

Eli M Remolona: Moving forward and creating impactful changes

Speech by Mr Eli M Remolona, Jr, Governor of Bangko Sentral ng Pilipinas (BSP, the central bank of the Philippines), at the Association of Philippine Correspondent Bank Officers, Inc's 2024 Annual Convention, Manila, 22 June 2024.

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Introduction

To the Board of Trustees, officers, and members of the Association of Philippine Correspondent Bank Officers, Inc.(APCB) headed by its President, Mr. Romeo Co, Jr., stakeholders from the correspondent banking and trade finance industry, distinguished guests and colleagues, *magandang umaga sa inyong lahat!*

I am delighted to be part of this celebration, marking the 20 fruitful years of APCB. Congratulations for this remarkable feat of being at the forefront of advancing and innovating correspondent banking, trade finance, and cross-border payment practices in the Philippines. For the past two decades, the APCB, together with its member-banks, has actively undertaken strategic initiatives, which include promoting effective management of trade-based money laundering risks.

The theme for this year's convention, "Correspondent Banking Rein-BENTE-d!" signals that the APCB is primed and ready to innovate and transform, to face challenges, and to seize opportunities.

Let me then frame my message this morning on the acronym APCB, that is: **A** for Anchored on sound fundamentals, **P** for Positioned for digitalization, **C** for Catalyst of cross-border payments, and **B** for Bridging partnerships.

Anchored on sound fundamentals

The Bangko Sentral ng Pilipinas (BSP) is committed to deliver its mandate amid the challenges brought about by geopolitical tensions, global economic slowdown, and domestic conditions. We are confident that we would be able to navigate the Philippine banking system through the uncertainties in view of our sound macroeconomic and banking fundamentals.

Overall, the Philippine economy has sustained its growth trajectory. GDP (gross domestic product) expanded by 5.7 percent in the first quarter of 2024, exceeding the growth posted by China, Indonesia, Malaysia, and Thailand.¹ Latest report from the World Bank² showed that Philippine economic growth is projected to average 5.9 percent in 2024 to 2026, supported by robust domestic demand, strong services growth, and improved trade.

Managing inflation remains as the main domestic policy challenge. Headline inflation increased to 3.8 percent year-on-year in April 2024 against 3.7 percent in March 2024. Nonetheless, the same remains consistent with BSP's inflation forecast of 3.5 to 4.3 percent and still within the government's target range of 2 to 4 percent.³

The robust economic growth is supported by a stable banking system.⁴ The long history of reforms implemented by the BSP contributed to the continued resilience of the Philippine banking system. The industry posted sustained growth in assets, loans, deposits, and earnings. Banks also maintained capital and liquidity ratios comfortably above BSP and international benchmarks.

All these indicate that the Philippine banking system is well equipped to continue playing a critical role in the country's economic growth and development, including riding the waves of digital disruption.

Well-positioned for digital disruption

The late Governor Nestor Espenilla, Jr., who was described as a disruptor, recognized that digitalization would revolutionize banking and global financial services industries. He also believed that the integration of finance and technology (fintech) would help more Filipinos to have access to finance.

The BSP continues to pursue this vision of using technology and finance not only to connect markets, but also to ensure that every Juan and Maria would be part of the formal financial system. In this light, we endeavor to create an environment that would enable our regulated entities and technology partners to leverage on advances in technology.

Open Finance Framework

One of the key policy enablers in this space is the BSP's Open Finance Framework. Open Finance offers an excellent opportunity to provide a seamless experience for customers allowing banks and Fintech firms to expand their services and remain relevant and responsive to increasing consumer demand.

In India, CredAble, the country's largest working capital tech platform, implemented a client-funded early payment program for Parle, a food processing company, offering pre-invoice stage funding options.

This initiative significantly reduced suppliers' cash-to-cash cycles from approximately 50 to 60 days to just 3 to 4 days, while increasing corporate treasury yields from 6.5 percent to around 15 percent annually.

Similarly, Daali, a UK-(United Kingdom) based automated cashback service for in-store card payments, partnered with Salt Edge, a provider of open finance solutions, to innovate rewards and loyalty programs for physical retail stores by seamlessly and securely linking customers' bank accounts to Daali's application.

Since April 2022, approximately 75 percent of Daali's customers have actively utilized the app's open finance feature, resulting in around 13,000 bank accounts being connected to the service.

Catalyst of seamless cross-border payments

Alongside these initiatives, the BSP has embarked on projects to improve cross-border payment systems that would benefit our Overseas Filipinos and transform the role of correspondent banking.

Project Nexus

Discussions are ongoing with our Association of Southeast Asian Nations (ASEAN)-5 neighbors such as Malaysia, Singapore, Thailand, and Indonesia for "Project Nexus". Nexus is a Bank for International Settlements-led initiative to develop a first-of-its-kind standardized multilateral approach to connecting instant payment systems to improve cross-border payments.

While linking fast payment systems can shorten correspondent banking chains, active relationships between and among banks in different jurisdictions are crucial to be able to participate in the domestic fast payment system and settlement arrangements.

Central Bank Digital Currency (CBDC) Project

Another transformative project of the BSP that will impact large-value financial transactions is the Central Bank Digital Currency (CBDC) Project. Given the innovations of wholesale CBDCs, the BSP views that it may yield significant efficiency improvements to mitigate frictions in cross-border payments, securities settlement, and intraday liquidity facilities.

We are now assessing and evaluating potential use cases wherein we can strategically implement wholesale CBDC, exploring its applicability and advantages in diverse financial scenarios through "Project Agila." Project Agila's initial target use case is to enable fund transfers across a limited number of financial institutions, potentially even during off-business hours or on a 24/7 basis.

Once our tests prove that they can be launched for live business use in the country, correspondent banks may explore the possibilities of building new business models that could serve remittance beneficiaries here and abroad.

Bridging partnerships

As we pursue these strategic initiatives, we have to be sensitive to challenges and remain vigilant to risks that could drag economic growth. On top of our list is de-risking.

In the past several years, de-risking actions by foreign financial institutions have resulted in, among others, the termination of services offered to their respondent banks and remittance service providers/money service businesses (MSB). In a globally connected economy, these business relationships are the essential nexus of a local economy to reach its counterparts abroad through the international financial system.

De-risking affects different jurisdictions in varying degrees. The concern is more pronounced in the Caribbean and the small islands in the Pacific. For the Philippines, it is also a serious concern as it affects the core of cross-border flows and transactions.

Accordingly, even before the inclusion of the Philippines in the Financial Action Task Force (FATF) grey list based on reports received by industry associations as of October 2017, eight Philippine banks and three money transfer operators reported that 158 accounts across 17 countries were closed by 51 foreign banks since 2010. In the Philippines, de-risking takes three forms, termination of nostro/correspondent banks (20 or 13 percent), closure of bank/MSB tie ups accounts abroad (67 or 42 percent), and closure of Philippine remittance company/subsidiary accounts (71 or 45 percent). Nonetheless, since the inclusion of the Philippines in the FATF grey list and the UK/EU Lists of High-Risk Countries, there were no reported new cases of de-risking in 2023. Account closures, if any, were voluntary such as due to business considerations.

Sustained cooperation and collaboration with industry partners, including the APCB, is important as we continuously scale up our efforts to exit from the Financial Action Task Force grey list. To foster economic growth, a well-established financial system infrastructure, including a robust correspondent banking relationship environment across a wide range of corridors and financial institutions, is critical to facilitate the smooth flow of cross-border transactions for both trade and non-trade purposes.

Conclusion

Finally, I would like to end by echoing the message commonly used by most millennials nowadays, *ika nga nila "Malayo pa, pero malayo na."* Let us continue to move forward and create impactful changes. Together, let us continue to do more, learn more, and achieve more toward a resilient, inclusive, and sustainable financial ecosystem.

Again, congratulations to the APCB and I wish everyone a productive and successful convention.

Maraming salamat at mabuhay tayong lahat!

¹ Philippine Economic Updates, May 2024 (<https://www.bsp.gov.ph/Pages/IRG/Philippine%20Economic%20Updates%20Vol%202-2024.pdf>)

² Philippine Economic Update (The World Bank Group), June 2024 (<https://documents1.worldbank.org/curated/en/099060324081514520/pdf/P5007681e705060c4184fb187b187a5c81d.pdf>)

³ Philippine Economic Updates, May 2024 (<https://www.bsp.gov.ph/Pages/IRG/Philippine%20Economic%20Updates%20Vol%202-2024.pdf>)

⁴ Philippine Economic Update (The World Bank Group), June 2024 (<https://documents1.worldbank.org/curated/en/099060324081514520/pdf/P5007681e705060c4184fb187b187a5c81d.pdf>)