



Thrift Banks: Moving Forward to the Next Economy

**Chamber of Thrift Banks (CTB)
2021 Virtual Convention**

Governor Benjamin E. Diokno
Bangko Sentral ng Pilipinas

12 October 2021



Officers of the Chamber of Thrift Banks led by the Convention Chairman Lorenzo T. Ocampo and President Cecilio “Paul” D. San Pedro, our partners from the thrift banking industry, guests, ladies and gentlemen, good morning!

I am honored to be your keynote speaker in this year’s virtual convention of the Chamber of Thrift Banks.

I am grateful for this opportunity to engage with every one of you, our stakeholders, and discuss our shared goal of moving forward to the next economy.

1

Updates on the Economy and the Thrift Banking Industry

2

BSP Regulatory Relief Measures in Response to the COVID-19 Pandemic

3

MSME Programs, Sustainable Finance & Other Reforms

4

Digital Financial Inclusion in the New Economy



I will start my presentation today by providing an overview of our current economic landscape and the performance of the thrift banking industry.

Next, I will cover the BSP's temporary relief and structural measures that will help propel the industry forward, including our sustainable finance initiatives and financial inclusion efforts.



Regarding the updates on the economy -

The country's gross domestic product in the second quarter of 2021 reached 11.8 percent and is seen to average between 4 and 5 percent this year. GDP growth is projected to further improve to a range of 7 to 9 percent in 2022.

Our macroeconomic fundamentals remain sound and are expected to register strong recovery. We anticipate interest rates to remain low and the peso to be stable.

Inflation is expected to remain manageable. Headline inflation slowed to to 4.8 percent year-on-year in September 2021 from 4.9 percent in the previous month.

The year-to-date average inflation rate of 4.4 percent was above the target range of 2 to 4 percent. The latest inflation outturn is consistent with the BSP's assessment that it could settle close to high end of the target range in the near term before decelerating back to within the target by year-end.

Overseas Filipino remittances are expected to rebound this year.

In the first half of 2021, the cumulative remittances rose to US\$16.6 billion, up from the US\$15.6 billion recorded in the comparable period in 2020, or by 6.7 percent.

The country's Gross International Reserves of US\$108.1 billion as of end-August 2021 is hefty. It represents 12.3 months' worth of imports of goods and payments of services and primary income.

It was also 7.8 times the country's short-term external debt based on original maturity and 5.4 times based on residual maturity.



Thrift banks are strategically positioned to be a catalyst for financial inclusion with an extensive network of 2,744 banking offices as of end-August 2021 that are spread in different regions throughout the country.

Amid the pandemic, the thrift banking industry remained sound and stable as shown by sustained growth in assets and deposits, strong capital position, adequate liquidity buffers, and profitable operations.

Total assets of the industry registered at PHP1.2 trillion as of end-July 2021, posting a 6.8 percent year-on-year growth rate. Meanwhile, deposit liabilities in the same period grew by 7.9 percent, highly indicative of the public's continued trust and confidence in the industry.

The risk-based capital adequacy ratio of the industry stood at 18.8 percent as of end-June 2021. This is above the minimum thresholds set by the BSP and the Bank for International Settlements.

The minimum liquidity ratio of the industry was 36.5 percent as of end-June 2021, surpassing the 16 percent minimum.

Net income registered at PHP6.6 billion in the six-month period ending June 2021, higher by 15.3 percent compared to last year's level.

We are optimistic that the thrift banking industry is well-equipped to withstand the risks posed by the COVID-19 crisis.

Recovery in the country's macroeconomy and the industry's financial performance will serve as a strong foundation for thrift banks in charting their course under the new economy.



- ✓ Loans to MSMEs recognized as alternative compliance with reserve requirements
- ✓ Reduction in credit risk weights of loans granted to MSMEs



- ✓ Deferred implementation of the amendments to the Risk-Based Capital Adequacy Framework for Stand-Alone Thrift Banks



- ✓ Reduction in the minimum liquidity ratio (MLR) of Stand-Alone Thrift Banks from 20% to 16% until end-December 2021



Let me now focus on the key enablers which will help support the thrift banking industry as it navigates the post-COVID economy.

First, the BSP's time-bound regulatory relief measures remain in place until end of this year. This includes the easing of prudential requirements which will help thrift banks support financing requirements of micro, small and medium enterprise clients.

The BSP allowed the recognition of peso-denominated loans to MSMEs as alternative compliance with reserve requirements against deposit liabilities and deposit substitutes.

In addition, the BSP reduced the credit risk weights of loans granted to MSMEs that are current in status to 50 percent until end-December 2021.

The BSP deferred the implementation of the amendments to the risk-based capital adequacy framework for stand-alone thrift banks, rural banks and cooperative banks to 1 January 2023, instead of 1 January 2022.

Moreover, the BSP reduced the minimum liquidity ratio of stand-alone thrift banks, rural banks and cooperative banks from 20 percent to 16 percent until the end of December 2021.

Overall, these measures aim to provide thrift banks with sustained capacity to expand lending activities and support the recovery of local communities.



Second, thrift banks can take advantage of the fiscal incentives under the FIST Act to manage the level of non-performing assets, increase liquidity and support financing requirements of productive enterprises and households.



The BSP recognizes the vital role of thrift banks in promoting the development of MSMEs.

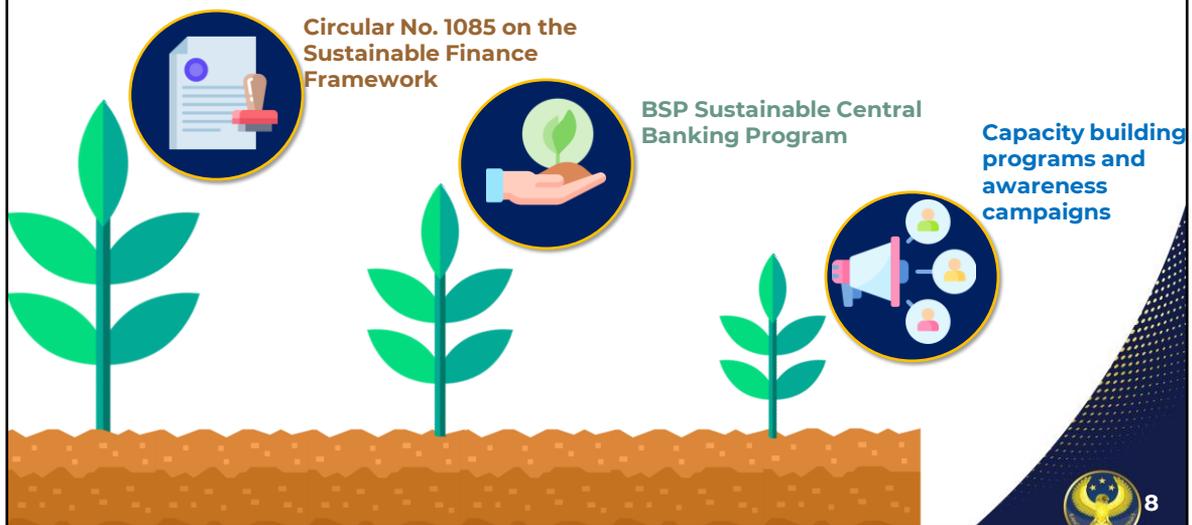
The third enabler relates to initiatives aimed at enhancing the country's credit infrastructure and improving access of the MSME sector to formal financial channels.

The BSP is working on a Credit Risk Database project in partnership with the Japan International Cooperation Agency. The project will improve access to credit by small and medium enterprises by promoting collateral-free and risk-based lending through the use of statistical scoring models that will facilitate risk profiling and assessment of the paying capacity of these enterprises.

In order to improve banks' risk assessment and accelerate turnaround time in the processing of loan applications, the BSP is also working closely with key government agencies and the private sector, including the banking industry, in the adoption of a Standardized Business Loan Application Form.

This project aims to make the loan application process simple, more streamlined and borrower-friendly, particularly for small enterprises.

Sustainable Finance Initiatives of the BSP



Fourth, the COVID-19 pandemic provides a window of opportunity to bolster the integration of green or sustainable finance in the country's recovery response.

Toward this end, the BSP is working on policy reforms that will promote sustainable finance and mitigate climate-related risk. The BSP has issued enabling regulations that will promote green finance through the Sustainable Finance Framework for banks.

The regulations require banks to integrate sustainability principles into their strategic objectives, corporate governance, risk management systems, and in their operations. In addition, the BSP has strengthened engagement with various stakeholders domestically and internationally in line with its intensified campaign to adopt the sustainability principles.

Based on the results of the latest Banking System Outlook Survey, more than half of thrift bank respondents view sustainable finance as highly important. Although the willingness to finance sustainable project is high, thrift banks, in particular, indicated that the lack of demand for these projects and the lack of expertise or skill as the major barriers in pursuing sustainable financing.

As such, the BSP is providing support in this area by developing the capacity of banks with the help of developmental institutions and training partners.

National Retail Payment System (NRPS) Core Principles

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Interoperability

2



Inclusivity

3



"Coopetition"

By increasing participation in the NRPS, thrift banks can broaden their customer reach and maintain competitiveness

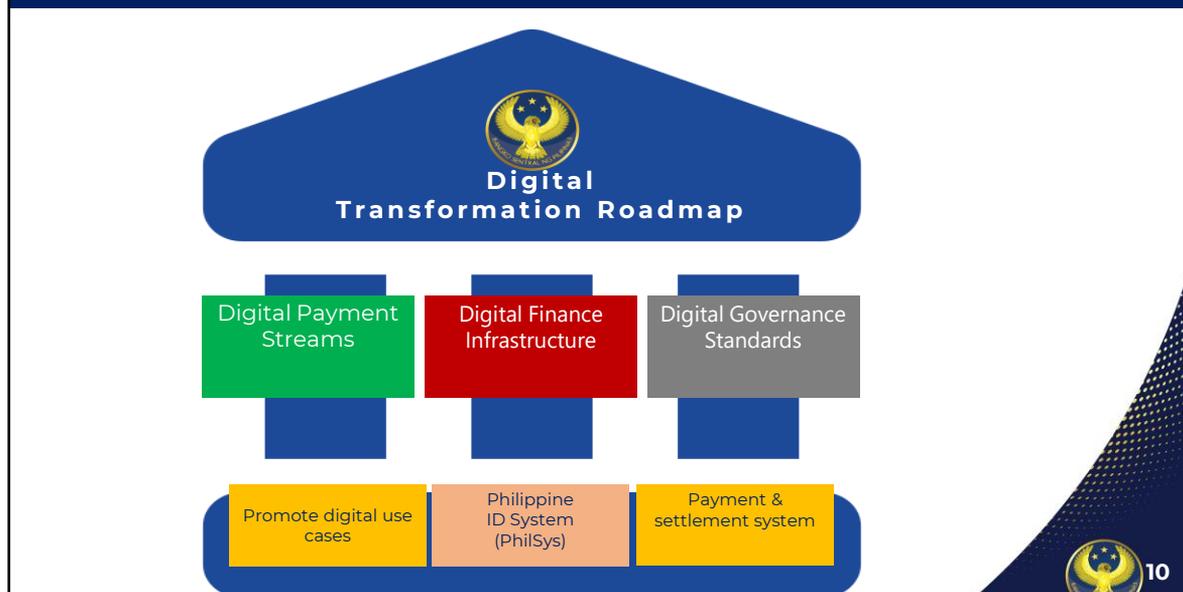


Fifth, the BSP recognizes the potential of digital technology to further advance the financial inclusion agenda. As such, the BSP is committed to develop a digital finance ecosystem that supports the evolving needs of the public, particularly the low-income and unserved and underserved segments.

One reform area where financial institutions, including thrift banks, can leverage on is participation in the National Retail Payment System.

As of end-July 2021, there were only 17 thrift banks offering PESONet and 11 offering InstaPay electronic fund transfer services.

And so we encourage thrift banks to leverage on these technologies since this will further expand your customer reach and maintain competitiveness.



Lastly, the BSP is pursuing key policy issuances and initiatives to strengthen the digital infrastructure, promote safe and efficient digital payment streams, safeguard electronic customer data, and build digital mindset and skillsets inline with the BSP's digital transformation roadmap.

Related to this, the BSP has issued the Open Finance Framework which espouses consent-driven data portability, interoperability, and collaborative partnerships among incumbent financial institutions and third-party providers.

Through "permission-based" access to customer financial information, financial institutions and third parties will gain access to financial information necessary to develop innovative products and services that are suited to the changing consumer needs.

The forthcoming BSP policy issuances on outsourcing and regulatory sandbox or the “test and learn” framework are expected to further facilitate digitalization among smaller institutions such as thrift banks

The BSP is also considering to develop a course on digital transformation to assist thrift banks in preparing for a digital-ready culture and environment.

The BSP also continues to support the implementation of the Philippine Identification System, or PhilSys, which will provide every Filipino with a unique, verifiable and biometric-based digital identity. This will not only address the persistent onboarding issues due to lack of acceptable IDs, but also boost account ownership by enabling remote and more seamless onboarding.

The BSP is working on complementary initiatives that will facilitate digital onboarding of clients through the operationalization of the PhilSys electronic Know Your Customer, or e-KYC, and authentication facility.

The ongoing digital transformation of the Philippine economy is improving the way Filipinos make payments. For Filipino consumers, this is the first step towards accessing a wider menu of digital financial services.

Given the rapid technological advancements, digital transformation of thrift banks' systems, processes and services is now crucial.

Thrift banks will have to evolve and consider new business strategies to keep up with the fast changing times.



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(Sources: Data and statistics from BSP. Icons from www.flaticon.com)

In closing, allow me to share a quote from the best-selling American author, coach, and speaker John C. Maxwell. He once said that “While a good leader sustains momentum, a great leader creates it.”

As industry leaders, you have the means and ability to further elevate the strong performance of the thrift banking industry in the post-Covid-19 economy by leveraging on key enablers such as risk management, digital transformation and sustainability practices.

On behalf of the BSP, I wish to thank the Chamber of Thrift Banks for its continued support for BSP’s efforts and for our continued collaboration to bring financial services to the Filipino people.

Congratulations and more power to the Chamber of Thrift Banks! Thank you and Mabuhay!