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PASCN Discussion Paper No. 2001-09

Reactions to the Entry of Foreign Banks in the Philippines: A Critical Study of Local Selected Banks

Rene B. Hapitan

The *PASCN Discussion Paper Series* constitutes studies that are preliminary and subject to further revisions and review. They are being circulated in a limited number of copies only for purposes of soliciting comments and suggestions for further refinements.

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Rene B. Hapitan

De La Salle University-Manila

December 2001

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Abstract

In this paper, various reactions to the entry of foreign banks were obtained from a survey of ten (10) local commercial banks. While there was increased competition from the foreign banks, there was little evidence to support that their entry has increased the variety of financial services, has brought incremental intermediation activities, and has brought in new technologies and processes. This can be attributed to relatively high returns on equity and substantial potential revenue losses from the local banks. To meet the increased competition, the most preferred reaction of the local banks is through core marketing strategies as foreign banks were seen more of a "marketing problem" rather than a "banking problem." This paper hopes to reinforce macro economic studies made in the entry of foreign banks.

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Executive Summary

Under the Foreign Bank Liberalization Act of 1994, the country took its biggest step in liberalizing the banking and financial sectors by allowing wider foreign ownership of the banking system. More than five years of its implementation, the benefits expected from their entry, such as increased variety of financial services, increased intermediation activities, and adoption of new technologies and processes have yet to be experienced. The perceived slowness of the changes is due to the higher returns on equity received by the foreign banks which impedes innovation in terms of developing new "foreign" technologies and processes.

Survey results of ten (10) local banks show increased competition in terms of selected products and services from these foreign banks. However, existing branching regulations do not pose a severe threat to the local banks. In fact, the preferred response of local banks was core marketing strategies, and most were directed at their (local) counterparts.

Reengineering, which was expected to be one of the responses made by the local banks, was made more as part of good business strategy rather than to meet competition from the foreign banks. This paper concludes with three illustrative examples of how some local banks reengineered part of their product and service networks.

Reactions to the Entry of Foreign Banks in the Philippines: A Critical Study of Selected Local Banks[1]

Rene B. Hapitan[*]

I. Introduction

Ten (10) foreign banks were allowed to establish branches under the Foreign Bank Liberalization Act (Republic Act No. 7721) of 1994. It was envisioned that the entry of these foreign banks will create a "dynamic banking and financial system that will stimulate economic growth, attract foreign investments, provide a wider variety of financial services to Philippine enterprises, households and individuals, strengthen linkages with global financial centers, enhance the country's competitiveness in the international market and serve as a channel for the flow of funds and investments into the economy to promote industrialization" (Section 1, RA 7721). With this law, "the Philippine banking and financial system is hereby liberalized to create a more competitive environment and encourage greater foreign participation" (Section 1, RA 7721). It is the clear intention of this law to liberalize the banking and financial sectors by allowing wider foreign ownership.

A quick review to the reactions to the entry of foreign banks in other countries has been mixed. In the 1980s when Japanese banks obtained a sizeable presence in the United States, local bankers, feeling the competitive pressure, expressed concern over the increased foreign presence. This later prompted the United States Government to convince the Japanese and other foreign countries to allow similar treatment of U.S. banks in those countries (Grosse and Goldberg, 1991). Perceptions that foreign bank entry to Australia had been a failure, prompted a government inquiry which later lead to the full deregulation of foreign access into that country (Williams, 1998). Further relaxation of barriers to foreign entry into the Mexican financial services came with the ratification of the North American Free Trade Agreement (NAFTA). But the Mexican Finance Ministry, seeking to limit the impact of US bank competition, drove a hard bargain. Even though Mexican banks' operating efficiency was steadily improving, new private sector owners of Mexico's largest commercial banks were not anxious to face foreign competition (Maxfield, 1997).

In the book "Banking in Asia: The End of Entitlement", Casserley and Gibb (1999) describes banking activity in Asia during the periods prior to the crisis:

> In the 1980s and most of the 1990s, immense fortunes were made as commercial and investment banks funded "the Asian miracle". In most Asian

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markets then, a banking or securities license gave access to easy profits. So, even though the Asian markets outside Japan were very small when compared to those of Asia and Europe, many international bankers felt they had to be part of banking in Asia. But the 1997-1998 crisis brought those of making easy money in Asia to an abrupt end…What the crisis did was to quicken the regulatory and competitive changes, compressing what most in the financial industry thought would take as long as 10 years into just two or three.

Citing previous studies, an Asian Development Bank study released last year traced several arguments in foreign bank participation in domestic economies. First, domestic branches of foreign banks have their own private lenders of last resort namely, the foreign head office and also the monetary authorities of their home countries, this lowering to some extent, the liquidity support of the domestic central bank. Second, a country could import competent managers from foreign banks and internationalized domestic banks could become more sensitive to international regulations and standards. Third, domestic branches of foreign banks are likely to posses a more internationally diversified asset base, thereby lowering the vulnerability of their assets to the boom-bust cycle. Fourth, foreign bank presence may increase the amount of funding available to programs by facilitating capital inflows. Fifth, foreign bank participation was generally associated with a lower incidence of local banking crises during 1988-1995 for a large number of countries (Yoshitomi and Shirai, 2000).

The same study also pointed out some arguments against foreign bank participation. First, foreign bank presence is likely to decrease the stability of aggregate domestic bank credit, by providing additional avenues for capital flight, or by more rapidly withdrawing from local markets in the face of crises. Second, foreign banks pick the most lucrative markets or customers, leaving less competitive domestic financial institutions to serve other more risky customers and increasing the risk borne by domestic financial institutions. Third, foreign bank participation may deteriorate financial supervision owing to the multiple challenges to supervision raised by complex financial institutions, especially in the presence of asymmetries in information between home and host country supervisors (Yoshitomi and Shirai, 2000).

By analyzing the reactions of selected local banks, valuable insights are expected to be obtained on whether these banks have changed their strategies as a result of the entry of foreign banks.
Specifically, this study would:

1. Identify general reactions to the entry of foreign banks.
2. Determine if these changes resulted in some form of reorganization or creation of new departments specifically designed to meet competition from foreign banks.
3. Evaluate the overall success or failure of the changes whenever applicable.

To accomplish this, a preliminary survey of selected local banks was made to provide the initial input. (The survey questions can be found in Appendix 4.) Subsequent

interviews of selected bank personnel were made to validate the responses. Secondary data from various sources, including previous empirical studies were used to support the survey and interview results. The study was further expanded to include the experience of three commercial banks in terms of reorganization. The reorganization cases illustrated involved the entire bank or part of its operations.

II. Review of Related Literature

Adamos (1992) acknowledged that the success of financial integration depends on proper sequencing and speed especially on countries with shallow and oligopolistic financial markets. Slow transformation may cause a drag in the economy and a hasty transition can contribute to financial disruptions and even financial crisis. Countries undertaking financial reforms have to deal with the initial shocks squarely and decisively and fast so that financial liberalization will not merely end up an economic aberration.

A cursory review of the various attempts at financial liberalization and integration over the last thirty years clearly shows that. In the seventies and eighties, financial liberalization was a by-word, a key economic policy. The process has become associated primarily with a reduction of government intervention, deregulation of interest rates, and elimination of credit controls. Later, in order to accelerate the pace of liberalization, several radical policies were introduced, the entry of foreign banks being one of them.

However, as the eighties closed, economies that experimented on several of these radical policy shifts to accelerate financial liberalization soon began to experience a slowdown in growth and productivity. The latter half of the nineties exposed the weaknesses of these policy shifts exposed with adverse results.

A comparison of the financial liberalization efforts of Korea, Malaysia, Sri Lanka, Indonesia, and Thailand revealed that before foreign banks were allowed to enter, various interest rate controls were imposed, relaxed, and in some cases, re-imposed (Aguirre, Bella, Cruz, and Salud, 1999). This allowed some form of protection to local banks, but at the same time creating an environment for the entry of foreign banks.

A comprehensive review of the entry of foreign banks is provided in the World Bank study of Claessens, Demirguc-Kunt, and Huizinga (1998). Using bank level data such as net interest margins, overhead, taxes paid, and profitability of foreign and domestic banks of 80 countries, the authors found that foreign banks achieved higher (and conversely, lower) profits than domestic banks in developing (developed) countries. The study further suggested than an increase in the share of foreign banks leads to a lower profitability of domestic banks. Denizer (2000) investigating the entry of foreign banks in Turkey found that despite a smaller scale of operations, foreign banks increased competition and that their entry reduced the overhead expenses of domestic commercial banks, which in turn increased their profits.

In the Philippines, Tolentino (1988) identified Philippine financial liberalization reforms in four (4) components; first, the gradual abolition of legal ceiling on interest

rates; second, the reduction of specialization among banks; third, the further increase in minimum capitalization; and fourth, the mover towards the closure of allocative low interest rediscount windows of the Central Bank. The country's experience in liberalization during the early 1980s was hampered by a severe liquidity crisis with the government taking over several banks in order to restore confidence in the banking system.

This environment eventually allowed the entry of the foreign banks into the local banking industry, culminating in the passage of Republic Act 7721, or "An Act Liberalizing the Entry and Scope of Operations of Foreign Banks in the Philippines." Under this law, a foreign bank can enter into country via any, but only one of the following modes: by acquiring, purchasing, or owning up to 60% of the voting stock of an existing bank, by investing up to 60% of the voting stock of a new banking subsidiary, incorporated under Philippine laws, or by establishing branches with full banking authority.

The nineties revealed a further weakness in the country's efforts to liberalize with the onset of the Asian Financial Crisis amid this new liberalization law. Delhaise's (1998) study recounts the Philippine experience during this period:

> After the July 1997 devaluation, interest rates jumped and liquidity melted down, ultimately constricting interest income. The Philippines was the first Asian country to really open its doors to foreign banks, after years of isolation. Initially, some selected banks were permitted to open 100% foreign owned branches, although networks were limited in size. Subsequently, President Ramos came out with the surprising offer for foreign investors to acquire up to 60% of local banks, with almost no restriction. Foreign banks had just begun to take advantage of the new liberalization when the crisis erupted. started. Their presence (was) bound to have a further negative impact on bank margins.
>
> The currency crisis and the general slowdown of the economy (have) affected the banks (in the Philippines) in a much smaller way than they are affecting the banking systems in the other countries of the region. The cash flow generated over the years has allowed the banks to achieve several objectives. Firstly, any need for loan loss provision has been met immediately out of recurrent profits.
>
> This has permitted the banks to enter the crisis with almost a clean slate. Secondly, the banks have been able to improve their capital adequacy ratios well above international guidelines, to the point that many of them are capitalized at more than twice the norm. Thirdly, the belated growth in lending, witnessed over the last few years only, was supported with adequate adjustments to equity funds, something the average bank in the rest of South East Asia has not be able to achieve.

By July 1999, nine (9) foreign banks had continued to operate in the Philippine banking industry under the said law. There were initially ten (10) which were granted licenses, but one bank (Development Bank of Singapore) decided to acquire a bank already established under existing Philippine laws (Bank of Southeast Asia), making it existing outside Republic Act 7721. In a pronouncement by Governor Rafael Buenaventura last August 1999, there is no haste in the Bangko Sentral to fill the vacant slot to allow more bank mergers.[2]

Because the presence of these banks has been relatively new, empirical studies on the entry of foreign banks into the country have been limited. Fisher (1997) in his paper "Financial Liberalization to Bank Failure: Starting on the Wrong Foot?" relates that extensive reorganizations of financial institutions have cost great sums to society…that taxpayers end up shouldering the entire burden caused by the institutional failures induced by government's ploy to shift to a liberalized regime. It is from this paper that the focus of this study will be made. Is the Philippines starting on the "wrong foot" in terms of financial liberalization through the entry of foreign banks?

III. Data Presentation and Analysis

Industry Overview

Tables 1a and 1b show the Philippine Commercial Banking Industry as of December, 2000 based on information from the Central Bank and the Bankers' Association of the Philippines:

TABLE 1a. PHILIPPINE COMMERCIAL BANKING INDUSTRY
LOCAL BANKING SECTOR
(as of December, 2000)

PRIVATE COMMERCIAL	GOVERNMENT-OWNED
Allied Banking Corporation	Al-Amanah Islamic Bank
Asia United Bank	Development Bank of the Philippines
Banco de Oro	Land Bank of the Philippines
Bank of Commerce	
BPI-Far East Bank	
China Banking Corp.	
China Trust (Phils.) Commercial Bank	
Dao Heng Bank	
DBS Bank Phils.	
East-West Banking Corporation	
Equitable-PCI Bank	

[2] Following President Estrada's visit to China last May 2000, the Bank of China (BOC) was granted a license to operate in the country. BOC will take over the slot vacated by the Development Bank of Singapore, which gave up its foreign license when it acquired 60% of the Bank of Southeast Asia in September 1998.

Export and Industry Bank	
Global Bank	
International Exchange Bank	
Maybank Philippines	
Metropolitan Bank and Trust Company	
Phil. Bank of Communication	
Phil. National Bank	
Phil. Trust Company	
Phil. Veterans Bank	
Prudential Bank	
Rizal Commercial Banking Corporation	
Security Bank and Trust Company	
TA Bank of the Philippines	
Traders Royal Bank	
Union Bank of the Philippines	
United Coconut Planters Bank	
United Overseas Bank	

TABLE 1b. PHILIPPINE COMMERCIAL BANKING INDUSTRY
FOREIGN BANKING SECTOR
(as of December, 2000)

Foreign Banks	Offshore Banks	Representative and Regional Offices
ANZ Banking Group	ABN AMRO	Banco Espanol de Credito
Banco Santander Phils. Inc.	American Express Bank Ltd.	Bank of Hawaii
Bangkok Bank Public Co., Ltd.	Bank of Nova Scotia	Bank of New York
Bank of America , NT & SA	Bankers Trust Company	Banque Paribas
Bank of Tokyo, Ltd.	Banque Indosuez	Continental Bank, NA
Chase Manhattan Bank	Banque National de Paris	Export-Import Bank of Japan
Citibank, NA	Credit Lyonnais	Mitsui Taiyo Kobe Bank Ltd.
Deutsche Bank AG	First Natl. Bank of Boston	Morgan Guarantee Trust of NY
Fuji Bank, Ltd.	Intl. Bank of Singapore	Philadelphia National Bank
Hongkong Bank (HSBC)	Overseas Chinese Bank	State Bank of India
Intl Coml. Bank of China	PT Lippo Bank	Summa International Bank
ING Bank	Stanchart Australia	
Korea Exchange Bank		
Standard Chartered Bank		

For purposes of this study, these banks will be classified as foreign, since their licenses to operate was approved under RA 7721:

1. ANZ Banking Group
2. Bangkok Bank
3. Bank of Tokyo
4. Chemical Bank
5. DBS Bank
6. Deutsche Bank
7. Fuji Bank
8. International Commercial Bank of China
9. ING Bank
10. Korea Exchange Bank

Tables 2a to 2c traces the performance of the banking sector in terms of total assets, deposits, and loan portfolio from 1995 to 2000.

TABLE 2a. PHILIPPINE COMMERCIAL BANKING INDUSTRY MARKET SHARE SUMMARY: TOTAL ASSETS (for the year ending December)

	Domestic Banks		Foreign Banks		Government Banks	
	Amount (P million)	% to total	Amount (P million)	% to total	Amount (P million)	% to total
1995	817,134	63.7	120,472	9.4	344,362	26.9
1996	1,273,803	67.5	217,701	11.5	396,518	21.0
1997	1,647,388	63.8	433,474	16.8	500,248	19.4
1998	1,642,982	65.1	394,802	15.7	484,256	19.2
1999	1,784,962	65.0	411,053	15.0	548,815	20.0
2000	1,911,325	64.6	466,692	15.8	578,463	19.6

Notes: 1. Foreign banks include the fifteen (15) banks listed in Table 2b.
2. Data from Chemical Bank is until 1996 only.
4. Government banks include A l-Amanah (Islamic) Bank, DBP, Landbank and PNB.
5. Figures may not add due to rounding.

Source: Central Bank Factbook, various years

The share of foreign banks in terms of total assets to the banking industry is reflective of the performance of the economy from 1995 to 2000. After peaking in 1996, a severe drop was experienced in 1997 and 1998 due to the Asian financial crisis. The drop continued in 1999 and a modest growth was seen in 2000.

Much of the growth of the assets of the foreign banks was made at the expense of the government banks except in 1999. This was attributed to the increased activity in Landbank and PNB. Furthermore, the share of government banks in terms of assets has been on a steady decline since 1995.

It is interesting to note that the performance of the local banks deteriorated much faster than the foreign banks. This is despite the series of mergers and acquisitions made during the 1998 to 2000 period. The drop in share of assets could also be attributed to the closure of several banks, such as Urban Bank.

TABLE 2b. PHILIPPINE COMMERCIAL BANKING INDUSTRY MARKET SHARE SUMMARY: TOTAL DEPOSITS (for the year ending December)

	Domestic Banks		Foreign Banks		Government Banks	
	Amount (P million)	% to total	Amount (P million)	% to total	Amount (P million)	% to total
1995	575,094	69.3	43,311	5.2	211,688	25.5
1996	834,512	73.3	55,874	4.9	247,252	21.7
1997	1,073,395	72.7	110,379	7.5	292,551	19.8
1998	1,141,577	72.0	149,611	9.4	293,175	18.6
1999	1,238,614	70.0	199,202	11.3	330,075	18.7
2000	1,124,529	66.8	260,796	15.5	297,315	17.7

Notes:
1. Total deposits include demand, savings, time, and special deposit accounts.
2. Foreign banks include the fifteen (15) banks listed in Table 2b.
3. Data from Chemical Bank is until 1996 only.
4. Government banks include Al-Amanah (Islamic) Bank, DBP, Landbank and PNB.
6. Figures may not add due to rounding.

Source: Central Bank Factbook, various years

In terms of share in deposits, we see a different trend in the performance of the foreign banks. It has grown six times in absolute pesos and three times in market share compared to the domestic and government banks. After dipping slightly in 1996, deposits have risen dramatically, taking substantial market share from its industry competitors.

Even more dramatic is the drop in market share of the domestic banks especially in the year 2000. This can be attributed to the increased competition through aggressive marketing strategies and alliances with financial institutions. It is also during the last two years that we have seen foreign banks such as Citibank, HSBC, ING Bank, and Standard Chartered targeting "smaller" accounts such as those from individuals, and small business establishments, through their credit card network, consumer, and business loans

TABLE 2c. PHILIPPINE COMMERCIAL BANKING INDUSTRY MARKET SHARE SUMMARY: TOTAL LOAN PORTFOLIO (for the year ending December)						
	Domestic Banks		**Foreign Banks**		**Government Banks**	
	Amount (P million)	**% to total**	**Amount (P million)**	**% to total**	**Amount (P million)**	**% to total**
1995	513,879	67.7	67,187	8.8	178,314	23.5
1996	839,782	71.0	114,658	9.7	228,557	19.3
1997	1,009,404	67.5	182,398	12.1	304,465	20.4
1998	980,023	68.1	170,610	11.9	289,040	20.0
1999	968,310	67.2	194,127	13.5	279,103	19.3
2000	973,000	65.9	222,041	15.0	281,601	19.1

Notes: 1. Total loan portfolio includes interbank loans receivable, net loans, discounts, and advances, and net customers liability.
2. Foreign banks include the fifteen (15) banks listed in Table 2b.
3. Data from Chemical Bank is until 1996 only.
4. Government banks include Al-Amanah (Islamic) Bank, DBP, Landbank and PNB.
7. Figures may not add due to rounding.

Source: Central Bank Factbook, various years

Since the behavior of deposits more or less follow that of loans, we see the same dramatic trend in terms of loan portfolio share. Severely affected by the crisis, we observe that there has been a slowdown in lending activities by the domestic and government banks, and except for a slight decline in 1998; foreign banks seem unaffected by the crisis in terms of loan activities.

The preliminary data seem to suggest that foreign banks have indeed slowly taken some market share from the domestic and government banks, especially on the deposit side.[3]

IV. Presentation of Survey Results

Table 3 shows the profile of the ten (10) banks that have responded to the survey (although one bank declined to answer). The respondent banks comprise about 54of total assets, 65% of total deposits, and 62% of total capital of the banking industry as of December 2000.

[3] Note that Tables 2a and 2c include other foreign banks which were operational before the implementation of RA 7721.

TABLE 3
PROFILE OF RESPONDENT BANKS

TYPE OF BANK	NUMBER	% TO TOTAL BANKING INDUSTRY AS OF JUNE 2000		
		ASSETS	DEPOSITS	CAPITAL
Universal/Commercial	6	40.4	49.7	49.8
Government Specialized	2	13.6	15.1	11.9
Savings/Thrift	2	n.a.	n.a.	n.a.
TOTAL	10	54.0	64.8	61.7

Note: 45 banks comprise the banking industry sample that excludes the savings/thrift banks. Preliminary data is sourced from the Central Bank

TABLE 4
DESCRIPTION OF THE OVERALL COMPETITIVE ENVIRONMENT

BEFORE THE ENTRY OF FOREIGN BANKS			AFTER THE ENTRY OF FOREIGN BANKS		
Response	No. of responses	% to total	Response	No. of Responses	% to total
Highly competitive	1	11.1	Highly competitive	4	44.4
Very competitive	4	44.4	Very competitive	3	33.3
Competitive	3	33.3	Competitive	1	11.1
Little competitive effect	0	0.0	Little competitive effect	0	0.0
No competitive effect	1	11.1	No competitive effect	1	11.1
Total	9	100.0	Total	9	100.0

In response to the first question regarding the description of the overall competitive environment, there has been a significant change from the "very competitive" and "competitive" environment to the "highly competitive" and "very competitive" environment (Table 4). Although one (1) bank said that the entry of foreign banks did not have a competitive impact on its operations, the responses recognize that the entry of the foreign banks had a major impact in terms of competition among the local banks.

In terms of area of operations (Table 5) and products (Table 6) where competition was most significant, and where there have been perceived reductions in market share and revenues, most of the banks answered wholesale banking. This is expected because foreign banks initially catered to the larger and (presumably) higher margin accounts.

TABLE 5
AREA OF OPERATIONS WHERE COMPETITION WAS MOST SIGNIFICANT

AREA OF OPERATIONS	No. of responses
Wholesale Banking	7
Retail Banking	1
Development Banking No competitive impact	0 1
Others	
Foreign currency transactions	1
Deposit-taking (high end market)	1
Corporate banking (triple A borrowers)	1
Treasury products	1

Note: Multiple answers possible

TABLE 6
PRODUCTS OR SERVICES WHICH HAVE BEEN SIGNIFICANTLY AFFECTED (IN TERMS OF REDUCTION OF MARKET SHARE OR REVENUES)

General Classification	No. of responses
Retail	3
Wholesale	8
Development	0
Others	
Lending to MNCs and top 100 domestic firms	1
Deposit-taking (high end market)	1
Corporate banking (triple A borrowers)	1
Treasury products	1

Note: Multiple answers possible. Based on the eight (8) banks which experienced a significant competitive impact from the entry of foreign banks.

In terms of specific products or services, the responses are seen in Table 7:

TABLE 7
SPECIFIC PRODUCTS OR SERVICES WHICH HAVE BEEN SIGNIFICANTLY AFFECTED (IN TERMS OF REDUCTION OF MARKET SHARE OF REVENUES)

Specific Product/Service	Highly Significant	Very Significant	Significant	Fairly Significant	Not Significant
Lending/loans	2	2	4	1	1
Deposits	1	1	6	1	1
Foreign exchange	4	1	2	2	1

Trust services	1	0	3	3	3
Investment banking	3	2	2	1	2
Money market placements	2	0	5	1	2
Investment in fixed assets	0	0	2	6	2
Others					

1. Lending/loans: Majority of the responses was on the "significant" impact, although there were some notable responses on the "highly significant" and "very significant column.

2. Deposits: There was unanimity of the responses as majority said that there was a "significant" impact on the entry of foreign banks.

3. Foreign exchange transactions: Majority of the banks said that the entry of foreign banks had a "highly significant" and "very significant" impact.

4. Trust services: Majority of the responses was on the "fairly significant" to "not significant" column.

5. Investment banking: Responses were mostly on the "very significant" to "highly significant" impact column.

6. Money market placements: Most of the responses were on the "significant" level.

7. Investment in fixed assets: Majority of the responses was on the "fairly significant" to "not significant" column.

By assigning values to the responses and ranking them accordingly, foreign exchange would rank first in terms of significance, followed by lending/loans, investment banking, and deposits. Rounding up to the lower levels of significance are money market placements, trust services, and investment in fixed assets.

Because foreign banks initially catered to their own nationals, it was expected that foreign exchange transactions would rank very high. Lending/loans and investment banking would also rank high as local banks were significantly affected in the wholesale banking business, which could partly account for the findings in Table 2b.

On the other hand, investment in fixed assets would be on the low side because of the limited number of branches allowed under R.A. 7721. Trust services were also expected to be low because none of the foreign banks under R.A. 7721 have been granted licenses to undertake these operations and that there are certain requirements needed in order for these licenses to be granted.

Among the other (qualitative) factors, local banks that have been affected by the entry of foreign banks were most affected by fund sourcing (which includes deposits) and in the hiring of employees (Table 8). Three (3) of the local banks interviewed admitted that during the first few months of operations of these foreign banks, this represented a temporary problem in terms of hiring and retaining productive employees.

This problem is addressed in Calderon, Villanueva and Tullao's (2000) study when they noted that "there are human resource implications of the continuous consolidations/mergers and reengineering ventures of finance institutions on the supply of bankers due to retrenchment. On the other hand, in view of liberalization, the country may experience a shortage of highly qualified professionals to work locally because they now have opportunities to be hired abroad. With the entry of foreign banks, a dual internal labor market can also emerge with differences in compensation between foreign and local professionals". The study proceeds with the various supply-side alternatives to the labor issue.

TABLE 8
OTHER SIGNIFICANT FACTORS AFFECTED

Other Significant Factors	No. of responses
Branch network	2
Fund sourcing	7
Obtaining new clients	3
Hiring of employees	7
Changes in information technology/computerization	4
Increase in capital	3
Others	
Retaining existing clients	1

Note: Multiple answers possible, one bank did not answer

Owing to the highly secretive nature of the industry, only six banks responded to the question on potential business revenues lost (Table 9). For those who responded nonetheless, the results are surprising. Close to a half a billion pesos may have been potentially lost by these local banks to their foreign counterparts, a direct result of the competition on the wholesale banking activities. Follow-up interviews from those banks which have experienced potential revenue losses of over P 100-million have admitted that the lost revenues have forced them to look into other market niches in order to offset the losses. What seems to be more surprising, however, is that the banks interviewed downplayed these losses and said that more competition was felt from the other local banks rather than these foreign banks.

TABLE 9
POTENTIAL BUSINESS REVENUES LOST (CURRENT YEAR)

Business Revenue Lost	No. of responses
Below P 1.0 million	0
P 1.0 million to below P 25.0 million	2
P 25.0 million to below P 50.0 million	1
P 50.0 million to below P 100.0 million	1
Above P 100.0 million	3

Note: three banks did not answer

In order to meet the competition from the entry of foreign banks, local banks have resorted to a variety of strategies (Table 10). In terms of "strong" responses, we can further re-classify the strategies as follows:

1. Strategies immediately being implemented (3 responses each):
   - 2.1 Move to other markets/market niches
   - 2.2 Review pricing to meet competition
   - 2.3 Re-engineer all or some processes

2. Strategies already being addressed:
   - 2.1 Invest in new technology (8 responses)
   - 2.2 Increase advertising and promotion activities (7 responses)
   - 2.3 Introduce new products (6 responses)

3. Strategies that are not needed:
   - 3.1 Merge/acquire rural banks, foreign banks, and other financial companies (8 responses each)
   - 3.2 Merge/acquire savings/thrift banks (6 responses)
   - 3.3 Hire consultants (6 responses)
   - 3.4 Merge/acquire other commercial banks (5 responses)
   - 3.5 ISO certification (5 responses)

4. Strategies already done (1 response each)
   - 4.1 Re-engineer all or some processes
   - 4.2 Review manpower policies
   - 4.3 Form strategic alliances with foreign banks
   - 4.4 Capital infusions from present shareholders, from outsiders, or a combination

The core marketing strategies such as moving to other markets/market niches, review pricing, introduction of new products, and increase in advertising and promotion activities are often a preferred choice in an environment of increasing competition. Interviews have confirmed that majority of the local banks view the entry of foreign banks as a marketing challenge and are therefore preparing for such. This could explain

why re-engineering was ranked high. Banks view their marketing strategies as part of an on-going re-engineering effort, but only in terms of the core strategies mentioned above. None of the banks interviewed mentioned re-engineering the entire organization, only a portion of their marketing department (or its equivalent) as a response to the entry of foreign banks. Thus, one significant finding of this study is that the entry of foreign banks did not move the local banks to re-engineer their entire organization.

Investing in new technology appears to be the more preferred response of the local banks. Realizing that the potential transfer of technology of the foreign banks (which are presumed to be superior) to their domestic branches could have a significant impact on the industry, local banks are looking at investments in new technology as the new frontier, providing at least a level playing field. Jumping on the e-commerce bandwagon is now common among local banks and they are looking beyond the additional investment in the number of automated teller machines as a response.

TABLE 10
STEPS BEING DONE TO MEET COMPETITION AND TIME FRAME

	Immediately	Already being addressed	Not Needed	Done
Change in mission/vision	2	4	2	
Invest in new technology		8		
Move to other markets/market niches	3	2	3	
Introduce new products	2	6		
Review pricing to match competition	3	4	1	
Hire consultants		2	6	
Increase bank network		4	4	
Re-engineer all or some processes	3	3	1	1
Review manpower policies	1	5	1	1
"Pirate" from other banks		5	3	
ISO certification		3	5	
Form strategic alliances				
1. With other local banks	1	3	4	
2. With foreign banks	2	3	2	1
Increase advertising and promotion activities		7	1	
Capital infusion				
1. From present shareholders	2	3	2	1
2. From outsiders	2	1	4	1
3. Combination	2	1	4	1

Merge/acquire				
1. Other commercial banks	2	1	5	
2. Savings/thrift banks		2	6	
3. Rural banks			8	
4. Foreign banks			8	
5. Other financial companies			8	

Primarily due to time and cost considerations, mergers and acquisitions were generally least preferred. Since most of the banks that have responded to the survey have complied with the Central Bank requirements on capitalization, there was no need to merge or acquire in the immediate future.

Also least preferred were the "costly" alternatives such as ISO certification and the hiring of consultants. One bank was even skeptical about the benefits of an ISO certification and referred to a certain bank that was ISO certified but eventually experienced troubles in its operations.

There was only one bank that responded as not having significant impact from the entry of foreign banks, primarily because this bank felt that their products and services cater to a different market niche (Table 11). In preparation for the eventual competition, the said bank would introduce new products, increase its network, and form strategic alliances with foreign banks (Table 12). On going were possible investments in new technology, review of pricing, re-engineering, and increasing its advertising and promotion activities.

TABLE 11
NATURE OF "NO COMPETITIVE IMPACT"

Nature of "no competitive impact"	No. of response
Products and services cater to a different market niche	1
Products and services are complementary	
Only some products are competitive and does not represent a significant impact on the bank's revenues	
Local banks present a more significant competition that the Foreign banks	1

TABLE 12
STEPS BEING DONE TO PREPARE FOR COMPETITION AND TIME FRAME

	Immediatel y	Within one year	After one year	On-going
Change in mission/vision			1	
Invest in new technology				1
Introduce new products	1			
Review pricing to match competition				1
Increase bank network		1		

Re-engineer all or some processes				1
Form strategic alliances 1. With other local banks 2. With foreign banks	1			
Increase advertising and promotion activities				1

Note: Unanswered items were deleted.

What would change the said bank in its position would be an increase in the number of foreign banks and its branches, and an increase in the top-tier banks, whether local or foreign (Table 13).

TABLE 13
WHAT WOULD CHANGE THE BANK'S POSITION ON THE PRESENT "NO COMPETITIVE IMPACT" PERCEPTION

Response	No. of response
Increase in the number of foreign banks	
Increase in the number of branches the foreign banks will be allowed to establish	
Increase in the number of foreign banks and the number of branches for each foreign bank	1
Increase in capitalization requirements	
Others	
Increase in the number of top-tier banks	1

Overall, the local banks were of the opinion that the entry of foreign banks was able to liberalize both the economy and the banking sector (Table 14). They also felt that the entry of foreign banks would be more desirable if there was an increase in the number of banks, the number of branches per bank, and that some form of reciprocity arrangement could be made with their countries of origin. The local banks would support legislation that would increase the competitive environment of the foreign banks, although one bank interviewed said that any legislation would only increase control on the banking environment. Finally, in terms of merger, no consistent or dominant local bank response was observed.

TABLE 14
GENERAL ASSESSMENT OF FOREIGN BANKS AND FINANCIAL LIBERALIZATION

Were Ten Foreign Banks Satisfactory in Liberalizing the Banking Sector?

Response	No. of responses	% to total
Yes.	6	66.7
No. More than is required, but there should be a limit.	2	22.2
No. There should be no limit to the number of foreign banks.	1	11.1
Total	9	100.0

Were Ten Foreign Banks Satisfactory in Liberalizing the Economy In General?

Response	No. of responses	% to total
Yes	6	66.7
No	3	33.3
Total	9	100.0

What Changes Would Make the Entry of Foreign Banks More Desirable?

Response	No. of responses
Increase the number of banks	2
Decrease the number of banks	2
Increase the number of branches per bank	3
Increase the capitalization requirements	2
Allow the entry of local banks in the country of origin of These foreign banks (complementary/reciprocity arrangement)	3
Others	0

Note: multiple answers allowed.

Would You Favor Legislation That Will Further Increase the Competitive Environment of Foreign Banks?

Response	No. of responses	% to total
Yes	6	66.7
No	3	33.3
Total	9	100.0

Would You Favor a Merger with a Foreign Bank?

Response	No. of responses	% to total
Yes	2	22.2
Yes, but not at this time.	3	33.3
No	3	33.3
Depends on the strategy.	1	11.1

Summary of Survey Results

What can be determined from the survey are the following:

1. Prior to the entry of foreign banks, the environment was considered to be "competitive to very competitive". With the entry of the foreign banks, it was observed that the environment became "very to highly competitive".
2. Competition was on the wholesale banking operations, particularly on foreign exchange transactions, lending/loans, and investment banking. Least affected were investments in fixed assets, and trust services.
3. Other (qualitative) effects of the entry of foreign banks were on the sourcing of funds and the hiring of employees.
4. The potential revenue losses from the entry of foreign banks were estimated to P 500 million.
5. Preferred responses of the local banks to meet competition include mostly marketing strategies. Re-engineering was made on some bank processes only and not on the entire organization.
6. Local banks generally agreed that the entry of foreign banks were satisfactory in liberalizing the economy and the banking sector. However, there was a mixed reaction as to whether the local banks would favor a merger with a foreign bank.

V. Analysis of Results

The most significant findings in the survey pertain to the following:

1. There is an acknowledged increase in the competitive environment, particularly in the wholesale banking side. Data from the Central Bank appear to support this finding:

TABLE 15
SUMMARY OF TOTAL LOANS AND DEPOSITS OF SELECTED FOREIGN BANKS
(December 1995 to December 1999)

BANK	TOTAL LOAN PORTFOLIO (P million)			TOTAL DEPOSITS (P million)		
	Dec 1995	Dec 1999	% growth	Dec 1995	Dec 1999	% growth
ANZ Bank	583	2,910	399.1	162	2,534	1,464.2
Bank of Tokyo	4,051	10,496	159.1	2,055	10,985	434.6
Bangkok Bank	976	1,302	33.4	155	543	250.3
Chemical Bank	182	n.a.	n.a.	n.a.	n.a.	n.a.
DBS Bank	n.a.	9,104	n.a.	n.a.	4,525	n.a

Deutsche Bank	1,302	10,750	725.6	295	9,783	3,216.2
Fuji Bank	977	6,403	555.3	415	2,400	478.3
ING Bank	170	10,152	5,871.8	21	5,910	28,042
Int. Coml. Bank of China	239	5,305	2,119.7	142	1,645	1,058.4
Korea Exchange Bank	3,690	1,977	- 46.4	493	1,539	212.2
Total (foreign banks)	12,170	58,336	379.3	3,740	39,685	961.1
Total (industry)	759,380	1,441,524	89.8	830,073	1,767,892	112.9
Foreign banks to total industry	1.6%	4.0%		0.4%	2.2%	

Notes: 1. Total loans portfolio include interbank receivables, net loans and discounts, and customers liabilities.
2. Total deposits includes demand, savings, time, and special/other deposits.
3. Figures may not add up due to rounding.
4. No other figures were made available for Chemical Bank except for 1995 loans.
5. Yearly financial figures from DBS were made available for 1996.

Source: Central Bank Factbook, 1995 & 1999

In Table 2b and 2c, we saw how foreign banks have obtained a sizeable market share from the other domestic banks and the government banks. Even if we isolate the ten (10) banks under RA 7721, we can still the same substantial growth. Thus, while it can be argued that the growth can be attributed to the increased activities of the established foreign banks such as Citibank, HSBC, and Standard Chartered, the other foreign banks are not far behind. This is seen further in Table 15.

Table 15 shows total loans and total deposits of selected foreign banks have grown by almost four times and by almost ten times respectively, over the last five years. While accounting for a small portion of the industry as of December 1999, the growth figures are quite substantial. This supports our survey findings of the increased competitive environment, especially with the foreign banks growing much faster than the industry.

Individual foreign bank performance also highlights increased competition with ING, DBS, ANZ, and Deutsche Bank taking the lead. These banks have posted very high percentage growths and indicating a rather aggressive strategy in terms of loans and deposits. Only one bank registered a negative growth in its deposit base.

The growth in deposits is indicative of the strategy that these foreign banks have initially undertaken, that is, to concentrate on wholesale deposits (which are normally highly competitive, but very volatile and sensitive to cost) as opposed to retail. This is quite expected as the entry barriers to retail banking can be very high for a foreign bank as opposed to its local counterparts. And since most of the clients of the foreign banks are their own nationals, it is expected that they will be the first source of new business.

However, as competencies and economies of scale develop, these banks move into the other markets, including domestic clients. This could create a "crowding-out" in the wholesale banking side, something that could force the local banks to move to the more lucrative, but at the same, costlier (due to the number of accounts) middle market or even retail banking.

We would not discount, however, that as a preventive strategy local banks would match the competition on the wholesale side (another finding that is supported in the survey). In doing so, the foreign banks, especially with the relaxed branching rules under the New Banking Act of 2000, will "leap-frog" and move to the middle market or to retail banking. We have seen this when HSBC acquired PCI Savings Bank form Equitable-PCI last November 2000. However, some bank managers interviewed do not see this happening for the established foreign banks. Nonetheless, this will open the possibility of the local banks to be more aggressive in their strategies to reach out to the middle market or to retail banking, something that we are beginning to see in the universal/commercial banks. A favorite strategy seems to be mall advertisements and "appliance sales" for credit card companies affiliated with the local banks.

Casserley and Gibb (1999) support this when they mentioned that "locals will be naturally advantaged in the middle-market and small business segments, and through regional alliances can build attractive trade finance business. Big multinational banks will have a natural advantage in the large corporate segments, where their sizable lending limits, sophisticated products, and highly skilled staff will win most of the business."

The interplay of strategies will only result in a more vibrant banking system, wherein more markets could be reached in a faster pace.

In terms of loans, foreign banks have kept pace with the industry with ING, DBS, and Bank of Tokyo accounting for the bulk. A Central Bank report released in the middle of this year disclosed that outstanding loan exposures of foreign banks concentrated in three (3) sectors, financial institutions and business services (32.5%), manufacturing (26%), and community, social, and personal services (15.2%) (Gatdula, Phil. Star, June 19, 2000). This indicates that the foreign banks are still concentrated on the wholesale banking sector.

2. The loss in potential revenues (at least for the banks surveyed) are substantial. Admittedly, margins could suffer whenever there is a transfer of wholesale banking activity from the local to the foreign banks. In order to see how foreign banks have benefited from their operations in the country over the past five years, return on equity figures are shown in Table 16:

TABLE 16
RETURN ON EQUITY OF SELECTED FOREIGN BANKS
(as of December 2000)

BANK	RETURN ON EQUITY
ANZ Bank	22.1%
Bank of Tokyo	10.0%
Fuji Bank	5.6%
DBS Bank	4.8%
ING Bank	2.9%
Korea Exchange Bank	2.0%
International Commercial Bank of China	- 5.8%
Bangkok Bank	- 10.0%

Note : No data available for Deutsche and Chemical Banks
Source : Central Bank

By increasing their activity, especially on the deposit and loan side, the foreign banks have maintained a satisfactory return on equity. In fact, with the exception of the bottom two banks, the foreign banks are in the top 30 of banks ranked in terms of return on equity.

This is possible because of two factors: foreign bank activity (through loans and deposits, translated to margins and eventually profits) has increased while capital infusions have been limited. With the exception of two, most of the foreign banks have kept their capital growth at a minimum two times. A review is presented in Table 17.

TABLE 17
TOTAL CAPITAL ACCOUNTS OF SELECTED FOREIGN BANKS
(December 1995 to December 1999)

Bank	December 1995 (P million)	December 1999 (P million)	% growth
DBS Bank	203	2,804	926.6
ING Bank	250	1,144	357.6
Bank of Tokyo	200	720	260.0
Fuji Bank	201	602	199.5
Deutsche Bank	210	625	197.6
International Commercial Bank of China	205	293	42.9
Bangkok Bank	255	265	3.9
Korea Exchange Bank	283	257	-9.2
ANZ Bank.	n.a	250	n.a.

Source: Central Bank Factbook, 1995 & 1999

Since foreign banks are not included in the capitalization requirements imposed by the Central Bank on their local counterparts, they can enjoy relatively high returns.

Another factor contributing to this performance is the relatively low non-performing loans (NPL). Because most their loans they have extended are current, this did not severely affect their profitability. Table 18 enumerates the non-performing loan ratios of selected foreign banks:

TABLE 18
NON-PERFORMING LOANS OF SELECTED FOREIGN BANKS vs. INDUSTRY
(as of December 2000)

Bank	Non-performing loans (P-million)	Non-performing loans to Total Loan Portfolio (%)
Bangkok Bank	418	21.4
DBS Bank	1,732	15.7
Deutsche Bank	1,016	15.0
Intl. Commercial Bank of China	1,145	11.0
Korea Exchange Bank	150	7.5
ANZ Banking Group, Ltd.	173	5.2
ING Bank	396	3.8
Fuji Bank	63	1.00
Bank of Tokyo	34	0.29
Total foreign banks	5,127	
Total Industry	245,800	15.1
% to industry	2.0	

Source: Central Bank

3. <u>Because foreign banks enjoy relatively high returns on their equity, there is little evidence to support that their entry has increased the variety of financial services, brought incremental intermediation activities, and the adoption of new technologies and processes.</u> Survey results reveal contradictory findings on the matter. While the local banks have acknowledged that the foreign banks have liberalized the economy and the banking sector, and that part of the main strategy to address their entry is to invest in new technologies. But interviews show that there has been little innovation in terms of developing new "foreign" technologies and processes. For example, most of the product developments (either in terms of new products and services) being made in market are indigenous and is mostly made to compete with the local banks.

As foreign banks go to the "traditional" products and services that are locally available, domestic banks have taken the lead in terms of e-commerce. One domestic bank even claimed to the first e-bank (hence its name) in the country. It was only when this local bank capitalized on this claim that the other banks followed. However, none of

the foreign banks mentioned, except for DBS and ING, have been "visible". We trace this to the fact that the foreign banks have high returns on their equity.

A similar finding can be found in de Young and Hasan's study on de novo US banks between 1980 and 1994. Profit efficiency improves rapidly at the typical de novo bank during the first three years of operations, but on the average takes about nine years to reach established bank levels. Excess branch capacity, reliance of large deposits and affiliation with a multibank holding company are associated with low profit efficiency at de novo banks. (de Young and Hasan, 1998).

Finally, as earlier mentioned Yoshitomi and Shirai (2000) pointed to foreign banks picking on the most lucrative domestic markets or customers, this increasing the risk borne by domestic institutions as they take on more risky customers as one argument against the participation of foreign banks.

4. The most preferred reaction of the local banks is through core marketing strategies, because foreign banks are perceived to be a "marketing problem" rather than a "banking problem". It comes as no surprise that reaction of the local banks is to meet the entry of foreign banks with marketing strategies. Because of the limited branch network that is essential in obtaining more markets, local banks do not perceive the entry of foreign banks as a threat to their operations for now.

Under existing provisions in R.A. 7721, foreign banks that were granted licenses will have to put not more than six branches. Of these six branches, the Bangko Sentral has to identify the location of three, and other three should be strategically located. However, this could change with the General Banking Act of 2000 that could allow up to 100% of an existing local bank. As of the first quarter of 2001, HSBC has announced an aggressive branching strategy by acquiring PCI Savings Banks from Equitable-PCI.

As competition increase, the move toward middle markets or retail banking will necessitate investments in advertising and promotions. As mentioned earlier, mall advertisements among local are quite common, with Citibank, HSBC, and Standard Chartered initiating similar programs to that of their counterparts. Boot and Thakor (2000) sees a mixed trend in terms of competition and how banks will develop their loan portfolios. According to them, as interbank competition increases banks will make more relationship loans, but each has lower value added for borrowers. Capital markets competition reduces relationship lending (and bank lending shrinks) but each relationship loan has greater added value for borrowers. In both cases, welfare increases for borrowers but not necessarily for all.

5. Re-engineering was undertaken for its own sake, not because of the entry of foreign banks. Probably the most surprising result of the survey was that the banks made re-engineering as a self-improvement strategy rather than an entry barrier for the foreign banks. This can be seen from the different approaches and objectives made by the sample banks. Appendices A, B, and C shows an illustration of how three banks have

used re-engineering to this end. We have decided to include this as a separate section from this paper.

V. Conclusion

As the operations of foreign banks increase in scope and reach in the coming years, it is seen that the local banks will eventually move to the middle-market and retail side of the banking business, while maintaining presence in the wholesale side. The result will be a more liberalized banking sector, where the public could see improved products and services, thus achieving one of the major goals of allowing the entry of foreign banks. With branching rules slowly being relaxed, we could see more and more domestic branches of these foreign banks in the near future.

VII. Policy Recommendations

While the approach made in this study is micro in nature, there are three policy implications that can be made that are supported in the results.

1. Accelerating the liberalization process can be attained by increasing the number of branches allowed for each foreign bank.

2. Reciprocity and complementary arrangements, whereby local banks can be allowed entry in the country of origin of the foreign banks. Incentives can be set-up to encourage such an arrangement.

3. Increasing capitalization requirements for foreign banks will encourage mergers that can further boost the liberalization process.

While the General Banking Act of 2001 has addressed some of these, it would be interesting to develop further research that will determine the changes in the reactions of the local banks following this new Law.

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APPENDIX A

Bank A's Strategic Reengineering Project[1]

In early 1995, Bank A started its reengineering effort with a presentation to its Board of Directors. The presentation was made by an outside consultancy firm after a preliminary assessment of the bank's performance for the past several years. Based on the consultant's findings, there was a need for urgent action to increase its revenues by several billion pesos if it wanted to be at par with the top five banks by year 2000. The consultant illustrated that if the Bank chooses to remain with its core activities, it would not be able to achieve its long-term goal due to increasing competition from the top five banks at that time. Thus, if it wanted to catch Metrobank (which was no. 1 at that time), it would have to increase its earnings by at least P 9.5 billion by year 2000, or about a growth rate of 25-35% yearly. On the other if it wanted to catch BPI (which was no. 3), it would have to grow by 10-20% yearly.

The consultant noted that the earnings gap can be easily addressed with reengineering and automation, but more importantly, the Bank must move away from its current approach of driving product volumes to an approach that increases value. By segmenting and analyzing the Bank's 35,000 customers, the consultant presented the following alarming figures:

Customer Class	% of Revenues	% of Profits
Top 10% (A customers)	79%	90%
Next 30% (B customers)	17%	- 20%
Next 30% (C customers)	3%	- 40%
Last 30% (D customers)	less than 1%	- 107%

By increasing or driving customer value, this approach meant the maximization of the customer base and the eventually the Bank's value. Specifically, there should be reduction of cost in serving the C and the D customers. This action alone would translate to an increase of almost P 400 million a year. Aside from this, there should be a redeployment of resources for acquiring C and D customers to acquiring and retaining A and B customers. This move would result in about P 10 billion incremental value for the Bank. Distinct strategies would have to be adopted for different customers to enhance their value to the Bank.

The table that follows illustrates these value propositions:

[1] Materials for this report was made from various documents that were made available for purposes of presentation only and should not be quoted without the expressed permission of the proponent and the Bank. Many of the details have been disguised as agreed with the Bank representative. No inference is made or should be made on the efficiency or inefficiency of the Bank's administration based on this report.

Market / Customer Description	A Elites, Want Special Treatment	B Time-impoverished	C and D Mass market
Today	"What a long queue!" "Why is the service so bad?" "I'm going to follow up on those mailings and promotions."	"What a long queue!" "Why is the service so bad?" "I need to look for another bank."	"What a long queue!" "I can't get a loan elsewhere. Too bad this is the only bank that will take me."
Needed	"Great. I have a special priority queue. No waiting with the others." "This loan fits my expected salary growth best." "That's a great referral program they have. And I get rewards too!" "Finally, a bank who's good enough across multiple products that it's worthwhile for me to consolidate my finances with one bank."	"Service is so much faster and customer-friendly now." "I'll get my loan from Bank A, since they approach me first and are so persistent but friendly." "I notice the priority customers get distinctively better service. I should consolidate my accounts here."	"Teller transactions are much faster, so even though they closed down my closest branch, I am not inconvenienced." "The minimum balance for the regular passbook is too high, so the teller introduced me to the ATM, and the ATM accounts require a much lower minimum balance." "I can get a loan when no other bank would serve me. Even though it's a bit expensive, it's admirable public service."
Imperatives	Retain these customers and keep them satisfied. Encourage referrals. Tailor products to target segments.	Turn them into profitable. A customers via cross sales, consolidation	Redeploy resources for acquiring these customers elsewhere. Religiously reduce cost-to-serve. Tailor products when Pricing.

Note: Underscoring made from Bank documents
Source: Bank documents

In addition to identifying individual market segments, the strategy calls for targeting small business (agricultural, wholesale and retail, manufacturing, construction,

and mass market), the middle market, and the top 1,000 corporations. It was noted that the Bank only has presence in the individual market and small business segments. The combined strategic revamp through the identification, penetration, cross-selling, share-of-wallet, and deposit retention is estimate to bring in annual revenue of close to P 2.0 billion.

A large part of the implementation of the strategy is the redesign of the Bank's processes. Six priority processes have been identified for redesign:

1. Corporate Loan Sales
2. Corporate Loan Service
3. Home Loan Sales
4. Customer Loan Services
5. Current/Passbook Sales
6. Current Account/Savings Account (CASA) Sales
   - 6.1 CASA Services
   - 6.2 Inward Clearing
   - 6.3 Withdrawing
   - 6.4 Depositing

With the redesign, the role of the branches will be fundamentally transformed, from being "mini-banks" to become sales and service outlets. Under this set-up, the sales activities of the branch staff, will increase from the current 10% to 40%, and the service activities from 25% to 30%, whereas the processing time will be reduced from 45% to 15%, and the administration activities from 30% to 15%. This further assumes that 60% of administration time is reduced by eliminating excessive report generation and reading, 70% of processing time is shifted to regional centers for economies of scale and skill building, and the staff for reduced administration and shifted processing will be replaced by sales staff. Overall, this translates to reduction of about 30-35% of projected headcount by year 2000.

Staff that will be redeployed will be carefully screened and retrained. The Bank has an excellent training facility at present and this can be done within a reasonable time frame. An example of the skills retraining is presented below:

Value Drivers	OFFICERS		RANK-AND-FILE	
	Customer	Management	Front-line	Back-office
Sales	Sales closure Referral cultivation Product knowledge Systems knowledge	Coaching Motivation	Ability to follow script Customer service	
Retention	Interpersonal	Retention	SOPs to refer to	SOPs to refer to

	skills Situation resolution	Economics	retention unit Systems knowledge	retention unit
Cost-to-serve	Ability to prioritize sales calls Systems knowledge	Processing		Processing Systems knowledge

Note : Several Bank specific training needs were excluded
Source: Bank documents

The consultant noted that while the reengineering and systems redesign can supply the needed revenue increase, it will not assure in the leadership of the banking industry by year 2000. A merger may be required to bridge the remaining earnings gap.

Based on the presentation, a blueprint for the reengineering and systems redesign was drafted. Code-named FutureBank, the Strategic Reengineering Project provided the following salient points:

Overall
Objective: Multiply Bank A's value within five (5) years

Module 1:
Objective: Revamp of current strategy of focusing on product volumes by focusing on value
Why: Need to stand out above competition
Specific
Objectives:
1. Estimate differences in customer value by segment
   How: Calculate life-time value of each segments
   Adjust value for potential growth of segments
   Adjust for Bank A's competitiveness
2. Tailor approach by customer segment
   How: Lower cost and cross-sell for mass market customers
   Strengthen retention and acquire targeted customers
3. Estimate overall increase in value
   How: Estimate value increase from tailored approaches for each segment
   Estimate value increase from quick wins

Module 2:
Objective: Rebuild Bank A around customer segments
Why: Focus on serving customers, not internal departments
Specific
Objectives:
1. Rebuild Bank A for mass-market
2. Rebuild Bank A for targeted customers

The rebuilding will be across the following: distribution, processes and support systems, employees (training, measures, incentives), and organizational structure

Implementation in three phases:
Phase 1. Assess full potential
Phase 2. Reconfigure the bank
Subsequent Phases. Build-world class capabilities

Based on the blueprint, in parallel with the FutureBank pilot, a number of "quick wins" can be implemented within six month to achieve early impact. Some of the samples of these include:

1. Setting up of a retention unit.
2. Database credit card pre-approval
3. Increase in loan price in the provinces
4. Eliminate duplicate microfilming of in-bound checks at all branches
5. Eliminate approval for all deposits and withdrawals below P 50,000.00

An expected P 100 to 150 million annual incremental increase will result from the "quick wins" mentioned above.

For Phase 2, there will be tangible financial impact and "soft benefits" in 1997 (the second year of the Project) of about P 250 to 450 million is expected through the following:

FUTURE BANK	QUICK WINS
Revenue Initiatives • Increased penetration • Increased retention • Increased sales and cross-selling	Revenue Initiatives • Set-up retention unit • Pre-approved credit cards • Increased loan price in provinces • Pre-approved unit trust loans • Pre-approved credit line AAA customers • Referral program (friends and family)
Cost Initiatives • Consolidation of consumer lending at head office • Consolidation of middle market lending at Business Centers • Increase in deposits	Cost Initiatives • Elimination of duplicate microfilming • Elimination of end-of-day teller general ledger manual classification • Elimination of next day validation of CASA over-the-counter withdrawals, deposits and inward clearing checks below P 50,000.00 • Elimination of approval for all deposits and withdrawals below P 50,000.00 at branches

	• Promotion of zero maintaining balance ATM account for remittance beneficiaries to avoid Bulk Payment Orders
Momentum for Change • Reorganization of headquarters support functions around customer segments: Corporate Top 1,000, Middle Market, and Consumer and Small Business • Communications to all stakeholders	
1997 Impact: P 250 million	1997 Impact: P 250 to 450 million

Source: Bank documents

A sample of a specific revenue enhancement and operations excellence strategy can be found below:

Quick Win, Revenue Enhancement 1. Set Up Retention Unit

Rationale:

Increasing retention by 5 percentage points could double customer value

Key Process Changes:

- Branch tellers should direct customers who want to close accounts to managers who will try to "winback" customer
- A "winback" team will be set up to call and bring back valuable defectors with winning value proposition
- A "defection" team will identify accounts with long periods of inactivity for "winback" team to approach

Net Financial Impact: P 105 MM per year

Qualitative Impact:

- Improved customer satisfaction in showing Bank A "cares"
- Identification of root causes of why people leave and what type of people leave
- Improve morale of Bank A organization by "winning back" customers

Action Steps (with illustrated timetable):

- Develop procedures for retention including roles of branch managers, "winback" team, and defection team
- Define "empowerment" guidelines
- Determine measures and incentives to support retention
- Finalize with steering committee
- Train tellers and branch managers on new SOP
- Setup "winback" and defection team

- Train "winback" and defection teams
- Implement and monitor
- Measure results

Investment Requirements:
- Tracking software (P 5 M)
- "Winback" and defection teams (P 7.4 MM per year)

Implementation Risks: None

Source: Bank documents

Quick Win, Operations Excellence 1. Eliminate Microfilming of Checks at Branches

Rationale:

Reduce costs and working time by eliminating microfilming at branch and Clearing Services Unit

Net Financial Impact: P 96 MM per year

Investment Requirements:
- P 5 MM purchase of new item processing equipment

Action Steps (with illustrated timetable):
- Identify branches
- Roll out conversion program

Implementation risks:

Provision for P 4 MM checks lost in transit between branch and regional centers until electronic clearing system is installed by Q1 1997

Source: Bank documents

As the bank implemented many of the reengineering strategies from 1995 to 1997, a review meeting made at the latter part of 1997 revealed that the Bank could be missing out on one emerging marketing trend, customer call centers. Based on interviews with branches, the consultant found out that the branches are not equipped to handle incoming customer telephone calls. One branch manager mentioned, "if a customer call for CASA transactions, we can help them. However if they call for a remittance inquiry, we ask them to call head office; and if they call for loan status, we sometimes ask them to call the retail credit center."

While the branches have customer relations officers (CROs), they are unable to have the time to call defecting customers. Says one officer, "between processing transactions and opening accounts, we do not have the time to call all customers who close accounts. We can call only the priority club members."

A cursory review of in-bound and out-bound banking features offered by the other banks through the telephone, only Citibank offered the widest array of features. BPI, Standard Chartered, and PCI Bank are expected to offer their customers a full service call center by the end of 1998 or early 1999. At that time, PCI Bank was already had a customer complaint center, and was in to telemarketing, whereas BPI and Urban Bank had a customer complaint center. All the other banks, Bank A included were only offering the following services: balance inquiry, debit bills, checkbook re-order, funds transfer, and bank statement request.

A call center was then recommended for consideration. Since the value of retention and cross selling was high for Bank A, increasing this by 5 percentage points could double the value of its customer base. By then, Bank A had the largest customer base (over 1.5 million) in the country.

A strategy was eventually approved to implement the call center in two phases:

	Phase 1	Phase 2
Service Offering	Additional service and features - status of loan applications - account maintenance Telemarketing Product information Banking instructions Relationship calls	Balance inquiry Transaction verification Funds transfer inquiries Debit bills Checkbook reorder Bank statement request Customer complaints
Timing	December 1998	June 1999

By being able to identify the emerging trend, the Bank took advantage of what could probably be the most important phase in customer relations in the banking industry.

APPENDIX B

Bank B Philippines, Inc.'s Corporate Strategic Plan[1]

Bank B Philippines, Inc. started its operations on the latter part of 1998 with the acquisition of a local commercial bank under Section 2 (Mode of Entry) of RA 7721. With the acquisition Bank B has become a subsidiary of the foreign counterpart, the biggest in Southeast Asia and among the top 100 banks in the world. The distribution of ownership was as follows: 60% foreign, 18% previous owners, and 22% among various local shareholders. Bank B had an asset base at the time of acquisition of P 11 billion and capital funds of P 2.3 billion.

With the acquisition, Bank B had risen in stature from a local to a foreign commercial bank with the capability of a wide range of services:

Consumer Banking:

- Checking Account
- CheckPlus Account – a single account that combines the features of both checking and savings account but pays higher interest rates
- Savings Account
- BankCard – ATM card with the following banking conveniences: bills payment, statement request, checkbook request, PIN change, balance inquiry, withdrawal, deposit, funds transfer, and fast cash
- Kiddie Plan Plus Account – savings accounts for kids which comes with free insurance coverage
- Special Savings Account – a savings accounts that allows client to earn money market rates
- US Dollar Savings Account / US Dollar Time Deposit
- Payroll Service
- Deposit Pick-up Service
- Safe Deposit Boxes
- SSS Net (Collection Service)
- Collection Arrangement (PLDT and Easycall)
- Manager's Check / Gift Check / Demand Draft
- Auto Loan
- Housing Loan

Corporate Banking

- Omnibus Line – multi-purpose credit facility
- Revolving Credit Line

[1] Material for this report was provided by a Strategic Plan designed for the Bank and is for presentation purposes only. Many of the details have been disguised as agreed with the Bank representative. No inference is made or should be made on the efficiency or inefficiency of the Bank's administration based on this report.

- Import / Domestic Letter of Credit
- Trust Receipt Line
- Export-Packing Credit Facility

Corporate Banking, continued

- Export Bills Purchase Line
- Domestic Bills Purchase Line
- Term Loan
- Foreign Exchange Facility – for spot transactions

Trust and Investments

- Trust Agreements (peso and dollar)
- Fortune Fund (Common Trust Fund)
- Investment Management Account
- Retirement Funds
- Escrow Agency
- Estate Planning
- Mortgage Trust Indenture

Trade Services and Correspondent Banking

- Letter of Credit (foreign or domestic regular and standby L/C)
- Issuance of Shipping Guarantee
- Granting of Trust Receipt
- Documentary Collection
- Open Account
- Export Bills

Remittances and Settlements

- Foreign Remittance
- Foreign Demand Draft

Treasury

- Dollar-Peso Swap
- Government Security / Fixed Rate Treasury Notes / Bonds
- Government Security Treasury Bills
- Promissory Notes

Source: Bank documents as of March 2000

Being majority owners, the foreign counterpart moved quickly to establish its own organizational structure. Because of the various product lines, market-based units were formed and the structure resembles a diversified organization. There is a limited form of decentralization down the chain of command. Much of the reporting authorities are concentrated on the top.

Bank B's organizational chart is outlined on the following page.

Organizational Structure, Bank B Philippines, Inc.

Executive Director and Country Head / CEO
President / COO

Reporting Directly to the Executive Director and Country Head / CEO

1. Corporate Services

- Corporate Planning / MIS
    - Security Administration
    - Finance and Tax
    - Payment and Reconciliation
    - Legal and Secretariat
    - Human Resources and Training
    - Administration

2. Treasury
3. Corporate Banking – Relationship Management
4. Corporate Banking – Credit

Reporting Directly to the President / COO

1. Technology
    - Systems and Support
    - Systems Development
    - Quality Assurance and Security Development
    - Computer Operations
2. Operations
    - Credit Administration
    - Credit Investigations and Appraisal
    - Centralized Branch and ATM Operations
    - Branch Infrastructure and Administration
    - Systems and Methods
    - Remittances and Settlements
    - Trade Services and Correspondent Banking
3. Consumer Banking
    - Consumer Finance – Marketing
    - Consumer Finance – Credit
    - Recovery and Remedial Management
    - Branches
4. Private Banking / Customer Service
5. Compliance
6. Trust and Management
7. Planning and Marketing

Reporting Bank B Philippines, Inc. Audit Committee and Foreign Head Office – Head of Audit Matrix to the Executive Director and Country Head / CEO

1. Internal Audit

Source: Bank B records as of March 2000

The presentation of the product lines and the organizational structure is essential, as the Bank did not have a formal reengineering strategy. Much of the reengineering was done through the various departments. And since there was an internal audit reporting directly to the (foreign) Head Office, many of the forms were provided by them. During the first months of the acquisition, key officers were sent to the Head Office in order to be familiar with the various systems, hardware and software, as well as the forms that were needed to be filled up. In many respects, this is a different reengineering strategy.

The core ideology of the Bank included a commitment to provide superior financial services and customer satisfaction supremacy for its chosen target market customer base. The envisioned future was for Bank B to become a top ten bank in the Philippines by 2008 (10 years from acquisition). This is seen from the mission and vision statement of the Bank:

Mission Statement:

> "To establish Bank B Philippines, Inc. as a leading commercial bank in the Philippines in terms of a) Profitability based on Return on Equity (ROE); b) customer satisfaction; and c) market perception."

Vision Statement:

> "To become a top ten (10) bank in the Philippines by the year 2000 and a bank of choice among its target market customer base, by providing superior product offerings, customer service leadership, and strong financial performance."

What is significant about the mission and vision statement is that before acquisition Bank B did not have a mission and vision statement, and that Bank B did not even belong to the top 20 banks when the mission and vision statement was formulated. In specific terms, this would mean a 10% to 15% annual revenue growth for the next ten (10) years, while limiting the growth of operating expenses to 5%. As a result, the proposed corporate strategies to achieve this are:

1. Emphasis on cost reduction
2. Institution of competitive pricing
3. Limiting of product lines
4. Institute improved risk management systems
5. Expanding of bank presence on a limited geographic area
6. Continuing to develop products and services

7. Continuing to invest in technology[2]

The initial results of the strategic plans were not encouraging. Coming in at a time of a financial slowdown, Bank B's key indicators for revenues and profits declined. An increase in the loan loss provision in compliance with the Bangko Sentral's regulations was the key reason for the drop. Another was the decline in interest income for the 1997 and 1998 periods despite an increase of 5% in total loans.

However, there was a noticeable shift in the deposit mix. In 1997, the composition was 61% time, 38% savings, and 1% demand. By 1998, it was 48% savings, 47% time, and 5% demand, indicating a movement from the higher (time deposits) to the lower (savings) cost of funds.

All told, the return on equity fell from 18.3% in 1997 to 8.8% in 1998.[3]

Despite the decline, management saw no foreseeable change in the integration of the strategic plans as part of the individual unit's plans and that there was no need to have another group handle the reengineering separately.[4]

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[2] Strategies as proposed. It is not clear whether the management of Bank B adopted any part of the suggested strategies

[3] Proponent's estimate using Bank B's financial records.

[4] The performance of Bank B continued to decline for 1999 and 2000, particularly the return to equity. Recently, the foreign owners increased their holdings in another large commercial bank as part of their strategy to diversify its investments in the country.

APPENDIX C

Bank C's Credit Division Business Goals and Action Plans, 1997-2001[1]

Bank C prides itself with many "firsts" in its long history. Its incorporation in the early 1900s established it as the first privately owned local commercial in the Philippines. It is the first bank in Southeast Asia to process deposit accounts on-line, and it is the first Philippine bank to offer phone banking in the late 1980s. A universal bank (its license was approved 1991), Bank C is also listed in the Philippine Stock Exchange and as of December 2000 is among the top 15 banks in terms of assets, deposits, and capital.[2]

Bank C's passion for quality service and innovation can be seen from its mission statement:[3]

> "We will be leading provider of quality services consistently delivered to institutions, entrepreneurs and individuals here and abroad, to meet their financial needs and exceed their rising expectations.
>
> We will be a primary catalyst in the creation of wealth for our customers, driven by a desire to help them succeed, through a highly motivated team of competent and empowered professionals, guided by in-depth knowledge of their needs and supported by leading-edge technology.
>
> We will maintain the highest ethical standards, sense of responsibility and fairness with respect to our customers, employees, shareholders, and the communities we serve."

Bank C does not see reengineering as a separate activity from its business goals and plans. Bank officers feel that any change is best done on a year-to-year basis, where each department is allowed to formulate their own strategies for improvement based on an overall strategic direction usually decided by top management.

We shall look at Bank C's Credit Division where this has been applied for the past five years beginning 1997. Note that the business of goals and action plans of the Credit Division will begin before the Asian Financial Crisis and we shall trace how the plans have changed with the Crisis.

Bank C's Credit Division has eight (8) functional units across four (4) major departments organized as follows: Appraisal Department (corporate and consumer),

[1] Materials for this report was made from various documents that were made available for purposes of presentation only and should not be quoted without the expressed permission of the proponent and the Bank. Many of the details have been disguised as agreed with the Bank representative. No inference is made or should be made on the efficiency or inefficiency of the Bank's administration based on this report.
[2] Source of basic data is taken from the Bank's website.
[3] Ibid.

Investigation Department (corporate and consumer), Analysis and Research department (analysis and research), and Support Services (clerical and filing).

In the third and fourth quarters of 1996, the Credit Division made a series of presentations of its business goals and action plans. The Division saw itself fulfilling three (3) basic functions:

1. Gather and disseminate relevant data to assist marketing units in establishing credit worthiness of a client through:
   1.1 Appraisal reports
   1.2 Credit investigation reports
   1.3 Credit analysis reports
   1.4 Account profitability reports
   1.5 Industry analysis report
2. Prepare and submit different kinds of reports to the Bangko Sentral and various units of the bank:
   2.1 P 1 million and above exposure reports
   2.2 Exposure reports according to industry
   2.3 Top 50 borrowers
   2.4 Reports on new/revived accounts
3. Maintain a Central Filing System for
   3.1 Head Office accounts
   3.2 Downtown center accounts
   3.3 Metro Manila and provincial branch accounts

The Division then made a SWOT analysis:

STRENGTHS	WEAKNESSES	OPPORTUNITIES	THREATS
Dynamic and innovative staff	Manual method of data gathering	Acquisition of new technology	Non-submission of documents by requesting units
Continuous desire to improve quality and quantity of service	Turnovers due to piracy or transfer of staff	Enhance of existing programs / upgrading of computers	Problems in scheduling business appointments
Strong drive toward defined career path	Almost 25% of staff are on training that affected productivity and service levels	Continuous good relationship with sources of information	Bureaucracy in government agencies used as sources of information
Adaptable and responsive to change		Availability of training program	Foul-up in automated sources of negative files and external checking
Highly skilled and computer literate staff		Cooperation of different support units	Breakdown in software

Good exposure in technical and analytical work			Delay in launching new technology
Good teamwork among departments and investigative functions			

Based on the SWOT analysis and a review of its functions, the Credit Division developed the following objectives which it intends to follow for the next five years:

1. To submit timely and accurate credit reports to all marketing units by improving service level standards and operational efficiency
2. To prepare and submit on time all reportorial requirements of the Bangko Sentral ng Pilipinas
3. To maintain an efficient Central Filing System
4. To train and develop efficient and highly motivated staff

Each unit under the Credit Division then formulated their own Key Result Areas. Since the Bank relies heavily on the timeliness and accuracy of their reports, much of the Key Result Areas were on reducing the time needed to release a report. The highlight of the Planning Session was the goal of reducing the report submission within the Bank-prescribed five (5) day period for the Appraisal Department. Other departments also had their own timetables, such as seven (7) hours for the Consumer Department, thirty (30) days for the Analysis and Research Department.

The results of the yearly business plans were mixed based on the reports finished and service levels (no. of days a report was submitted) achieved:

1. Appraisal Department – while the service level has gone down from eight (8) days in 1995 to six (6) days in 2000, it is still outside the prescribed five day period. This could be partly attributed to a reduction in the work force:

Year	Reports Finished	Service Level	No. of Staff
1995	2,789	8 days	12
1996	3,227	6 days	14
1997	3,128	6 days	12
1998	3,263	6 days	11
1999	3,299	6 days	12
2000	3,278	6 days	12

The Appraisal Department projects that for 2001, it will be able achieve the prescribed five-day period because of a lower number of reports that will be accomplished (due to the economic slowdown). It also expects to trim down its staff from 12 to 10.

2. Investigation Department – while the service level has gone for the corporate loans own from eight (8) days in 1995 to six (6) days in 2000, it is still outside the prescribed five day period. The consumer loans report standard of seven hours has been consistently met since 1995:

Year	Service Level		No. of Staff	
	Corporate	Consumer	Corporate	Consumer
1995	8 days	7 hours	10	9
1996	7 days	7 hours	8	8
1997	7 days	7 hours	8	6
1998	6 days	7 hours	8	4
1999	6 days	7 hours	9	3
2000	6 days	7 hours	10	2

It is noteworthy that while there is a reduction in the number of staff in the consumer loans section, the number of reports has also sharply (600 in 2000 from 1,200 in 1999) declined, whereas the number of corporate loan reports have increased (6,400 in 2000 from 5,737 in 1999) This implies that the Bank has opted to concentrate on the corporate loans, probably as a response to the on-going crisis.

The Department sees that it will be able to meet its five-day goal for the Corporate Loans reports by 2001 as the number of reports go back to its average.

3. Research and Analysis Department – Except for 2000 when the service level went up by five days, it is expected that the Department will be able to maintain its accomplishment of the target, and possibly match its level in the previous years:

Year	Reports Finished	Service Level	No. of Staff
1995	809	20 days before expiry	6
1996	992	20 days before expiry	7
1997	903	10 days before expiry	7
1998	996	20 days before expiry	7
1999	724	25 days before expiry	6
2000	706	35 days before expiry	6

4. Support Services Department – available data showed that the Department has maintained its service levels of twelve hours, way below the prescribed standard of eight hours (no data was made available for 1995, 1996 and 2000):

Numerous strategies have been developed by the Bank as a result of this yearly planning process and in some aspects resemble reengineering in terms of process improvement.

For example, the Credit Department outlined the following objectives and strategies for 2001:

Overall Objective:

- To prepare and submit timely and accurate credit reports to all internal and external users, such as the various marketing units, Bangko Sentral, Management, and Corporate Planning.

Specific Objectives:

- To assist management in properly evaluating the credit worthiness of existing and prospective clients as well as in monitoring past due accounts.
- To ensure quality and initial acceptability of collaterals.

Appraisal Department Strategy for 2001:

- Ensure quality and initial acceptability of collaterals.
- Provide total quality service to requesting units
- Implement drastic cost cutting measures

Investigation Department Strategy for 2001:

- Assist in evaluating credit worthiness of clients
- Assist in improving collection efforts
- Implement drastic cost cutting measures

Analysis & Research Department Strategy for 2001:

- Assist in evaluating credit worthiness of clients
- Assist management in monitoring loan portfolio

APPENDIX D

SAMPLE SURVEY

Greetings from the Angelo King Institute of Economics and Business Studies of De La Salle University!

The Angelo King Institute for Business and Economics Studies (AKIEBS) has been commissioned by the Philippine APEC Studies Center Network (PASCN) to undertake a study on the impact and responses of domestic banks to the entry of foreign banks in the Philippines. In this regard, please find below some questions which will enable the AKIEBS Study Group to come out with valuable information regarding the entry of foreign banks.

Since your responses are more important, confidentiality as to your bank's identity is assured.

NAME OF RESPONDENT : ____
SIGNATURE : ____
BANK REPRESENTED : ____
ADDRESS : ____
TELEPHONE NO/S. : ____
DESIGNATION : ____
DATE OF RESPONSE : ____

PART ONE. COMPETITIVE ENVIRONMENT

Q1. Describe the overall competitive environment before and after the entry of foreign banks in the country.

Before the entry of foreign banks			After the entry of foreign banks		
5	-	Highly competitive	5	-	Highly competitive
4	-	Very competitive	4	-	Very competitive
3	-	Competitive	3	-	Competitive
2	-	Little competitive effect	2	-	Little competitive effect
1	-	No competitive effect	1	-	No competitive effect / The entry of foreign banks has created a complementary effect.

Q2. In which area of operations is the impact of this competition from the foreign banks most significant?

____________ Wholesale banking
____________ Retail banking
____________ Development banking
____________ Others (please specify)

____
____

____________ No competitive impact (GO TO PART II, Q7)

Q3. Which product/s and/or service/s has/have been significantly affected (in terms of a reduction of market share or revenues) by the entry of foreign banks?

A. General Classification (check one)

__________ Retail __________ Wholesale __________ Development
__________Others (please specify)________________________________

B. Specific Product/Service

	Highly Significant	Very Significant	Significant	Fairly Significant	Not Significant
Lending/loans	_________	_________	_________	_________	_________
Deposits	_________	_________	_________	_________	_________
Foreign exchange	_________	_________	_________	_________	_________
Trust services	_________	_________	_________	_________	_________
Investment banking	_________	_________	_________	_________	_________
Money market placements	_________	_________	_________	_________	_________
Investment in fixed assets	_________	_________	_________	_________	_________
Others (please specify)					
____________________	_________	_________	_________	_________	_________
____________________	_________	_________	_________	_________	_________
____________________	_________	_________	_________	_________	_________

Q4. Which of the following other factors were most significantly affected by the entry of foreign banks?

____________ Branch network
____________ Fund sourcing
____________ Obtaining new clients
____________ Hiring employees
____________ Changes in information technology/computerization
____________ Increase in capital
____________ Others (please specify)
____
____

Q5. How much in terms of potential business revenues have been lost as a result of the entry of these foreign banks?

____________ below P 1-million
____________ P 1.0 million to below P 25.0 million
____________ P 25.0 million to below P 50.0 million
____________ P 50.0 million to below P 100.0 million
____________ above P 100.0 million

Q6. In meeting this competition, which of the following should be done by your bank? Indicate the time frame as well. (Answer each item.)

		Immediately	Already being addressed	Not Needed
1.	Change mission/vision	___	___	___
2.	Invest in new technology	___	___	___
3.	Move to other market/ market niches	___	___	___
4.	Introduce new products	___	___	___
5.	Review pricing (interest rates) to match competition	___	___	___
6.	Hire consultants to provide recommendations	___	___	___
7.	Increase bank network	___	___	___
8.	Re-engineer all or some processes	___	___	___
9.	Review manpower policies to keep salaries competitive	___	___	___
10.	"Pirate" from other banks	___	___	___
11.	ISO certification	___	___	___
12.	Form strategic alliances:			
	12.1 With other local banks	___	___	___
	12.2 With foreign banks	___	___	___
13.	Increase advertising and promotion activities	___	___	___
14.	Capital infusion			
	14.1 From present share-holders	___	___	___
	14.2 From outsiders	___	___	___
	14.3 Combination	___	___	___
15.	Merge/acquire			
	15.1 Other commercial banks	___	___	___
	15.2 Savings/thrift banks	___	___	___
	15.3 Rural banks	___	___	___
	15.4 Foreign banks	___	___	___
	15.5 Other financial companies	___	___	___
16.	Others (please specify)			
	___	___	___	
	___	___	___	
	___	___	___	

GO TO PART THREE, Q11.

PART TWO. (From Q2). OTHER RESPONSES TO THE COMPETITIVE ENVIRONMENT.

Q7. Describe the nature of the "no competitive impact" response in Q2.

___________ Our products and services cater to a different market/market niche.
___________ Our products and services are complementary.
___________ Only some of our products are competitive and this does not represent a significant impact on the bank's revenues.
___________ Local banks present a more significant competition than the foreign banks.

Q8. Notwithstanding that there is no competitive impact on the entry of foreign banks in your respective operations, are there preparations being made by your bank regarding their entry?

___________ Yes (GO TO Q9) ___________ No. (GO TO Q10)

Q9. If yes, which of the following are being undertaken by your bank? What time horizon is involved? (Answer each item.)

	Immediately	Within one year	After one year
1. Change mission/vision	___________	___________	___________
2. Invest in new technology	___________	___________	___________
3. Move to other market market niches	___________	___________	___________
4. Introduce new products	___________	___________	___________
5. Review pricing (interest rates) to match competition	___________	___________	___________
6. Hire consultants to provide recommendations	___________	___________	___________
7. Increase bank network	___________	___________	___________
8. Re-engineer all or some processes	___________	___________	___________
9. Review manpower policies to keep salaries competitive	___________	___________	___________
10. "Pirate" from other banks	___________	___________	___________
11. ISO certification	___________	___________	___________
12. Form strategic alliances:			
12.1 With other local banks	___________	___________	___________
12.2 With foreign banks	___________	___________	___________
13. Increase advertising and promotion activities	___________	___________	___________
14. Capital infusion			
14.1 From present share-holders	___________	___________	___________
14.2 From outsiders	___________	___________	___________
14.3 Combination	___________	___________	___________
15. Merge/acquire			
15.1 Other commercial banks	___________	___________	___________

15.2 Savings/thrift banks ___________ ___________ ___________
15.3 Rural banks ___________ ___________ ___________
15.4 Foreign banks ___________ ___________ ___________
15.5 Other financial companies ___________ ___________ ___________

16. Others (please specify)

________________________________ ____________ ____________
________________________________ ____________ ____________
________________________________ ____________ ____________

Q10. What would enable your bank to change its position on the present "no competitive impact" perception on the entry of foreign banks?

___________ Increase in the number of foreign banks
___________ Increase in the number of branches the foreign banks will be allowed to establish
___________ Increase in the number of foreign banks and the number of branches for each foreign bank
___________ Increase in capitalization requirements
___________ Others (please specify)

____
____
____

GO TO PART THREE, Q11

PART THREE. GENERAL ASSESSMENT OF FOREIGN BANKS AND LIBERALIZATION

Q11. Would you say that ten (10) foreign banks were satisfactory in liberalizing the banking sector?

___________ Yes.
___________ No. More than ten is required, but there should be a limit
___________ No. There should be no limit to the number of foreign banks

Q12. Would you say that the entry of these foreign banks has been satisfactory in the liberalization of the economy in general?

_________ Yes (Go to Q14) __________ No. (Go to Q13)

Q13. What would make the entry of foreign banks more desirable?

___________ Increase the number of banks
___________ Decrease the number of banks
___________ Increase the number of branches per bank
___________ Increase the capitalization requirements
___________ Allow the entry of local banks in the country of origin of these foreign banks (complementary/reciprocity arrangement)
___________ Others, please specify

____

____

Q14. Would you favor legislation that will further increase the competitive environment of these banks?

__________ Yes   __________ No

Q15. All things being equal, would you favor a merger with a foreign bank?

__________ Yes.
__________ Yes, but not at this time.
__________ No.

Any other comments?

____
____
____
____
____

Thank you very much for your time. Your response is appreciated.