



ICD

**Institute of
Corporate
Directors**

A Vision for Philippine Rural Banking

A Keynote Address Delivered by Francis G. Estrada to the
RBAB Annual National Convention

Radisson Blu Hotel, Cebu City, May 24, 2016

The Presentation



I. Context



II. Poverty and Exclusion – the Existential Challenge



III. The Philippines



IV. Rural Banking Today



V. Rural Banking – What it can/should be



Alienation and Anger



Greece

Since the Wall Street crash of 2008, more than 99% of all new income has gone to the top 1%.

America needs a political revolution.

Bernie

USA



Spain



Thailand



Recognition of the
unconscionable human
cost of poverty and the
*exciting possibilities of
harnessing unrealized
human potential.*

The Good News...

The Bad News...



Poverty incidence among Filipinos stood at:

- **26.3%**, as of 1st semester of 2015
- **25.8%**, as of 1st semester of 2014
- **24.9%**, as of 1st semester of 2013
- **27.9%**, as of 1st semester of 2012

Neglected Agricultural Sector



29.5%

% of National workforce as of January 2015

57 yrs

Average age of farmers

-38.15%

Reduction of total loans to agriculture

-33.3%

Agri-Agra loans shortfall

What Rural Banks can do...

“To promote and expand the rural economy in an orderly and effective manner by providing the people in the rural communities with basic financial services”



Saving & Time
Deposits



Current &
Checking
Accounts



Loans and
advances



Invest in Allied
Undertakings



Rediscount paper
with LBP, DBP



Trustee over
properties of farmers
and merchants



Collection
Agent



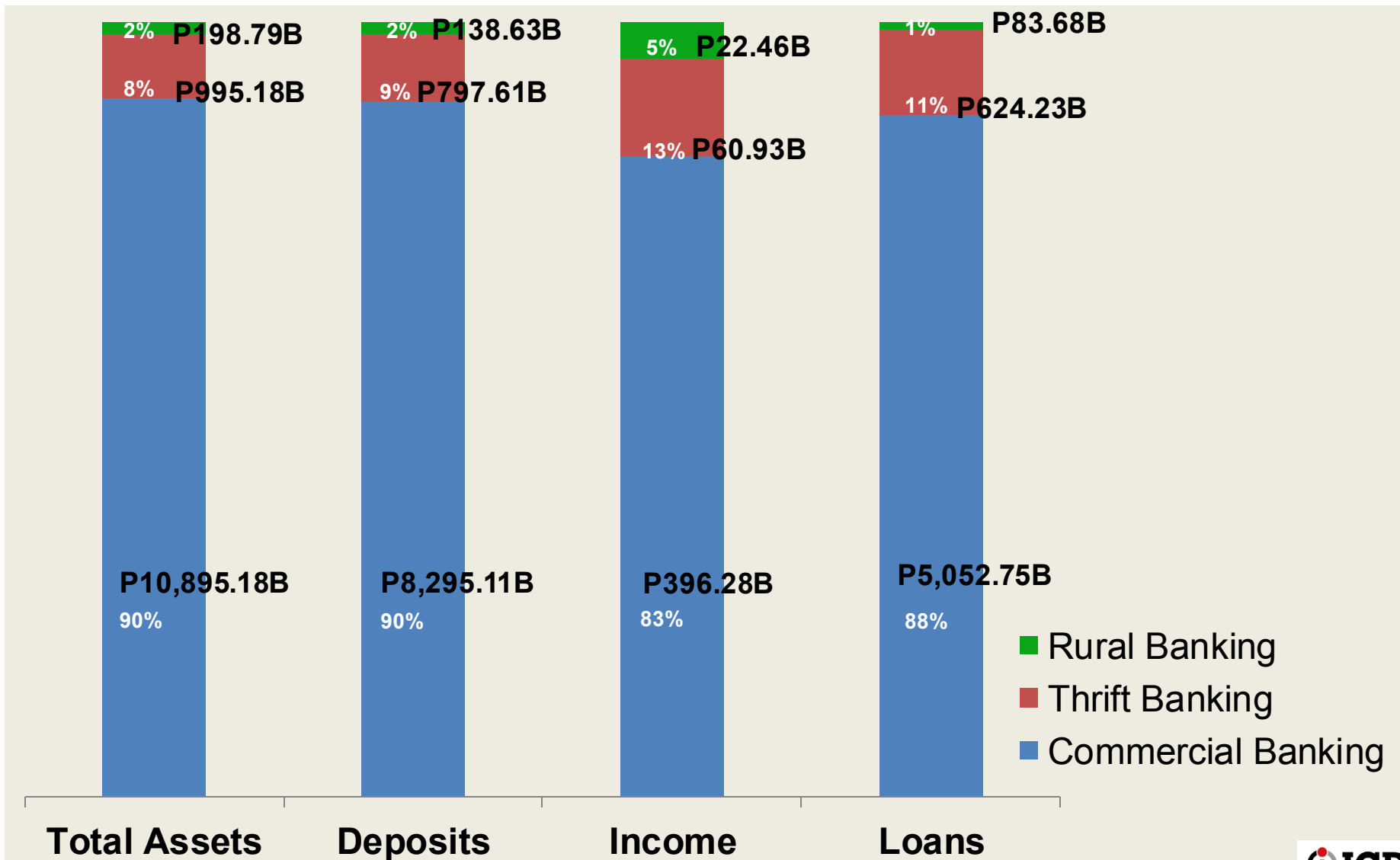
Official Municipal
Depository



Correspondent
for Financial
Institutions

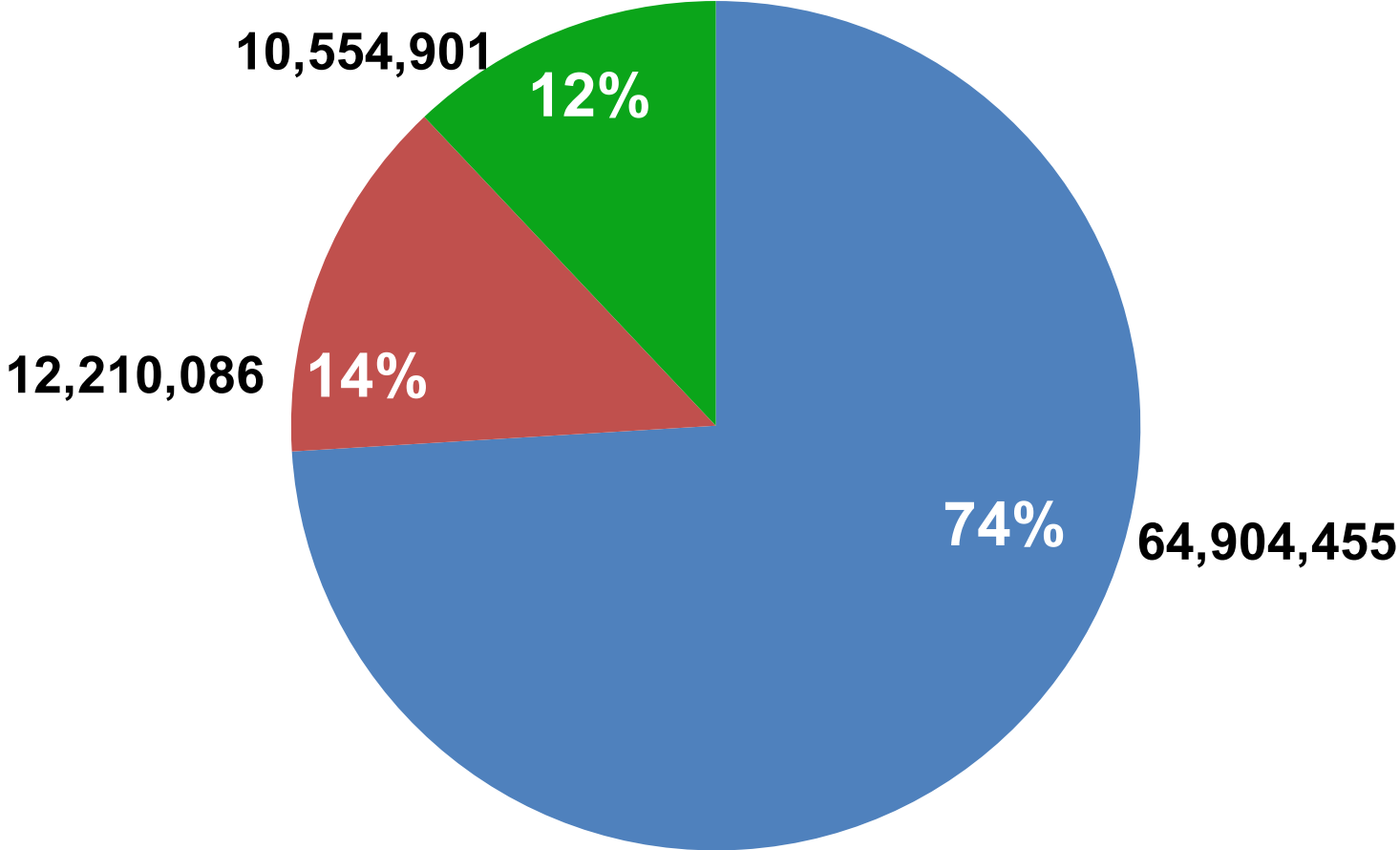
In the context of the banking system...

As of 2015, in billion pesos

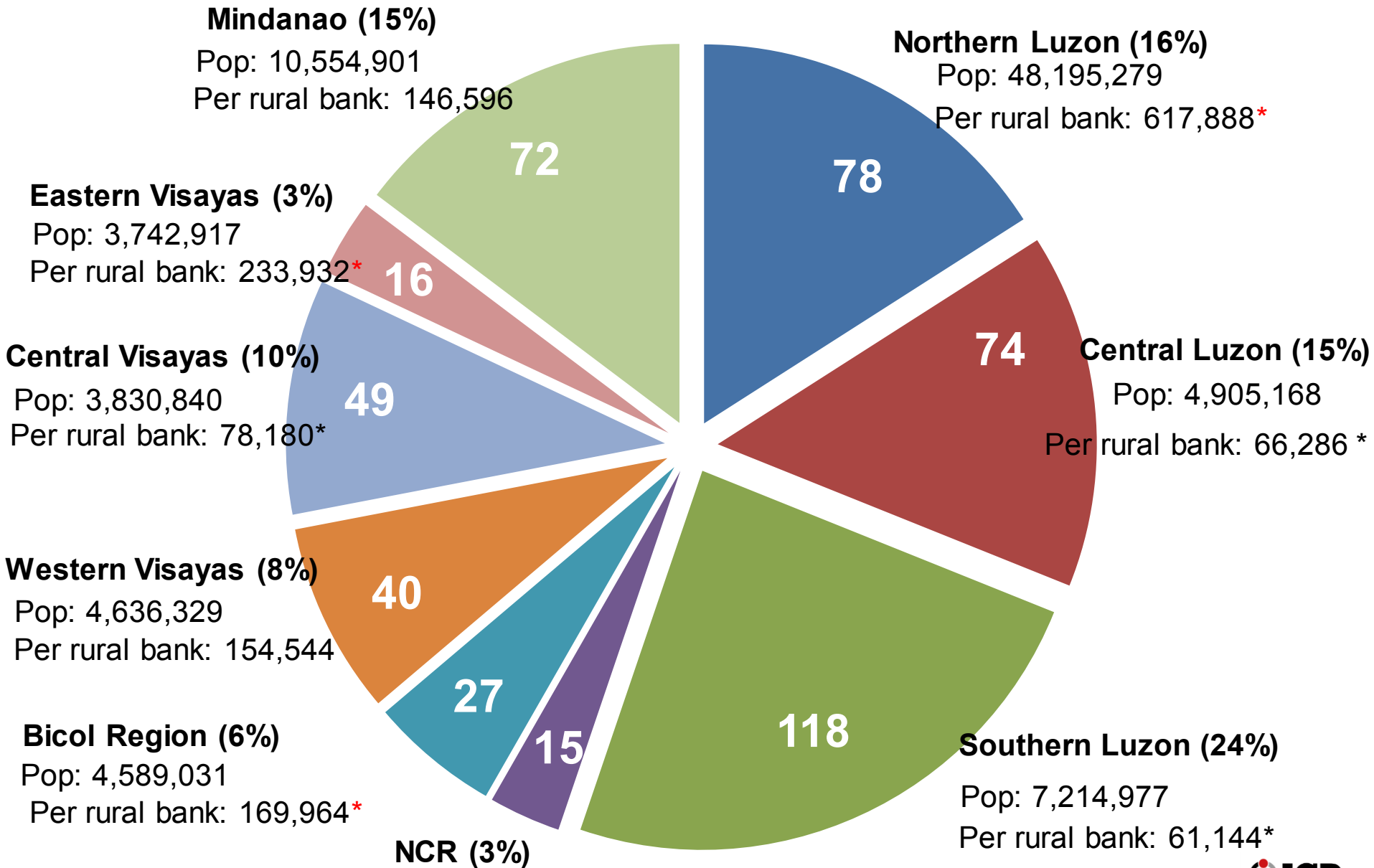


Population Served per RB

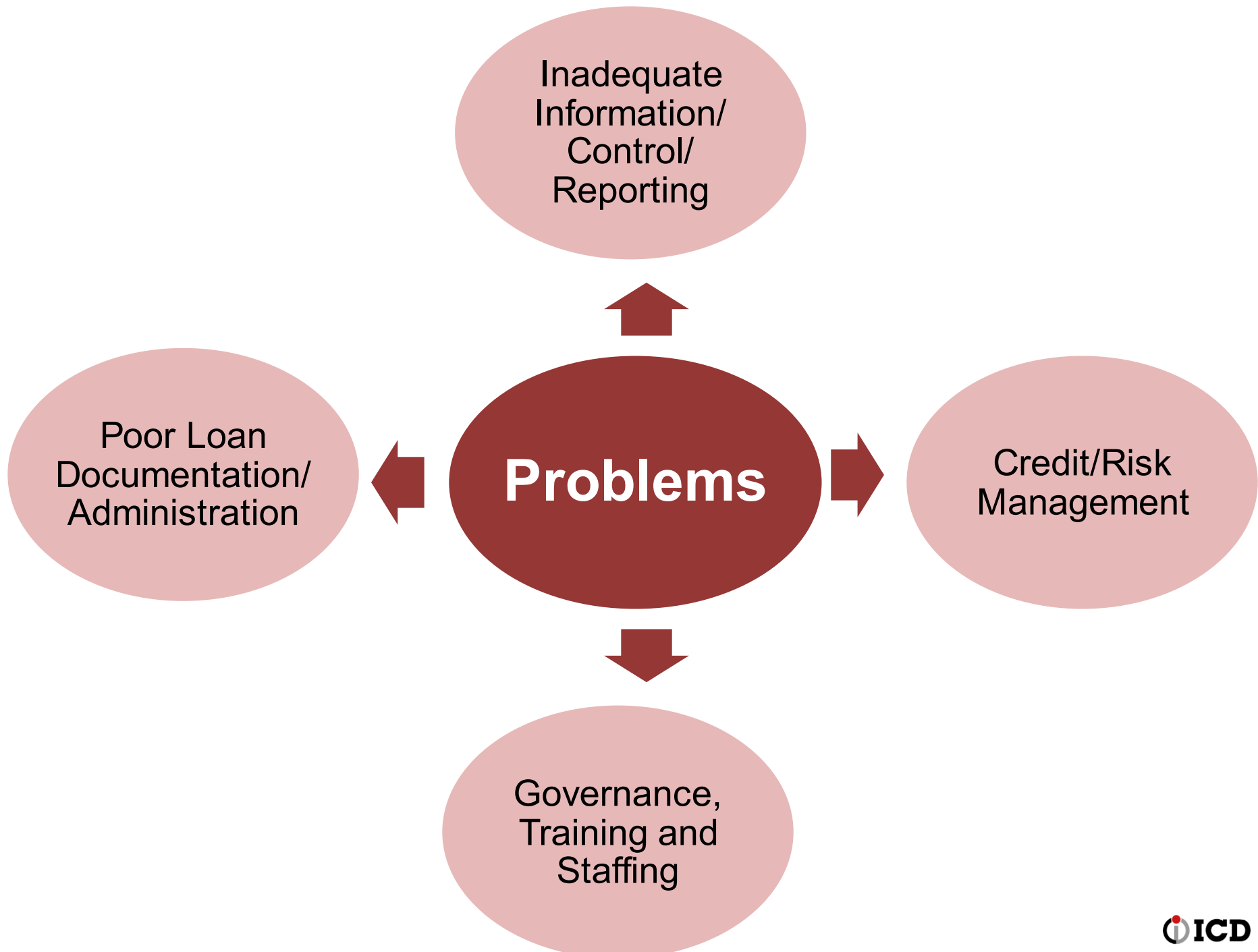
■ Luzon ■ Visayas ■ Mindanao



Rural Banks per Region as of Dec. 2015



SOURCE: Bangko Sentral ng Pilipinas



Alternative Resolutions of Problem RBs



Sale to larger banks or thrifts



Liquidation (Voluntary or Involuntary)

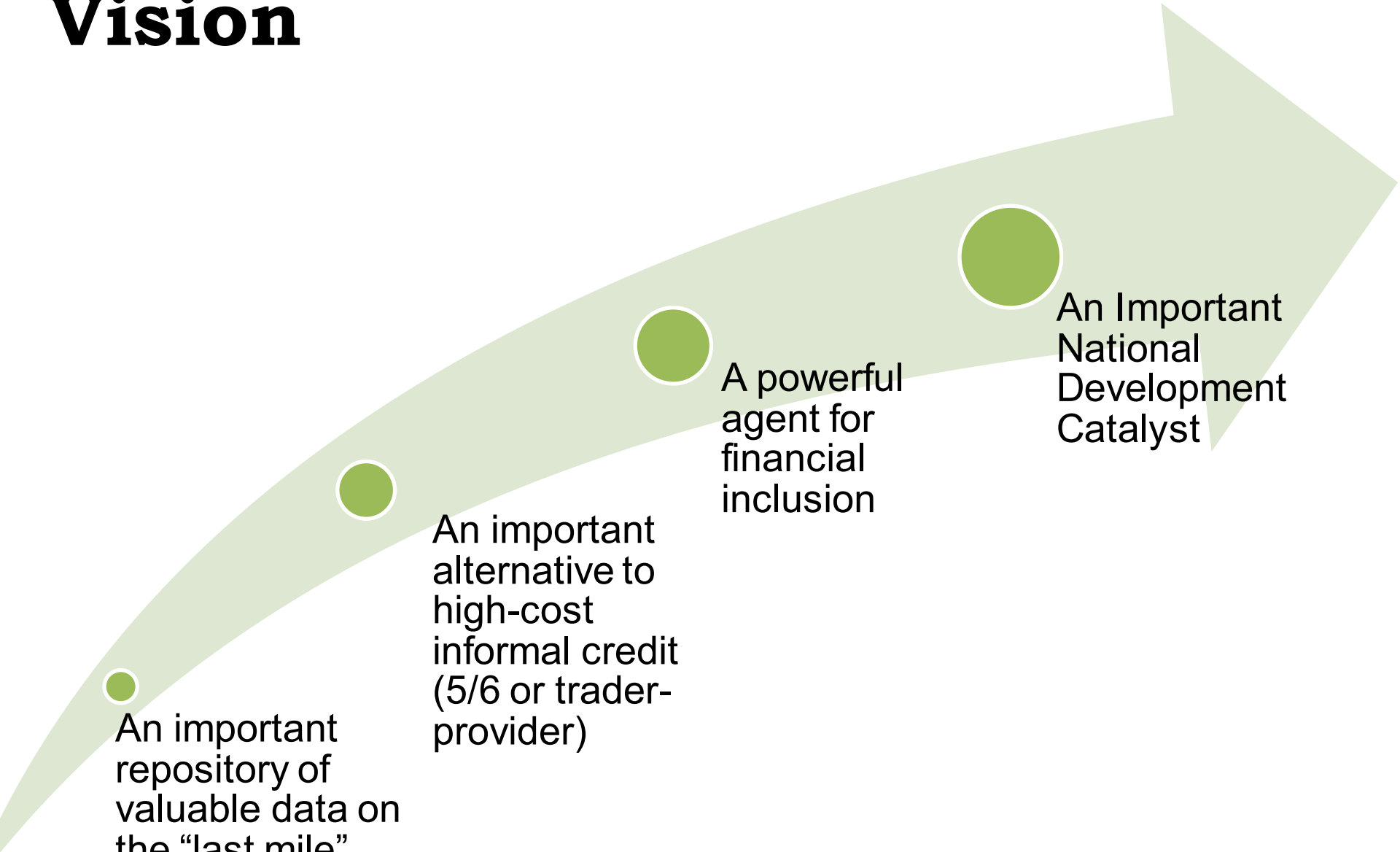
What RBs can be

A powerful last mile

...to the rural sector,
the poor,
the un-served,
and the underserved



Vision



An important repository of valuable data on the “last mile” borrowers & lenders

An important alternative to high-cost informal credit (5/6 or trader-provider)

A powerful agent for financial inclusion

An Important National Development Catalyst

Key Partnerships



LBP



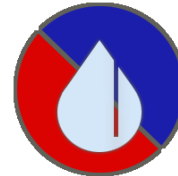
DBP



PCI



NEA



LWUA



DSWD



DepED



LGUs



KBs/
Thrifts

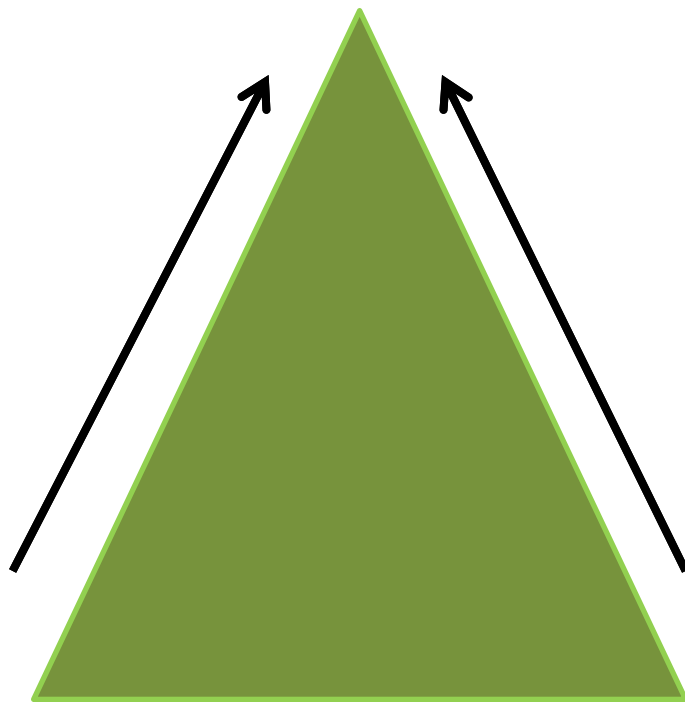


Producers,
Consumers,
Credit and other
Cooperatives

How to get there

RBs agree with investor

- a) Objectives, Strategy, Budget and Performance Metrics
- b) Agreed Governance and Reporting Policies and Procedures
- c) Strategy Roadmap



Attract "non-invasive" capital

Management and Technical Support



ICD

**Institute of
Corporate
Directors**

THANK YOU!

Francis G. Estrada, FICD

Chairman, Institute of Corporate Directors

May 24, 2016

Copyright © 2016 by ICD. All rights reserved. No part of this material may be reproduced, stored in, or introduced into a retrieval system or transmitted in any form or by any means (electronic, photocopying, recording, or otherwise) without prior written permission of the copyright owner.



ICD

**Institute of
Corporate
Directors**

Additional Relevant Information

A Keynote Address Delivered by FG Estrada to the RBAB
Annual National Convention

Radisson Blu Hotel, Cebu City, May 24, 2016

Non-inclusivity

Items	S1'06	S1'09	S1'12	S1'13	S1'14
Poverty incidence (% of population)	28.8	28.6	27.9	24.9	25.8
Ave. per capita poverty threshold	P13,357	P16,871	P18,935		

Items	S1'06	S1'09	S1'12	S1'13	S1'14
Employment (Persons) ('000)	36,035	37,192	37,600	38,118	38,842
Employment Rate (%)	92.6	93.0	93.0	92.9	94.0
Unemployment (Persons) ('000)	2,859	2,813	2,820	2,905	2,479
Unemployment Rate (%)	7.4	7.0	7.0	7.1	6.0

Poverty: Urban vs. Rural

As of year 2000 Family Income and Expenditure Survey (FIES)

	Persons			Families		
	Magnitude of Poor	Headcount Index	Share to Total Poverty	Magnitude of Poor	Headcount Index	Share to Total Poverty
Rural	18,810,885	48.2	72.8	3,110,152	40.8	73.8
Urban	7,022,169	18.4	27.2	1,104,445	14.8	26.2
Total	25,833,054	33.5	100.00	4,214,597	28.0	100.00

GDP Contribution

2015 GDP Contribution:

Agriculture = P719.3B (10%)

Industry = P2537.8B (33%)

Service = P4322.9B (57%)

2011 GDP Contribution:

Agriculture = P679.8B (12%)

Industry = P1894.0B (32%)

Service = P3336.4B (56%)

GDP by Industry

Agriculture, Hunting, Forestry and Fishing (in billion pesos)

	2011	2012	2013	2014	2015
Percent share to total GNI	9.6	9.2	8.6	8.3	7.9

GDP by Industry

Industry Sector (in billion pesos)

	2011	2012	2013	2014	2015
Percent share to total GNI	26.8	26.9	27.2	27.7	27.9

GDP by Industry

Services (in billion pesos)

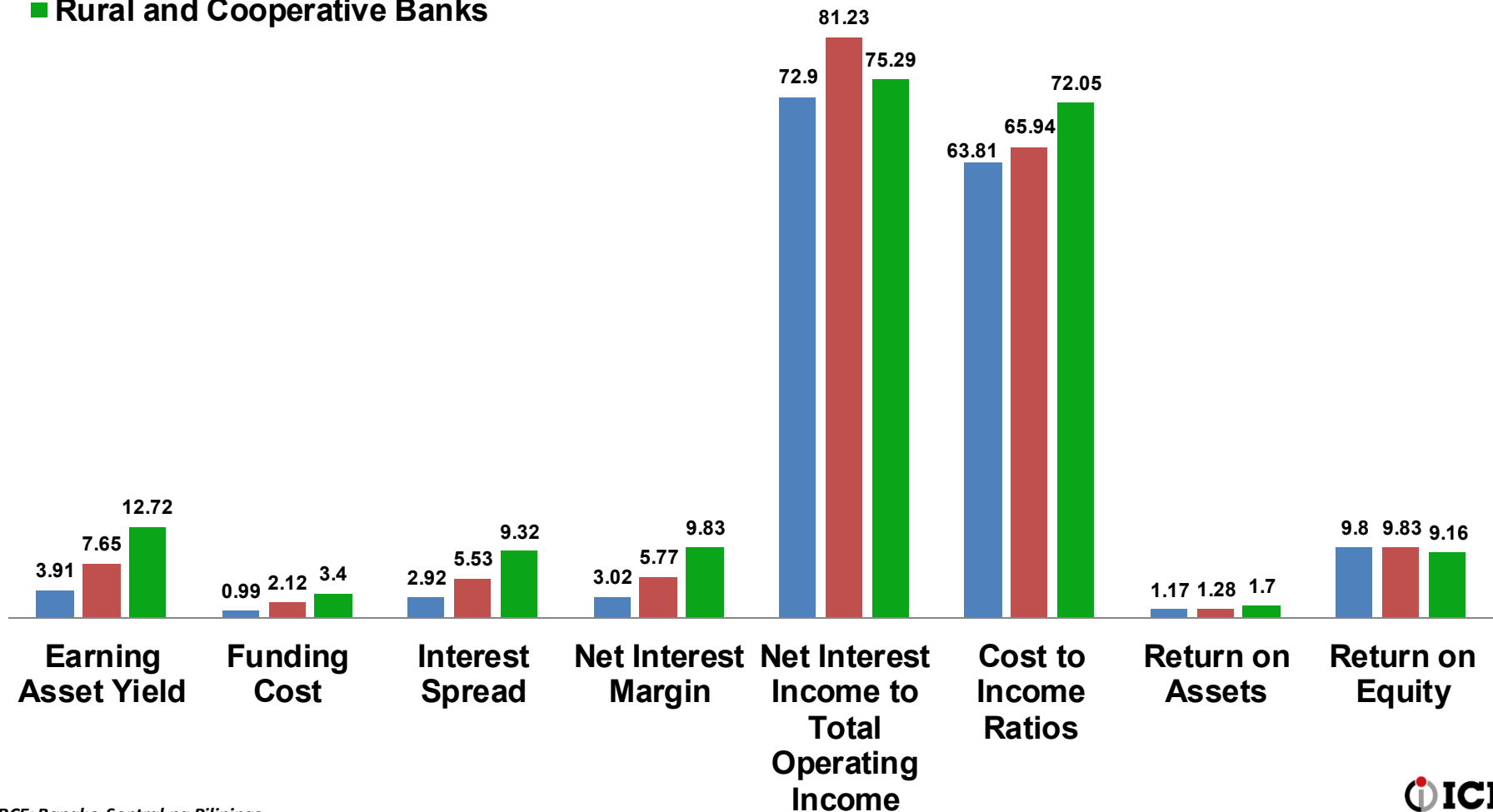
	2011	2012	2013	2014	2015
Percent share to total GNI	47.3	47.3	46.8	46.9	47.5

The Philippine banking system

2015 Key Ratios (%)

As of periods indicated, in billion pesos

- Universal and Commercial Banks
- Thrift Banks
- Rural and Cooperative Banks



The Philippine banking system

Expanded Banking Information

ITEMS	2010	2011	2012	2013	2014
Total Assets (PB)	6,918	7,336	8,050	9,971	11,159
Total Capital (PB)	809	921	1,051	1,126	1,365
Total Deposits (PB)	5,125	5,376	5,754	7,609	8,521
Total Loans (PB)	2,776	3,298	3,763	4,361	5,194

The Philippine banking system

Shortfalls in RP Banking System

ALL BANKS	2010	2011	2012	2013	2014
% of compliance to 15% AGRI	-	-	21.71	15.56	15.21
% of compliance to 10% AGRA	-	-	82.0	1.38	1.46
% of compliance to 8% MSEs	8.46	7.56	6.39	5.59	4.92
% of compliance to 2% MEs	7.94	7.58	6.92	6.10	6.12

The Philippine Financial System

Total Resources of the Philippine Financial System¹

As of periods indicated, in billion pesos

Institutions	2014	2015 ^p Nov	% Change
Total	14,278.4	15,327.1	7.3
Banks	11,541.1	12,406.1	7.5
Universal and Commercial Banks ²	10,398.4	11,159.2	7.3
Thrift Banks ²	916.2	1,034.1	12.9
Rural Banks	226.4 ^a	212.8 ^a	-6.0
Non-Banks ²	2,737.3 ^a	2,920.9 ^a	6.7

¹ Excludes the Bangko Sentral ng Pilipinas; amount includes allowance for probable losses

² Includes Investment Houses, Finance Companies, Investment Companies, Securities Dealers/Brokers, Pawnshops, Lending Investors, Non-Stock Savings and Loan Associations, Credit Card Companies (which are under BSP supervision), and Private and Government Insurance Companies (i.e., SSS and GSIS)

^a As of end-September 2014

^b As of end-September 2015

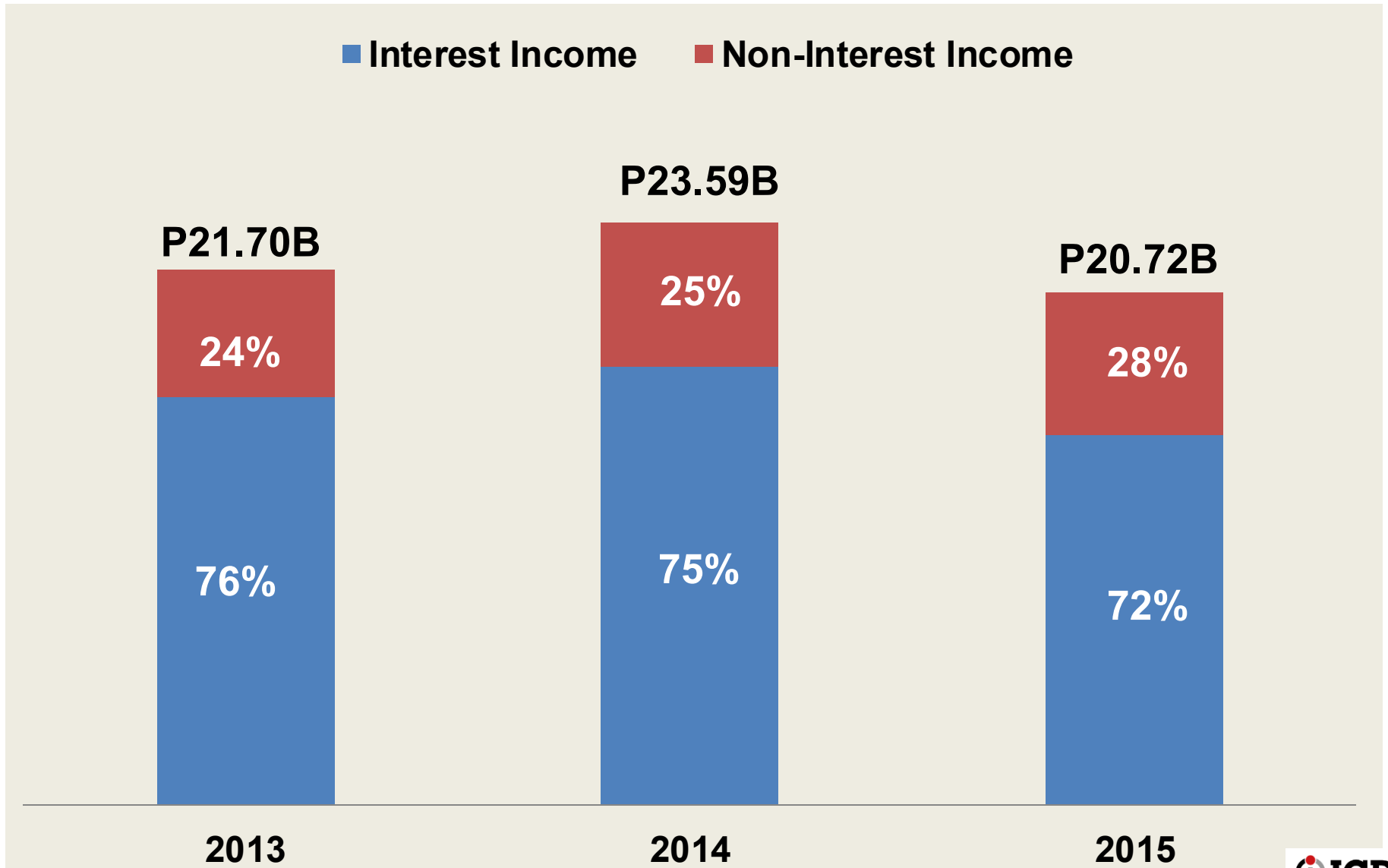
^p Preliminary

Source: BSP

Philippine Banking System Comparative NPL, NPA & Coverage Ratios (As of End – June 2014)

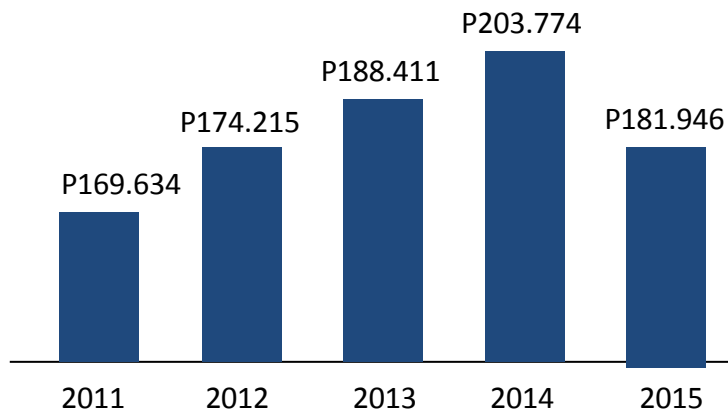
	Gross NPL Ratio	Net NPL Ratio	NPA Ratio	Coverage Ratios	
				NPL	NPA
All Banks^{p/}	2.7%	0.7%	2.5%	116.4%	73.5%
Universal and Commercial Banks	2.1%	0.3%	2.0%	140.6%	84.5%
Thrift Banks	4.8%	2.3%	5.6%	70.3%	49.3%
Rural Banks ^{p/}	12.8%	6.3%	12.7%	57.8%	38.9%
Cooperative Banks ^{p/}	17.5%	6.8%	16.4%	66.0%	49.1%

Rural Banking in last 3 years

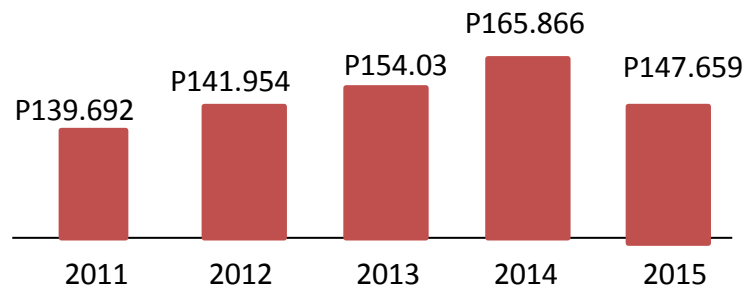


Rural Bank Industry Last 5-Year Performance

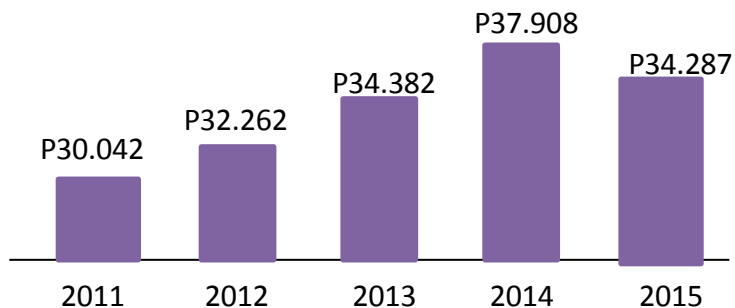
Total Assets PHP (Pbn)



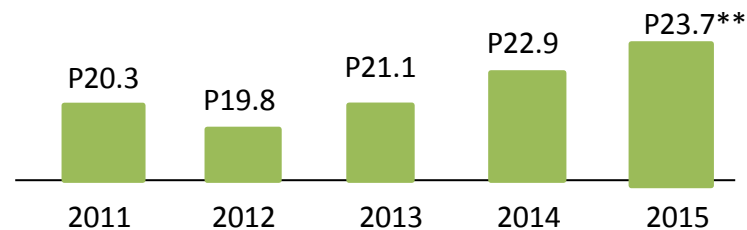
Liabilities PHP (Pbn)



Capital PHP (Pbn)



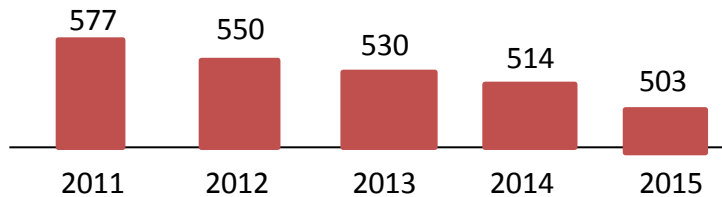
Income PHP (Pbn)



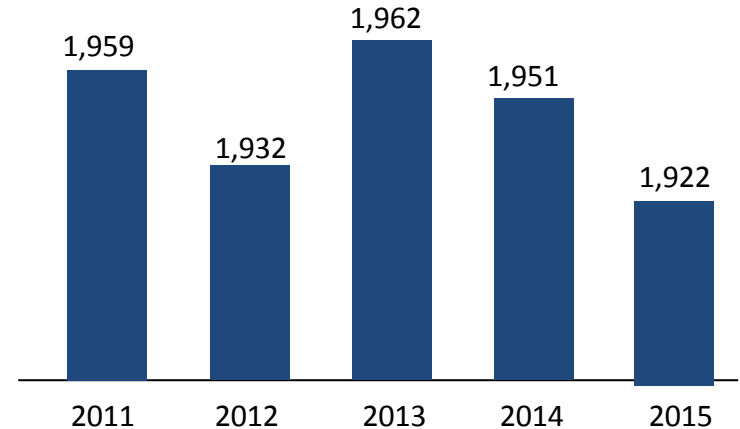
**As of March 2015

Rural Bank Industry Last 5-Year Performance

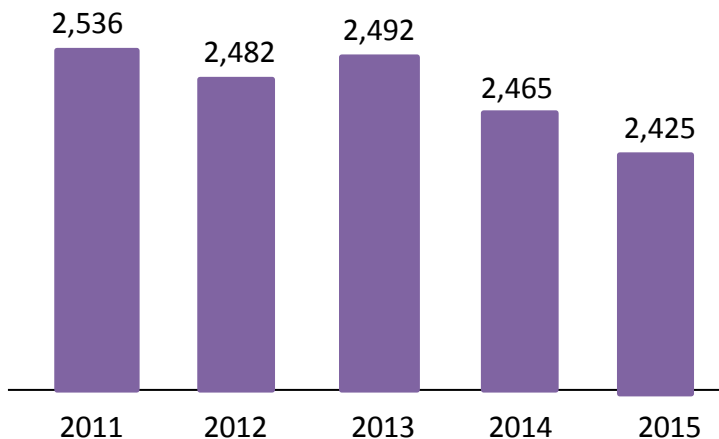
No. of Head Office



No. of Branches



Total

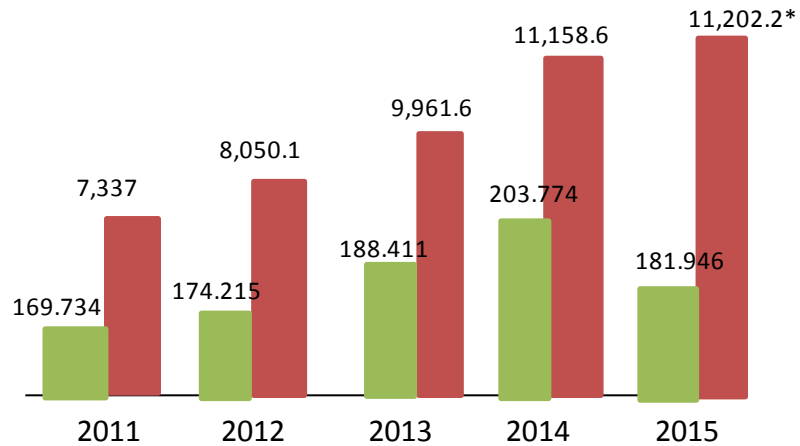


No. of Rural Banks as of
April 15, 2016:

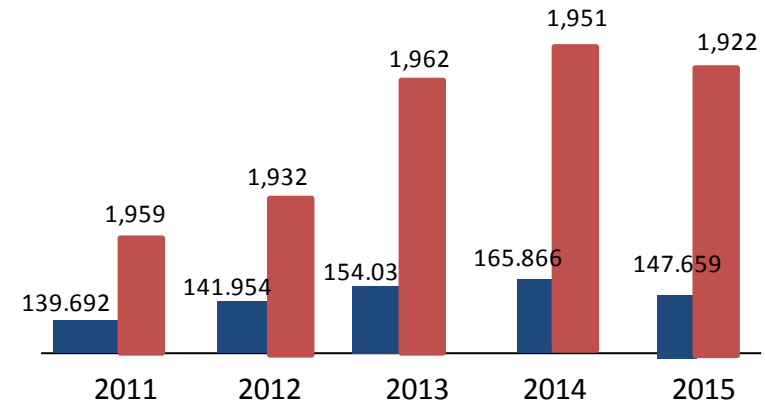
490

Rural Banking Industry vis-à-vis Total Banking System

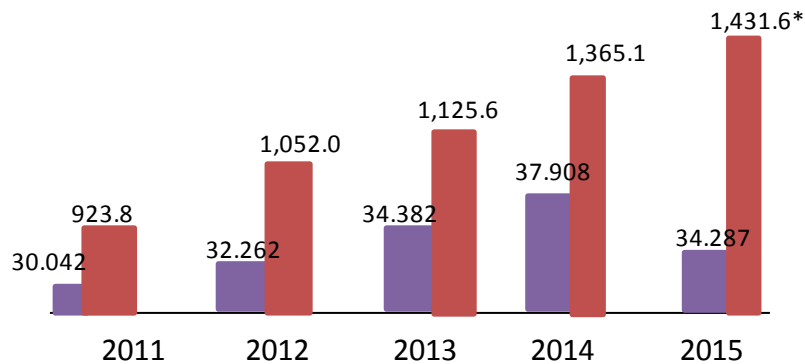
Asset vs. Total Banking



Liabilities vs. Total Banking



Capital vs. Total Banking



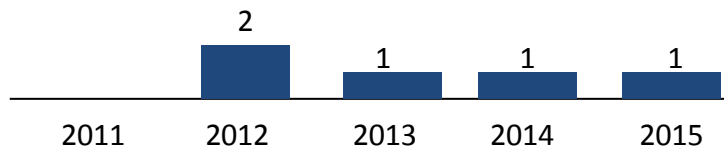
LEGEND:

- Total Banking
- Asset
- Liabilities
- Capital

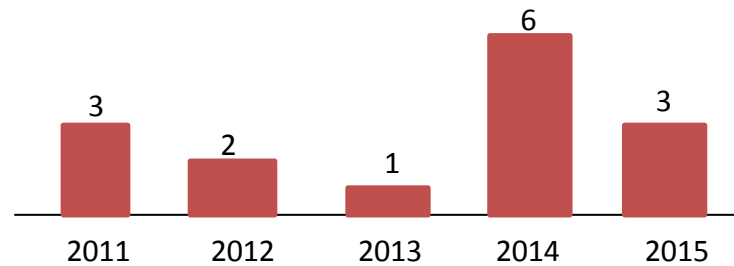
* As of June 2015

Consolidation of Rural Banks

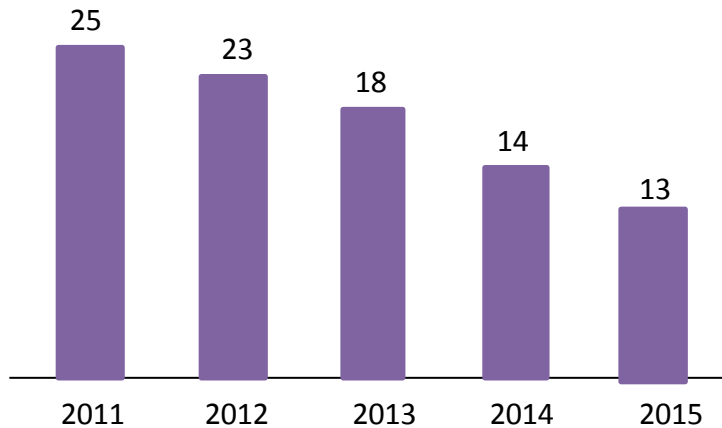
Acquisitions



Mergers



Closure



Conversion



Warning Signs

- a) 11% decline in RBs' 2015 total assets
(from Php. 203.77B in 2014 to Php. 181.95B in 2015).

- b) 10% decline in 2015 RB capital
(from Php. 37.91 B in 2014 to Php. 34.29 B in 2015).

- c) A 4% decline in Total Offices (HO and branches)
of RBs from 2,536 in 2011 to 2,425 in 2015.

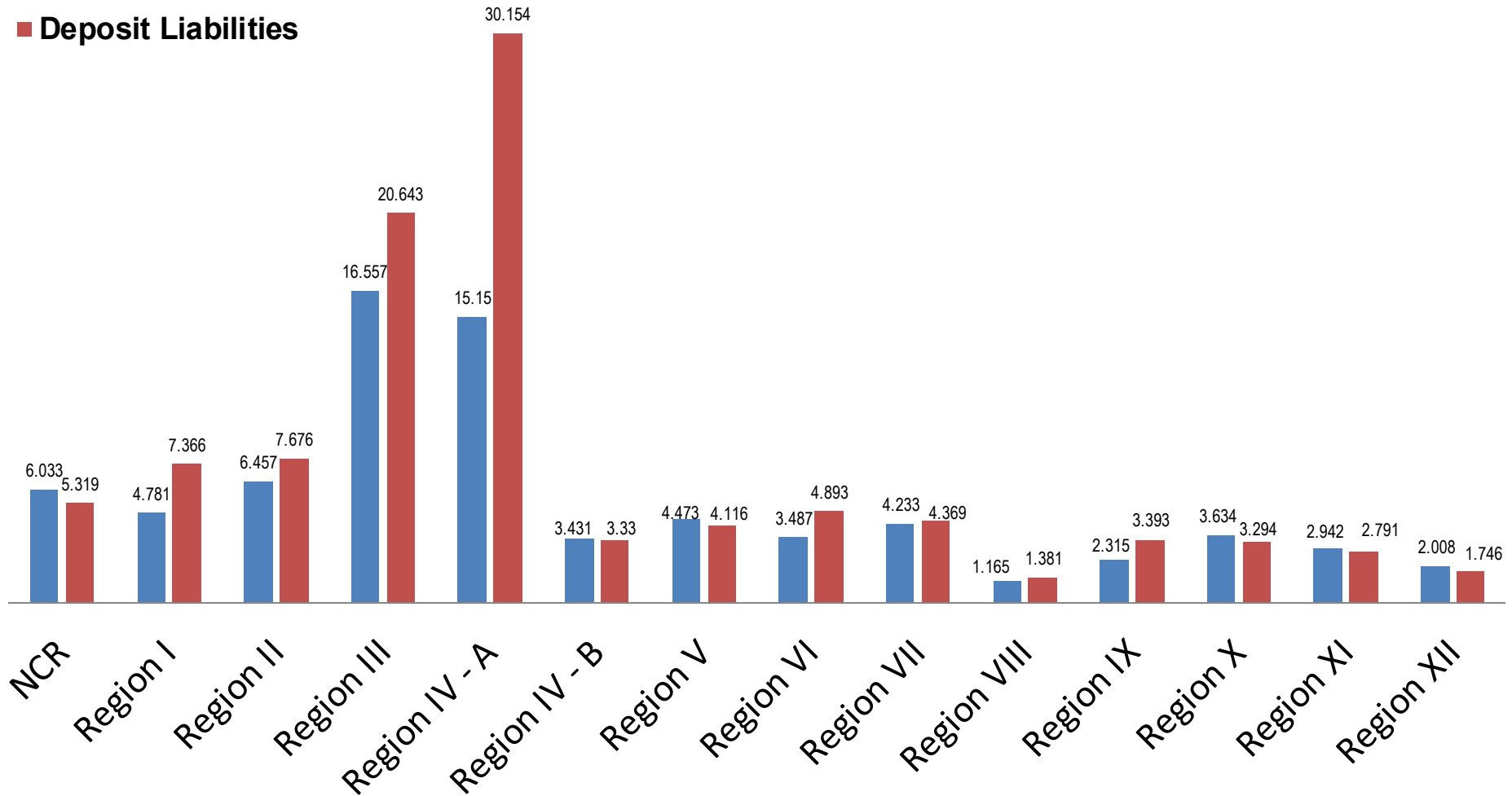
Rural Banking: Regional Profile

2015 Regional Distribution of Loan Portfolio and Deposit Liabilities

As of periods indicated, in billion pesos

■ Loan Portfolio

■ Deposit Liabilities



Comparative Performance by Region

(Ratios and YoY Growth in Percent)	as of Dec 2015 ^P							
	Loan Growth	Deposit Growth	NPL Ratio	Allow. for Loan Losses/TLP, gross	Net Interest Income/ Total Operating Income	Funding Cost	CTI Ratio	ROE Ratio
All RBs (Stand-alone)*	7.5	12.2	12.6	6.9	77.9	2.8	80.2	7.9
NORTHERN LUZON	8.4	9.1	11.3	5.3	74.0	2.7	75.9	9.7
CENTRAL LUZON	6.0	9.3	12.1	5.3	72.1	2.5	82.5	5.8
SOUTHERN LUZON	13.2	16.0	11.6	6.8	85.5	2.3	76.6	10.5
NCR	1.8	9.3	9.3	5.2	66.6	4.0	82.8	7.4
BICOL REGION	22.8	43.1	10.8	7.4	77.7	3.6	78.8	13.2
WESTERN VISAYAS	(3.6)	6.0	22.8	13.1	75.9	3.2	91.6	4.6
CENTRAL VISAYAS	6.9	12.6	10.9	7.8	75.0	3.0	85.8	4.2
EASTERN VISAYAS	(7.0)	9.4	17.6	12.1	75.2	1.3	81.0	3.8
MINDANAO	2.5	8.9	16.2	8.9	74.8	3.9	84.3	5.9

^P Preliminary

* excluding Cooperative Banks and subsidiaries of Universal and Commercial Banks

^{1/}Operating as of end-December 2015

Annual Per Capita Poverty Threshold and Poverty Incidence among Families, by Region 1991, 2006, 2009 and 2012

	Per Capita Poverty Threshold (PhP)				Poverty Incidence among Families (%)			
	1991	2006	2009	2012	1991	2006	2009	2012
PHILIPPINES	5,949	13,357	16,871	18,935	29.7	21.0	20.5	19.7
NCR	7,373	15,699	19,227	20,344	5.3	2.9	2.4	2.6
CAR	6,706	14,107	17,243	19,483	36.7	21.1	19.2	17.5
Region I	6,371	14,107	17,595	18,373	30.6	19.9	16.8	14.0
Region II	6,525	13,944	17,330	19,125	37.3	21.7	20.2	17.0
Region III	6,635	14,422	18,188	20,071	18.1	10.3	10.7	10.1
Region IV-A	6,409	13,241	17,033	19,137	19.1	7.8	8.8	8.3
Region IV-B	5,753	12,645	15,613	17,292	36.6	32.4	27.2	23.6
Region V	5,807	13,240	16,888	18,257	48.0	35.4	35.3	32.3
Region VI	5,580	12,684	15,971	18,029	32.3	22.7	23.6	22.8
Region VII	5,670	13,963	16,662	18,767	38.2	30.7	26.0	25.7
Region VIII	5,507	12,520	16,278	18,076	42.3	33.7	34.5	37.4
Region IX	5,330	12,743	16,260	18,054	36.4	40.0	39.5	33.7
Region X	5,529	12,917	16,878	19,335	42.6	32.1	33.3	32.8
Region XI	5,653	13,389	17,120	19,967	34.1	25.4	25.5	25.0
Region XII	6,272	13,319	16,405	18,737	47.4	31.2	30.8	37.1
Caraga	6,099	14,324	18,309	19,629	48.5	41.7	46.0	31.9
ARMM	5,201	12,647	16,683	20,517	26.9	40.5	39.9	48.7

Average Income and Expenditure of Families by Region: 2006 and 2009 (in PhP)

Region	2006		2009	
	Average Income	Average Expenditure	Average Income	Average Expenditure
Philippines	172,730	147,180	206,000	176,000
NCR	310,860	257,930	356,000	309,000
CAR	192,126	150,508	219,000	174,000
Ilocos	142,358	123,502	186,000	152,000
Cagayan Valley	142,770	117,889	181,000	141,000
Central Luzon	197,640	170,347	221,000	189,000
Calabarzon	209,749	186,287	249,000	213,000
Mimaropa	108,946	92,999	141,000	121,000
Bicol	125,184	110,498	152,000	137,000
Western Visayas	129,905	115,946	159,000	143,000
Central Visayas	144,288	123,618	184,000	152,000
Eastern Visayas	125,731	104,070	160,000	128,000
Zamboanga Peninsula	125,445	98,675	144,000	116,000
Northern Mindanao	141,773	116,667	165,000	139,000
Davao	134,605	115,125	166,000	142,000
Soccsksargen	113,919	95,836	154,000	132,000
Caraga	118,146	99,949	149,000	125,000
ARMM	88,632	74,838	113,000	98,000

Regulatory Initiatives

- BSP's Rediscount Rates for January 2016
- Consolidation Program for Rural Banks (CPRB)
- Strengthening Program for Rural Banks (SPRB) Plus

Understanding RBs

- 1. The over-arching macro objective is to achieve inclusive and sustainable development, meaning:**
 - a) Focus on development and not aggregate growth.
 - a) Seek poverty elimination, NOT reduction.

- 2. Conceptually, RBs are your most effective last mile to the rural sector - where most our poverty lies.**

- 3. Sale of troubled RBs to larger thrifts/commercial banks not appropriate because:**
 - a) The economic model of an RB acquired by a significantly larger, urban-based institution, changes - raising its operating break even point significantly.

 - b) Small RBs - or those located in remote/challenged locations - are not likely to be attractive to commercial acquirers without direct/indirect subsidies.

 - c) The subsequent shutting down of "unprofitable" units by the acquirer results in:
 - i. a loss of a distribution outlet to the rural poor
 - ii. adding to the "urbanization" challenge

Vision

Accordingly, the RB sector should:

- a) Become a primary loan provider/originator and conduit to the rural sector;
- b) Organize and maintain a good database (which may, later on be subjected to appropriate data analytics) on its market catchment areas;
- c) Work/establish partnerships with such institutions as: commercial banks, large thrifts, Philippine Crop Insurance, Philippine Electrification Administration (and its supervised rural cooperatives), LWUA, LBP/DBP, multi-lateral/bilateral development finance institutions; and;
- d) Become a partner in rural relief/rehabilitation efforts in times of natural disasters.

Transforming RBs into Development Catalysts

- a) Strengthening known weaknesses, e.g. poor governance, management (credit, documentation, loan administration, funding, systems, staffing, planning, etc.), related-party issues.

- b) Formulating/testing (in a number of representative regions) a Program designed to offer RBs the opportunity to obtain "minimally invasive" risk capital, management/technical support, subject to their agreement to:
 - i. Adopt appropriately simplified good CG practice with respect to board/senior management appointments and key processes;
 - ii. Agree to a "jointly developed" organizational/strategic PGS-based "Roadmap"; agreeing to oversee implementation of same with an appropriate external professional(s).

- c) Specific objective of the "transformation" is to make the RB sector a/the most effective intermediary to (and, most knowledgeable authority on) the rural sector.



ICD

**Institute of
Corporate
Directors**

THANK YOU!

Francis G. Estrada, FICD

Chairman, Institute of Corporate Directors

May 24, 2016

Copyright © 2016 by ICD. All rights reserved. No part of this material may be reproduced, stored in, or introduced into a retrieval system or transmitted in any form or by any means (electronic, photocopying, recording, or otherwise) without prior written permission of the copyright owner.