Amando M Tetangco, Jr: Sustaining the momentum for inclusive growth

Speech by Mr Amando M Tetangco, Jr, Governor of Bangko Sentral ng Pilipinas (BSP, the central bank of the Philippines), at the Chamber of Thrift Banks Convention, Makati City, 18 March 2016.

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In preparing for my remarks, I considered your theme and two words leapt at me. The first word is "momentum". As you may know, this takes its roots from physics. Some may remember its formula -- "Mass x Velocity". In other words, "mass in motion". The second really, is a phrase -- "inclusive growth". Picture this then, an object, say, a truck called "the initiatives and programs towards inclusive growth", that is on the move and it will take some effort to stop it.

That is what this conference is all about. First -- how can we ensure a critical mass of initiatives to keep us moving towards the goal of inclusive growth. And then, how can we make sure that we will continue in motion.

Our current operating environment

In gathering my thoughts for today's event, I could not help but reflect on how the last seven months or so have affected our operating environment. Global growth has slowed. Developments out of China have surprised markets. The US Federal Reserve finally raised its target funds rate (Although just yesterday the Fed turned dovish, retreating on their initially indicated four rate hikes in 2016 to just two). Risk aversion was causing a de-risking. And oil supply was significantly much larger than demand.

The net result has been a volatile financial market. And while it felt good to see a full tank's worth of fuel cost significantly less, we remain cognizant of what this was doing to our countrymen working in oil-generating economies.

Without overlooking these emerging developments, we should also not lose sight of the fact that our macroeconomic and financial market fundamentals remain solid and intact. We have now had 68 quarters of continuous growth, finishing 2015 at a full-year growth of 5.8 percent. Inflation was recorded at 1.4%, the lowest rate since the BSP adopted inflation targeting as our monetary policy framework in 2002.

Our Balance of Payments position for 2015 was at a surplus of USD2.6 billion, a turnaround from the USD2.9 billion deficit in 2014. And with our gross international reserves still over USD80 billion, this is sufficient to service more than 10 months' worth of imports of goods and payment for services. The exchange rate has sustained its relative competitiveness as it has moved in line with currencies in the region.

Based on our assessments, therefore, the current stance of monetary policy remains appropriate, but we have flexibility to address developments should there be reason to adjust our policy levers.

Certainly, the banking industry remains a clear pillar of strength. According to S&P, and I quote, "Philippine banks are looking forward to another solid year in 2016, thanks to the economy's good growth prospects and banks' healthy capitalization and asset quality."

Our favorable economic prospects are also noted by Fitch Ratings, which, for its part, gave the Philippines the only positive outlook among Asia Pacific banking systems for 2016 .

I am happy to note that thrift banks continue to contribute to the strength of the overall banking industry. The collective assets of TBs reached Php961.13 billion as of November 2015 after growing annually by 10.71 percent for the past five years. Over the same period, deposit balances have been expanding at nearly 11 percent per annum [Php773.37 billion as of

November 2015] while loans have grown just below 15 percent annually [Php 681.41 billion in November 2015].

Quo vadis?

Given all of these developments, where do these take the thrift banking industry? The textbook answer, is to follow your mandate under the Thrift Bank Act. Under this law, TBs are expected to:

1. promote economic development and expand industrial and agricultural growth;
2. place within easy reach of the people the medium to long-term credit facilities to agriculture, services, industry and housing at reasonable cost and
3. encourage industry, frugality and the accumulation of savings among the public.

While all of you are well aware of these, we all also recognize that these are not trivial tasks and targets. These speak of thrift banks as an enabler of economic development by encouraging retail savings and extending credit to targeted sectors.

Your mandate makes no distinction of where you are based or the environment within which you operate. This, I feel, is important to highlight because your own business strategy appears to reflect the more "inclusive" track of the industry. By this I mean that your branching footprint has clearly extended beyond cities.

Specifically, the number of thrift bank branches located in cities actually grew by 26.3 percent (from 991 to 1252) between 2010 and 2015 but your branches in 1st to 5th class municipalities grew by 37.5 percent (from 304 to 418). Certainly, the bulk of your branches are still in 1st and 2nd class municipalities but I am encouraged by the expansion elsewhere. What were just 35 branches in 3rd to 5th class municipalities in 2010 are now 73 branches as of end 2015.

The numbers may be modest in absolute terms but the pace of growth is not trivial. Which brings me back to your conference theme: "Thrift Banks: Sustaining the Momentum for Inclusive Growth". Now, a critical question comes to mind-- How can/do thrift banks contribute to inclusive growth? I think with some pragmatism and humility, we would be well-served to "scope" the response to this and say that thrift banks play a role in financial inclusion, which promotes inclusive growth.

Inclusive growth and the role of the thrift banks

There are several policy issues which are being considered in the space of financial inclusion. For thrift banks, I think two of these are most relevant.

First, we would want to ensure that there is symbiotic relationship between financial inclusion and financial stability. Certainly, it defeats our prudential purposes if the attainment of one comes at the expense of the other.

Here, your expanding footprint strategy is a critical element. As banking services are offered outside of the traditional city-centers, the expectation is that the dynamics between inclusion and stability can very well change.

The BSP and the BIS are currently writing a paper on the relationship between inclusion and stability to explore the empirical linkages. The preliminary results suggest that information between a bank and its clients as well as the relationship between a bank and other banks in the vicinity do matter. This sounds rather straightforward but the implications on the operations of banks are not simple.

In practice, this means each bank must maintain a continuing dialogue with its stakeholders. This kind of transparency is not just "another disclosure regime". Rather, it is communication that prevents surprises and allows stakeholders to make informed decisions, avoiding the sharp spikes that often create and/or exacerbate evolving issues.

Furthermore, banks must be cognizant that stakeholders do look at the localized community of financial service providers. In this day and age of electronic communication and affordable channels, financial consumers demand “banking services”, which may no longer be necessarily supplied by the traditional “brick-and-mortar banking institutions.

This leads me to my second policy area which I often refer to as the “totality of the client experience”. As far as financial consumers are concerned, we live in a digital age and financial services are expected to be delivered and are in the form defined by financial technology.

The digitization of financial services, more popularly labeled as fintech, requires innovation and support. The BSP has put in place both its e-money and IT Risk framework to enable this environment. Financial consumers who need to transfer funds from one branch to another of the same bank (let’s say from Manila to relatives in the province OR between two branches here in Metro Manila) must be able to do so with as less friction as possible.

In the event that something unexpected happens to such a transaction, this is where “support” comes into play. Here, the BSP issued its Consumer Protection Framework that focuses on pro-active interventions such as financial literacy initiatives and the necessity of having remedial recourse by way of redress.

The issues I just discussed are certainly relevant to thrift banks because you are the ones defining your target audience and by extension, you will have to provide for the “totality” of your clients’ experience, regardless of where they may be.

Final thoughts

Ladies and gentlemen, we spoke of the links between financial inclusion and financial stability; of how, as an industry, you would need to harness fintech to enrich your clients’ total experience. We also spoke of how your strategy of expanding branching footprint is helping to reach the underserved. These support our belief that we are (well) on our way towards creating a critical mass in our collective initiatives towards inclusive growth. Importantly, this mass is moving. By definition therefore, we have momentum. But, that is not enough, we need to sustain it.

As the banking regulator, we will enable the environment with a commensurate regulatory framework and calibrate as may be necessary. But the form and substance of the banking products and services, including the means of delivery and distribution, are choices that only the banks can make.

Thrift banks will have to define your market niche, as individual institutions that compete with others and as an industry that collaborates with the whole. Competition and collaboration may be flipsides of each other but the end goal will have to be the totality of the experience of the financial consumer. Absent such a positive experience, the financial consumer simply drifts to the shadows (i.e., shadow banking) or chooses to be financially excluded. I trust that no one in this room will find that to be an acceptable outcome.

The National Strategy for Financial Inclusion (NSFI) has been launched, and we now have to focus on its execution. I therefore look forward to your active participation in this endeavor.

Ladies and gentlemen, the work of financial inclusion is enormous. If we pursue this individually, we are likely to only hardly make a dent. But collectively, and forming a critical mass, who knows where our efforts will take us? We could just very simply turn out to be unstoppable!

Thank you for your attention. Good morning.