

Nestor A Espenilla, Jr: BSP and BAIPHIL moving mountains - new heights in banking excellence

Speech by Mr Nestor A Espenilla, Jr, Governor of Bangko Sentral ng Pilipinas (BSP, the central bank of the Philippines), at the Induction Ceremony and General Membership Meeting of the Bankers Institute of the Philippines (BAIPHIL), Makati City, 14 July 2017.

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Distinguished Monetary Board Colleagues, Juan de Zuniga and Tony Abacan, BAIPHIL President Irene Arroyo, immediate past President, Liza Ortiz, other BAIPHIL past presidents, BAIPHIL directors, officers and members, BAP President Nestor V. Tan, bank CEOs, my PDIC colleagues, esteemed guests, friends, fellow BSPers past and present, ladies and gentlemen, good afternoon!

It is an honor and pleasure to carry on the tradition of inducting the new board members and officers of BAIPHIL. As new BSP Governor... [I assumed the post eleven (11) days ago]... it is auspicious that I now address the new leadership of BAIPHIL ...On behalf of my colleagues in BSP and the Monetary Board, let me extend our congratulations.

As new leaders, it is natural for us to aspire greater achievements for the teams we lead. This is why I find your theme: "Scaling New Heights in Banking Excellence" very engaging. The theme is both timely and relevant as we come into our fresh roles and as the financial system evolves.

The theme mentions heights. To add imagery to this message, let me take Mt. Everest as a starting point. Everest, known as the roof of the world stands twenty-nine thousand and thirty-five (29,035) feet above sea level. This is the ultimate goal of hard-core mountain climbers, the highest of heights.

On 29 May 1953, a New Zealander, Sir Edmund Hillary and a Sherpa, Tenzing Norgay, successfully climbed Mt. Everest in the face of great risk.

As documented, they were the very first mountain climbers to reach the summit. Now, sixty-four (64) years later, the peak of Everest is decidedly less lonely and more than 3,500 climbers have already reached the top or "summitted".

A myriad of things have changed since then. But from the time it was first done to the present day, scaling Everest or any mountain, consistently demands: First: intense training and preparation; Second: sensitivity to the environment and possible changes to climate; Third: possession of well-maintained equipment; Fourth: a team of highly trusted and reliable individuals; Fifth: leadership of competent guides; and Finally: tenacity and courage to keep going amidst challenges.

Training and Preparation

In mountain climbing, each team member has to be skilled, fit, and prepared physically and mentally. This takes years of conditioning if one is to take on the tasks involved.

As the banking industry's premier training arm, BAIPHIL plays an important role in providing required skill sets and competencies for modern banking. BSP commends BAIPHIL for continually being proactive in responding to the training gaps and emerging requirements of the banking industry in line with on-going developments in the regulatory and operating environment.

With its expertise, synergy and collaborative partnership with the BSP, BAIPHIL is in the best position to design a comprehensive training program to foster and strengthen expertise, excellence and integrity among banking professionals.

Environmental Sensitivity

The conditions for climbing higher look good! The Philippine economy remains in a position of strength. It continues to expand, despite challenges in the external environment. This expansion is increasingly broad-based with notable rebound in agriculture and exports sectors.

The sustained strength of the economy in the first quarter of 2017 was underpinned by manageable inflation, more than adequate gross international reserves and a steady stream of inflows from overseas Filipino remittances, revenue from the business process outsourcing sector and tourism income, all contributing to higher consumption spending.

Moreover, the Philippine banking system continues to be a stable anchor for the economy with key performance indicators showing double-digit growth in resources, expansion in lending, adequate capitalization, improved asset quality, and profitable operations.

These gains driven by our common vision will fuel us to pursue greater heights.

Well-Maintained Equipment and Gear

As Central Monetary Authority, the BSP has a well-articulated policy framework and an enhanced policy tool kit. Like good and ready mountain climbers, our gear is ready and we have improved surveillance methods.

Assessing the mountain, we are thoughtful about weather shifts. For instance, the increasingly clear signal for policy normalization in advanced western economies points to a rise in global interest rates, just a question of timing and pace.

Mindful of these, BSP continually strengthens its framework for financial risk surveillance, sharpening assessment of market conditions. We consider the interconnectedness of economic agents, credit concentration and liquidity, and the evaluation and pricing of risks.

Our approach is pre-emptive to mitigate any undue risk build-up in the financial system, but we have also built up solid macroeconomic fundamentals that serve as buffers to weather potential external shocks. These safeguards notwithstanding, BSP continues to refine existing early warning systems, distress indices and stress tests. BSP is constantly developing financial and economic models that improve our understanding of how relevant variables move.

Trusted and Dedicated Team

To be successful in mountain climbing (like facing the challenges of the banking industry) one cannot go up alone. It is not a solitary undertaking. Climbers must learn the basics from other climbers, as well as help each other up from time to time.

In our industry, this means we must develop close collaborations and relationships and encourage communication.

I am fortunate that I have inherited a very capable and competent team BSP where each public servant contributes to the fulfilment of our mandates. We can also depend on the collaboration and synergies among valued stakeholders like BAIPHIL. Indeed we cannot do it alone.

Competent Leadership

Ladies and gentlemen, possessing close familiarity with “the mountain and mountains” of banking, we could consider the Bangko Sentral and BAIPHIL as the industry’s ‘sherpas’.

We provide guidance and direction to others in the industry as we walk the same path. We guide towards the shared vision of upholding a stable and inclusive banking system. Under my

stewardship, this will be pursued with fervour.

As our fellow Sherpa, the BSP counts on BAIPHIL to take on even greater significance in this age of global convergence.

Together, we have to prepare the banking community by anticipating harder but more fulfilling climbs ahead. Through continuous training and education, the banking profession will be better equipped and prepared to keep pace with the ever evolving financial services industry.

Tenacity and Courage

In the book, “The Last Step: The American Ascent of K2” / it is said that, “the courage of mountain climbers is not blind, inexplicable, meaningless; it is courage with ability, brains, and tenacity of purpose.”

In this industry, this is the same brand of courage we must have to achieve our goal of banking and financial stability.

Our courage is not based on a false sense of security. But we are motivated to always raise the bar of professional excellence and business integrity for banks. We have the determination and passion to excel in our current craft, of pursuing excellence and constantly improving our work so that we could deliver the best financial services to the Filipino consumer and our country.

Moving Mountains

That I used Mt. Everest in an analogy to illustrate our present and on-going journey together is perhaps ambitious enough... And while I have built parallelisms between the two endeavours, I dare say that in our industry the mountains are not static.

Banking is not unmoving like the formidable Everest. There is no final peak to overcome.

The Bangko Sentral celebrated its twenty-fourth (24) anniversary last week. I have been a Central Banker for the last thirty-six (36) years. BAIPHIL marked its seventy-sixth (76th) year this June. As veterans in this field, we know that in banking and in central banking, the process of scaling new heights is an active and continuing endeavour.

Friends: banking products, financial services and needs, technology and consumer preferences are always levelling up. We have to keep pace. We do this with training and education. We do this with updated and relevant regulations.

We do this with partnership as we are confronted with an evolving market landscape of international standards and prudential regulations. Our shared strategy necessitates taking a more holistic view of these developments.

We do this too by strengthening corporate governance standards and risk management practices. We at the BSP have raised the bar of prudential standards to promote resilience in the banking system and market discipline for risk-taking activities.

Because of growing regional financial integration and the entry of foreign banks, competition pressures have increased. New sophisticated players such as financial technology solution providers have entered the market. This is a good thing as these bring about a notable and gradual unbundling of the traditional value chain in the Philippines and intimately links banks closer to customers.

While FinTech provides interconnectivity, convenience, and efficiency in delivery of financial

products and services, we must also be vigilant as it also ushers in cyber-security concerns. In this regard, the BSP has been laying the groundwork on promoting cyber-security and related regulation on technology.

But there is still much to be done. Ladies and gentlemen, we know from science that the mountains are moving due to continental drift and that we, BSP and BAIPHIL, must therefore continue to move with the mountains even as we scale the one in front of us.

In Closing: Inclusion as We Climb

I'd like to think also that there are several summits in banking and central banking... That as one reaches a vantage point, more and more of the surrounds are taken into perspective... As one climbs, one's view becomes wider.

I have heard from mountain climbers that when you reach the top, it is actually quite a humbling experience. I certainly felt that way when I climbed Mt. Fuji as a millennial graduate student in Japan in 1988. At higher heights, one sees the bigger picture more clearly and wishes for others to experience the same.

The same holds true as we experience more economic gains and successes. We want more and more people – our countrymen – to be included in the experience. Our goal is for more of our countrymen to save and borrow for productive uses, avail of investment and insurance products, and send and receive payments securely and efficiently. We firmly believe that this financial empowerment is the only way for economic growth to be truly meaningful.

We trust in BAIPHIL to help us move this vision forward. BAIPHIL can in turn count on the full support of the BSP for its future endeavours.

Mabuhay ang BAIPHIL at BSP!

Maraming salamat po!