

Amando M Tetangco, Jr: Rural banks – portals of inclusiveness for Juan and Juana dela Cruz

Speech by Mr Amando M Tetangco, Jr, Governor of Bangko Sentral ng Pilipinas (BSP, the central bank of the Philippines), at the 62nd Annual National Convention and General Membership Meeting of the Rural Bankers Association of the Philippines, Manila, 18 May 2015.

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Today, we gather to kick off your 62nd Annual National Convention and General Membership Meeting. You have set “New Vision, One Direction, Stronger Organization” as your theme for this conference, the same title as your 5-year strategic plan. This is certainly a welcome initiative. It reflects the intent of the RBAP to look ahead, define your strategic path and communally decide on the tactical actions needed to get you to your desired destination.

The vision for rural development

But to move forward and reach our destination, it will be useful to pause and also look back. For some, this suggestion may seem counterintuitive.

Prudence dictates that in creating a vision of what you wish to become, it would be useful to revisit the purpose for which the rural banking system was set up in the first place.

Republic Act 7353 is categorical in that it speaks of “the establishment of a rural banking system designed to make needed credit available and readily accessible in the rural areas on reasonable terms.”

Ladies and gentlemen, the operative words here are: “needed credit that is accessible on reasonable terms”. In the simplest of words, this is the vision of the rural banking system. It is quite straightforward. But it is a vision that has turned out to be quite elusive to fully realize.

Shifting financial markets

As we review the current markets we operate in, I would like us to consider two things. First, the broader and larger macroeconomic picture, and second, a more focused view of the improvements in technology and how we can harness this to our advantage.

The big picture and technology

I will not delve into the macroeconomic indicators that you traditionally hear me speak of during your events. Instead, for today, what I would like us to appreciate is that our constituents’ needs are changing. And these changes are reflecting rather fundamental shifts. With 64 consecutive quarters of economic growth to-date, one should expect to find some structural improvements at the grassroots. Indeed, latest data seem to confirm such an improvement.

In the Global Findex for 2014, the World Bank noted that the percentage of Filipino adults with formal accounts increased to 31.3% from the 26.6% baseline figure in 2011. These accounts refer to those held in banks, cooperatives or microfinance institutions or as mobile money. On the other hand, the percentage of the poorest 40% of Filipino adults who have a formal financial account stood at 17.8 percent in 2014, a rise of 7.1 percentage points from the figure in 2011. These are not small improvements especially when you consider that 37 percent of our LGUs (604 out of 1,634) are still unserved by any bank.

While banking reach and financial access continue to be fundamentally challenging because of our archipelagic landscape, the BSP’s innovations in banking regulations have helped reduce this gap. We have augmented the presence of the 514 rural banks headquartered in

our 17 regions by licensing other financial service providers (FSPs) such as e-money agents. With the operation of FSPs, the percentage of LGUs that remains without any form of financial access point falls from 37 percent to 13 percent.

Ladies and gentlemen, indeed, economic growth is being reported and financial access is broadening. Amidst these shifts, every financial institution is looking for newer frontiers to explore. The following simple numbers provide richer flavor for the opportunities that lie ahead.

At a gross domestic saving rate of 20.8% in inflation-adjusted terms for 2014, that translates to Php 1.49 trillion in real terms or Php 2.12 trillion in nominal savings that can be mobilized. That is 2014 savings alone, quite distinct from the Php 1.80 trillion in 2013 and another Php 58 trillion the year before. And perhaps what is most telling is that the great bulk of this has been generated by half of the population since the other half is literally still in school.

The bet really is that our future rests with the economic fate of our young population. They provide the demand that will drive consumer finance. And they represent the future where preferences are molded by technology and product choice.

This brings me to my second point. The availability of technology at the retail level is rapidly changing the business model of community banking. We are not talking only about more ATMs and e-banking services. Instead, it is really the basic fact that information and communications technology is now relatively affordable and is scalable to make your operations more efficient and reliable. There's also greater capability to communicate through long distances with a simple email or social media posting and to reduce dependency on physical offices to reach out to a wider customer base through mobile banking technology.

This means that the information technology frontier just keeps on extending and extending and extending. Your options on rural banking then become largely an issue of how you deliver banking products and services using the IT choices you have made.

The competitive landscape of the rural banking market has also seen major shifts in recent times. From what was then nearly the exclusive domain of rural banks, we have now seen universal and commercial banks venturing into the countryside, in part because of the phenomenon of technology.

Fundamental choices

These are the broad strokes of change. Sustained economic growth that is becoming reflected in the consumers' financial choices. Greater market competition – from both within and without as we have become more open to foreign ownership of our banks. Financial technology that is moving at the speed of light.

Where do all these changes leave the rural banking industry? As you embark on your visioning exercise, each one of your members must make the hard choices in terms of the "scope" and the "scale" of your operations.

A rural bank's fundamental strength is its familiarity with the grassroots, the community it serves. But as the market evolves, familiarity – even as it is an advantage – may not be sufficient to guarantee the operational viability of a rural bank. As the local community being served grows, so must the rural bank which is invested into that community. But, even as I say this, the causality must go both ways. For the local community to grow faster, the rural bank must also continue to be the stimulus for the community. This is at the very ideal of what rural banking should be in the Philippines.

There will always be a need for financial services and it is incumbent upon the RB to develop products and services that can address the requirements of its constituents. This is the issue of "scope" and this reflects the responsibility of banks to be portals of economic improvement. Financial consumers are made better-off by banks because financial well-

being is improved by banking products and services which then also translate to improvements in the community.

Then there is a question of “scale” so that the rural bank stands ready to grow – in size and core competencies – with the communities it serves. In the end, buzzwords like “right sizing” and “streamlining” need specific context. It seems obvious that there is no universal standard – or “magic number” that is out there. What is clear though is that as you make your decisions on what you deem is the right size for you, you must continue to be guided by the BSP’s regulations on the appropriate governance structures and risk management frameworks.

In the process of determining the scale and scope of your operations, it is my hope that you will be able to deliver the needed financial services to your clients at reasonable terms – just as it has been envisioned in the Rural Banks Act.

What the future brings

Rural banks must remember that you are yourselves stakeholders in the community. You are, in effect, a financial consumer – as an institution and as individuals – in the community that your bank also operates as a financial provider.

As I close, I want to inform you that the BSP has spearheaded the formulation of a national strategy for financial inclusion, the National Strategy for Financial Inclusion (NSFI). We are set to launch this in July this year. It’s a multi-sectoral endeavor that sets out the coherent framework on how all our efforts, those of the public sector and the private sector, can be closely and systematically coordinated to bring about financial inclusion that leads to broad-based and inclusive growth. Rural banks are an integral part of that strategy. It is a great opportunity. I urge you to closely engage with us on this grand endeavor.

Friends, change is everywhere and perhaps none more so than in the present times. You talk of a “new vision” because we need to accept that there is a new normal in banking. It is still very much a business activity but one which is held to a very high social standard. This important qualification is necessary to protect the financial consumer from conflicts of interest, to instill corporate governance standards, to enforce global best practices for managing risks and ultimately, to sustain public trust.

We have seen during the global crisis what a banking market becomes in jurisdictions where public trust becomes eroded. It would be an over-simplification to argue that their problems are unique and could not arise in Asia or in the Philippines. These problems have not manifested themselves here because we took early steps to prevent the build-up in risk and we continue to invest in a regulatory environment that nurtures your creativity as product providers while mitigating the ill effects of unwarranted risks.

There is a need for “one direction” to strengthen commonality in purpose in addressing the challenges of the future. Yes, there is diversity in the different situations that invite different approaches. But those different approaches need to be anchored by common principles and shared aspirations.

Finally, a strong organization is always a must and a stronger organization must be responsive to the changing times, that new normal we approach with common purpose.

We need to continue to be a value proposition to the financial consumer, especially those in the countryside. RBAP is certainly equipped to do just that under a new vision that accepts the new normal in banking, having one direction to approach the challenges with a common purpose, having a stronger organization that has the strength and agility to withstand the uncertainties, and having the boldness and courage to innovate and re-invent.

I wish all of you well for this national convention and the BSP stands ready to be your continuing partner in rural development.