

Amando Tetangco: Philippine banking in an integrated regional financial market

Speech by Mr Amando M Tetangco, Jr, Governor of Bangko Sentral ng Pilipinas (BSP, the central bank of the Philippines), at the Annual Reception for the Closing Plenary of the 29th National Convention of the Bankers Institute of the Philippines, Tagaytay City, 11 March 2017.

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Good evening everyone! It is a great pleasure for me to join BAIPHIL's 29th national convention.

BAIPHIL is important to us. You are one of the key partners of the BSP in ensuring that the quality of bank personnel meets the rigorous requirements of our banking system. This is crucial — our banking sector has grown into a P13.5 trillion industry in terms of assets and is responsible for deposits that have reached a record high of P10.4 trillion as of December 2016. This is a great responsibility.

Given this, and as we consider the way forward, let me take this opportunity to share with you my thoughts about critical developments that will define our financial markets in the years to come.

I will take this opportunity therefore to share my thoughts about critical developments that will define our financial markets in the years to come.

Ladies and gentlemen. 2017 is bound to bring on a new set of challenges to the global economy with Brexit, policy changes in the US under its new President, the US Fed's decision to increase policy rates, and China's decision to pursue stability by moderating economic growth.

The IMF sees some softening from Asian emerging markets, but projects a modest growth overall in the world economy. What about the Philippines? Well, you will be pleased to know that quite a number of multilateral agencies and global institutions expect the Philippines to outperform many of our economic peers.

Nevertheless, we should not be complacent. Given the sea change unfolding in the global markets, we need to be strategic in our thinking and deliberate in our collective actions if we are to successfully navigate through emerging challenges.

One area where we find challenges and opportunities for us, is the ASEAN integration. If we revisit the underpinnings of ASEAN market integration, we find that its vision is premised literally on the concept of building a community. And like all communities, the ASEAN Community is itself built around different components, specifically, developing a Political-Security Community, a Socio-Cultural Community and an Economic Community.

With the establishment of the ASEAN Economic Community or AEC in 2015, we are now at that phase of formally consolidating the 10 ASEAN markets into a single economic base. To achieve this, it is necessary that we have an integrated and well-functioning regional financial system. This is defined under the ASEAN Financial Integration Framework or AFIF. Within the AFIF is the integration of the banking markets. This is what we refer to as ABIF and it is being pursued alongside the integration of the other facets of the financial market such as the payments and settlement system, the capital market, and the insurance sector.

A proper response to your chosen topic of what ASEAN integration means to Asian and Philippine banking must therefore take a holistic view that considers ABIF in the context of AFIF, which in turn is an essential element of the AEC, which itself is only 1 of the 3 "communities".

There are many moving parts in ASEAN integration but it is clear that the envisioned upside is premised on economies of scale and scope. Latest statistics from the ASEAN Secretariat tell us

that ASEAN represents USD2.4 trillion in combined GDP, making it among the 10 biggest economies in the world. Over the past decade and a half, ASEAN was the 3rd fastest growing economy in the world, behind only China and India. ASEAN has a population base of 629 million, 35% of whom are below 20 years old. Total trade volumes reached a high of USD2.53 trillion in 2014 and FDI inflows, USD120.8 billion in 2015.¹

Clearly, these are not small numbers; but they are relevant only if we see ASEAN as an integrated market. Taking full advantage of this aggregate size and collective economic strength is precisely the point of integration so that there is freer movement of goods and services as well as of labor and capital. In ASEAN's vision, this will allow for the unbundling of distribution from production, so that one can produce in the jurisdictions which have the comparative advantage for the product and have the product sold in other jurisdictions where there is greatest demand.

The freer movement of capital is not only for production, it also holds true for the regional financial market. When compared with other regional blocs or other countries in the world, ASEAN is well-documented to have a higher saving rate relative to GDP. Cross-border portfolio flows data confirm, however, that ASEAN minimally invests into ASEAN. Thus, an important opportunity of an integrated ASEAN market is the re-channeling of regional savings back into ASEAN.

What do all of these mean for Philippine banks? What do you think? To me, this is a task which is squarely within your sphere of competence. With the path ahead defined, it would be a serious error for one to think that all these remain within the realm of the abstract. For your information, the AEC Blueprint 2025 has been finalized and is freely available for download via the ASEAN website. Within that blueprint are identified milestones that are monitored continuously for their progress. Thus, the different moving parts that I mentioned earlier have been set in motion and working towards the envisioned outcomes.

I have talked about the collective advantage of ASEAN integration but is there a specific upside for the Philippines and Philippine banks?

From the perspective of macroeconomic activity, there is significant room for the Philippines to move up because we have arguably more stable fundamentals than most, if not the rest, of the region. We have achieved 72 consecutive quarters of uninterrupted growth, a remarkable record considering the market environment over this period. And today, the Philippines is one of the fastest growing economies in the world.

In the financial markets, the Philippines can target a larger portion of ASEAN savings. Here we lag behind Indonesia, Malaysia, Singapore and Thailand. The same is true for external trade, another potential growth area for the Philippines.

In both portfolio investments and in external trade, Philippine banks have a clear role to play as an intermediary, paying/collecting agent and investment advisor. Of course, the possibilities are not limited to those within the purview of the banking system. Taking in more market share within ASEAN means that we move forward to develop our capital market and to institutionalize cross-border payments and settlement arrangements.

The critical elements under the ASEAN Financial Integration Framework are securities, insurance, the payment and settlement systems and finally, banking or ABIF. This is where the Philippines can set specific targets for increased market share in the region.

Ladies and gentlemen. ABIF is now unfolding — it provides us with opportunities. The strategic issue therefore is how you will now operate given that regional integration is upon us. Should you choose to be a Qualified ASEAN Bank or a QAB, you have added opportunities in a bigger market but you have to deal with new aspects of competition, different market conditions, and differences in capital requirements, among others.

On the other hand, those who choose to “stay home” so to speak, are not necessarily shielded from heightened competition. Indeed, banks need to have a good competitive strategy even if they are not immediately aspiring to be QABs.

We have seen how foreign banks that enter our market reshape competitive forces. Aside from QABs, even outside the ABIF guidelines, foreign banks can still come into our shores under the purview of RA 10641.

As you are aware, our strong fundamentals and sound banking system keep the Philippines an attractive destination for investments. Already, nine foreign banks have entered our banking system thru RA 10641 while another six banks are in various stages of talks with the BSP.

ABIF makes it imperative that you improve your competitiveness by lowering operating costs, increasing product and service innovations, and improving service quality. This requires more investments in technology and training. Ultimately, this needs more capital and scale to thrive.

The changes that come with ASEAN integration, however, will be akin to a process unfolding. While the framework is already approved, the transition will be gradual.

Now, then, is the time to consider your options. This is true for non-QABs and for QABs. Whether it is backroom support or frontline services, what is certain and necessary from a classic BAIPhil perspective, is the development and upgrading of skills and training programs not only in banking but also in areas such as market surveillance and regulatory reforms.

Preferring the status quo will be a competitive disadvantage. Change is the reality and banking organizations such as BAIPhil have a significant role to play in navigating the banking industry toward a new competitive landscape.

Clearly, much needs to be done; but I am positive you will be up to these emerging challenges.

Let me assure you — the BSP is working with the banking community to prepare the way for ABIF. Among others, the BSP has been upgrading the supervision framework in line with international standards, especially on corporate governance and risk management; requiring capital build-up and encouraging mergers and consolidations; and opening up barriers to entry.

And in accordance with ABIF, the BSP has signed a high-level agreement with Bank Negara Malaysia governing QABs and looks forward to forging at least two more agreements as early as next month.

In addition, our Supervision and Examination Sector and the newly-created Office of Systemic Risk Management will engage the banks in discussions to demystify and clarify the concepts behind ABIF and AFIF as you operate in an integrated and more globally-active ASEAN market.

But even as you prepare for ASEAN integration, I hope that you will always be mindful and never lose sight of the risks before you. Always make sure that you operate in a safe and sound manner, keeping in mind the interest of financial consumers who have entrusted their resources with you.

Finally, I wish to thank the BAIPHIL for its continuing support and cooperation with the BSP in keeping the banking system sound and stable. I particularly thank you for your active participation in the BSP’s financial education program by teaching thousands of parents and teachers sound money management. This has enabled our public school teachers to become excellent financial educators, at least two of whom were chosen National Awardees under the DepEd-BSP’s Guro ng Pag-Asa Awards. The awards were given last Tuesday by Education Secretary Leonor Briones, yours truly, and members of the Monetary Board, in the presence of bank industry leaders and BAIPHIL’s President Liza Ortiz and Marilen Ruiz of your Special Projects Committee.

BAIPHIL, you walk your talk. You train bank employees and share your financial management expertise with the unbanked and underbanked. All of these to make our banking system stable, inclusive and a channel for promoting inclusive growth. I will always remember BAIPHIL for this.

Ladies and gentlemen. This is the last time I will join your National Convention as Governor of the Bangko Sentral ng Pilipinas. I take this opportunity therefore to thank all of you and wish that all your efforts will contribute to make our banking system better, stronger, and more responsive to the needs of our people and our country.

Maraming salamat! Mabuhay po tayong lahat!

¹ Data taken from the “ASEAN Community in Figures 2016” published by the ASEAN Secretariat.