

Amando M Tetangco, Jr: Pushing the island's boundaries

Speech by Mr Amando M Tetangco, Jr, Governor of Bangko Sentral ng Pilipinas (BSP, the central bank of the Philippines), at the Institute of Corporate Directors (ICD) Program for Islands of Good Governance, Manila, 20 October 2015.

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An island of good governance. When I think of an island, isolation first comes to mind. I imagine the island's exposure and triumph over harsh elements. After all, physical islands are themselves products of struggle. They break away from origins, and establish new foundations. But an island can also be tranquil. A source of verdant prosperity.

An island's account is not unlike the story of the Bangko Sentral. When the BSP was established by law in 1993, it took over the then Central Bank. A redefinition was necessitated as the worldwide trend was for central banks to be independent and focused on price stability.

As the country's sole and independent monetary authority, the BSP is similar to an island indeed. It has weathered violent waters and storms. But it remains resilient and stable. And it has, as I will later on narrate, made a positive impact on its environs.

Then there is good governance. Governance is a relational concept. To be good, and even to be better, is the objective. Implied is a positive influential authority over the island's inhabitants, over resources, over its supervised and regulated entities, and even beyond that. While the concept of "good governance" is a noun, its essence is dynamic. There is action toward a goal.

The vision is a high quality of life for all Filipinos.

All 5,321 "inhabitants," if you would, officers and staff of "island BSP" from our Manila Office, Security Plant in Quezon City, three regional offices, and our nineteen branches nationwide, are committed and united in THIS objective. We are guided by our strategy that has four themes: Good Governance, Operational Excellence, Engaged Stakeholders and Organizational Readiness.

We also know that an island cannot be insular. It must cooperate and collaborate. The BSP deeply values its stakeholders and partners, domestic and international. This July, the BSP convened 13 government agencies to launch the National Strategy for Financial Inclusion, with the goal of providing a platform for coordinating work to build an inclusive financial system. In a good governance archipelago, we benefit from an exchange of ideas, sharing of competencies, and strengthening of linkages.

For most, the BSP's functions are esoteric: controlling inflation, effective banking supervision, and ensuring a safe and efficient payments and settlements system. As proof of their successful accomplishment, there are numbers and graphs. There are also awards and international recognition.

But these do not drive the island's narration. While we are proud of the figures and commendations, the real story lies in opportunities created and actual Filipino lives improved.

When the BSP adopted the inflation targeting framework in 2002, it became more effective in upholding a low and stable inflation environment. For the last six years, it has met the inflation target. Inflation expectations are well-anchored. Economic growth is supported. Uncertainty is reduced. On a micro-level, informed decisions on consumption, investment, saving, and production can be made. Traders may hedge against risks related to the fluctuating cost of raw materials and finished goods. Income equality is promoted as the purchasing power of the poor is protected. Because of the country's strong economic fundamentals, there is positive differentiation by global investors. Investments are sustained.

Our solid fundamentals create buffers against uncertainties, preserving macroeconomic gains.

Credit rating agencies¹ and international financial institutions² have recognized the country's inflation performance. Growth projections are favorable. Last December, Moody's raised its rating a notch above minimum investment grade. It cited the government's efforts to sustain relatively low and stable inflation. In 2013, the BSP was named Best Macroeconomic Regulator in the Asia Pacific Region by The Asian Banker.

To thrive in a fluid and interconnected world, the BSP adopts a foreign exchange rate policy, which is essentially market-determined. Official action only limits excessive price movements.

To achieve financial stability, we pursued progressive and prudent banking reforms. We aligned the regulatory framework to international standards, while maintaining sensitivity to domestic conditions. Among others, we adopted Basel 3 capital reforms. We set higher risk management and governance standards for our supervised financial institutions. We institutionalized more effective examination and off-site monitoring processes. The industry's risk exposures are better monitored through stress tests of banks' balance sheets and stress test limits for real estate exposures.

In 2014, The Asian Banker granted us the "Best Conduct of Business Regulator Award." And we are happy to report that from 2012 to 2014, the Philippine banking system was the ONLY ONE with a POSITIVE outlook from Moody's, from among the nearly 70 jurisdictions it rates.

Ladies and gentlemen, the Philippine banking system is strong. Our consolidated capital adequacy ratio is Basel 3 compliant at 16.1 percent. This is well-above the BSP regulatory threshold of 10.0 percent and international minimum of 8.0 percent. As of second quarter 2015, total deposit liabilities stood at P6.8 trillion, 8.2 percent higher than last year's level. It cannot be overemphasized that a well-functioning banking system supports expansionary business activities and consumption spending. It is crucial to economic growth.

At "island BSP" we practice and export good governance. We issued guidelines reminding board of directors of supervised financial institutions to exercise objective judgment and put strong systems of checks and balances in place. Areas like independent director requirements, membership in board committees and specific duties and responsibilities of the board are covered. Supervised entities are motivated to see that good governance works to their own benefit.

Never in the history of Philippine Central Banking has there been a greater interface with the Filipino public. The BSP is eager to push the island's boundaries until they reach the peripheries through financial inclusion. The goal is to allow more people to save, to borrow for productive uses, avail of investment and insurance products, and send and receive payments securely and efficiently. For this purpose, the BSP adopts proportionate regulation. Innovation and creativity of the private sector is encouraged as heavy handedness is not consistent with the goal of financial inclusion.

Access and usage are key. Ladies and gentlemen, before the year 2000 there were no microfinance oriented banks. Now³, there are 173 banks with microfinance operations serving 1.3 million microentrepreneurs. We also now have 531 operating micro-banking offices or MBOs reaching over 337 municipalities. Of these 337 municipalities, 64 have no bank except for an MBO. We have also leveraged on technology to increase financial access

¹ Moody's, Standard and Poor's and Fitch Ratings.

² International Monetary Fund, World Bank and Asian Development Bank.

³ As of June 2015.

and usage. We expanded the virtual reach of banks through the e-money framework, allowing greater cost-effective financial access touch points.

The video featured the Credit Surety Fund. It provides an alternative to traditional collateral. Once unbankable MSMEs can now access bank credit facilities. They need not resort to informal sources of lending at unconscionable interest rates. Jobs are created and businesses have expanded. Beneficiaries report an improved quality of life. Some even relayed that their children can now go to school. These are real results. We are also happy to report that the bill recognizing the CSF as a legal entity passed bicameral conference just last week in Congress.

Through our PhilPass Remit, overseas Filipino workers can send money remittances to their families through the BSP's real time gross settlement system. This enabled a fixed back-end processing fee of Php 50 per transaction. The resulting significant reduction in fees influenced other non-bank remittance companies to lower their own remittance fees.

The video also featured our Economic and Financial Learning Program. The EFLP is important, as we believe that a well-informed citizenry in economics and finance can contribute meaningfully to development, and can benefit more from the opportunities it brings. To date, the program has reached 79 out of the 81 provinces. We also have financial learning campaigns for OFWs. This September, we sent financial education materials to embassies and consulates abroad to disseminate to OFWs.

The video also mentioned our focus on consumer protection. In a recent diagnostic review, the World Bank described this focus as "impressive". It noted the BSP's regulations on Truth in Lending, credit cards, e-banking, investment products, lending practices, confidentiality, data protection, product cross-selling and compliance systems.

But what is the backstory behind these breakthrough results? Again, it began with a vision: to be a catalyst for a globally competitive economy and financial system that delivers a high quality of life for all Filipinos. We recognized the need for strategic direction to ensure effective mandate delivery. Our supporting and enabling governance mechanisms significantly contributed to present successes. They are essential too in sustaining them.

We believe good governance is not just about complying with the law. Rather, it is a value adding proposition. It makes us very intentional in how we deliver on our mandates. We commit to the principles of integrity, accountability and transparency, ownership and voice, strategic direction, and responsiveness. We believe this creates trust and credibility. We believe this whole-heartedly.

For the opportunity to share the BSP's breakthrough results, we thank the Institute of Corporate Directors and the Institute for Solidarity Asia. On behalf of the Monetary Board and officers and staff of the BSP, we thank you for ensuring productive exchange and interconnectivity within our archipelago of good governance islands. Indeed this is an effective way whereby we can learn, improve, push the boundaries of our islands further and adapt to any change in the currents that surround us. It also enables us to together, enjoy the waters' calm.