



ASEAN BANKING INTEGRATION FRAMEWORK

Advances and Challenges in Regional Integration
*Jointly organized by Hitotsubashi University and the IMF
Regional Offices for Asia and the Pacific*

Yati Kurniati
Macprudential Policy Department
Bank Indonesia

March 3-4 , 2016
Tokyo-Japan



ASEAN Integration: ASEAN Economic Community

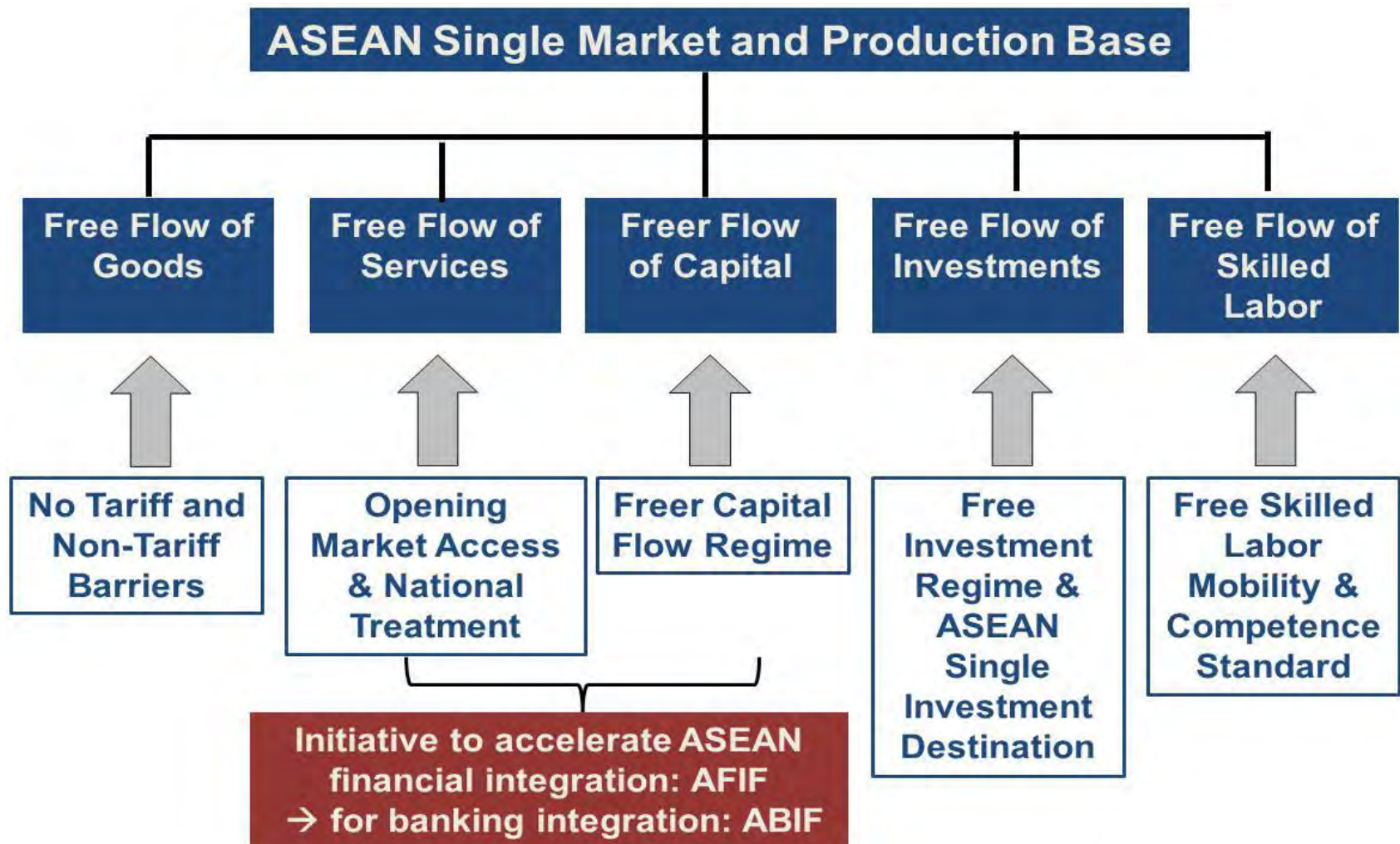
ASEAN Economies: Achievement and Gap

ASEAN Banking Integration Framework

ASEAN Financial Integration: The Way Forward

Conclusion

ASEAN economies are moving toward an establishment of ASEAN Economic Communities (AEC)

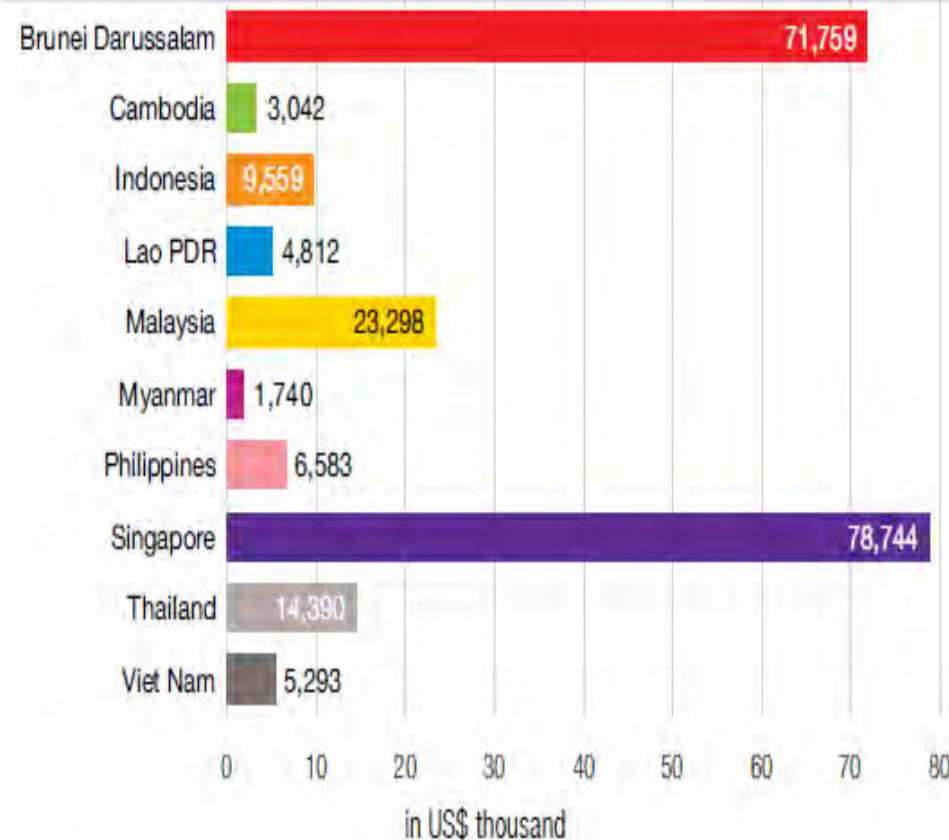


Achievement and Gap: GDP

ASEAN economies grew substantially as compared to the other countries/region

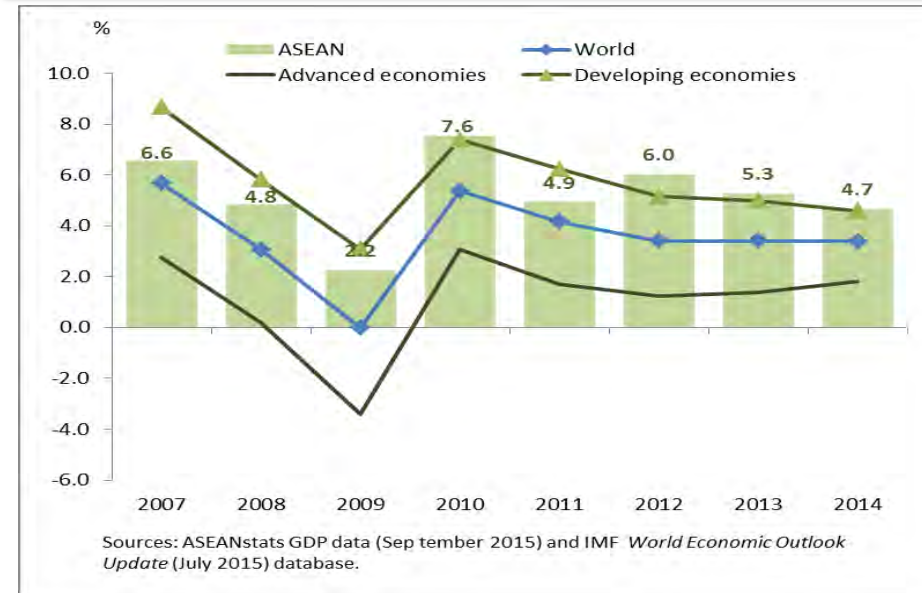
- ASEAN is the 3rd largest economy in Asia, however there remains sizeable gap between ASEAN countries

GDP per capita (2013)

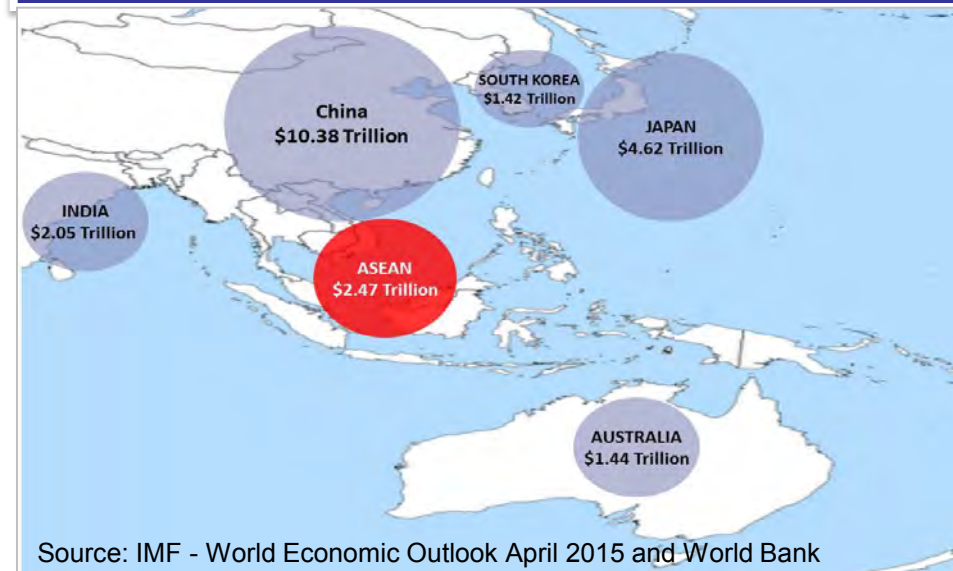


Source: World Bank (2014); While for Myanmar: IMF (2014)

GDP (growth)

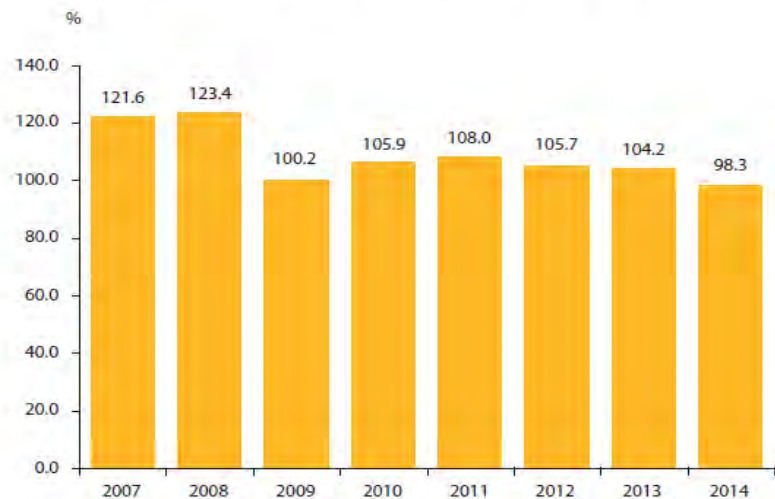


GDP (2014)



Achievement and Gaps: Trade

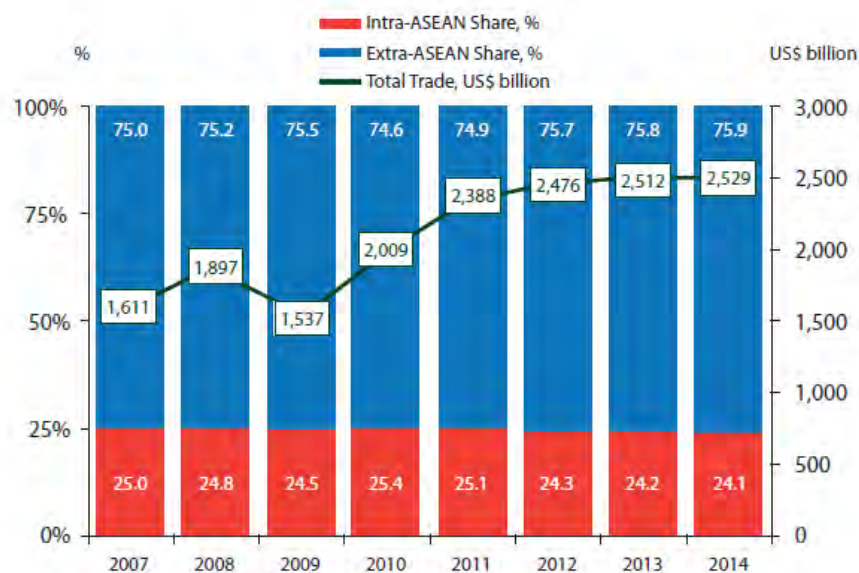
ASEAN's Total Trade (% of nominal GDP)



Source: ASEANstats GDP data (September 2015) and Trade data (June 2015).

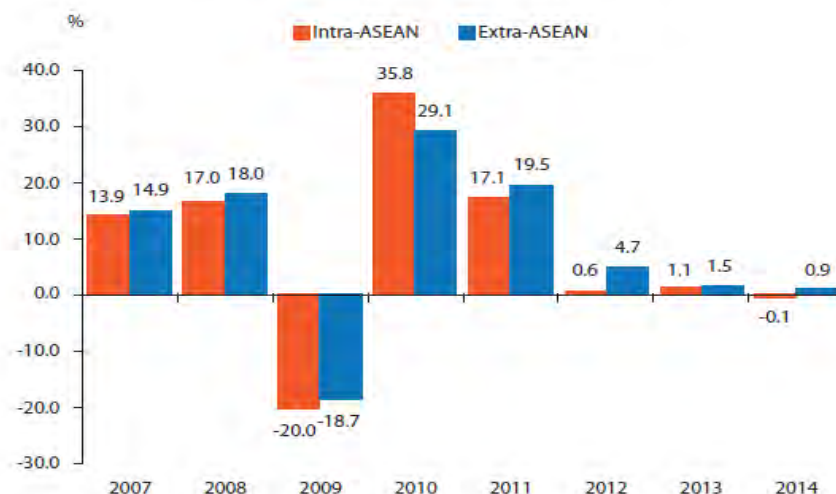
- ASEAN's total trade reached USD2,5 trillions in 2014.
- Y-o-y growth in intra-regional trade fluctuated considerably from 2007 to 2014, broadly reflecting the vacillating adjustments and uneven recovery among many economies after the 2008 financial crisis..
- The CLMV, accounted for 10,4% of total intra-ASEAN trade, has played an increasing role in intra-regional trade and trade generally.

ASEAN's Total Trade



Source: ASEANstats Trade data (June 2015).

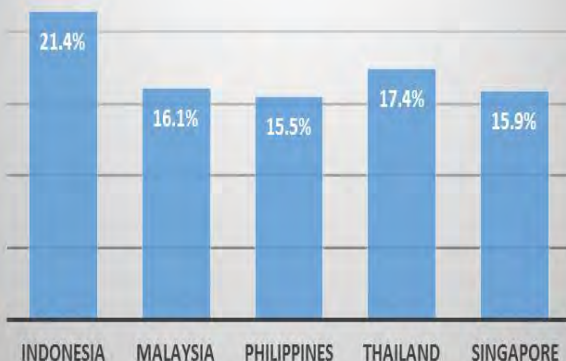
ASEAN's Total Trade Growth (%)



Source: ASEANstats Trade data (June 2015).

Source: ASEAN Integration Report (2015)

CAR

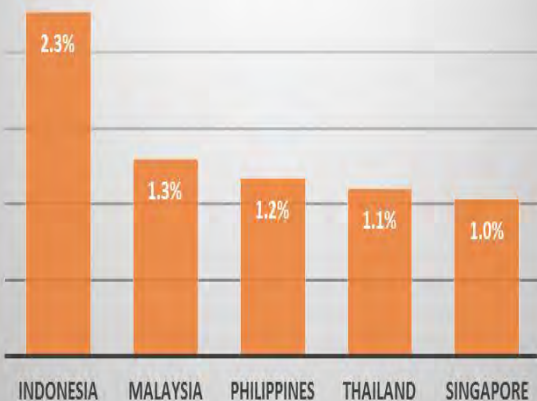


Non-Performing Loan (Gross)

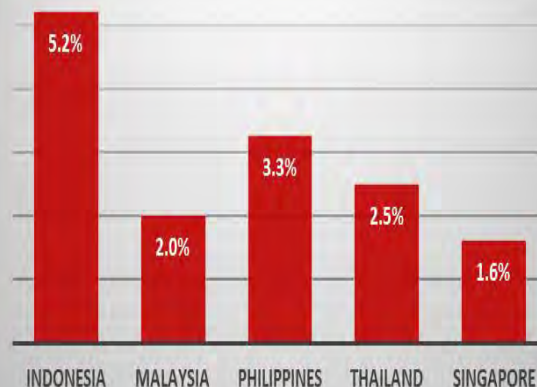


- **ASEAN banking industry**, dominant in the region's financial sector, has been **strong, stable and healthy**

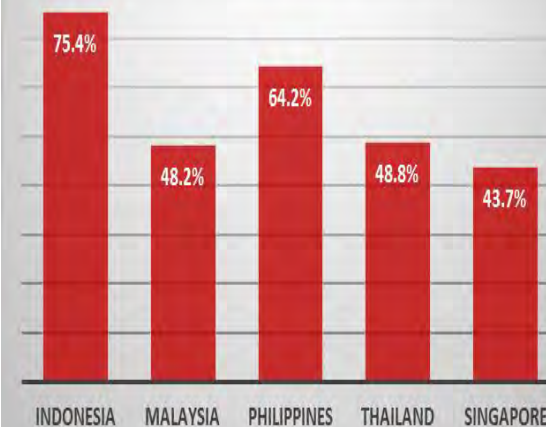
ROA



NIM



Cost to Income Ratio



Note: as of Dec 2015, for Indonesia, Thailand and the Philippines, sources: central bank websites.
as of Sep 2015 for Malaysia, Singapore, source: bankscope.

- **ASEAN is striving to bolster adherence to international regulatory regimes**
(Basel regulation has been adopted in a varying degree)

Adopted Banking Regulatory Standard	ASEAN Member States
Basel III – Final Capital Framework Issued	Indonesia (Dec 2013), Malaysia (Nov 2012 & Dec 2013), Philippines (Jan 2014), Singapore (Sept 2012) and Thailand (Nov 2012 & Jan 2013)
Basel III – Final Liquidity Framework Issued	Malaysia (Jun 2015), Singapore (Dec 2014), Thailand (May 2015), Indonesia (Dec 2015)
Basel III – Draft Liquidity Framework Issued	Vietnam (2014), Philippines (Mar 2015)
Basel II – Full Implementation	Indonesia, Malaysia, Philippines, Thailand, Singapore
Basel II – Partial Implementation	Brunei Darussalam (partial implementation: SA Credit Risk and BIA Operational Risk)

ASEAN banking integration need to be accelerated.

- As a dominant source of financing for development, ASEAN banking integration needs to be accelerated to facilitate flow of trade and investment.
- ASEAN Banking Integration remains relatively low;
 - There are gaps in banking presence among ASEAN countries.

B = branch

S = Subsidiary

RO=representative office

	Bank	INA	PH	MY	SG	TH	BR	CAM	LAO	MM	VN	Total
INA	Bank BNI				B					RO		4
	Bank Mandiri				B							
	Bank BRI				B							
	Bank Muamalat			B								
PH	BDO Unibank, Inc.				RO							1
	Philippine National Bank				B ⁴							
MY	CIMB	S			S	S	B	B	B	RO		23
	Maybank	S	S		B	S			B	RO	S	
	Maybank Syariah	S										
	Hong Leong Bank				S			S			S	
	RHB Bank						B	B	B			
	Public Bank				B	B			B		B	
SG	DBS Bank	S	RO	B		RO				RO	B	14
	OCBC Bank	S		B		B					B	
	OCBC Al-Amin Bank			B								
	UOB Bank	S	S	S		S	B			RO	B	
	Bank of Singapore		RO									
TH	Bangkok Bank PCL	B	B	S	B			B	B	B	B	18
	Krung Thai Bank PCL				B			B	B	RO		
	Kasikornbank Bank Limited								S	RO	RO	
	TMB Bank International								B			
	Bank of Ayudha PCL								B			
	Vinasiam Joint Venture Bank										JV	
	Siam Commercial Bank PCL				B			S	B	RO		
BR	Bank Islam Brunei Darussalam Berhad				RO							0
CAM	Aceda Bank								S	S		2
LAO	Lao Viet Bank										JV	1
	Phongsavanh Bank										RO	
MM												
VN	Vietcombank				RO							3
	Agribank							B				
	VietinBank								B			
	Lao Viet Bank								JV			
Total		7	3	6	11	5	3	7	13	2	9	66

- ASEAN Financial Integration Framework (AFIF) was endorsed.
- Task Force on ASEAN Banking Integration Framework (TF ABIF) was established to accelerate ASEAN banking integration.

- ASEAN Central Banks' Governors signed ABIF Guidelines.
- ASEAN Finance Ministers' Meeting (AFMM) endorsed ABIF as part of AFAS 6th Package Protocol

2009

2011

2014

2015
to
2025

Initiative for ASEAN financial integration was adopted in *Roadmap for Monetary and Financial of ASEAN (RIA-fin)*

- New mandate for ABIF WG: “to implement *ABIF Guidelines* & formulate *regional arrangements* to maintain financial stability.”
- To realign ABIF WG mandate with *ASEAN Financial Integration Document Post 2015* in supporting ASEAN 2025 Vision

ABIF

Objective	ABIF was initiated with the spirit to accelerate ASEAN banking integration process while preserving regional financial stability. ABIF has set basis for ASEAN countries to enter into reciprocal bilateral arrangements to provide Qualified ASEAN Banks (QABs) with greater market access and operational flexibilities .
Market access	the ability to provide banking services in the territory of an ASEAN Member State with the removal of one or more of the form of limitations or restriction to market access
Operational Flexibility	QABs will be granted treatment similar to those treatment accorded to an indigenous bank in the Host Country. Operational flexibility refers to areas such as : scope of activities, supply of product and services, and other flexibilities as may be mutually agreed between a host and a home country.
Reciprocal Arrangement	The level of concession will be negotiated between participating countries based on reciprocity , meaning that arrangement between two or more ASEAN member states should be mutually beneficial and acceptable to the parties concerned

*ASEAN Central Bank Governors agreed on **ABIF Guidelines** to ensure alignment of implementation process with the agreed principles, and elements of banking integration framework.*

**Greater role of ASEAN Banks
In facilitating trade & investments through
establishment of Qualified ASEAN Banks (QABs)
from each ASEAN countries under ABIF**

Characteristics of QABs

- strong & well managed banks (i.e. track record & business plan, financially sound & strong capital, governance & ownership)
- ASEAN indigenous banks
- Supported by home country
- Meet host country's prudential requirements

Prudential Regulation

ASEAN countries are endeavour to comply with the Basel Core Principles for Effective Banking Supervision to promote safe and sound banking system

Infrastructure for Financial Stability

Bilateral arrangements consistent with international principles on home-host supervision & commensurate with size and complexity of QABs

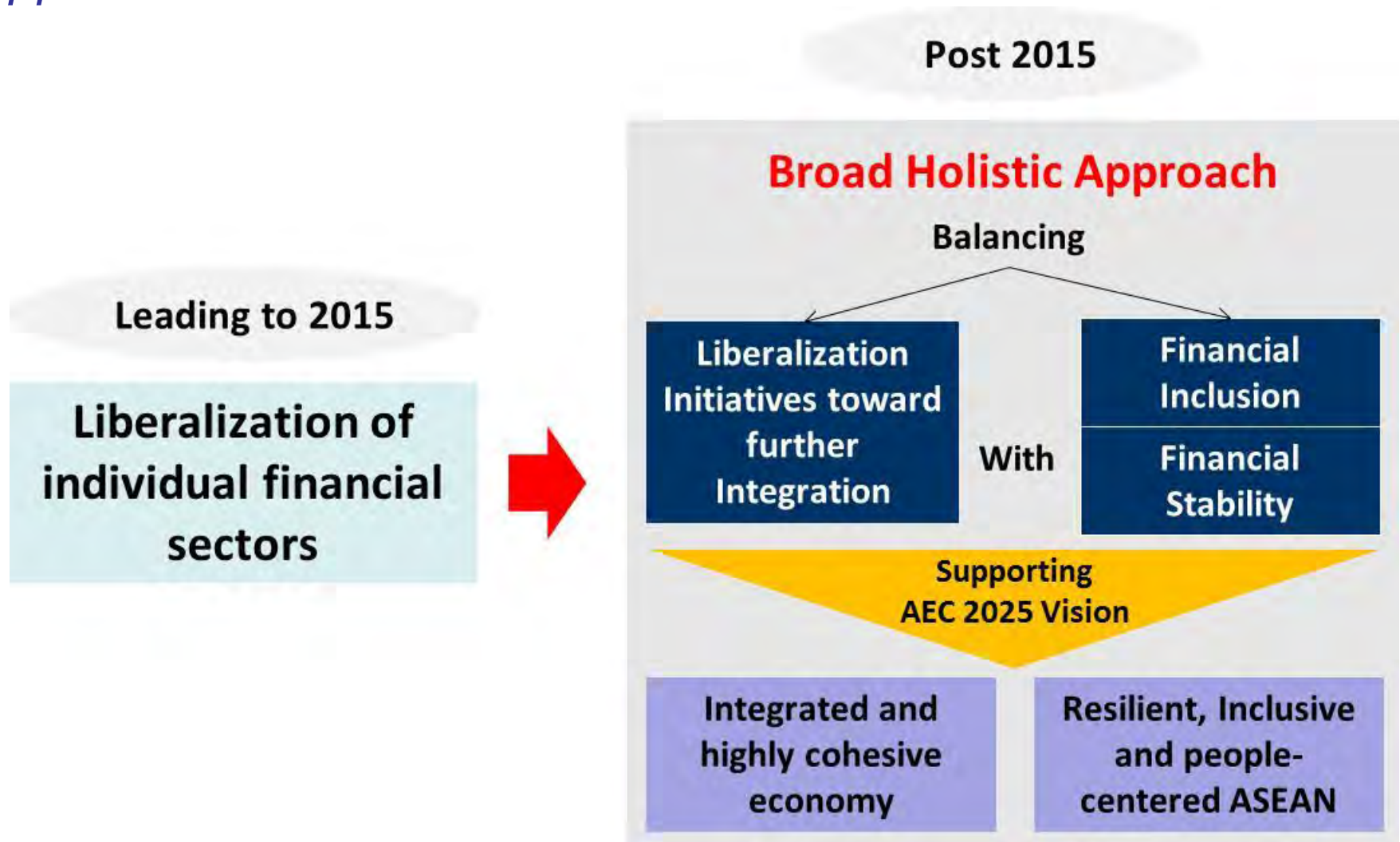
Capacity Building

ABIF Learning Program has been established to reduce banking sector capacity gaps and enhance readiness of all ASEAN members countries to participate in ABIF Framework.

- ✓ Adoption of **Voluntary Most Favor Nation** Principle → Adoption of voluntary MFN open the opportunities for one country to give special concession only to a certain country
- ✓ **Reciprocal Arrangement** → under reciprocal arrangement, concession will be negotiated between two or more ASEAN countries to reach a level that should be **mutually beneficial and acceptable** to the parties concerned
- ✓ QABs will be **granted treatment similar to those treatments accorded to local banks** in the host country.

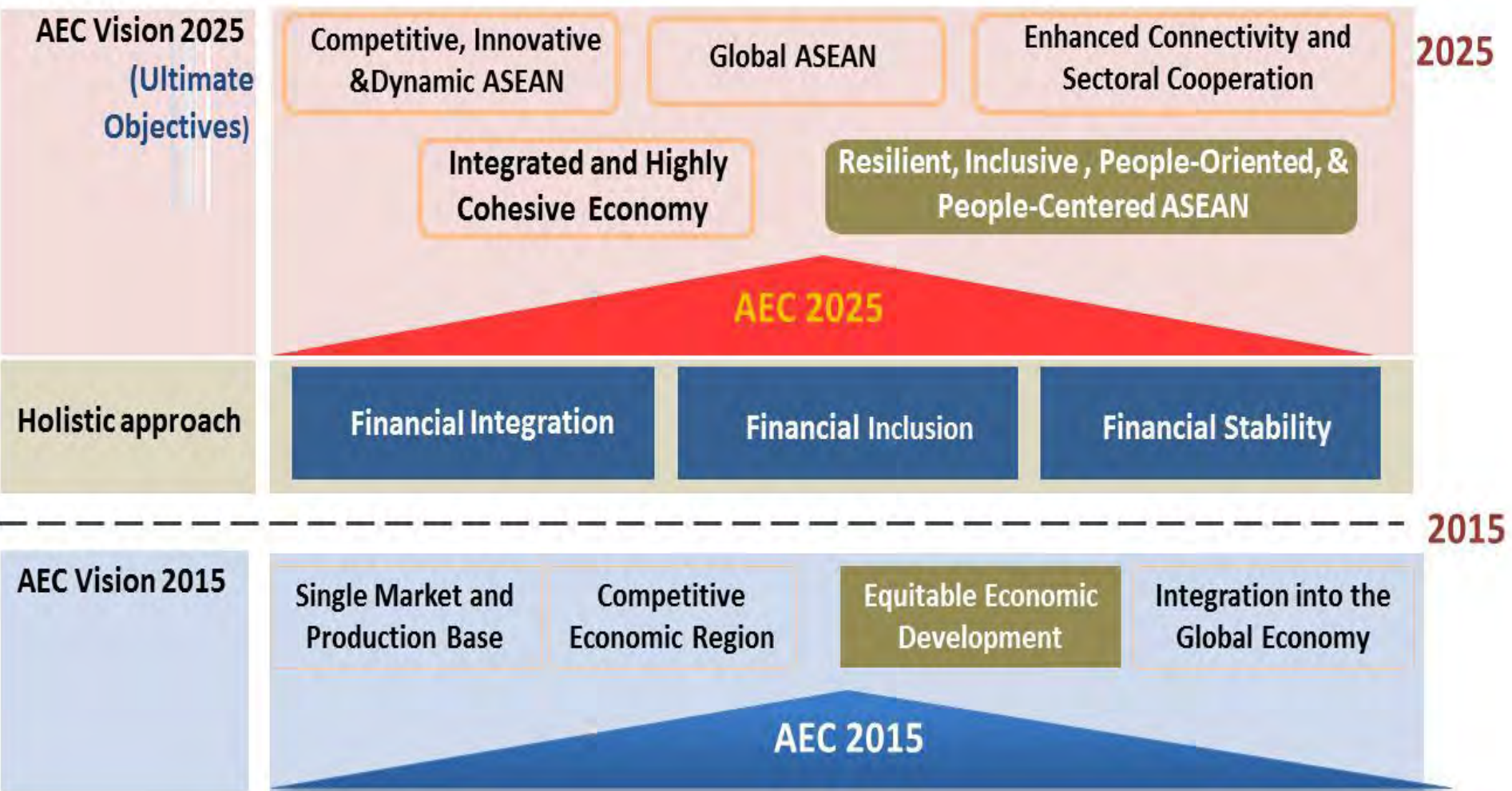
ASEAN Financial Integration Post-2015: New Approach

Reorientation from sectoral approach to a holistic and integrated approach ...



ASEAN Financial Integration: The Way Forward

ASEAN *Finance Ministers and Central Bank Governors* endorsed the Post-2015 Vision for the ASEAN Financial Integration in Kuala Lumpur on March 21, 2015, which is to support AEC 2025 Vision: **“A Cohesive, Integrated, Competitive, Global and People-Centered ASEAN’s Economy”**



Conclusion

- ASEAN Economic Community creates opportunities for ASEAN banks to further expand in the region. Banking integration, in particular, is a prerequisite condition and integral part to achieve economic integration in ASEAN region.
- ASEAN Banking Integration Framework (ABIF) has set guidelines for banking sector to achieve further integration, through market access and operational flexibility for Qualified ASEAN Banks (QAB). The implementation of ABIF will consider economic beneficial and financial stability system in each of ASEAN jurisdiction.
- ASEAN still faces challenges of a sizeable gap between ASEAN countries. ABIF Learning program has been promoted to reduce gap and enhance readiness of ASEAN Member countries to participate through capacity building so that all members will be able to reap full benefit of the integration

