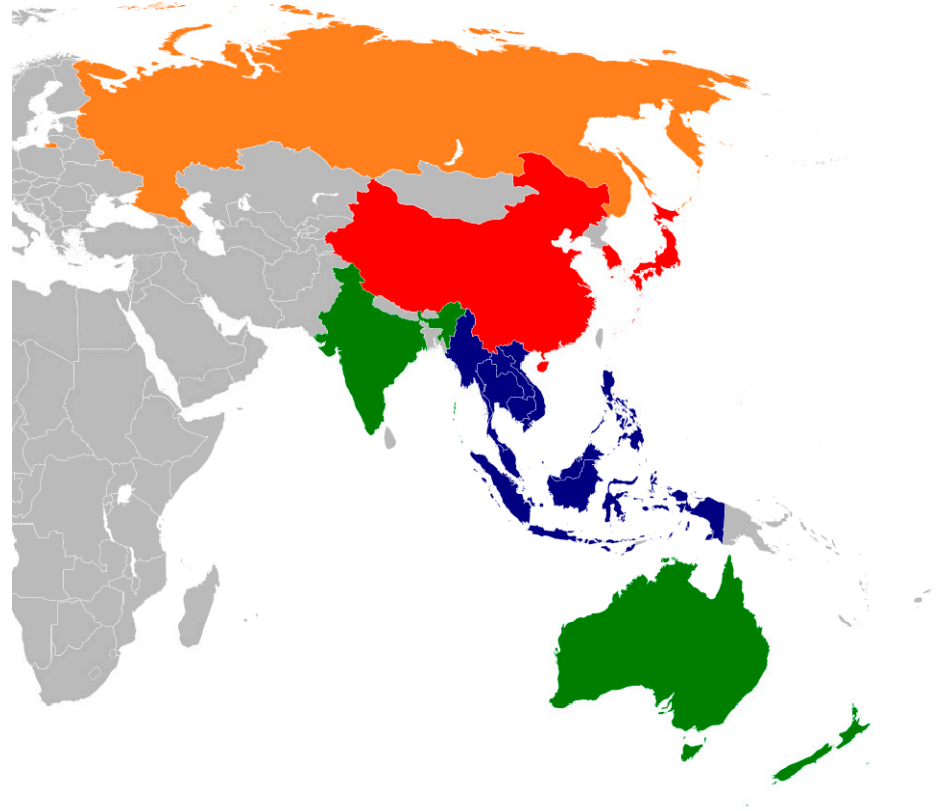


Advances and Challenges in Regional Integration: Philippines



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Outline of Presentation

- ASEAN Profile
- ASEAN Financial Integration
- ASEAN Banking Integration
- Role of the Bangko Sentral ng Pilipinas
- Way Forward



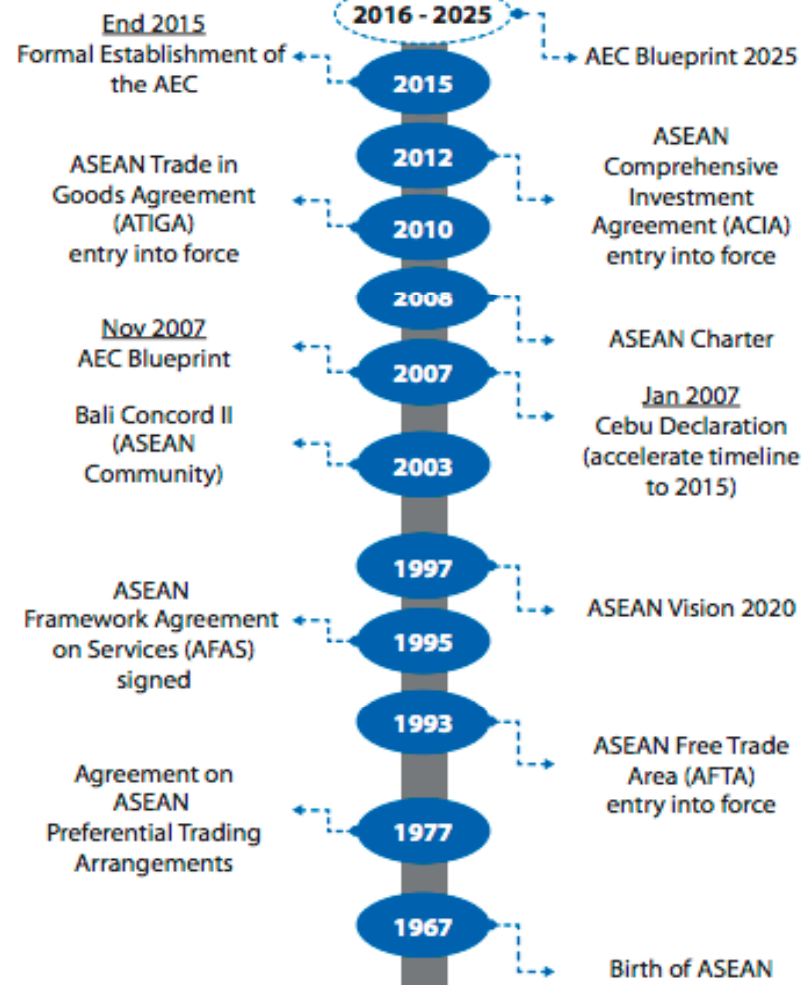
ASEAN Profile

COUNTRY	TOTAL LAND AREA (sq km)	TOTAL POPULATION (thousand)	GDP Per Capita	Government	Language
BRUNEI DARUSSALAM	5,769	413	41,424	Monarchy	Malay
CAMBODIA	181,035	15,184	1,105	Parliamentary/ Monarchy	Khmer
INDONESIA	1,860,360	252,165	3,901	Presidential	Bahasa Indonesia
LAO PDR	236,800	6,809	1,730	Marxist-Leninist	Lao
MALAYSIA	330,290	30,262	10,784	Federal Parliamentary	Bahasa Malaysia
MYANMAR	676,577	51,486	1,278	Presidential	Burmese
PHILIPPINES	300,000	101,175	2,861	Presidential	Filipino/English
SINGAPORE	716	5,470	56,287	Parliamentary	English/Malay/ Mandarin/Tamil
THAILAND	513,120	68,657	5,436	Parliamentary/ Monarchy	Thai
VIETNAM	330,951	90,630	2,055	Marxist-Leninist	Vietnamese
ASEAN	4,435,618	622,250	4,136		

(Source: ASEAN.org, as of August 2015)

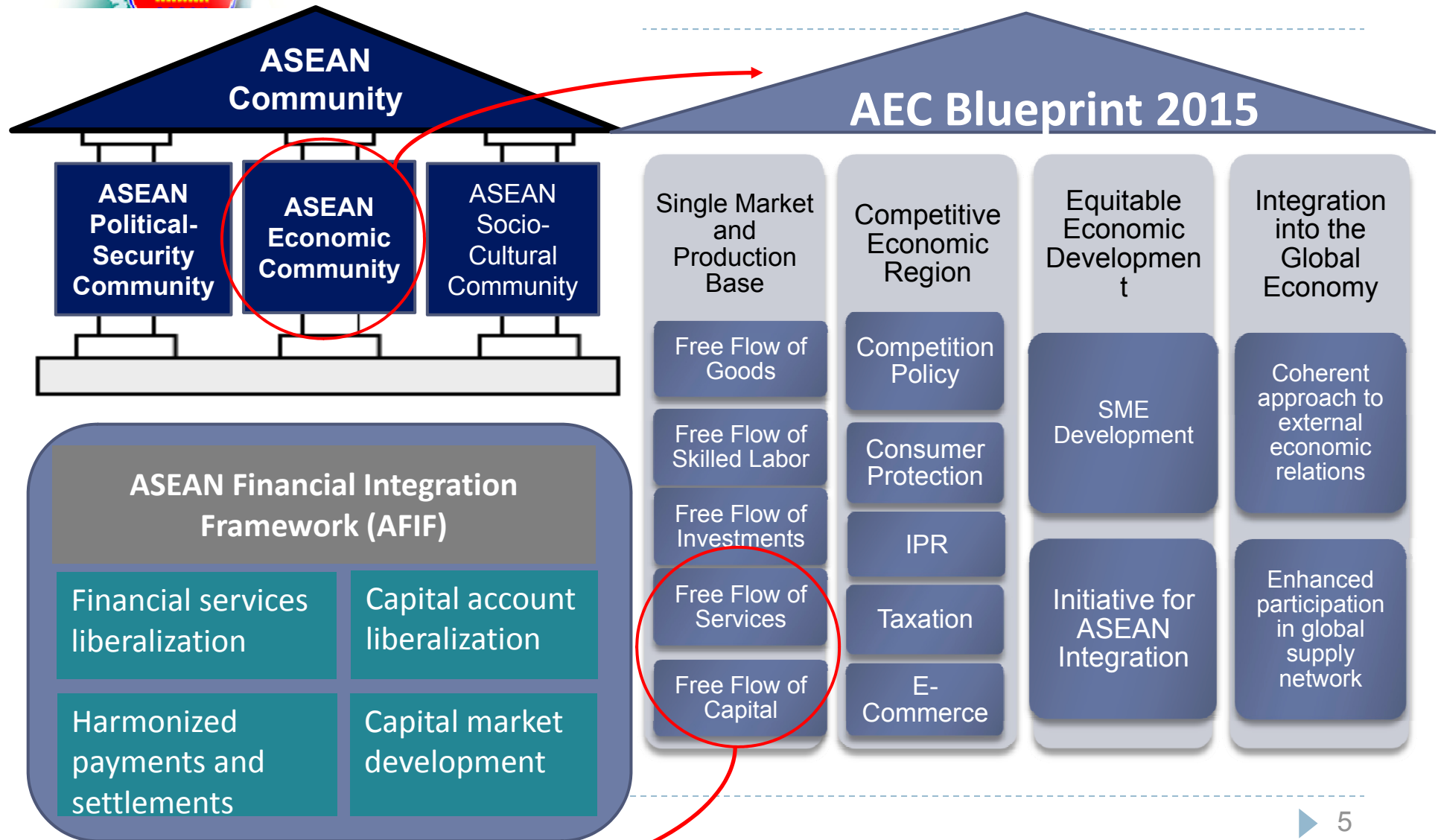


AEC Milestones





ASEAN Financial Integration



AFIF Goals and Impact to Business

Financial Services Liberalization

- Removal of restrictions on financial services by (2020)
- presence of qualified ASEAN banks in ASEAN5 (2018)

- Entry of foreign banks
- Market access of PH banks
- Access to new financial products

Capital Account Liberalization

Removal or relaxation of restrictions on capital flows across the region (2015 to 2020)

- Relaxed rules on investing in other ASEAN countries

Capital Market Development

- Deep, liquid and integrated capital market
- Building capacity and infrastructure

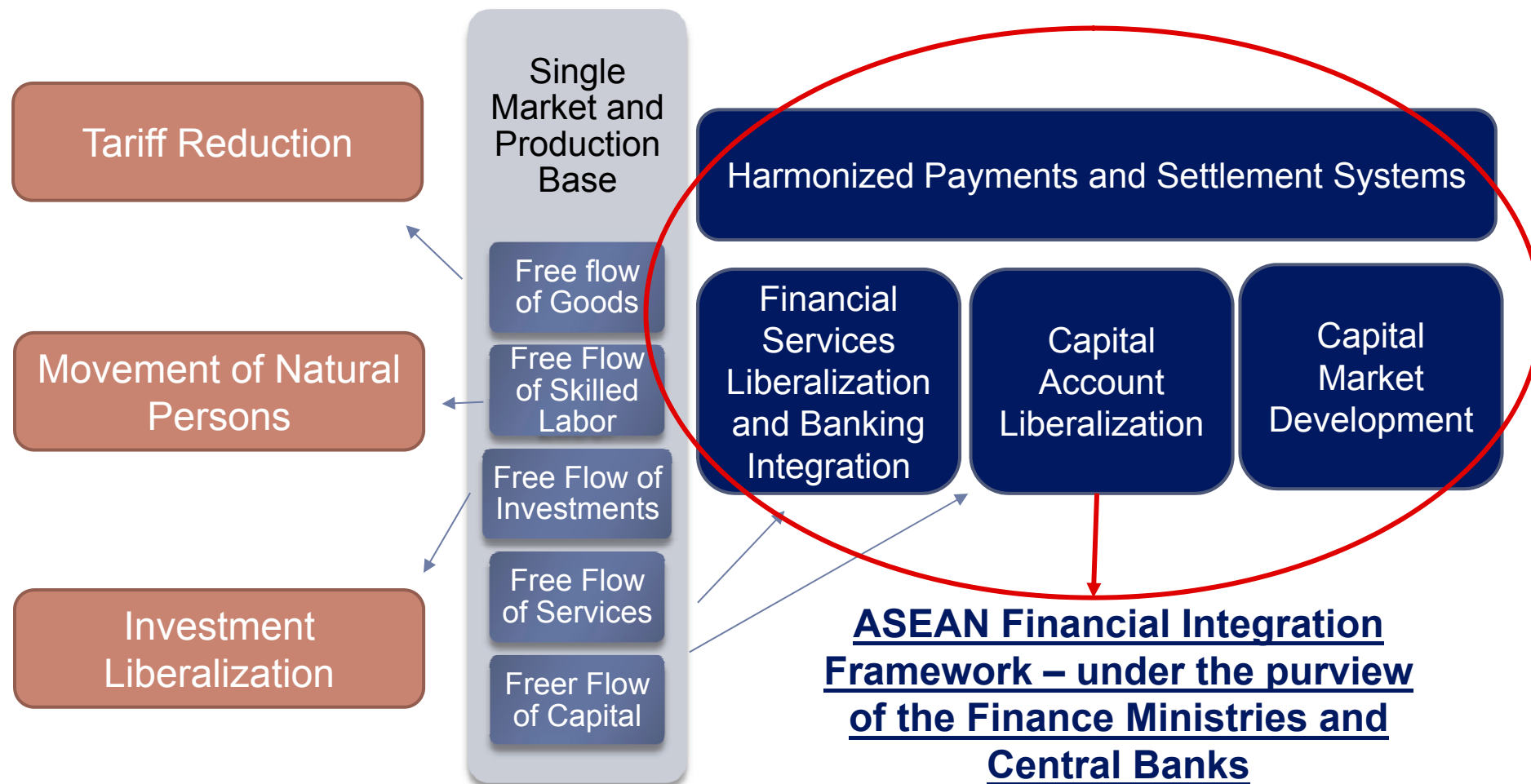
- Linkages of equity exchanges
- Cross-border equity transactions

Harmonization of Payments and Settlements System

Harmonization of domestic laws and regulations and linkage of systems (beyond 2015)

- Efficient and convenient electronic payments for businesses

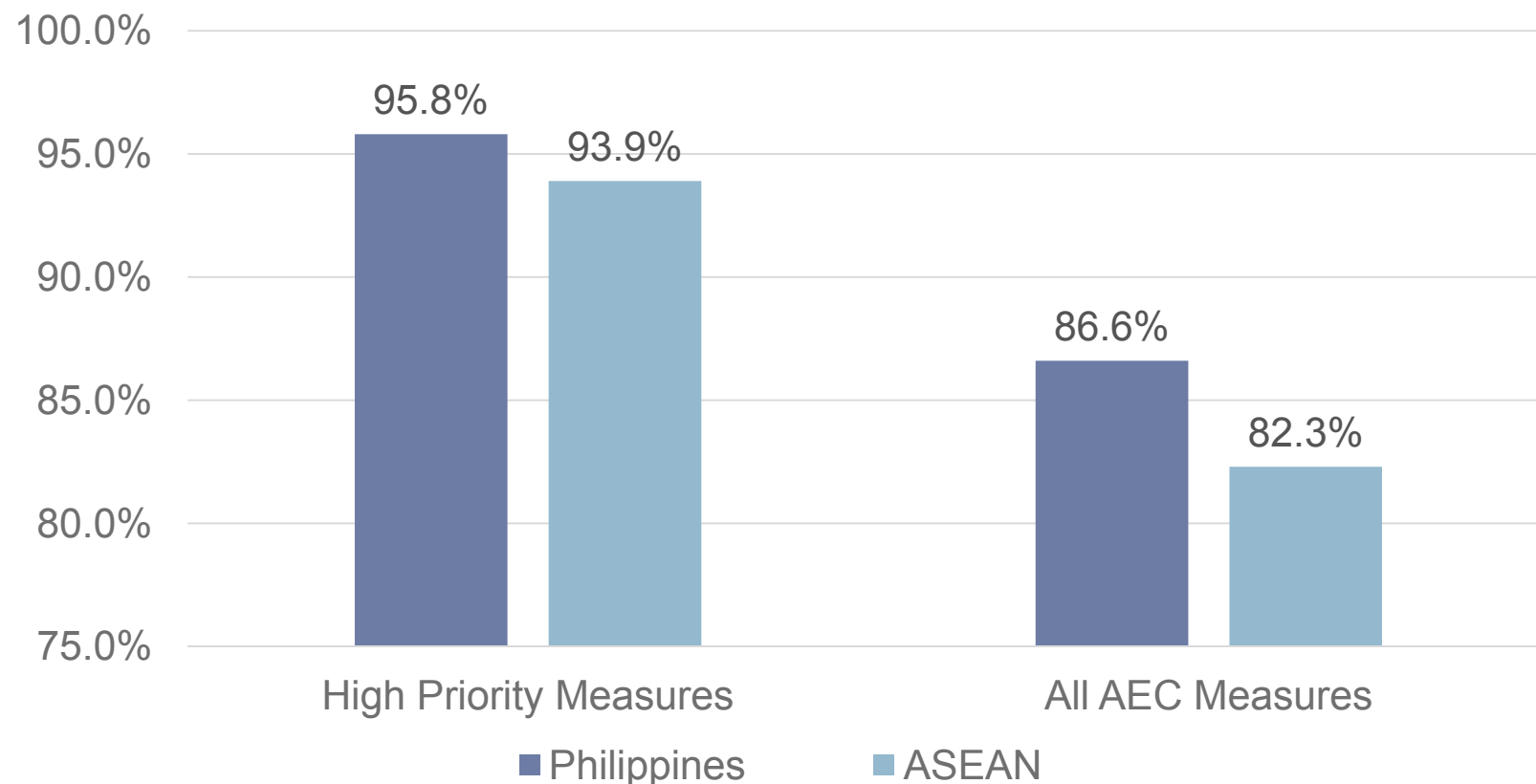
Key Accomplishments of the AEC





How did we fare?

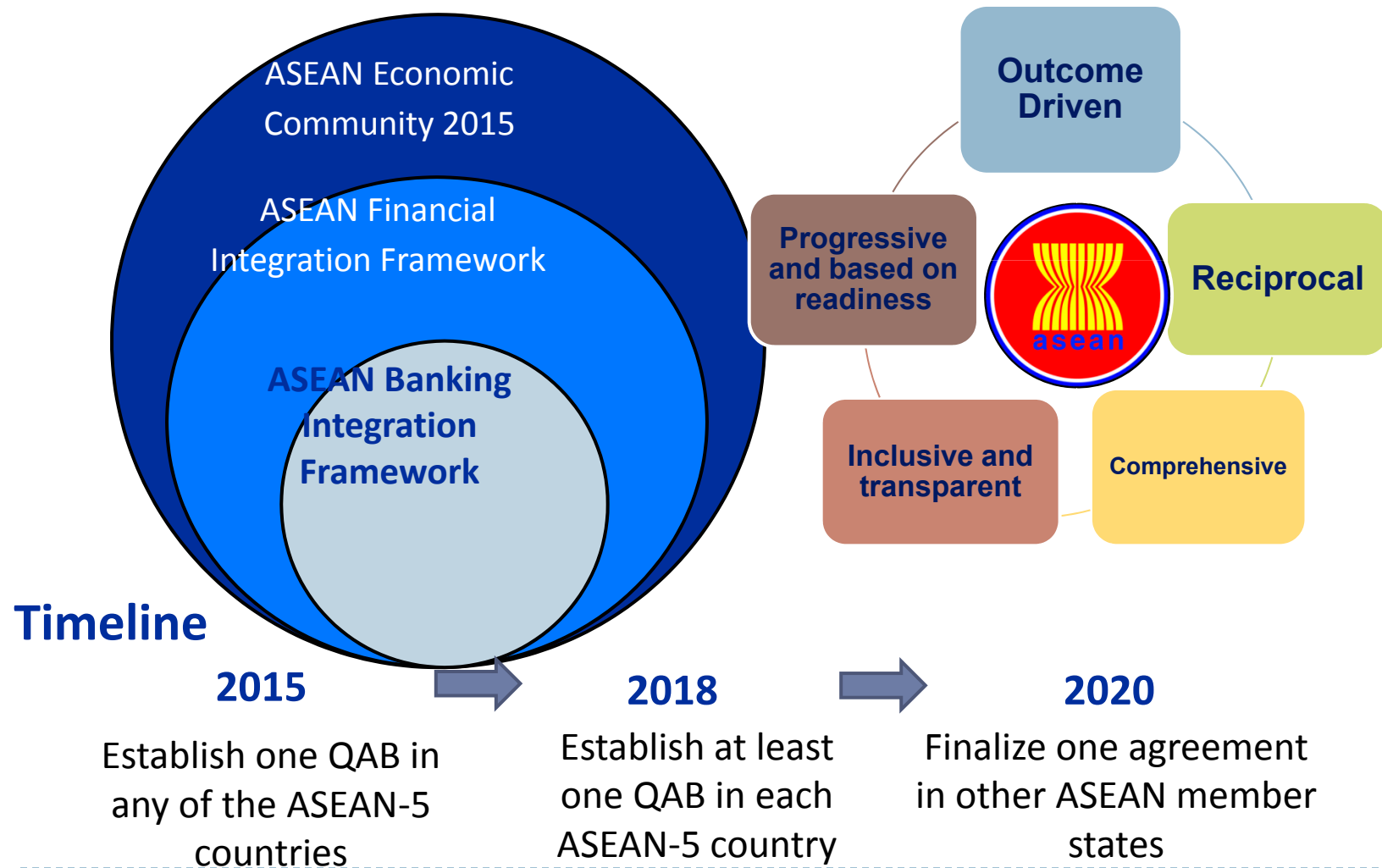
Implementation Rate of AEC Scorecard Key Deliverables for 2008-2015 (as of end 2015)



Source: Department of Trade and Industry



Banking Integration: The Imperatives





Landscape on Banking Integration

Origin	Banks	IND	MAL	PHL	SIG	THA	BD	CAM	LAO	MYA	VN
Global	Citibank	•	•	•	•	•	•				•
	HSBC	•	•	•	•	•	•				•
	Standard Chartered	•	•	•	•	•	•	RO	RO	RO	•
Indonesia	BCA	•			RO						
	BNI	•			•						
	Mandiri	•			Off Shore						
Malaysia	CIMB	•	•		•	•	Off Shore	•		RO	
	Maybank	JV	•	•	•		•	•	•	•	•
	Public Bank		•					•	•	RO	•
Philippines	BDO			•							
	BPI			•							
	Metrobank			•	RO						
Singapore	DBS	JV	•	RO	•	RO				RO	•
	OCBC	JV	•		•	•	•			•	•
	UOB	JV	•	•	•	•	•			•	•
Thailand	Bangkok Bank	•	•	•	•	•		•	•	•	•
	B. Ayudhya					•			•		
	SCB				•	•		•	•	RO	JV

RO = Representative Office JV = Joint Venture
Various Bank Websites

Source:



With R.A. No. 10641, the rules on foreign bank entry are now further liberalized...

Details	RA No. 10641
Modes of Entry and Equity Ownership	<ul style="list-style-type: none"> ▪ <u>Removes specific limits</u> on the number of foreign banks ▪ <u>Re-opens the three (3) modes of entry</u> (i.e., branch, investment in existing domestic bank or new banking subsidiary) ▪ Allows <u>up to 100 percent foreign ownership</u> in an existing bank and a new banking subsidiary
Qualifications for foreign banks	<ul style="list-style-type: none"> ▪ Removes the qualification to be part of the top 150 foreign banks in the world or the top 5 banks in their country of origin as of the date of application ▪ Foreign bank entrant qualifications: <u>(a) established, (b) reputable, (c) financially sound, (d) widely owned and (e) publicly listed</u> (unless owned and controlled by the government of its country of origin)
Branching Privileges	<ul style="list-style-type: none"> ▪ Allows foreign branches to open <u>up to 5 (instead of 3) sub-branches</u> as may be approved by the MB (instead of locations designated by the MB)
Limit	<ul style="list-style-type: none"> ▪ Allows foreign banks to hold up to <u>40% resources/assets of the entire banking system, instead of 30%</u>



With the new law, this is now how we compare with the neighbors...

Conditions on Foreign Bank Participation in the ASEAN Region

ASEAN Member	Allowed Foreign Equity Participation	Other Conditions
Indonesia	99%	Entry through foreign bank branches is limited to 11 banks. Foreign banks must form a JV with local partners.
Malaysia	No hard limits	Determination of equity will be subject to prudential criteria and 'best interest of Malaysia' criteria.
Philippines	100%	60% of total banking assets must be held by domestic banks.
Singapore	No hard limits	The Government will not allow a foreign takeover of its three major local financial institutions.
Thailand	25-49% >49% case to case	Banks must be locally incorporated and established as a limited public company. Each foreign bank is allowed to establish one branch. Foreign banks may apply for increased foreign participation up to 49% subject to approval of Finance Ministry. A strong case is required for application above 49%.



Role of BSP

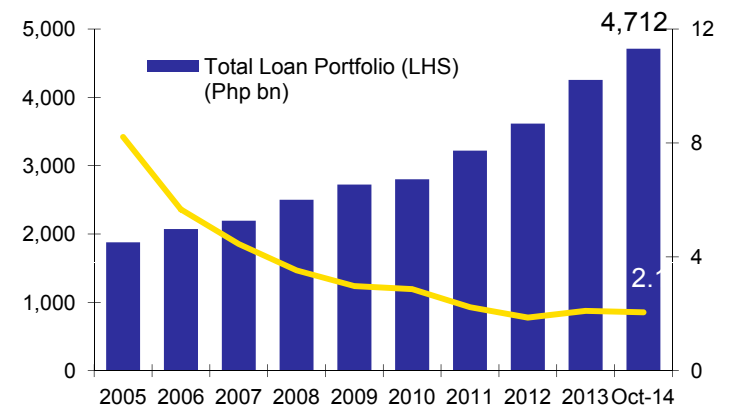
- The BSP aims to maintain the competitiveness of the banking sector through responsive regulation.
 - ✓ The Philippine banking system has maintained a sound and stable performance
 - ✓ Outlook on the Philippine banking system remains positive
 - ✓ Capital adequacy ratio (CAR) bespeaks of Philippine banks' strong capitalization.
- The BSP has implemented appropriate safeguards to manage potential risks of integration are in place.
- The BSP will continue to craft initiatives as needed to ensure that benefits of integration will be realized and risks will be well-managed.



Role of BSP: Maintaining the Competitiveness of the Banking Sector

1. PH banking system maintains a sound and stable performance:

- ✓ Total assets of Php10.4 trillion, by end of September 2014
- ✓ Asset quality remains extremely strong with an NPL ratio of only 2.1% (October 2014)



2. Outlook on PH banking system is positive:

- ✓ Moody's rated the PH banking system positive in terms of operating environment; asset quality and capital; funding and liquidity; profitability and efficiency; and systemic support.



3. Capital Adequacy Ratio (CAR) bespeaks of PH banks' strong capitalization:

- ✓ **CAR serves as an equalizer among banks**



Indonesia – 19.7% (Aug 2014)

Malaysia - 15.2% (Dec 2014)

Philippines- 16.66% (Jun 2014)

Thailand – 16.67 % (Dec 2014)

Singapore – 11-12.5 % (June 2014)

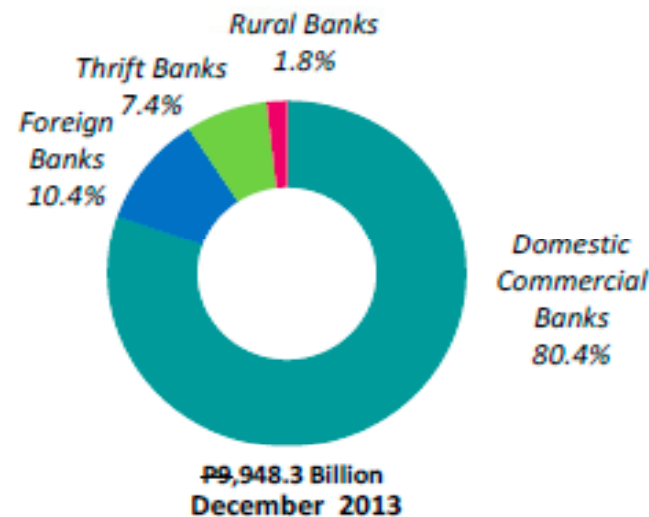
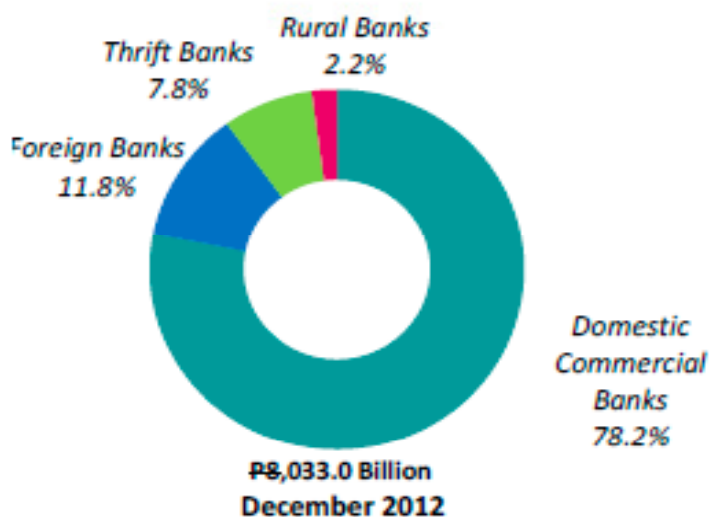
Source: BSP website as of Q2 2014

4. Appropriate safeguards are in place:

- ✓ The share of foreign banks in total assets of PH banking system is less than legal limits

Foreign Bank Branches and Foreign Bank Subsidiaries

Share in the Total Assets of the Philippine Banking System





What are the benefits and risks of integration?

Benefits

- Better availability of specialized financial services and products
- Reduction in the cost of financial intermediation
- Mobilization of more savings
- Market deepening and regional risk sharing
- Enhancement of information linkages thru closer cooperation among individual member states

Risk

- Increase in volatility of capital inflows into a specific member state
- Additional risks attendant to cross-border transactions
- Possibility that the domestic banking market will be dominated by foreign banks
- Challenges in terms of complexity and management of regional banks' operations that can strain supervisory infrastructures



Post-2015 Vision

“An AEC 2025 that includes an integrated and highly cohesive economy, a competitive, innovative and dynamic ASEAN, a resilient, inclusive and people-oriented, people-centered ASEAN, enhanced sectoral integration and cooperation, and a global ASEAN.”

