

Date: **22 October 2018**

Place: **One Esplanade, Mall of Asia Complex, Pasay City**

Event: **RBAP's 61st Charter Anniversary Symposium**

Rural Banking Redefined: Overcoming Challenges, Embracing Opportunities

Speaker: **Assistant Governor, Mr. Restituto C. Cruz**

Esteemed officers and members of the Rural Bankers Association of the Philippines, headed by President, Dr. Armando B. Bonifacio, guests, ladies and gentlemen, good morning. It is a pleasure to deliver the keynote for the 61st Charter Anniversary Symposium of RBAP.

A year ago, I was also with the RBAP on its 60th Charter Symposium. I spoke then on how the BSP, through policy reforms, helps rural banks face the challenges of this ever changing business environment. I highlighted then that the BSP reforms seek to strengthen the rural banking industry and provide an enabling environment that will allow rural banks to transform these challenges into opportunities. I am confident that the BSP reforms have helped bring about visible positive changes in the way rural banks do or would like to do their business.

This year's theme is also about overcoming challenges and embracing opportunities, but now the industry is comparing itself to a phoenix - ***that like a phoenix, rural banks would like to rise beautifully from the ashes and shed light to the community.*** To me, this figurative comparison, that is- the industry being likened to a phoenix reminds us all of what the industry has gone through the years since the enactment of the Rural Banking Act in 1952. More importantly, it reinforces in us the very relevance of rural banks, why they are here, and what we want them to be moving forward.

The performance of the rural banking industry had never been stellar. The industry has been presented with some challenging circumstances, most not just hiccups but bumps and blows that really threatened and still threaten the sustainability of the industry. **These are the ashes.** If we go back to history, there was a deluge of rural banks in the 70's and 80's because of the government's efforts to encourage investors to rural banking. From a peak of more than a thousand rural banks in the 80's, the number has gone down to 476 today¹. Many rural banks closed, mainly due to mismanagement and insider fraud, and their inability to continuously meet the capital requirements brought about by years of lethargic earnings. There are also a number that opted to merge and consolidate with other banks to survive. In the past, the industry's reputation was affected because of these closures.

Then, there are new challenges. There's stiffer competition from the influx of both smaller and larger financial institutions in the rural banks' areas of operations. There is also that constant change in customer expectations and preferences, from traditional banking services to the less costly and more efficient, diverse and technology-driven products and services. Many rural banks struggle. They fail to expand market, and innovate their products and services. Thus, they only have minimal growth in loans, some even flat or reduced. As a consequence, they have in their portfolio high levels of liquid assets which are not optimized.

¹ SDC Directory as of 9 October 2018

What I would like to emphasize though is the fact that to date, **the rural banking industry remains resilient**. Yes, the industry continuously enjoys the public's trust as most rural banks steadily generate more deposits despite cases of bank failures in the past. As of end of June 2018, deposits climbed 4.8 percent from P161.8 billion to P169.6 billion year-on-year. With fresh capital infusions and earnings recognized, reported capital likewise increased by 11.4 percent from P42.1 billion to P46.9 billion year-on-year. Capital adequacy ratio on the average is at 19.6 percent, which shows that rural banks have adequate buffer for losses.

Also, the BSP is seeing positive developments that rural banks are starting to embrace the challenges that they face, and turn these into opportunities. And this year's RBAP's theme for this symposium is a solid proof that the industry welcomes challenges and the opportunities that are in front of them. We note that rural banks would like to continue to deliver on their promise to provide banking services to the grassroots and the unbanked. ***Like a phoenix, the industry would not like to rest in the ashes. It will re-emerge... stronger than ever, and shedding light to the community.***

Among the noteworthy developments is the considerable interest shown by the RBAP and individual rural banks in our policy reforms pertaining to basic deposit accounts, branch-lite units, cash agents and the National Retail Payment System or the NRPS. How rural banks may be able to utilize these reforms has been an ongoing topic during BSPC meetings with the association. Also, we have been receiving queries on these reforms, and applications for branch-lite units from individual rural banks, through their Central Points of Contact.

We are glad that with these reforms, we have removed barriers and increased the potential for rural banks to tap the untapped markets, especially in the countryside. Rural banks can now participate in InstaPay and the Philippine Electronic Fund Transfer System and Operations Network (PESONet), which are the two priority Automated Clearing Houses for NRPS. By connecting to PESONet and Instapay, the rural banks' customers will be able to transfer funds electronically to other banks and other institutions. In terms of establishing branch-lite units, the BSP allows rural banks to design products and services which they think would be appropriate or can cater to the needs of clients in the area, i.e., innovated products for low risk clients. Cash agents are also allowed. Rural banks will just have to define their guidelines and parameters in selecting cash agents.

In terms of governance, the BSP notes the significant developments in the board structures of rural banks following our issuance of the strengthened requirements on the membership and composition of the board of directors and board level committees, and enhanced standards on the fitness and propriety requirements for directors. In recent requests for confirmation, we are seeing diverse backgrounds of directors. Many of these are businessmen, teachers, and other professionals who have good leadership background and acumen that are expected to provide pragmatic insights to the rural banks' operations. Rural banks now are reviewing their board structures as a whole and on how each director can contribute to contribute for diversity of perspectives, better strategy formulation and stronger corporate governance.

There may be difficulty in complying with our requirements on corporate governance, but the BSP is optimistic that in time, rural banks will be able to appreciate the rationale of the regulations, and appreciate their application, similar to the experience when we launched the

guidelines on enhanced credit risk management back in 2014. Meanwhile, the BSP notes the concerns raised, particularly regarding the Chairman position, and will allow flexibility, after taking into consideration the circumstances surrounding each bank's case.

In terms of reporting governance, we also note the rural banks' efforts to start establishing effective reporting systems. The BSP welcomes rural banks' requests for trainings and workshops to thresh out issues these reporting guidelines.

Going back to the enhanced credit risk management guidelines which we earlier issued, we note that many rural banks now appreciate the rationale for such issuance. Many banks now consider lending without collaterals taking foremost consideration to the borrower's capacity to pay. Banks have also built buffers for losses through adequate provisions and their adoption of the new definition of past due loans and non-performing loans.

Having said all these, the BSP would like to assure the industry that we will continue to support rural banks. We will not just watch, but we will be the industry's partner as you re-emerge from the ashes, and become the phoenix that sheds light to the community. We will continuously provide an enabling environment for rural banks to thrive and fulfill the promise of effectively providing banking services to the grassroots.

Mabuhay po tayong lahat.