Amando M Tetangco, Jr: Opportunities in financial inclusion and financial integration

Speech by Mr Amando M Tetangco, Jr, Governor of Bangko Sentral ng Pilipinas (BSP, the central bank of the Philippines), at the BAIPHIL Induction of Directors and Officers and First General Membership Meeting, Makati, 21 July 2015.

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This is an auspicious time to be involved in BAIPHIL. Your term covering fiscal year July 2015-June 2016 coincides with BAIPHIL's 75th anniversary! By any measure, this is a significant milestone. Congratulations BAIPHIL! And congratulations to your officers and members, past and present!

By tradition, diamonds symbolize 75th anniversaries. This is because diamonds represent a highly prized quality – which is, enduring fidelity. Faithfulness. Commitment.

I am pleased to know therefore, that the theme you selected for this year's Induction of Officers is – "Building Capacity for Financial Inclusion and Integration."

The industry is in the midst of so many facets of change that the concept of "capacity building" takes on new dimensions. It is no longer enough that you position yourself as a trainor for your peers. BAIPhil itself must navigate through a fast-evolving market landscape, appreciate and relate all the strands of change, if you are to become an effective venue for continuing education.

Training and education cannot be just about holding lectures and workshops. It is more akin to telling a good story with different chapters.

In financial inclusion, we see the dimension of access and calibration so that the financial system itself is responsive to the diverse needs of differentiated stakeholders. How much more appropriate can this be than in an archipelago such as the Philippines. This literally forces us to think out of the box, that comfort zone that we refer to as "traditional banking".

In financial integration, we bring together the collective aspirations of a regional community. This materially changes the landscape but more importantly, it does so at the same time that global best practices are themselves being re-set to a higher and more prescriptive bar. This forces us to think within the box, examining what we have, how we wish to position ourselves in this sea of change and what we need to do to remain competitively in the service of our respective constituents.

In each of these two facets, we have a lot that needs to be covered. Taken together, the strategic and tactical implications are significant. At the level of each bank, choices must be made today so that you can maximize competitive advantages that you expect will be your strength in the future. At the level of the industry, this requires an unwavering commitment to continuing education, to appreciate nuances without losing sight of the overall policy agenda of institutionalizing change that can strengthen the system and its institutions.

Indeed both financial inclusion and financial integration pose challenges as well as vast opportunities. To dimension what exactly lies ahead of us, perhaps we need to step back a bit.

Let me share some indicative figures that came out of our national baseline survey on financial inclusion done early this year. I am sure you will find these useful in crafting your way forward:

- Only 4 out of 10 Filipinos save. Of those who save, roughly 30% save in banks while nearly 70% keep their money at home.

- 6 out of 10 adults with bank accounts indicated that the bank's reputation is their number one consideration in opening a deposit account. Around 50% of respondents mentioned interest rates as another major consideration, followed by minimum maintaining balance (for info only – 45.9%), proximity of the banking office (39.8%) and the way the bank employees treat their clients (34.8%).
- 47% of Filipinos borrow money, of whom 72% borrow from family, friends and informal lenders. Banks as source of borrowing stood at only 4.4%, lower than lending/financing companies (12%), cooperatives (10.5%), microfinance NGOs (9.9%) and government entities (6.1%).
- The main purpose for borrowing money is to buy food (59.5%), school related expenses (38%) and to finance emergencies (32.7%).
- The primary considerations in borrowing money are interest rates (57.5%), loan amount (41.7%), period to pay for the loans (35.0%), ease of loan application (33.1), reputation of the credit institution (24.5%), amortization (14.9%), collateral (14.3%), fees and other charges (11.4%), and processing time (11.0%).
- More than 50% of adults who have transacted with banks and ATMs are just somewhat satisfied with their transactions; and
- More than 85% of respondents indicate that they want to access financial services from formal institutions.

Ladies and gentlemen of the banking community, these are some of the gaps we need to address in our financial inclusion program. The survey also gave us insights into what Filipinos look for in financial service providers. We can therefore move forward with our financial inclusion programs with clearer and more specific objectives.

Actually, many sectors – in government and in the private sector – are joining hands to advance the cause of financial inclusion. For your information, 13 government agencies, including the BSP, launched last July 1 at the PICC, the National Strategy for Financial Inclusion or NSFI. The agencies who crafted the NSFI envision a financial system that is accessible and responsive to the need for various financial services, including credit, savings, remittances and payments, insurance and investments.

The objective in implementing the NSFI is to support broad based and inclusive growth. The Strategy recognizes the important role of the private sector in 1) recognizing the commercial potential of the vast unserved market and 2) developing innovative solutions to viably cater to these markets that are replete with opportunities.

Let me now tackle the matter of financial integration. Similar to financial inclusion, integration also poses challenges and opportunities for our banks. Under the ASEAN Banking Integration Framework – which is a key element of the ASEAN financial integration – Qualified ASEAN Banks or QABs will be awarded equal treatment as domestic banks in the host country. This may lead to increased competition in the financial system as QABs may venture into markets which our banks have been comfortably serving in the past.

It is important to note, however, that this arrangement for QABs is made under the principle of reciprocity. Our banks will also have the opportunity to expand to other countries in the region and find new markets. Added competition will challenge banks to further improve their operations and venture to new markets.

In addition, the reduction of barriers and cost to trade as a result of integration will catalyse economic activities which could be funded by our banks.

For instance, our small and medium enterprises will have the opportunity to be part of the regional value chains of technology giants, leading car manufacturers, and garment producers, among others. With the right interventions and appropriate financing, we can deepen this regional participation for our traditionally domestic-oriented SMEs that are unable to take advantage of available overseas markets.

At this point, I want to share the story of a small food producer who was able to grow her home-based business with the help of a microfinance loan. Her business was able to put food on their family's table, send her children to school and improve the overall quality of life of their family. We met at an awards program for microentrepreneurs. What I distinctly recall is that a year after she won the award, she was given the opportunity to export her goods. Sadly, she was unable to meet the order due to lack of capacity and additional financing from her microfinance institution.

In short, she lost the opportunity to expand her business, to earn more for her family, to generate more employment and to add to her community's income.

Ladies and gentlemen, this is a poignant story of a success half-realized. On one hand, we saw how access to credit made such a huge positive impact on the life of a microentrepreneur from the marginalized sector. On the other, we saw how capacity limitations and the inability to access additional financing prevented her from realizing the full potential of offshore markets for her products.

Multiply this story many times over and you can imagine the countless missed opportunities for improving the lives of many more Filipinos. Sayang.

As the training arm of the banking industry, BAIPHIL's role is crucial in building the capacity of our banks to transform into opportunities, the challenges from financial inclusion and integration. Toward this end, I would like to share my three-fold challenge to BAIPHIL, and we have another acronym B.I.G.

B is for Build. Build our banks' capacity so that they can compete under regional banking standards. What comes to mind are corporate governance, appropriate risk management and internal controls, commensurate capital structure, and clear business plans with track record, among others.

The regulations of the BSP support this objective, particularly our recent landmark issuances and those in the pipeline, such as the Credit Risk Management Framework, the Supervisory Enforcement Policies, and the Operational Risk Management. They provide fundamental principles that empower banks to determine their business model, the markets they want to serve, the products they want to develop and the risks they are willing to take and manage.

The I in BIG stands for Improve. I ask BAIPHIL to help improve our banks' ability to develop responsive products that are suited to the needs of the markets they want to serve. This will entail systematic market research, as well as an innovative mindset.

The G in BIG is for Guide. Guide your banks in navigating through this dynamic and constantly shifting operating landscape. Banks will need to keep abreast of developments and adjust to the changing demands of the market.

Ladies and gentlemen. This is my BIG challenge to BAIPHIL. With BIG in place, I believe our banks will be able to drive and optimize the benefits and opportunities that financial inclusion and integration stand to generate.

Finally, I thank BAIPHIL once again for its continuing support to the BSP in promoting good money habits among teachers, parents of our schoolchildren and other adults from the marginalized sector, through your personal finance management lectures. We have been receiving good feedback for this BSP-BAIPHIL program.

Therefore, let us commit to continue working together, let us be faithful to what we set out to do – big or small, and then we can look forward to BIGger and better things that are yet to come.

For your information, this is the 11th time I have attended BAIPHIL's induction ceremony. I have been faithful and consistent to BAIPHIL. The BSP has been faithful and consistent to

BAIPHIL. Therefore, insofar as staying true to your theme of “Building Capacity for Financial Inclusion and Integration”, we, at the BSP expect nothing less than enduring commitment from BAIPHIL.

Ladies and gentlemen. You have it in you to help unlock the growth potential in our people, in our economy, and in our country, if you continue to pursue financial inclusion and integration with unwavering dedication.

If we succeed, then the market for banking services expands, deepens and strengthens the Philippine banking industry in the process, even as we help improve lives, liberate millions of Filipinos from poverty, and bring prosperity to Filipino homes. Let this be our goal and our enduring legacy.

I look forward therefore to BAIPHIL remaining faithful and steadfast, like a diamond, in its pursuit of capacity building for financial inclusion and integration.

Thank you for your kind attention. Mabuhay ang ating mahal na bansang Pilipinas!

Mabuhay po tayong lahat! Maraming salamat!