014. This is a considerable increase from the 40.1 million accounts in the name of 31.1 million depositors that was recorded as late as March 2012.

The number of unbanked municipalities has also dropped, mainly due to a rise in alternative channels that target low-income clients. We have seen a rise in the use of electronic money; an increase in the number and reach of automated teller machines; as well as the expansion of the microfinance portfolio of the banking industry. This last point is critical because we are aware that microfinance responds to its stakeholders by calibrating related products and services to meet the idiosyncratic needs of its constituents.

Exciting times – synergies

These banking indicators point to a rise in retail savers – the very segment who we believe can migrate into investors as they prepare for their future through trust and pension products.

These are clearly very encouraging developments. They reflect growth and portend of opportunities while institutionalizing the synergies among financial institutions and professionals in banking, trust and pensions.

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[2] Derived from 62 quarters of consecutive growth ending Q2 of 2014, "Banking on Safety Nets," Gov's Speech during the SSS Balikat ng Bayan Awarding Ceremonies and PESO Fund, 25 Sept. 2014.

It is not enough to preserve these gains. Rather, we need to build upon them so that we continue to dynamically prepare for the uncertainties facing differentiated individuals. Fortunately, we see some points of convergence that we can focus on:

First, the country's widening banking network can provide more access points for the convenient collection of premiums and the distribution of pension benefits.

Second, BSP-supervised trust entities can broaden their participation in the pension system by managing the employee benefit funds of private firms as well as the trust funds of pre-need companies.

As of end-June this year, only 13.7% of assets under management of BSP-supervised trust entities are those of employee benefit programs as well as individual retirement and pension funds. This is an area where improvements can be made, especially when you consider the very nature of the trust business.

Third, under the IRR of the Personal Equity and Retirement Act, trust entities are allowed to serve either as product provider, administrator, investment manager or securities custodian of retirement funds that are over and above those that the GSIS and the SSS provide.

Fourth, the amended Insurance Code now allows insurance companies to engage in limited trust business by becoming a trustee for employee benefit and pre-need plans such as pension.

Fifth, there are individual initiatives which clearly manifest an interest to help out a broader spectrum of financial consumers. The SSS, for example, launched in 2012 its "AI-kanSSSya" program for the self-employed and informal sector workers. The program reaches out to such people as farmers, fisher folks, market vendors and tricycle drivers who are precisely the target of the BSP's microfinance initiatives.

There is another innovative scheme in micro-pension, which will be discussed later in the forum today. Let me not pre-empt the discussions on this point but suffice it to say that the BSP would like to see those outside of the formal market to likewise benefit from a pension system specifically designed for their needs.

Consumer protection

All of these five points of convergence are indeed actionable today. But I trust that we also do not overlook that facet which is underpinning all of them.

Heightening financial inclusion necessarily requires high standards of financial consumer protection. Connecting saving with retail investments and trust products as a way to organize one's preparation for retirement certainly leaves uncertainty on the table. There is uncertainty across products, across risks and across time.

Since financial institutions are expected to have more and better information than savers-cum-retail-investors, FIs must be given a specific responsibility towards consumer protection.

The BSP's consumer protection framework supports this policy objective. The framework requires BSP-supervised institutions to adhere to identified global best practices such as disclosure and transparency, treatment of clients, protection of client information and dispute settlement.

Our end in view with the framework is to set a standard for market conduct, empower the financial consumer through financial awareness while providing for the means of protection and redress. This approach should ensure for better balance, the type of balance between stakeholders and between competing interests that allow markets to thrive and be self-sustaining.

Pension sustainability

The issues before us are certainly critical because much is at stake. But before we proceed with today's discussions, it may be useful to consider where we are in the area of pensions.

A recent study by the Asian Development Bank[3] notes that "expanding the economy" is integral to the sustainability of the Philippine pension system. This is a validation of the virtuous cycle where a growing economy is expected to generate employment, foster higher collection of premiums and enhance the growth potential of the domestic pension system. At the same time, economic growth reflects the inputs of stakeholders – both labor and capital – that allow such growth to materialize.

But growth alone – as I have been suggesting – cannot be the only factor. If you review the recent rankings of the Melbourne Mercer Global Pension Index, Singapore is the only Asian economy that ranks within the top 10 (ie, ranked 10th in 2014). China, Indonesia, Japan, South Korea and India have the same qualitative result and are ranked 21st to 25th.

Singapore's score – which is better than that of the US, Germany and France – falls under the category that describes a "sound structure with many good features but has many areas for improvement". On the other hand, the five other Asian jurisdictions I cited are categorized as having "some desirable features but also has major weaknesses".

What this tells me is that we have a lot of things that we can work on. But we also have our peers as guide and reference. We can learn from them and I am sure that we can make such a journey forward.

Final thoughts

Ladies and gentlemen, I have repeatedly said this morning that there are synergies between banks, trust entities and pension funds. There is likewise that symbiotic relationship between different facets of the financial market and the real economy.

These different means of interconnectedness will ultimately converge upon our financial consumers. A more inclusive financial market allows each individual to become a saver and a responsive financial market nurtures individual savers to become retail investors. As the economy grows, it is the inclusiveness of such growth that provides opportunities that loop back to our consumers, first as economic agents and then ultimately as financial consumers.

It is only with these interconnected parts that a saver can properly prepare for the uncertainties of the future. And while we have shown that we can grow despite global shocks and with a growth path that portends of quality and inclusiveness, we also know that there is much more that needs to be done.

Perhaps it is a dream. That dream is for the Philippine pension system to rank high up in the Mercer Index while sustaining the current momentum on financial inclusion and achieving a more inclusive economic growth.

It may sound like a dream but much like the Philippines achieving sovereign investment rating, dreams are meant to be pursued, collectively and in an organized manner.

I trust that all of us can dream the same dream.

And I trust that the pursuit of such dream starts today.

Thank you very much and have a good day.

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[3] Pension Systems in East and Southeast Asia: Promoting Fairness and Sustainability, edited by Donghyun Park, published 2012