



# **Bangko Sentral ng Pilipinas**

## **Banking Supervision and Examination in the Philippines**

17 December 2007

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Deputy Governor

# Outline

- Overview of the Philippine Financial System
- The Philippine Banking System
- Banking Supervision in the Philippines
- Concluding remarks



# Overview of the Philippine financial system

- Bank-dominated
- Philippine financial supervisory agencies
  - Bangko Sentral ng Pilipinas (BSP)
  - Securities and Exchange Commission (SEC)
  - Insurance Commission (IC)
  - *Philippine Deposit Insurance Corporation (PDIC)*



# Overview of the Philippine financial system

- **Financial Sector Forum**
  - Formed in July 2004
  - BSP, SEC, IC, and PDIC as members
  - Cooperative effort without any legal mandate
  - Not an integrated supervisory body
  - Key objectives
    - Improvement of the supervision of financial conglomerates
    - Addressing regulatory grey areas
  - Working groups: (1) supervision and regulatory policy, (2) reporting and information exchange, and (3) consumer protection



# The Philippine banking system

- Banks differ according to capitalization and activities undertaken
  - Universal Banks (UBs) - KBs + investment house activities, 100% ownership of financial allied undertakings
  - Commercial Banks (KBs) - accept drafts, issue letters of credit, discount and negotiate evidences of indebtedness, accept deposits, buy/sell forex
  - Thrift Banks (TBs) - accumulate savings, grant retail loans, finance homebuilding
  - Rural Banks (RBs) - accept deposits, expected to meet credit needs of farmers/fishermen/cooperatives/merchants
  - *Sustainable non-subsidized microfinance also undertaken by RBs and TBs and by KBs through wholesale funding*



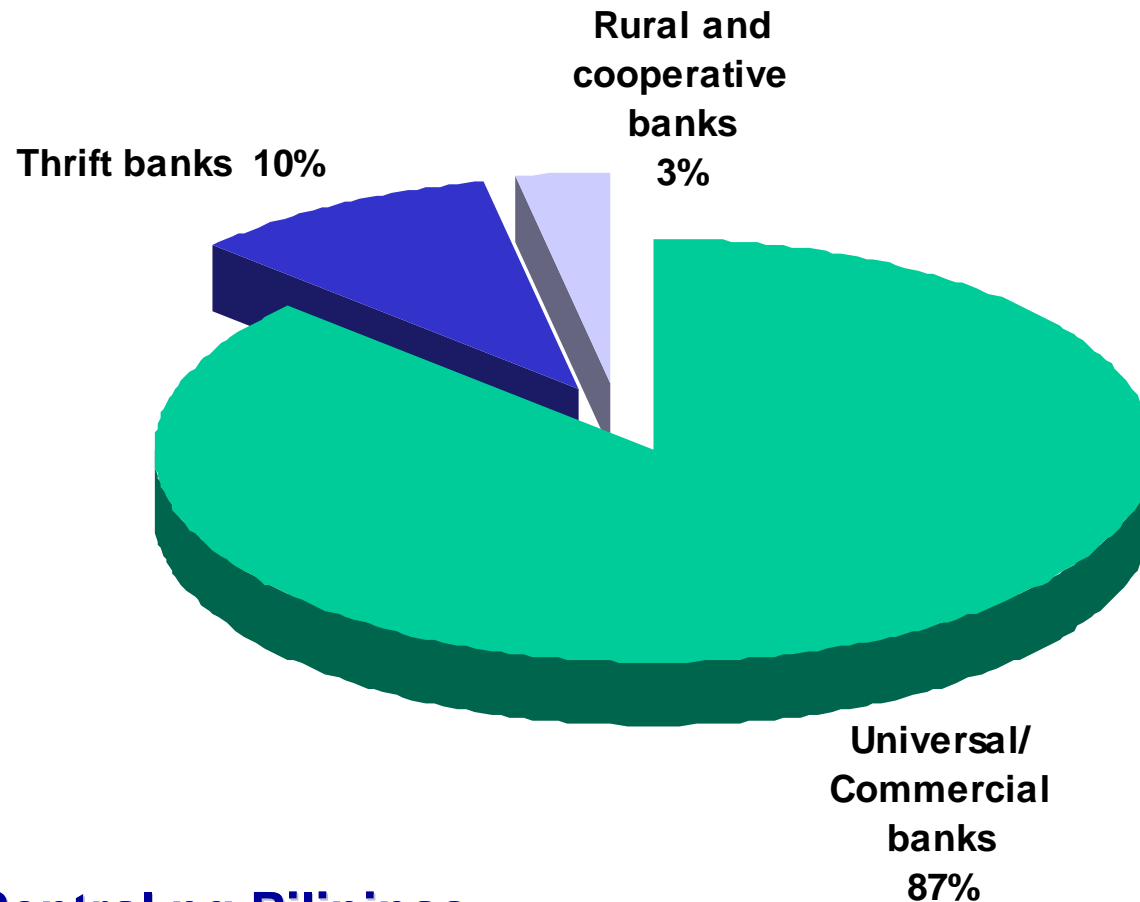
# The Philippine banking system

The Philippine Banking System		
	Total Assets PhP Millions As of End-Sept. 2007	Physical Count As of End-November 2007
All Banks	4,930.1	848
Universal Banks (UBs)	3,539.1	16
Commercial Banks (KBs)	764.4	22
Thrift Banks (TBs)	477.9	82
Rural/Cooperative Banks	148.7	728



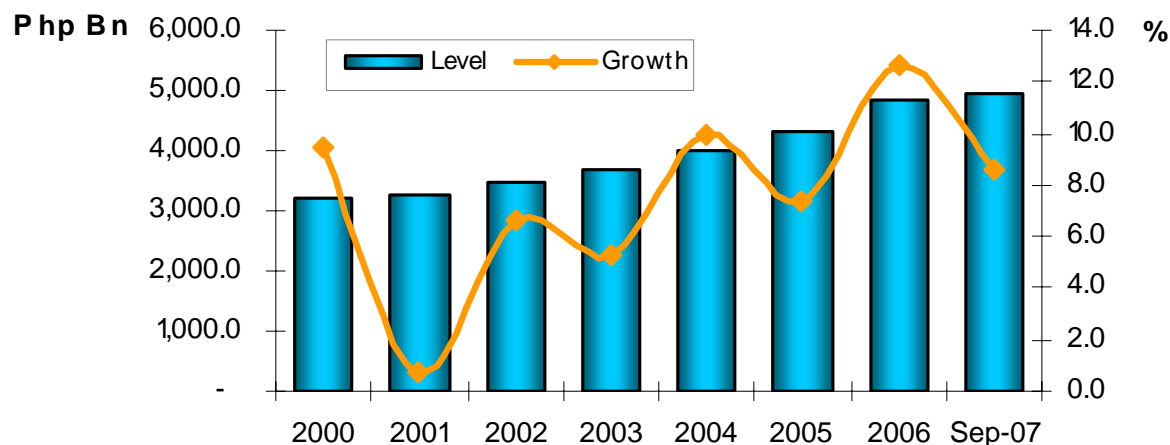
# The Philippine banking system: *Market Share*

## BANKING SYSTEM: ASSET SHARE BY CLASSIFICATION As of End-Year 2006



# The Philippine banking system: *Asset Growth*

**BANKING SYSTEM: TOTAL ASSETS**  
As of End-Years 2000- 2006 and End-September 2007



In PhP Bns	2005	2006	Sept.2007 <sup>p/</sup>
Total Assets	4,319.4	4,865.6	4,930.1
Loans, net	2,008.7	2,294.9	2,274.0
Deposits	2,970.7	3,497.6	3,515.5

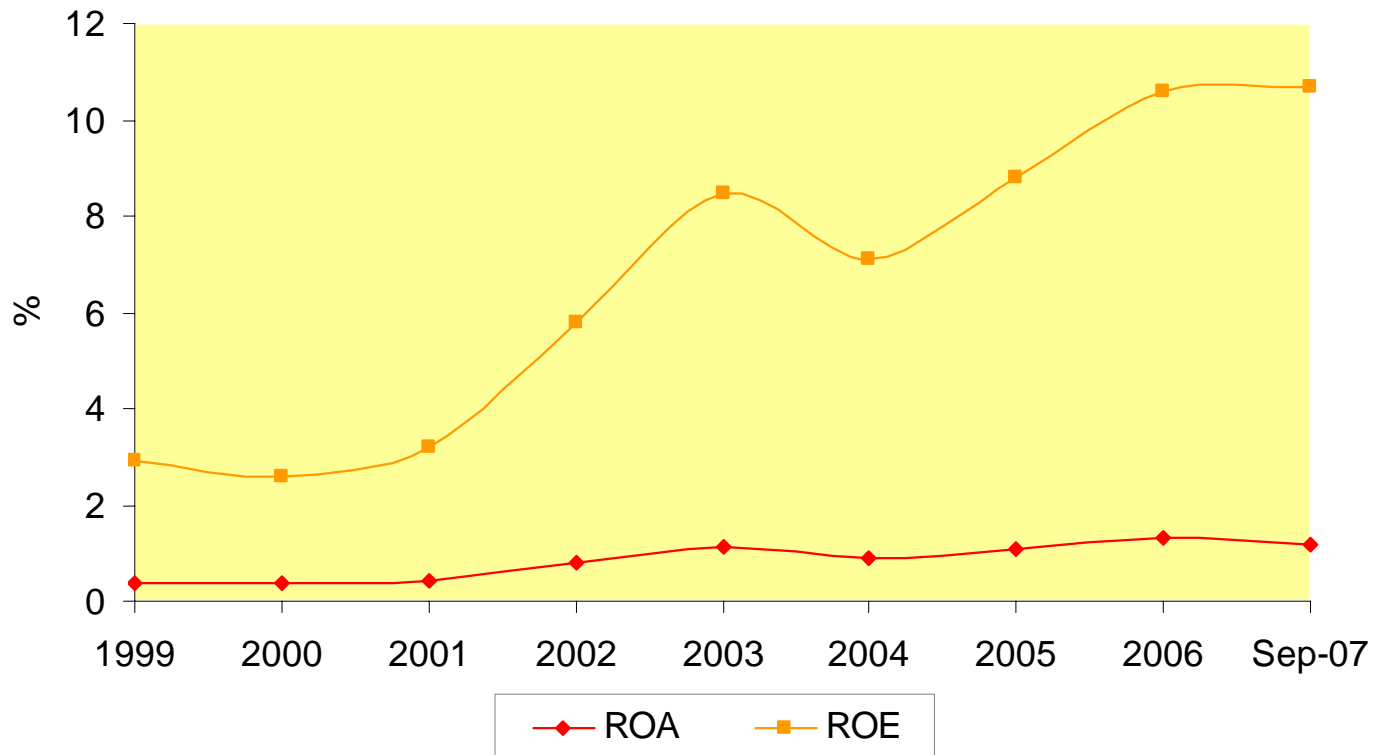
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# The Philippine banking system: *Profitability*

**BANKING SYSTEM: RETURN ON ASSETS (ROA)/ RETURN ON EQUITY (ROE)**  
FY 1999- 2006 and for Nine Month Period Ended-30 September 2007



# The Philippine banking system: *NPA Clean-up*

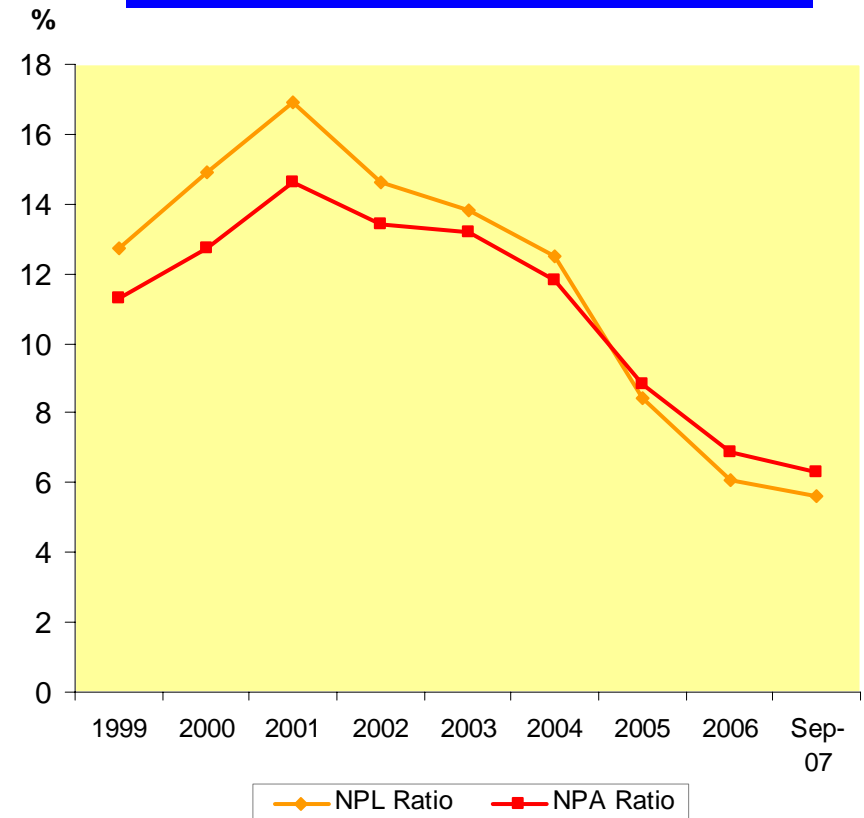
## SPV Transactions

- Phase I – P97 billion NPAs disposed
- Phase II of amended SPV Law<sup>1/</sup>
  - Done deals – P32.0 billion
  - Pending applications – P10.9 billion worth of NPAs for sale to SPVs and dacion en pago

## Joint venture arrangements

<sup>1/</sup>Transactions as of 30 September 2007

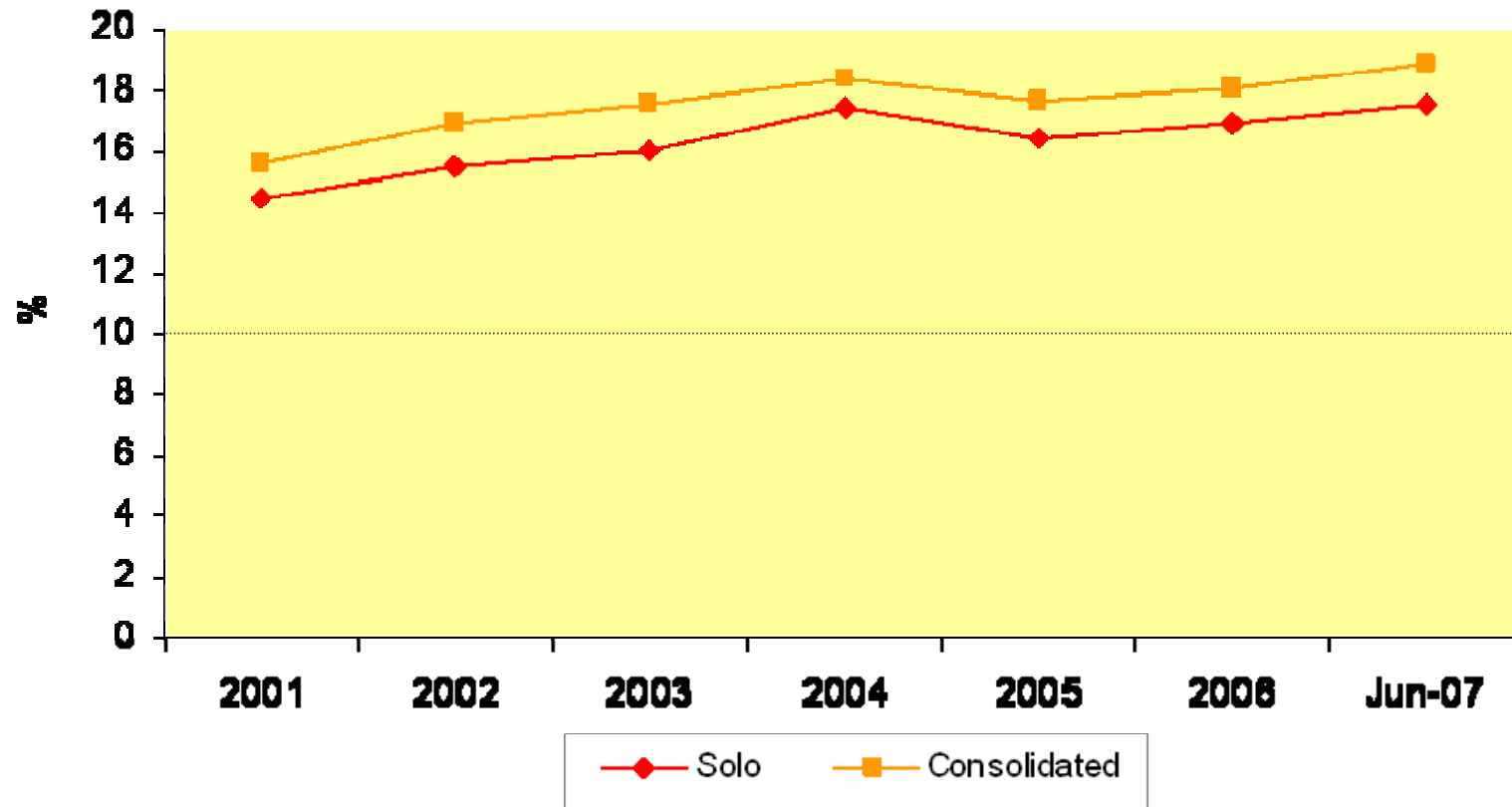
**BANKING SYSTEM: NPL & NPA RATIOS**  
As of End-Years 1999-2006 and end-September 2007



# The Philippine banking system: *Solvency*

## BANKING SYSTEM: CAPITAL ADEQUACY RATIO (CAR)

As of End-Years 2001- 2006 and end-June 2007



# Banking supervision in the Philippines

- Legal Framework

- R.A. No. 7653 (The New Central Bank Act, 1993) - Consolidated supervision
- General Banking Law of 2000 - Risk-based approach to supervision



# Banking supervision in the Philippines

- Consolidated supervision
  - Driven by complex banking groups and mixed conglomerates
  - Since 1998; accelerated implementation since 2005
- Risk-based approach to supervision
  - Driven by complexity of banking business
  - Gradual shift since 1997; accelerated implementation since 2005
  - Allows banks to take risks as long as these are ably managed, absorbed, and priced



# Banking supervision in the Philippines

- Internal requirements for the risk-based approach to supervision
  - Data collection and storage
    - Financial reporting package
    - Data Warehouse System
    - Informal arrangements with financial regulatory agencies
  - Overhaul of the examination/off-site monitoring processes
    - Report of Examination, CAMELS, Institutional Overview



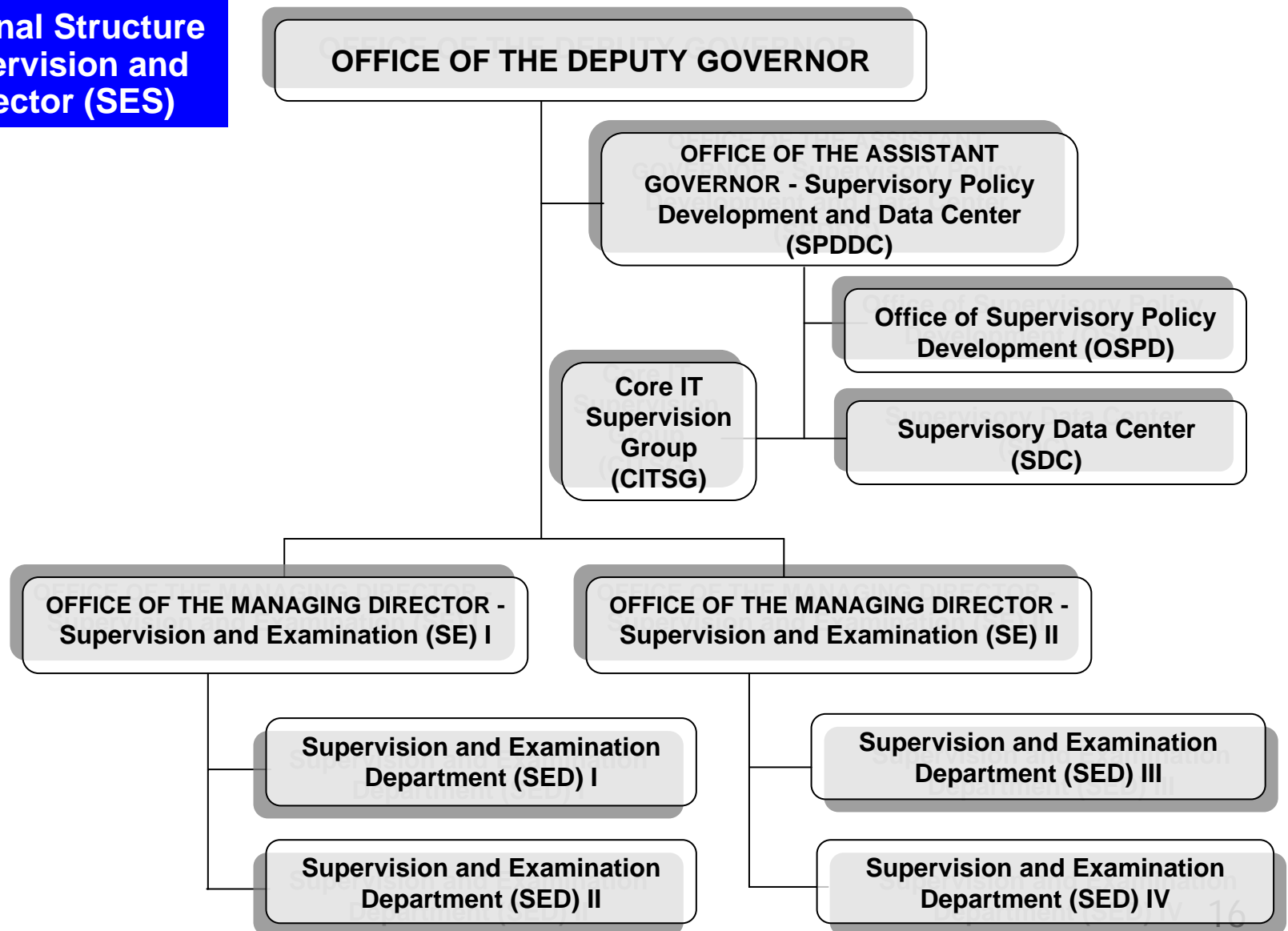
# Banking supervision in the Philippines

- Internal requirements for the risk-based approach to supervision
  - Skill sets and training
    - In-house structured training program
    - External training programs
    - International certifications
  - Re-organization of the BSP Supervision and Examination Sector



# Banking supervision in the Philippines

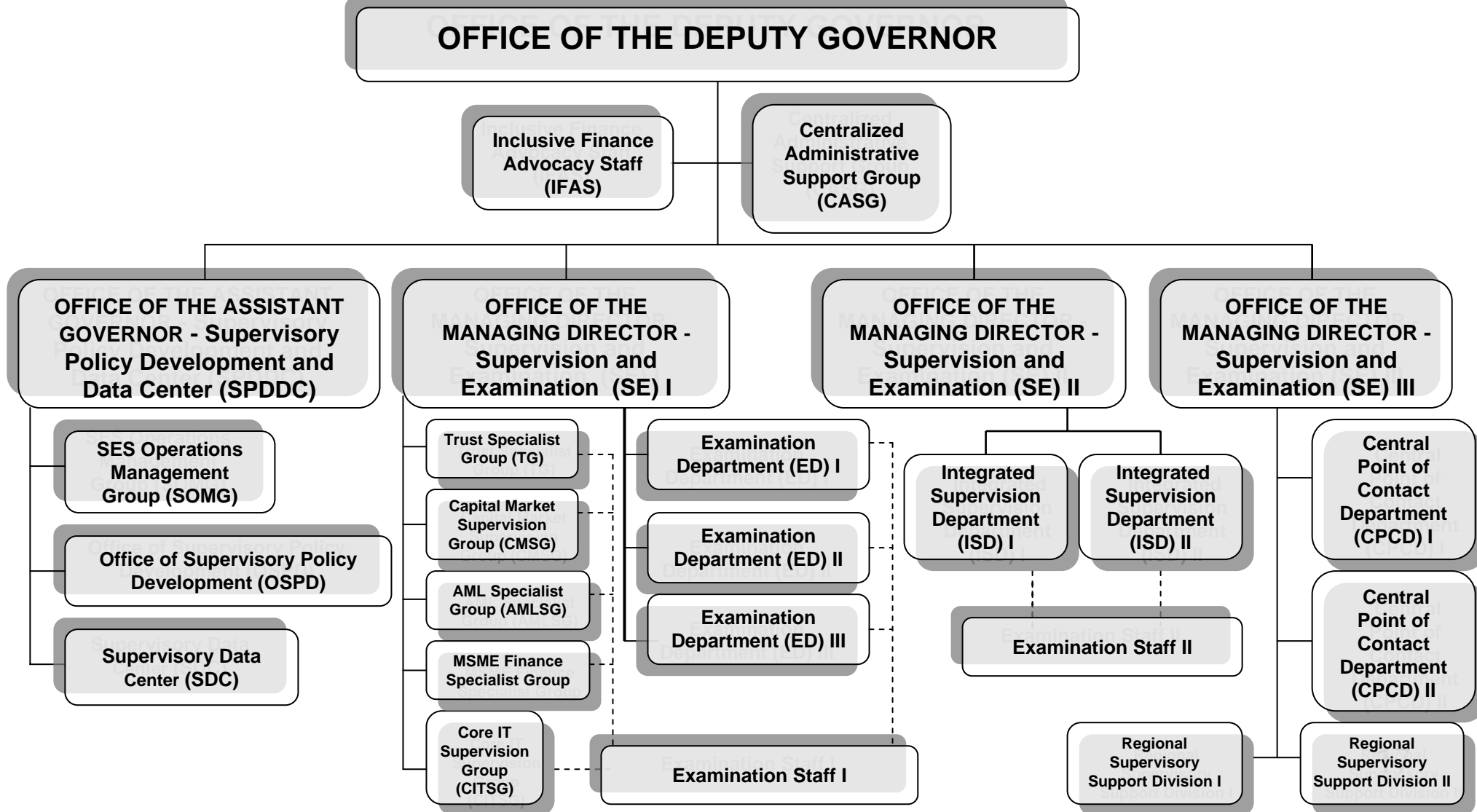
## Past Organizational Structure of the BSP Supervision and Examination Sector (SES)





# Banking supervision in the Philippines

## New Organizational Structure of the BSP Supervision and Examination Sector (SES)



# Banking supervision in the Philippines

- Other supervisory tools
  - Bank Performance Reports (BPR) system
  - Bank Early Warning System (EWS)
  - Examiner Resource Scheduling System (ERSS)



# Banking supervision in the Philippines

- Identified gaps in Compliance with the Basel Core Principles for Effective Banking Supervision (based on 2002 IMF assessment)
  - Legal protection for supervisors
  - Formalization of information sharing and cooperation with local and foreign financial supervisory agencies
  - Conduct of consolidated supervision and bank examination
  - Framework for prompt corrective action and problem bank resolution
  - Appropriate standards for banks' risk management systems



# Banking supervision in the Philippines

- **Developments in Compliance with the Basel Core Principles for Effective Banking Supervision**
  - **Legal protection for supervisors -**
    - included in proposed revisions to BSP Charter
  - **Formalization of information sharing and cooperation with local and foreign financial supervisory agencies**
    - Information exchange and cooperation among local financial supervisors through the Financial Sector Forum (FSF)
    - 5 formal agreements with foreign financial supervisory agencies, negotiating with 7 others



# Banking supervision in the Philippines

- Developments in Compliance with the Basel Core Principles for Effective Banking Supervision
  - Conduct of consolidated supervision and bank examination
    - BSP-SES reorganization also intended to support consolidated supervision
    - One of proposed revisions to BSP Charter is the grant of authority to BSP to look into banks' non-allied subsidiaries and affiliates
    - Manual on Supervision and Examination of Banks revised through a TA with USAID
    - Development of a sustainable and relevant formal foundation training program for BSP examiners through a TA with First Initiative



# Banking supervision in the Philippines

- **Developments in Compliance with the Basel Core Principles for Effective Banking Supervision**
  - Framework for prompt corrective action and problem bank resolution
    - PCA framework reviewed and enhanced in 2006
    - Explicit criteria for placing banks under PCA and measures to be undertaken
    - Procedures already in place for financially distressed banks, but application is hampered by absence of coercive legal instruments
      - Proposed revisions to BSP Charter intended to give BSP more powers to effectively carry out problem bank resolution



# Banking supervision in the Philippines

- **Developments in Compliance with the Basel Core Principles for Effective Banking Supervision**
  - **Appropriate standards for banks' risk management systems**
    - The following supervisory guidelines on risk management have already been issued and implemented
      - Risk management of financial derivatives
      - Internal credit risk rating systems
      - Market risk management
      - Liquidity risk management
      - IT risk management
      - Supervision by risk



# Banking supervision in the Philippines

- Adoption of international standards
  - Basel II adopted in July this year
    - Preparatory work: Active monitoring of developments, revisions/adjustments in local framework, capacity-building
    - Simple approaches adopted + Pillar 3 guidelines
    - Advanced approaches may be allowed by 2010; ICAAP guidelines under exposure to industry
    - Approach to home-host issues on approval work to be dictated by legal status of foreign bank entities
  - International accounting standards adopted since 2005
    - Supported by an external auditor accreditation system





# Banking supervision in the Philippines

- Enhancing corporate governance
  - Re-defined duties and responsibilities of bank's board of directors
  - Adoption of "fit and proper" standards for bank officers
- Strengthening anti-money laundering regulations
  - Customer identification requirements
  - KYC programs compliant with BCBS standards



# Banking supervision in the Philippines

- **Developmental Initiatives**
  - Capital market development through:
    - contributions to foreign exchange liberalization
    - domestic bond and derivatives market development
    - payments systems upgrade
  - Enhanced access to banking services by the poor through:
    - sustainable microfinance practices of banks
    - innovative deployment of mobile banking services
  - Financial literacy
  - Legislative advocacies



# Concluding remarks

- Supervision of banks in the Philippines has gone a long way in the last 10 years
- Despite the limits set by the existing legal framework, the BSP continues to upgrade its supervision and examination approaches in line with internationally accepted standards
- The BSP also strives to improve banking practices through the issuance of relevant regulations
- However, critical changes to the BSP Charter are necessary to achieve further improvements in the practice of banking supervision in the Philippines





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