Nestor A Espenilla, Jr: Moving the discussion forward

Speech by Mr Nestor A Espenilla, Jr, Governor of Bangko Sentral ng Pilipinas (BSP, the central bank of the Philippines), at a special brownbag session for the Bank of International Settlements (BIS) Working Paper (WP) No. 724 "Do small bank deposits run more than large ones? Three event studies of contagion and financial inclusion", Manila, 13 August 2018.

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Financial inclusion partners, colleagues in government and in the banking community, distinguished guests, friends from media, fellow BSPers, ladies and gentlemen, good morning.

The topic of this brownbag session has far-reaching implications on two goals that the BSP is passionate about — financial inclusion and financial stability.

One of our mandates is to ensure that our covered institutions operate in a safe and sound manner. Intuitively, we believe that discipline and prudence not only permit the industry to thrive but that practice of these values also safeguard financial consumer interests.

The paper we will hear today (titled, “Do Small Bank Deposits Run More than Large Ones? Three Event Studies on Contagion and Financial Inclusion”) revisits the insightful and provocative question of whether or not there is a trade-off between financial inclusion and financial stability.

Specifically, it utilizes empirical tests to assess whether bank deposits of different sizes react differently to the closure of a bank and whether deposits in nearby banks are affected by a closure of a bank.

From Experience

The BSP’s pursuit of greater financial inclusion involves a three-pronged approach.

First, we seek to provide broader access to financial services – to reach the unbanked and underbanked and include them in the formal financial system.

Second, we vigorously promote financial literacy to empower consumers to make wise financial choices.

Third, we actively champion consumer protection so that our citizens would enjoy improved financial well-being and best participate in, and meaningfully contribute to, economic development.

As banking supervisor and regulator, we insist that banks conduct safe and sound banking operations. This is to protect the public interest.

But in cases when — and it does happen — that some banks fail to operate accordingly, sometimes we are left with no other option but to prohibit them from continuing to do business.

When unsafe and unsound practices have been egregious, and remedial options have been exhausted, closure may in fact, be the only alternative.

Any decision to close a bank is not made lightly. Notice and opportunity to be heard, and all avenues are extended to allow recovery. Again, this is to protect the public interest.

When a bank is closed, the effect is not only on the particular bank, its directors, officers, employees, stakeholders and depositors.

The increasing interconnection of markets, not to mention the widespread and almost-real-time information and opinions disseminated by traditional and modern social media, brings about quick public reaction and repercussions on the community. Even individual bankers have come to us, to share how their operations are affected when a nearby bank has closed. We take all these into consideration.

From experience, the commitment to ensure that safe and sound banking practices are conducted (manifested in decisive bank closures) may, at least in the interim, have unintended consequences on immediate industry confidence, and on financial stability.

Statistically Validated Results

What is exciting for us today is that we will have the opportunity to move the discussion from experience and conjecture to statistically validated data.

The paper based on specific empirical tests is penned by three distinguished scholars:

Dr. Dante Canlas was the former Director General of the National Economic and Development Authority (NEDA) and Professor Emeritus at the UP School of Economics.

Dr. Eli Remolona is currently Chief Representative, BIS Representative Office for Asia and the Pacific and also served at the Federal Reserve Bank of New York.

And last but not least, Dr. Johnny Noe Ravalo is Assistant Governor here at the BSP. Noet heads our newly created Office of Systemic Risk Management.

When the paper was published by the Bank of International Settlements last May, social media feedback was very positive. For our benefit, the paper is freely available online.

I have also been apprised that the authors are working on new tests to expand on the results they will present today. When finalized, the updated paper will be submitted to a leading academic journal.

I have no doubt that the updated paper will find its proper place in an academic journal and will help inform other scholars in this field.

I truly appreciate the efforts of the distinguished authors. This early, allow me to congratulate the three of you for a job well done.

I would also like to recognize our colleagues from the Supervisory Data Center and the Office of Systemic Risk Management for their contributions towards the completion of this research output that is at par with the most authoritative studies in the world.

I have had opportunity to peruse the paper and I am confident we are on the right track, in terms of guiding us craft possible policy interventions. The initiative also enhances our BSP research program.

Through the years, BSP papers have been disseminated through our own journal at the BSP (the BS Review) or through conferences. We continue to raise the bar in our research efforts. I have encouraged more of our personnel to conduct technical studies and to submit these to prestigious international journals.

I am heartened that this paper is a step towards greater efforts to leverage on our unique perspective as the country's central monetary authority. Also, since the research will likely be on issues requiring policy intervention, I am confident we will all benefit from this thought leadership.

I look forward to an active discussion from all of us this morning.