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

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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

<table>
<thead>
<tr>
<th>GDP per capita (2013)</th>
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<tbody>
<tr>
<td>Brunei Darussalam</td>
<td>71,759</td>
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<tr>
<td>Cambodia</td>
<td>3,042</td>
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<tr>
<td>Indonesia</td>
<td>9,569</td>
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<tr>
<td>Lao PDR</td>
<td>4,812</td>
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<tr>
<td>Malaysia</td>
<td>23,298</td>
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<tr>
<td>Myanmar</td>
<td>1,740</td>
</tr>
<tr>
<td>Philippines</td>
<td>6,583</td>
</tr>
<tr>
<td>Singapore</td>
<td>78,744</td>
</tr>
<tr>
<td>Thailand</td>
<td>1,4390</td>
</tr>
<tr>
<td>Viet Nam</td>
<td>5,293</td>
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Moving to the Right Direction, but with Disparities

- Capital flow is moving freely in the region
- Total FDI flows to ASEAN increased significantly to USD 136 billion in 2014, contributed by increase in intraregional investment and stronger FDI flows from majority of ASEAN’s dialogue partners (Australia, China, European Union, Korea and the US).

Source: ASEAN Investment Report 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.
Achievement and Gap: Strong, Stable and Healthy Banking

• ASEAN banking industry, dominant in the region’s financial sector, has been strong, stable and healthy

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)

<table>
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<tr>
<th>Adopted Banking Regulatory Standard</th>
<th>ASEAN Member States</th>
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<tbody>
<tr>
<td>Basel II – Full Implementation</td>
<td>Indonesia, Malaysia, Philippines, Thailand, Singapore</td>
</tr>
<tr>
<td>Basel II – Partial Implementation</td>
<td>Brunei Darussalam (partial implementation: SA Credit Risk and BIA Operational Risk)</td>
</tr>
</tbody>
</table>
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
Initiative for ASEAN financial integration was adopted in *Roadmap for Monetary and Financial of ASEAN (RIA-fin)*.

- 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.

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*.
**ASEAN Banking Integration Framework (ABIF)**

<table>
<thead>
<tr>
<th>ABIF</th>
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<tr>
<td>Objective</td>
<td>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 <em>reciprocal</em> bilateral arrangements to provide <em>Qualified ASEAN Banks</em> (QABs) with <strong>greater market access</strong> and <strong>operational flexibilities</strong>.</td>
</tr>
<tr>
<td>Market access</td>
<td>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</td>
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<td>Operational Flexibility</td>
<td>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.</td>
</tr>
<tr>
<td>Reciprocal Arrangement</td>
<td>The level of concession will be negotiated between participating countries based on <em>reciprocity</em>, meaning that arrangement between two or more ASEAN member states should be <strong>mutually beneficial and acceptable</strong> to the parties concerned</td>
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</table>
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

<table>
<thead>
<tr>
<th>Characteristics of QABs</th>
<th>Prudential Regulation</th>
<th>Infrastructure for Financial Stability</th>
<th>Capacity Building</th>
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</table>
| • 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 | ASEAN countries are endeavour to comply with the Basel Core Principles for Effective Banking Supervision to promote safe and sound banking system | Bilateral arrangements consistent with international principles on home-host supervision & commensurate with size and complexity of QABs | 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 ...

Balancing

Liberalization of individual financial sectors

Liberalization Initiatives toward further Integration

Financial Inclusion

Financial Stability

Supporting AEC 2025 Vision

Integrated and highly cohesive economy

Resilient, Inclusive and people-centered ASEAN
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.
Thank You