

Status of Rural Banks: Challenges and Opportunities
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Good afternoon!

We're glad to be together once more to take stock of our industry. In response to the clamor that the economic growth of the country is hardly felt by the lower income groups and in the countryside, we in the rural banking industry, are called on to continue being the key driver for nation building. There is a growing clamor for the benefits of economic growth to be filtered down deeper and wider to include as many Filipinos as possible.

In the latest survey of Social Weather Station (SWS) which was published by the Inquirer last October 13, 42% of Filipinos still consider themselves poor. Although this is a big improvement from the 52% rating last December 2015, it still translates to 46M Filipinos living in the cycle of poverty.

Our role as rural bankers is to break this cycle through financial inclusion, by providing financing for education, entrepreneurship, and housing ---- all of which are basic ingredients towards human development.

Such a role requires a balancing act that makes our job unique and challenging. If we rigorously stick to the manual of regulations, we will soon wake up to the sight of dwindling customers who have fled to our more nimble competitors, the informal lenders. Despite the outcry of many sectors including President Duterte, over the exorbitant interest rates they charge, clients find the rates of the informal lenders a fair value for the ultimate in speed and convenience. On the other hand, if we are so flexible, accommodating, and do every shortcut to match that very speed and convenience, we risk running afoul with the regulators.

Since the Philippines is a member of many world bodies, the main financial regulators, the BSP and PDIC, have designed the regulations to comply with international standards. However, many of these regulations are not suited to the environment and market of rural banks. We appeal to the regulators to take the perspective of a rural bank in the formulation of every circular, memorandum, or directive. The regulators together with our association should assess how each regulation can make rural banks become more nimble and more effective in helping the poorer sectors. Indeed, the interest of our fellow Filipinos in the countryside and in the lower income groups must be a top priority.

Another point about regulations is that they are contained in the Manual of Regulations for Banks, or the MORB, which is common for all types of banks, from universal to rural banks. The result is a manual that contains many pages not applicable to rural banking. Coupled with the fact that the MORB in the BSP website is not updated with the latest circulars, compliance is a challenge for many rural banks.

Let us take a look at our industry numbers today,

How big is a typical rural bank in terms of number of banking offices?

Of the 485 rural banks, 389 have less than 4 branches, comprising 80.2% of the industry. Of these 389, 212 banks are those with up to 3 branches, and 177 are single-unit banks.

In terms of assets, the 70.2% of rural banks have assets of up to P500M.
The average asset size of banks with 1 to 3 branches is P238.3M.
The average asset size of single-unit banks is P81.8M.

In terms of capital, 70.2% of rural banks are capitalized up to P50M.
The average capital of banks with 1 to 3 branches is P45.3M.
The average capital of single-unit banks is P20.2M.

To those rural banks here with up to 3 branches, these are figures that we can benchmark on.

Scanning the horizon and the feedback of our members, these are the top 3 concerns:

1. Competition

This is basically an external factor over which we have very little control. The absence of a general banking framework is resulting into a breakdown of traditional delineations among all bank types. Foreign banks are causing universal and commercial banks to retreat to the provinces and compete with us, instead of going abroad as a reciprocal response. Government banks established with very specific mandates are competing with rural banks in even small salary loans. Then, there are the 5/6 lenders everywhere and cooperatives of various industries but are actually into lending. The biggest threat of all are the telecoms which are starting to offer digital bank-like services.

What can we do?

A rural bank must remain nimble to stay competitive in its target markets. It must actively participate in its federation so the concerns can be acted on accordingly by RBAP.

2. Regulations that “are too strict and hard to comply”, including Circular 855.

The regulations are “too strict” because they may not have been assessed thoroughly enough and therefore are compromising the ability of rural banks to function as frontliners of financial inclusion. The regulations are “hard to comply” simply because they are written

with all types of banks in mind. With the help of digital tools, we hope that the BSP in particular will be able to make an MORB just for rural banks and upload it in real time to its website.

3. Automation and technology

These are tools not to impress but to make the rural banks be more efficient. They are a double-edged but they are also just as efficient to compromise the bank. Automation and technology must be managed well and clearly understood.

It is now a must for all rural banks to invest in a core banking system fitted to its operations. RBAP has a list of core banking providers that can make it easier to cope with increasing compliance requirements.

To continue our ability to serve, it is a given that we must become better banks by matching and gradually beating these simple rural bank industry standards:

Ratios which must increase:	Industry Standard	As of
Loan loss reserves (loan loss reserves / total loans)		7.81%
Covered loans (loan loss reserves / NPL)		71.35%
Return of assets (define)	1.79%	
Return on equity (define)	9.57%	
CAR (define)	17.83%	

Ratios which must decrease

NPL ratio (pd + LL / total loans)	10.94%
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Ratios which the rural bank is best able to determine

Loans to deposit	82.83%
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CAMELS if 2, aim for 3; if 3, aim for 4; if 4, aim for 5

Finally, before I close, let us not forget these areas:

1. Vigilance

We must watch out for practices that are fraudulent, unethical, unsafe, and unsound. We must avoid involvement, even indirect, in terrorist financing and especially in drug-related financial movements. This latter issue is the result of the ease and speed in moving money around as well as inadequate KYC procedures. Bigger banks capable of handling huge transactions are convenient targets.

2. Sustaining the interest of the owners / Succession

As the country develops, there is a rise in leisure-oriented industries like tourism and entertainment. Coupled with the allure of the digital industries, it is increasingly difficult to get the younger set interested in rural banking. Even the older set are more into remote management of their rural banks. We do need ideas for a rural banking career to be competitively attractive. Even if our job of financial inclusion may rightfully be considered a vocation, if there are too few entrants to the industry, we may be history in a few decades.

Whereas no man is an island, neither can a rural bank nor even our association. Just like the song, we have our industry partners and the regulators to help us along. Our partnership with them is our strongest opportunity. As we nurture this relationship, let us not forget that the best regulator is ourselves, because these are our respective banks. It is through well-managed rural banks that we are better able to reach out to the Filipinos in the countryside and in the cities, ensuring that each one can enjoy the benefits of economic growth.

Once again, good afternoon to all.