

Amando M Tetangco, Jr: Leveraging capabilities and synergies for banking excellence

Speech by Mr Amando M Tetangco, Jr, Governor of Bangko Sentral ng Pilipinas (BSP, the central bank of the Philippines), at the First General Membership Meeting of the Bankers Institute of the Philippines (BAIPhil), Makati City, 15 July 2016.

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It is always a pleasure to be at the general assembly of the officers and members of BAIPHIL, the training arm of the Philippine banking industry, one of the most important pillars of our economy.

Given that the environment within which we operate is far from static and is in reality, quite dynamic, BAIPHIL's role is quite challenging. I am glad therefore that BAIPHIL is up to this challenge.

Under the leadership of its immediate past president Rhoneil Fajardo, BAIPHIL adopted for its theme "Building Capacity Towards Financial Inclusion and Integration." This reflected the industry's efforts in support of the BSP's thrust to develop an inclusive financial system to promote inclusive growth and long-term stability. And you walked your talk. We also saw this in the way BAIPHIL escalated its increasingly popular financial education program for teachers and parents and for other marginalized sector groups. Congratulations!

This time, with BAIPHIL President Liza Ortiz at the helm (from July 2016 to June 2017), your theme is "Leveraging Capabilities and Synergies for Banking Excellence." Indeed, this is the call of the times.

The dramatic changes we have been seeing in the financial system are unparalleled. We are witnessing a sea change via global reforms, regional initiatives and domestic developments. The market's underlying architecture is being re-shaped and this has also changed what we expect of bankers as professionals.

Global best practices continue to evolve and the bar set to ever higher standards. But beyond standards, what all these really mean is that it is no longer enough for financial professionals to focus only on their own institutions. Proper planning requires a more holistic view of market developments and how these changes can create and possibly lead up to system-wide dislocations.

It is the identification and mitigation of these system-wide dislocations that now drive the efforts of financial regulators. The build-up of systemic risk should be a collective concern because we have seen the extent of dislocation and the high costs that it can bring.

This is the mindset for the pursuit of "financial stability" as the new global prudential norm -- our efforts are organized towards preventing another systemic collapse of the financial markets.

This is very apparent in the global reform agenda where containing "too-big-to-fail" financial institutions and addressing the consequences of inter-connectedness are prominent objectives. Basel 3 runs under the mantra of "making banks stronger". It does so by institutionalizing better quality capital, introducing loss-absorbency parameters for capital-compliant instruments, improving market transparency and setting prescriptive caps/floors for prudential purposes.

On the other hand, new standards completely redefine the risk governance for Financial Market Infrastructures or FMI. This is done with an increased appreciation for contagion risk and the need for stronger IT security protocols. Consumer protection and financial literacy are now considered prudential norms rather than as optional add-ons. This is because the decisions

and behavior of informed financial consumers are itself effective stabilizers against market shocks.

From the perspective of the market, these reforms increase the cost of doing business. Granted, these regulatory premia have cost implications; but it would be costly to have yet another crisis.

We should also factor in, that new standards now cover more risks and look at the same risks at a higher prudential bar. The “new market landscape” is defined not only by tighter regulations but by wider coverage of risks and a more definitive handling to mitigate further build-up of known risks into systemic proportions.

It can be said that new norms change our understanding of the market -- from allocating scarce resources into one that allocates risk capital. By extension then, the key commodity is information that drives decisions across various options. It is important that reforms are put in place and safeguards continuously updated to uphold the integrity of that information so that it is not abused.

Excellence starts from core competencies

Ladies and gentlemen, it should be apparent that the preferred market architecture today is substantially different from what we had in the past. If we aspire to excellence in banking, it must start from developing core competencies.

However, let me be clear -- the need for continuing education has not changed; what has changed is the mindset for achieving “banking excellence”. We still need to know about market, credit and operational risks; but beyond these, we now need to also appreciate risks that are not so apparent -- like contagion, concentration, leverage and liquidity.

These four risks -- of 2 Cs and 2 Ls -- are important. At the BSP, we refer to them as “CL-2 risks”. These CL-2 risks are systemic because exposures to them are formed through a chain of bilateral transactions. Once any single point of the chain is compromised, the entire chain is weakened. Monitoring this chain of counterparty dealings is a challenge for each institution, but it is precisely the basis for systemic risk that concerns regulators.

An added challenge is that financial stability cannot be defined in absolute terms. Building core competencies therefore will be an exercise not only of “what is” but increasingly more of “what can be”. This is where judgment, perspective and collaboration play a critical role. While the market may be more complex and empirics-based, in the end, it is still the human factor that will be needed to execute transactions.

In many ways, the task of achieving banking excellence thru synergies is no different from operating a dragon boat.

- There is a sweep whose task it is to steer the boat with an oar and to protect the safety of the crew by avoiding collisions.
- There is a drummer whose rhythmic pounding of the drum establishes synchronicity. Considered the heartbeat of the dragon boat, the drummer decides when it is appropriate to increase or decrease the pace of the team.
- And there are the paddlers whose collective and coordinated strokes move the boat.

If the dragon boat crew does not work together, the boat itself will not move. But as a team, one can see that the beauty of cadence and the commitment to collaborate will propel the dragon boat to move with direction, purpose and urgency.

Final thoughts

Ladies and gentlemen, all these simply reiterate that financial markets warrant a strong framework for risk governance because of the network of linkages between transactions,

stakeholders and product lines. Thus, the reform agenda has instigated a tighter framework that now recognizes new risks and treats old risks in a different light.

The responsibility of achieving financial stability and sustaining the strength of the financial market rests on all industry stakeholders. We are all in this together, and therefore, we should work together. Like wisdom, strength cannot be granted; strength must be earned.

To move forward stronger and better requires that we all collaborate and work on a common vision and policy direction. To me, this is the essence of your theme: “Leveraging Capabilities and Synergies for Banking Excellence.”

I see BAIPhil scaling up its role within the banking industry. You can serve as the dragon boat drummer, be the heartbeat of the industry thru trainings, calibrating coverage and content to what is needed most at any point in time.

And BAIPHIL’s role should continue to go beyond addressing gaps in technical skill sets. It is important for BAIPHIL to broaden and deepen its coverage of human behavior, values, ethics, and the need to maintain financial integrity at all times. In particular, BAIPHIL can address the need to cascade governance standards across banks to levels below Directors.

And through BAIPHIL, the banking industry stands to benefit even more, from having global experts you can learn from and benchmark with, in your conferences and training courses.

Ladies and gentlemen. It has been said that we can have a good future only if we prepare ourselves today. We need the cadence and rhythm of a dragon boat to navigate uncertain waters that challenge stability and the pursuit of excellence.

Under its new set of officers, I am confident that BAIPHIL will continue to be a positive force in the banking industry.

Mabuhay ang BAIPHIL at ang ating banking industry!

Mabuhay ang ating mahal na bansang Pilipinas!

Mabuhay po tayong lahat!

Maraming salamat!