

Rationalization of Minimum Capitalization Requirements

Atty. Mel Georgie B. Racela
Deputy Director

Office of Supervisory Policy Development
Supervision and Examination Sector



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Outline of the Presentation

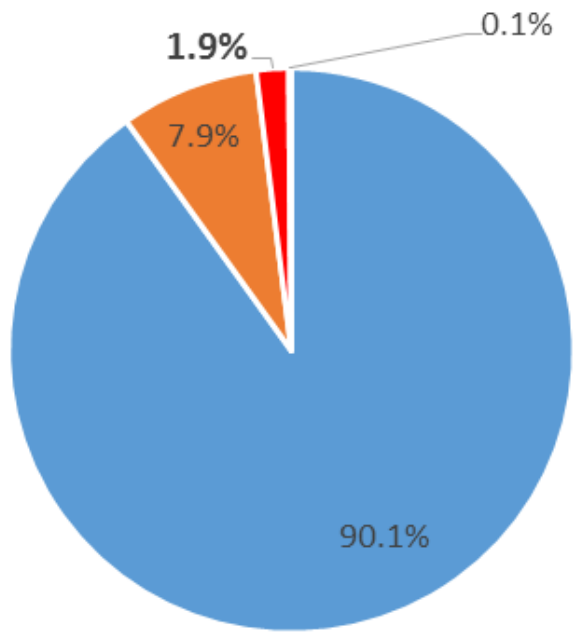
- The Philippine Banking Landscape and Rural Banks
- Rationale for the New Minimum Capital Requirements
- New Minimum Capital Requirements of RBs
- Challenges to the Rural Banking Industry



The Philippine Banking Landscape and Rural Banks

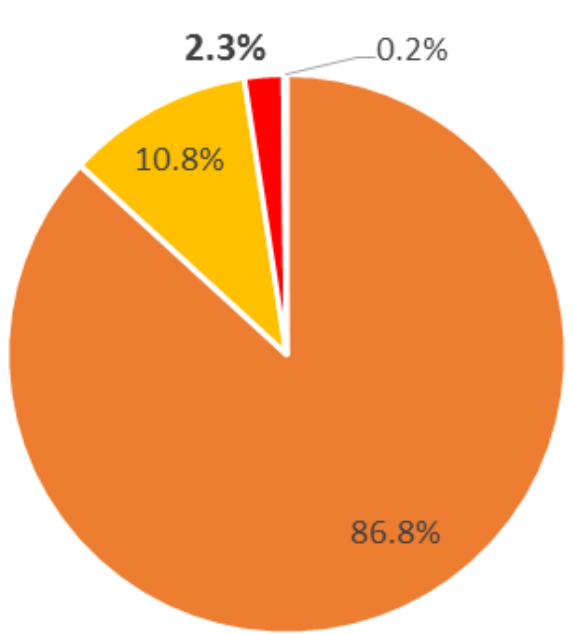
Selected Financial Indicators as of June 2014

Total Resources



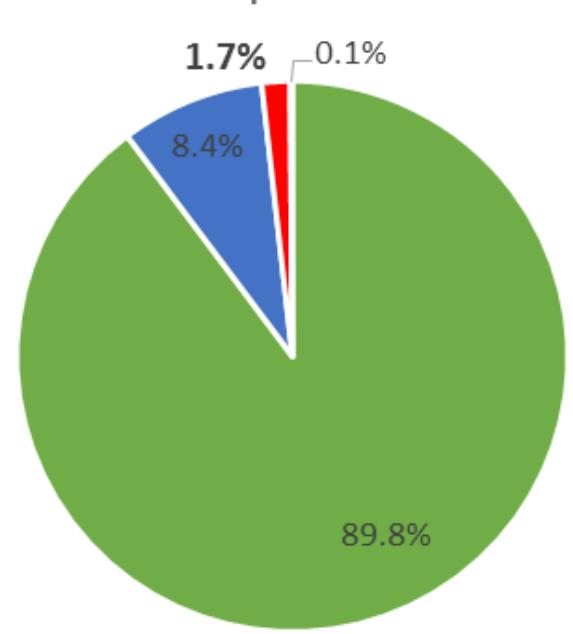
■ U/KBs ■ TBS ■ RBs ■ CBs

Total Loan Portfolio



■ U/KBs ■ TBS ■ RBs ■ CBs

Deposits



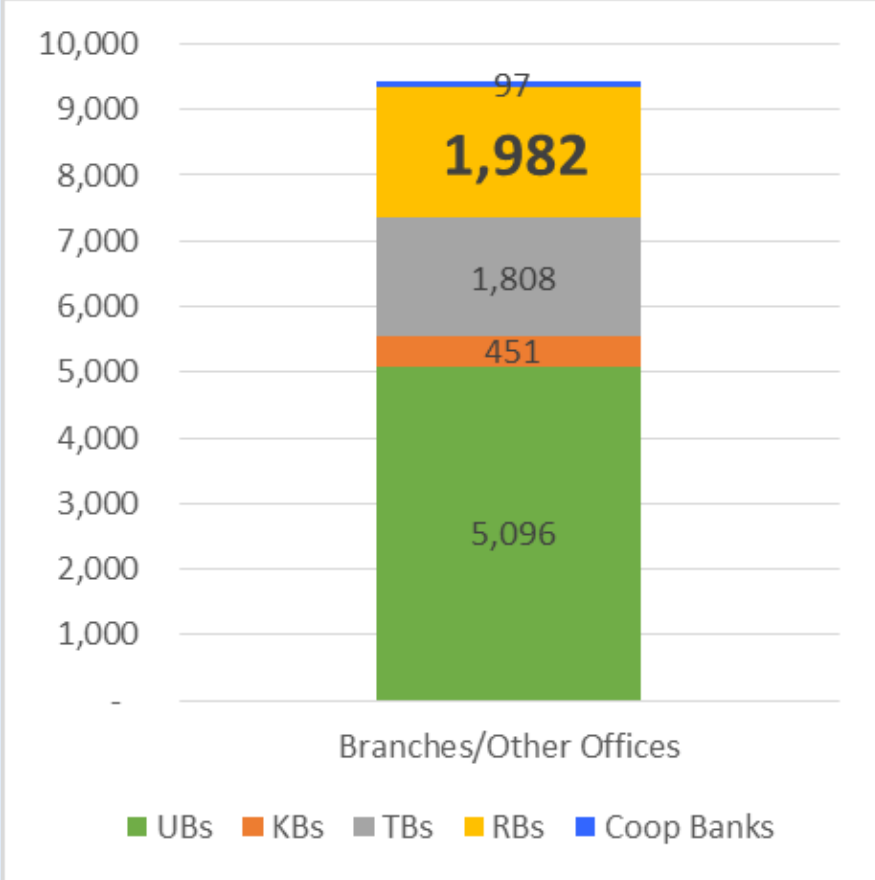
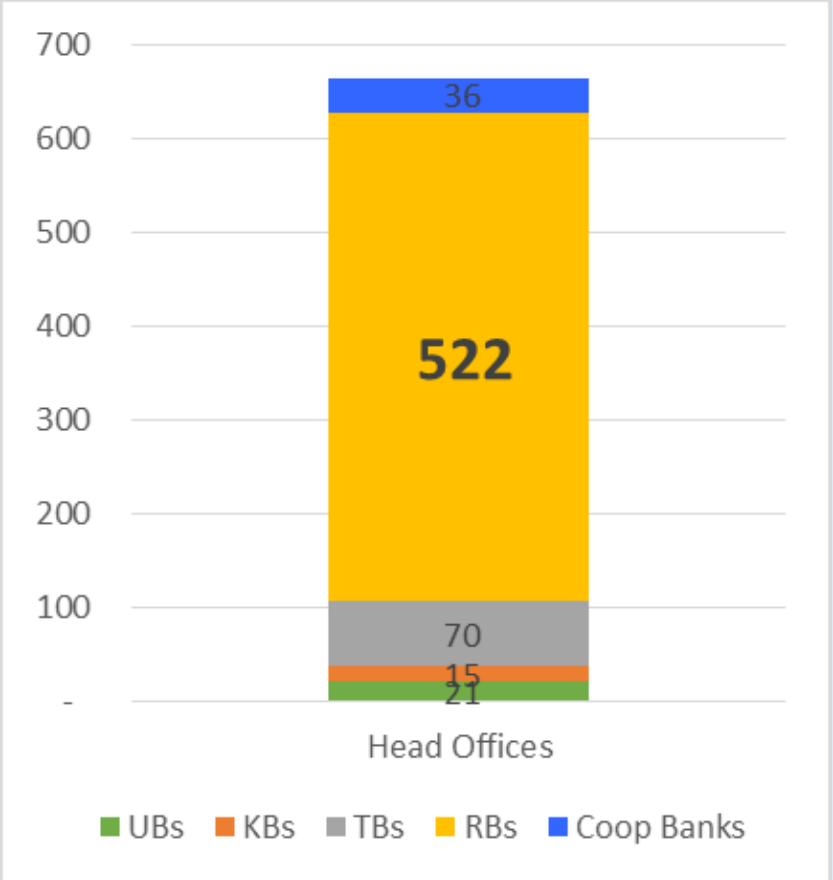
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The Philippine Banking Landscape and Rural Banks

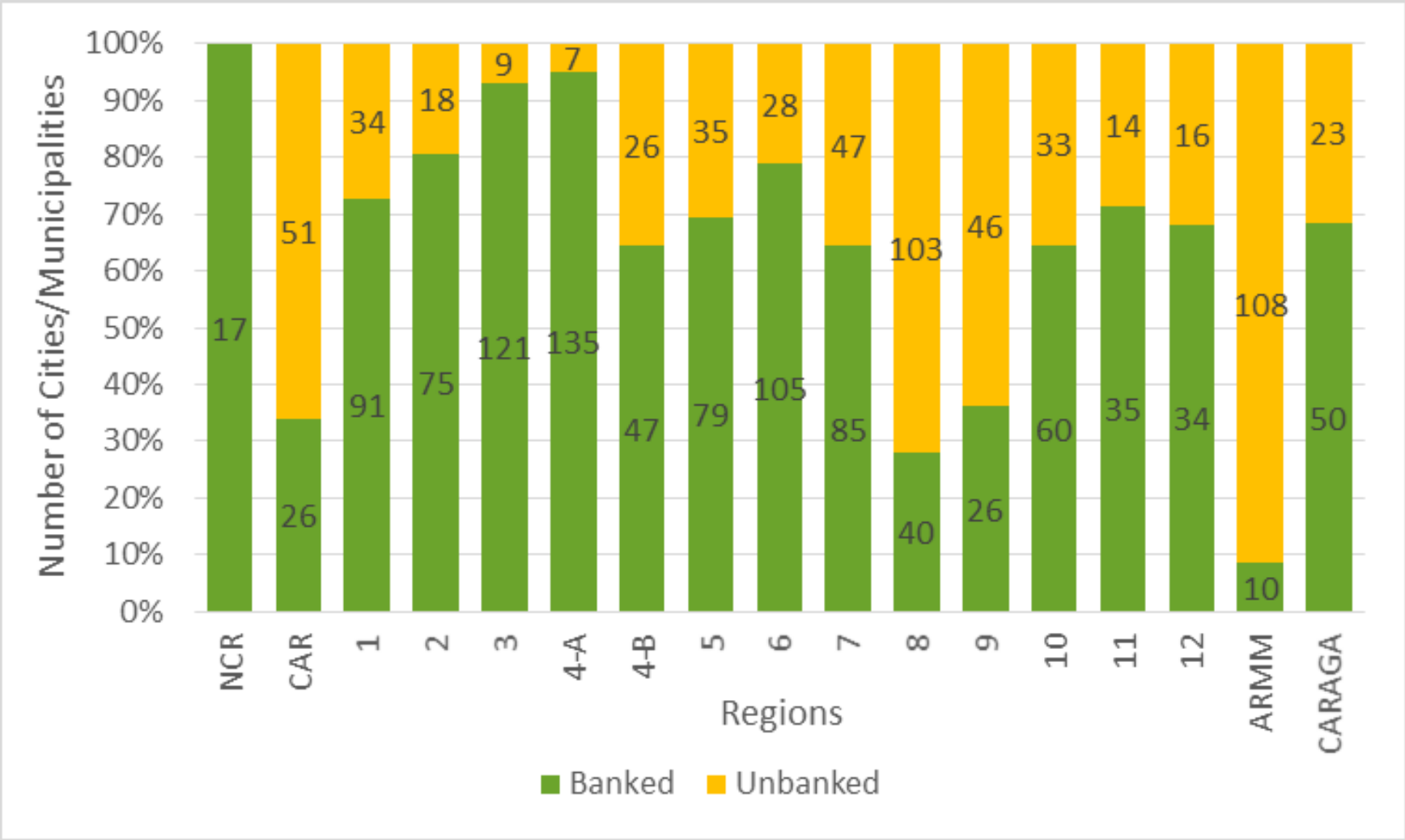
Physical Composition as of June 2014



The Philippine Banking Landscape and Rural Banks

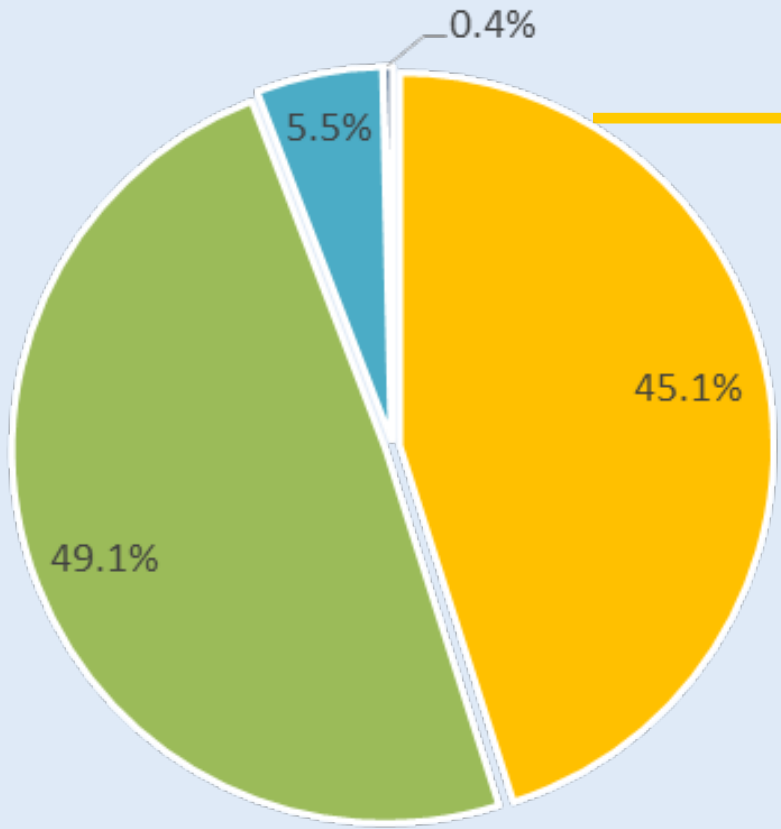


The Philippine Banking Landscape and Rural Banks



The Philippine Banking Landscape and Rural Banks

Number of Branches of Rural Banks



- Head Office Only
- 1-10 branches
- 11-50 branches
- More than 50 branches

Head Office only - 239 RBs
 NCR - 5 RBs
 Areas outside NCR* - 176 RBs
 Areas outside 4th and 6th class - 58 RBs

Up to 10 branches - 260 RBs
 NCR - 10 RBs
 Areas outside NCR* - 204 RBs
 Areas outside 4th and 6th class - 46 RBs



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* Cebu and Davao Cities, Other Cities (1st to 4th class) and Municipalities (1st to 3rd class)

Rationale for the New Minimum Capital Requirements

Banking markets have become much more complex



To cater diverse and sophisticated clients

To further evolve with the upcoming regional economic and financial integration



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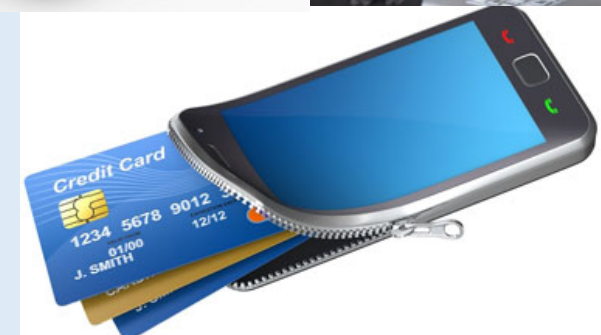
Rationale for the New Minimum Capital Requirements

Business of banking - increasingly relied on IT to generate and deliver newer services to the general public

Use of IT - the norm rather than the exception

Banks should provide electronic channels as basic services to capture or even maintain their market share

Require significant investments supported through strong capitalization



Rationale for the New Minimum Capital Requirements

New arena of competition under the ASEAN integration - impetus for RBs to “scale up”



Goal of regional economic integration
– ASEAN Economic Community

Philippine banking system -
comparatively modest in terms of total
assets

Regional retail market - more likely to be
highlighted thus foreign investors will
look at the Philippine consumer finance
market as competitive ground



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Rationale for the New Minimum Capital Requirements

Key Characteristics of the ASEAN Economic Community (AEC)

- *A single market and production base* →
 - Free flow of goods
 - Free flow of services
 - Free flow of investments
 - Free flow of capital
 - Free flow of skilled labor
- *A highly competitive economic region*
- *A region of equitable economic development*
- *A region fully integrated into the global economy*



New Minimum Capital Requirements of RBs

Current Minimum Capitalization		New Minimum Capitalization	
	In Million Pesos		In Million Pesos
Head Office in:		<u>Head Office in the National Capital Region (NCR)</u>	
Metro Manila	100	Head Office only	50
		Up to 10 branches	75
		11 to 50 branches	100
		More than 50 branches	200
<u>Cebu and Davao Cities</u>	50	Head Office in All Other Areas Outside NCR (All Cities up to 3rd class municipalities)	
<u>Other Cities</u>	25	Head Office only	20
<u>1st to 4th class municipalities</u>	10	Up to 10 branches	30
<u>5th to 6th class municipalities</u>	5	11 to 50 branches	40
		More than 50 branches	80
		Head Office in All Other Areas Outside NCR (4th class to 6th class municipalities)	
		Head Office only	10
		Up to 10 branches	15
		11 to 50 branches	20
		More than 50 branches	40

Challenges to the Rural Banking Industry

Meeting the evolving needs of local communities

Rural banking potentially highly profitable due to large unmet demands



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Challenges

Meeting the higher minimum capital requirements

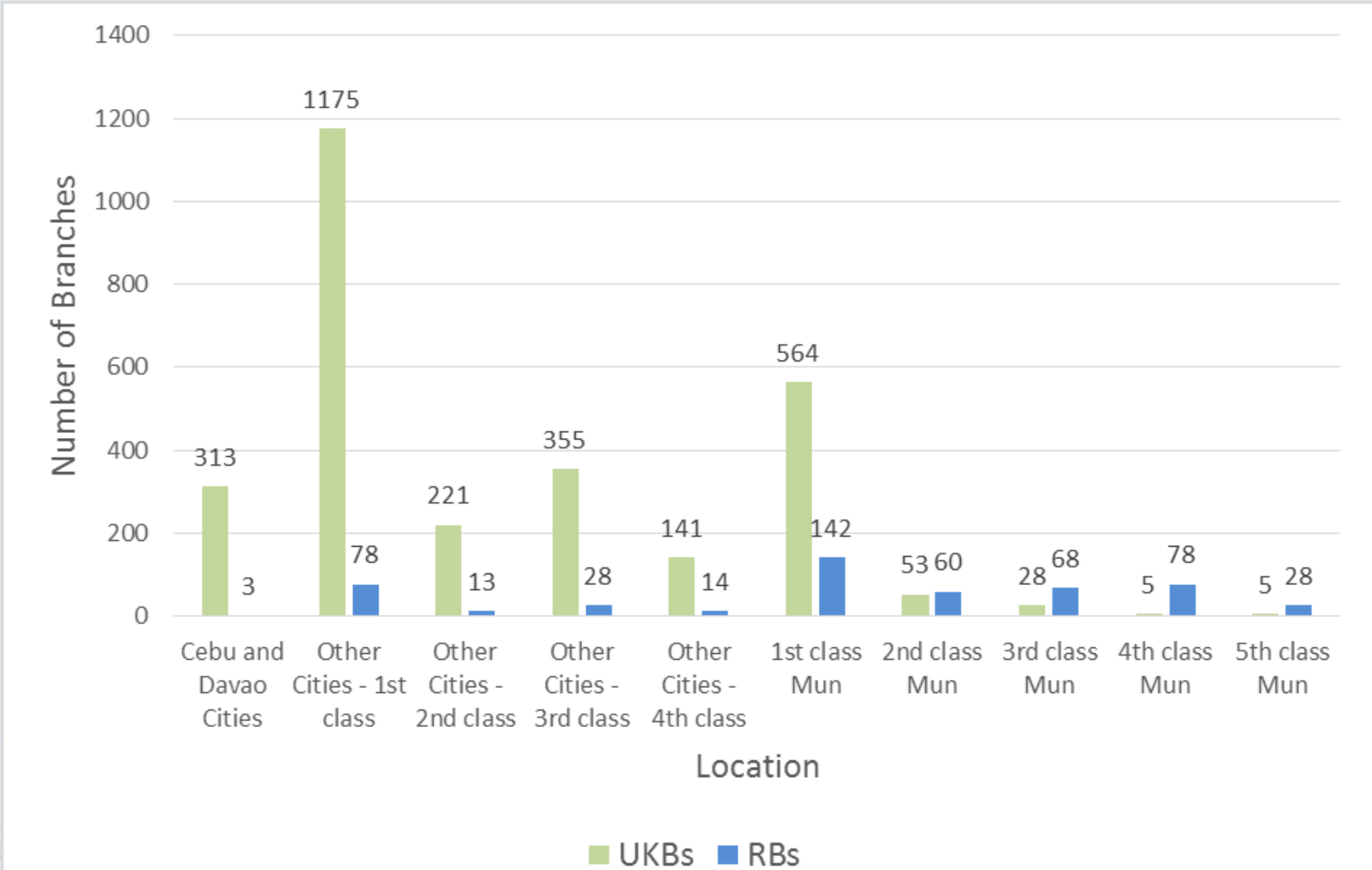


- Strategic positioning of RBs
- New industry structure - will evolve to meet policy and financial needs of the industry participants
 - Regional champions will grow organically
 - Internal growths has unintended consequences to dividend declarations
 - Consolidation and mergers may become prevalent



Challenges

Meeting the higher minimum capital requirements



Challenges

Investing in facilities and skills to provide better services

IT drives efficiency and customer convenience

New credit and payments products will require investments in skills

These changes will change RB's scale economics, favoring larger banks



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Challenges

Need for more efficient and effective corporate governance in the light of the increase in capital



Management systems to manage much broader and more complex institutions



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End of Presentation



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