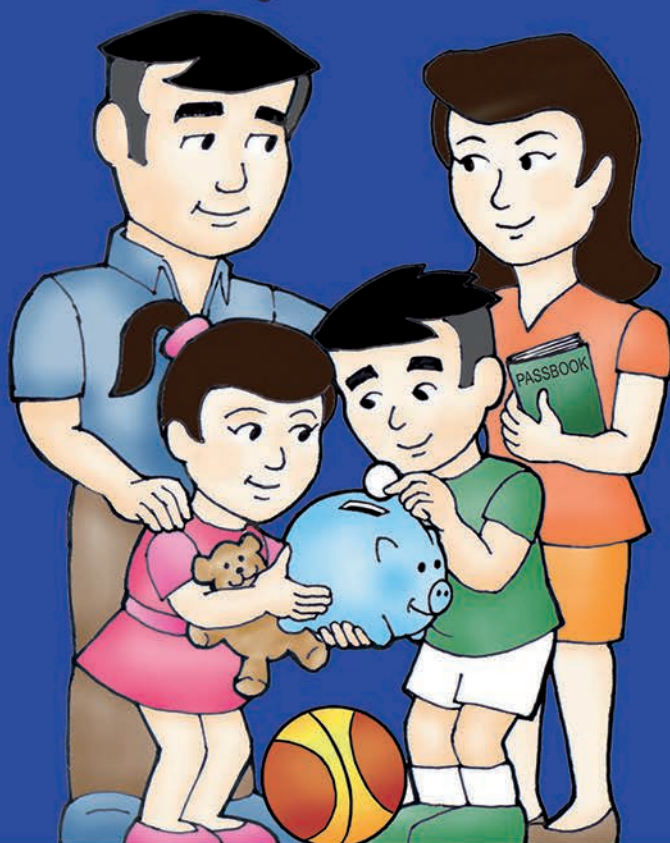


# Usapang Pera: Mga Dapat Alamin



A PDIC Guidebook  
On Basic Banking &  
Financial Transactions

By: Efren Ll. Cruz, RFP



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**Philippine Deposit Insurance Corporation**

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Written by **Efren LI. Cruz, RFP**

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# Usapang Pera: Mga Dapat Alamin

A PDIC Guidebook on Basic Banking & Financial Transactions

Edited by the Editorial Board of the Philippine Deposit Insurance Corporation

*“Committed to Serve”*

# FOREWORD



Through the Philippine Deposit Insurance Corporation (PDIC), the Government has been protecting the depositing public and maintaining stability in the country's financial system. PDIC is committed to instituting *Daang Matuwid* in our financial system by making sure that those with whom people have entrusted their hard-earned savings ensure that these are properly invested. At the same time, PDIC continues to undertake initiatives to educate depositors so that they themselves are empowered to guard their deposits.

“USAPANG PERA: MGA DAPAT ALAMIN, A PDIC GUIDEBOOK ON BASIC BANKING & FINANCIAL TRANSACTIONS,” serves as a practical guide for all Filipinos, from overseas Filipino workers, retirees, and senior citizens, to those in academe, and socio-civic and religious organizations.

The basic principles of money, saving, banking investments, and deposit insurance are discussed in order to guide the Filipino in making well-informed and effective financial decisions.

The publication of this book serves as a commemoration of the 50<sup>th</sup> anniversary of PDIC and as a tribute to the depositing public that it has always been committed to serve.

We hope that this book will lead to a society of more responsible depositors and savers.

A handwritten signature in black ink, consisting of a large, stylized 'C' followed by a few loops and a final downward stroke.

**CESAR V. PURISIMA**

Secretary, Department of Finance  
Chairman, PDIC Board of Directors



# INTRODUCTION



The banking system is the backbone of the national economic system. Public confidence and trust in the banking system are essential to financial stability. Financial stability is essential to savings and investments, which in turn are essential to economic growth and development.

The Philippine institutions, with regulatory oversight on our banking and other financial institutions, have performed very well in carrying out their mandates and kept the banking and financial system stable through the most trying situations. These are the *Bangko Sentral ng Pilipinas* (BSP), the Department of Finance (DOF), the Securities and Exchange Commission (SEC), the Insurance Commission (IC), and the Philippine Deposit Insurance Corporation (PDIC).

The PDIC is celebrating this year the 50<sup>th</sup> anniversary of its founding on June 22, 1963. The PDIC Guidebook on Basic Banking and Financial Transactions (Usapang Pera: Mga Dapat Alamin), is a functional memento for PDIC's 50 years of service in deposit insurance, depositor protection and its role in the maintenance of financial stability. It is an easy to read reference guide for everyone for understanding banking products and transactions. It is also a financial literacy tool for everyone. Its usefulness can cover the broad spectrum of Filipinos from the beneficiaries of overseas Filipino workers to busy non-financial executives, students and retirees. The author, Efren Cruz, has been a long-time and well-known advocate of financial literacy. As a further service, Mr. Cruz will continue to support an active link at the PDIC website covering interest rates, yields and other aspects of finance and banking.

The depositor protection mandate of PDIC goes beyond the insured deposits. This Guidebook is intended to help the depositor discern differences in risks and return on various banking products. It is our belief that a population that saves and invests wisely enables the national economy to have sustained and balanced growth in a stable financial environment. It is hoped that this Guidebook will make a difference for safe and more savings for the readers.

A stylized, handwritten signature in black ink, appearing to read 'Valentin A. Araneta'.

**VALENTIN A. ARANETA**

President

Philippine Deposit Insurance Corporation

## ACKNOWLEDGMENT



I thank the Good Lord for the blessing of being able to share my thoughts with others through writing.

I thank the PDIC for allowing me to be part of this milestone in its corporate history and its advocacy of spreading financial empowerment among Filipinos. I also thank the PDIC Editorial Board and Staff for their invaluable inputs in the making of this financial planning guidebook.

Last but not the least, I thank my wife, Vicky, and my two daughters, Mavi and Roni, for being the constant inspiration for all the work that I do.

A stylized, handwritten signature in black ink, appearing to read 'Efren LI. Cruz'.

**Efren LI. Cruz, RFP**  
Author

## REVIEWS AND OPINIONS

“This Guidebook underscores the PDIC’s efforts to empower the depositing public by shedding light on the intricacies and demystifying banking and financial transactions. The Guidebook should enable a wide audience to make well-informed decisions – ultimately one well-informed decision built on another.”

**– Deputy Governor Nestor A. Espenilla, Jr.**  
Bangko Sentral ng Pilipinas

“The book, written by renowned finance author Efren Ll. Cruz, promises to be another effective tool in introducing the concept of banking and finance to ordinary Filipinos.”

**- Atty. Ignacio R. Bunye**  
Monetary Board Member

“Filled with ‘comic-style’ illustrations and some serious graphs about money and banking, every Filipino will find this book educational and informative.”

**- Teodoro P. Estacio**  
Columnist, Manila Bulletin  
September 26, 2013

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# A Brief History of Deposit Insurance in the Philippines



Just like in the United States of America, deposit insurance in the Philippines was borne out of the need to stabilize the banking system from a rash of withdrawals that led to bank runs. In the US, disruptions caused by bank failures recurred during the 1800s up to the 1930s. While numerous solutions were put forth, many of them were based on the deposit insurance principle.

Solutions to stabilize the US banking industry were originally implemented at the level of the State and initially solicited support from banks on a voluntary basis.

As the banking crisis in the US worsened in the 1930s, the US Congress passed the Banking Act of 1933, which created the Federal Deposit Insurance Corporation (FDIC). By its very name, the FDIC provided deposit insurance on a national level, starting at USD2,500 per depositor and made membership by banks mandatory.

Thirty years later, the Philippines went through a similar banking crisis. In order to stabilize the situation and restore confidence in banks, the Philippine government created its own version of deposit insurance system through Republic Act 3591, which created the Philippine Deposit Insurance Corporation (PDIC) on June 22, 1963 to protect depositors and help maintain financial stability. Unlike the Federal Deposit Insurance of the US, the Philippines initially adopted a voluntary membership by banks in the PDIC.



Mr. Basilio Estanislao, then Special Assistant to Central Bank Governor Andres Castillo and later Director of the PDIC itself, was tasked to prepare the manuscript for Republic Act 3591. Director Estanislao was quoted to have said that:

*"The philosophy behind deposit insurance is for the government to protect the small, unsophisticated depositors who comprise the majority, and not the big ones who are more discriminatory."*

The foundation for this statement of Director Estanislao is confidence, the major ingredient that makes any financial system flourish. Take confidence away and the financial system crumbles like a house of cards. This is also why President Franklin D. Roosevelt in his first "fireside chat" to the people of the United States of America on March 12, 1933 said that:

*"After all, there is an element in the readjustment of our financial system more important than currency, more important than gold, and that is the confidence of the people."*

The PDIC commenced operations in 1968 after the appointment of the Board of Directors and the release of the PDIC's initial permanent insurance fund in the amount of Php5 million. A year later, Republic Act 5571 made banks' membership with the PDIC mandatory.

Thereafter, a series of government actions led to the increase in the maximum deposit insurance coverage for depositors. Starting with just a maximum deposit insurance coverage of Php10,000 under Republic Act 3591, the maximum deposit insurance coverage was raised as follows: (see Table 1)

**Table 1**

Year	MDIC <sup>1</sup> (Php)	Total Deposits (Php millions)	Total Number of Deposit Accounts	Number of Member Banks
1963	10,000	3,876	1,754,562	Not Available
1978	15,000	53,157	17,457,566	1,092
1984	40,000	150,574	26,789,471	1,098
1992	100,000	492,236	17,939,958	919
2004	250,000	2,754,233	26,169,561	891
2009	500,000	4,660,722	34,522,007	785
2012	500,000	5,746,298	41,775,024	696

<sup>1</sup> Maximum Deposit Insurance Coverage  
Sources: BSP, PDIC

The PDIC Charter was further amended in 2009 as a pre-emptive measure to build confidence in the banking system amid the brewing global crisis during that time. Aside from the doubling of maximum deposit insurance coverage from Php250,000 to Php500,000, the PDIC was granted the flexibility to adjust the maximum deposit insurance coverage when the financial stability of the banking system is threatened.

The latest amendments to the PDIC Charter also provided for institutional and financial strengthening measures to build up the Deposit Insurance Fund and to reinforce PDIC's role as a member of the country's financial safety net while continually providing depositor protection. PDIC's co-regulatory powers were also expanded in terms of determining insured deposits, examining deposit accounts in cases of finding of unsafe and unsound banking practices, and conducting special bank examinations.

Over the decades, the PDIC has broadened its role from providing depositor protection to helping maintain financial stability. Committed to the interest of the depositing public it serves, PDIC remains strong and resilient, moving closer to its vision of becoming a world-class organization in depositor protection.

# CHAPTER 1

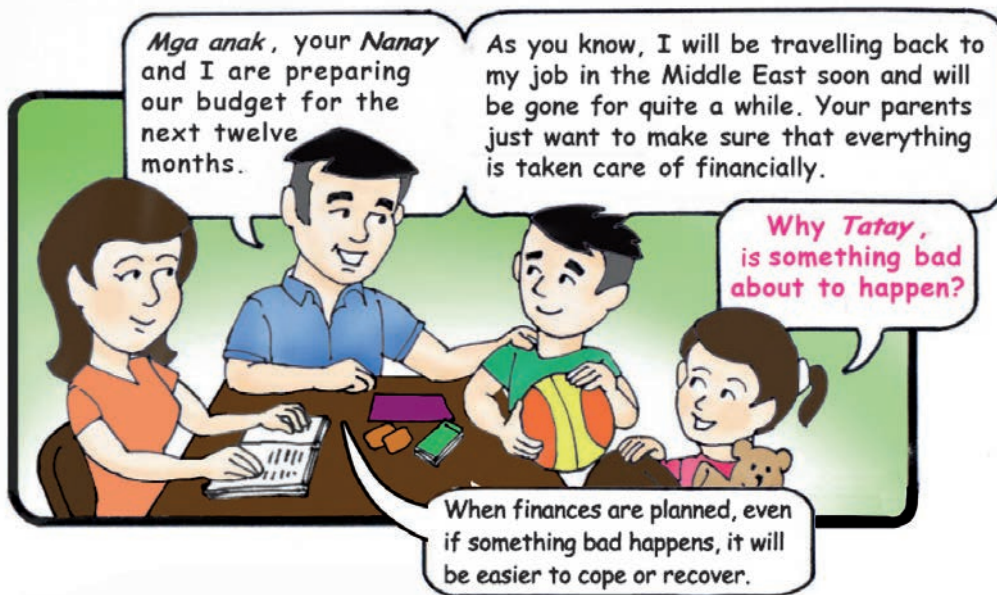


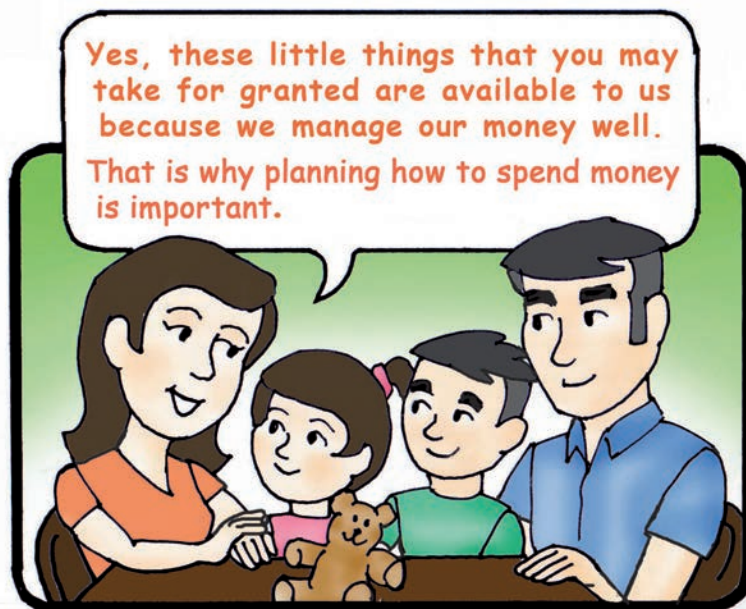
It is a Saturday and there are just seven weeks left before our OFW hero, *Mang Domeng*, returns to his deployment abroad. *Mang Domeng* is talking to his wife, *Aling Lorna*, regarding their family budget. The couple has always made it a point to plan for the months when *Mang Domeng* would be away.

While *Mang Domeng* and *Aling Lorna* are writing on notebooks and tapping away at their pocket calculators, their two children, Sonny, the eldest, and Tessie, enter their humble home after playing outside. The children notice their parents were quite serious in their discussion and hear them uttering big words like budget, money, and utilities.









### Financial Expert's Corner

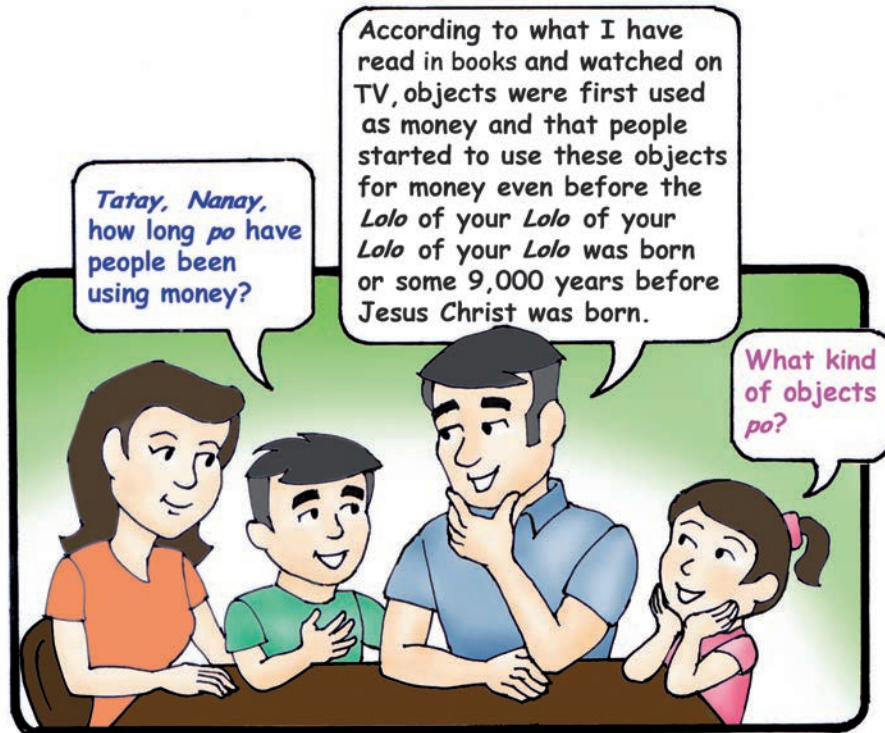
*Let's leave our OFW family for a moment. How in the world could a piece of paper, usually with somebody's picture on it be valuable? Or why would a small circular object that does not contain any of the precious metals be worth anything?*

*Money has been called and described in many ways. On the positive side, some say money makes the world go round. It makes a person's dreams come true. That is why a lot of people work hard to earn, save and invest money.*

*Over on the slightly negative side, while many also consider money as the root of all evil, it is really the love of money that is the root of all evil. Money is the symbol of materialism and as such does not necessarily make a person truly happy.*

## A Brief History of Money

At the house of our OFW family, the question-and-answer portion continues...



### Did You Know?



One of the best preserved ancient law codes that formalized the role of money in society is the code of Hammurabi (1760 BC) enacted by the sixth Babylonian King, Hammurabi. The code contained earlier laws under the codes of Ur-Nammu (2050 BC), Eshnunna (1930 BC) and Lipit-Ishtar of Isin (1870 BC). The code of Hammurabi instituted interest on debts, fines and compensation for infractions of law.



Taking advantage of his children's interest, *Mang Domeng* gladly continues with his story.

In the old days, people would trade what they have for what they didn't have. A fisherman who had extra fish would trade it for vegetables with a farmer. This practice is called barter. Life was much simpler then. There were not that many goods and services to trade. It was easy to remember how many pieces of fish would be equivalent to, say, a basket of tomatoes.



### Financial Expert's Corner

*As more and more products and services were developed, people in the olden days found that it was more efficient to use an intermediate object of value to transact. The fisherman would now receive the equivalent value of this object in trading his fish for the vegetables of the farmer. He can even choose to first buy just what he needs in vegetables, say, for the first three days of the week to avoid spoilage and store the balance in value in equivalent units of the intermediate object. He can then spend the balance in value of this intermediate object for the rest of his vegetable needs by the middle of the week.*

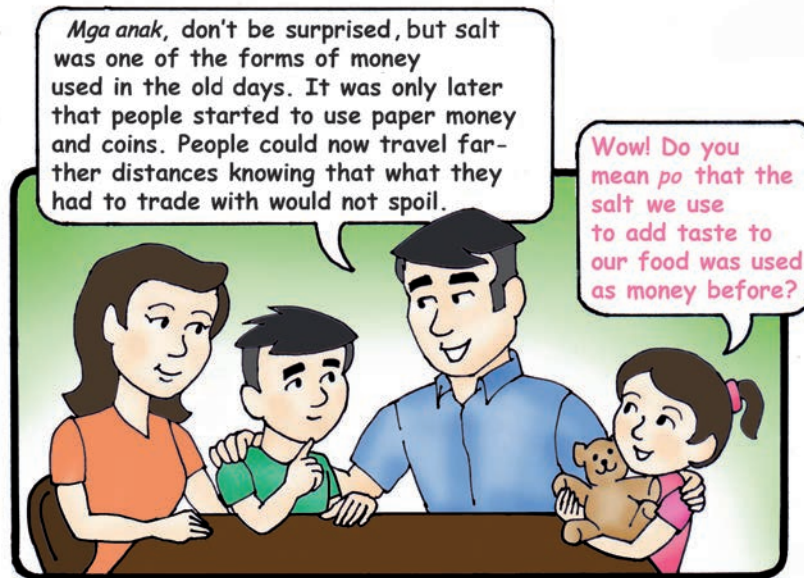


### Did You Know?

According to the *Banknotes and Coins* publication of the Bangko Sentral ng Pilipinas, the Philippines had 19.13 billion pieces of coins valued at P21.30 billion and 2.18 billion pieces of notes valued at P575.38 billion that had been issued as of 30 November 2012.

## Different Forms of Money

Seeing his children's interest, *Mang Domeng* continued to explain other forms of money.



### Financial Expert's Corner

Under a country's<sup>1</sup> jurisdiction, money that comes in the form of notes and coins is legal tender. This means that money can be offered to meet a financial obligation, which is generally the payment for goods and services bought. When you buy a car, pay for groceries, pay rent and repay debt, you are paying for goods and services you bought. In effect, legal tender is something that, when offered for payment, fully settles the debt or financial obligation.

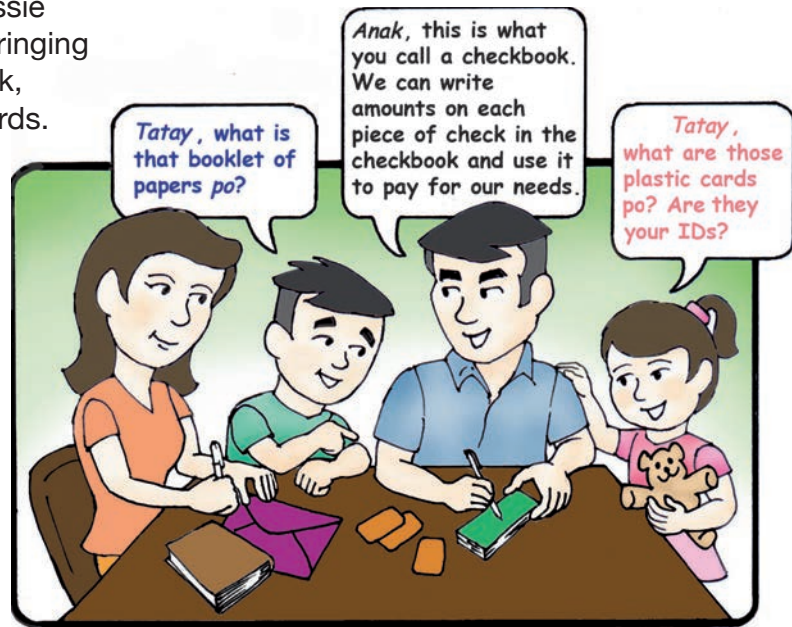
#### Did You Know?



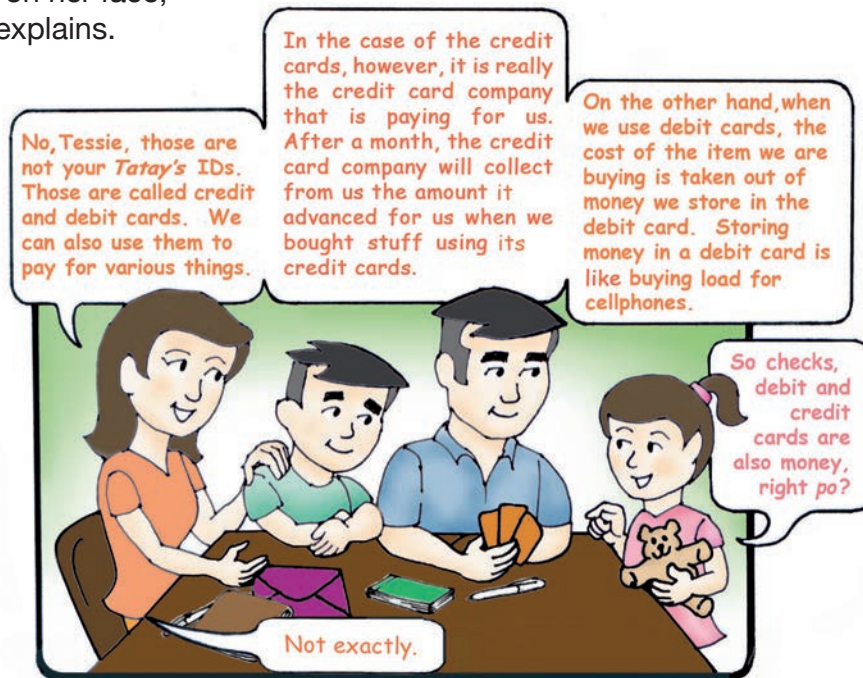
The word "talent", which today means "skill" or "special ability", originated from the parable of the talents. In the parable, people traded in talents, which originally referred to a unit of measure equivalent to the mass of a precious metal.

<sup>1</sup> The presumption is that this country is operating in a modern-day economy and has, by and large, given up barter trade.

Sonny and Tessie see their parents bringing out their checkbook, debit and credit cards.



With a smile on her face, Aling Lorna explains.



### Financial Expert's Corner

*They say that in modern times, money has taken on new forms like checks, debit cards and credit cards. However, Aling Lorna is correct - checks, debit and credit cards do not have legal tender power.*

*The acceptance of checks is only at the option of the creditor. In short, checks do not immediately pay in full the debt or financial obligation. This is also why even manager's checks of banks are still not considered as having fully settled the financial obligation. This is because the payor of the check, who was supposed to have paid the bank the same amount reflected in the manager's check, could always request for a stop payment, thereby halting the settlement of the financial obligation.*

*Only when the payee of the check receives credit to his/her account is the obligation fully paid. It is only upon special accommodation by banks that manager's checks are sometimes immediately honored as cash.*

*By the same token, debit and credit cards do not immediately settle the financial obligation. Only when the seller of goods or services is credited with the payment is the financial obligation fully settled.*



## Money is Important

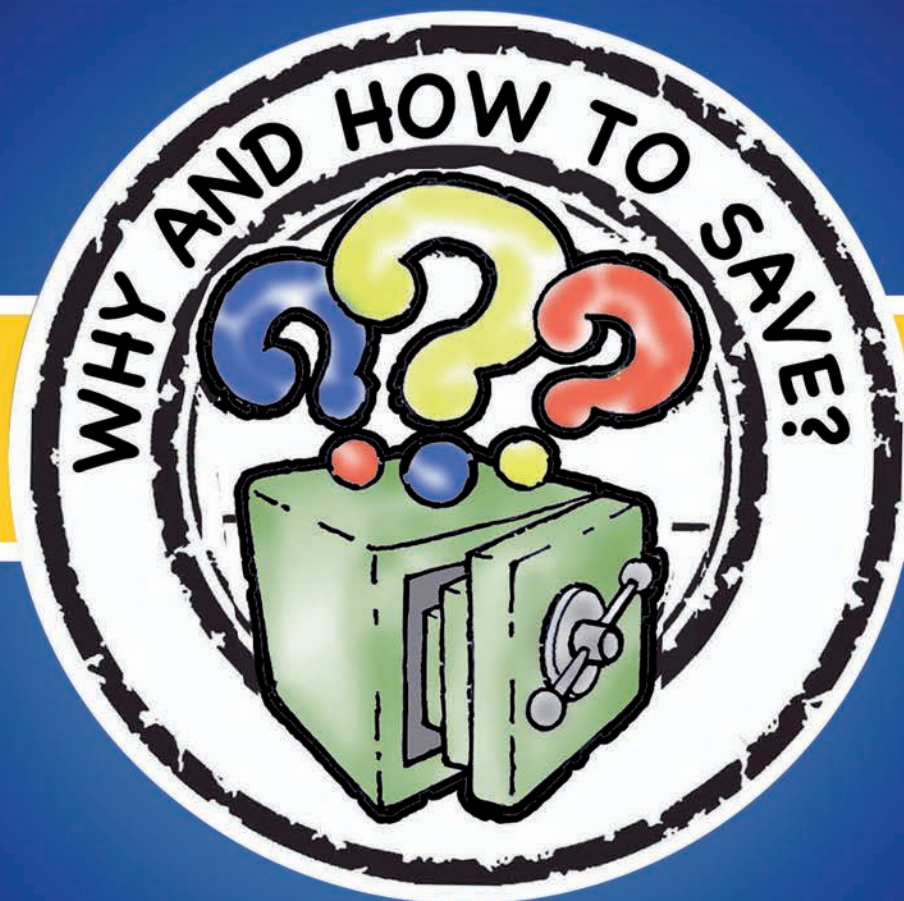
1. Studies vary as to when the concept of money, an object with an intermediate value used for the exchange of goods and services, first appeared. Some studies date back to 9000 BC while others say that the concept of money emerged around 2000 BC. People initially traded goods and services with each other. This was called *bartering*.
2. Gradually, people found that it was more efficient to use an intermediate object of value to transact.
3. One of the earlier forms of money was salt. Eventually people started to use coins and paper money because, unlike salt, these did not spoil.
4. Notes and coins have legal tender power because, given the right amounts, they can immediately extinguish a financial obligation.
5. Checks, debit and credit cards do not have legal tender power because their acceptance is still at the option of the creditor.

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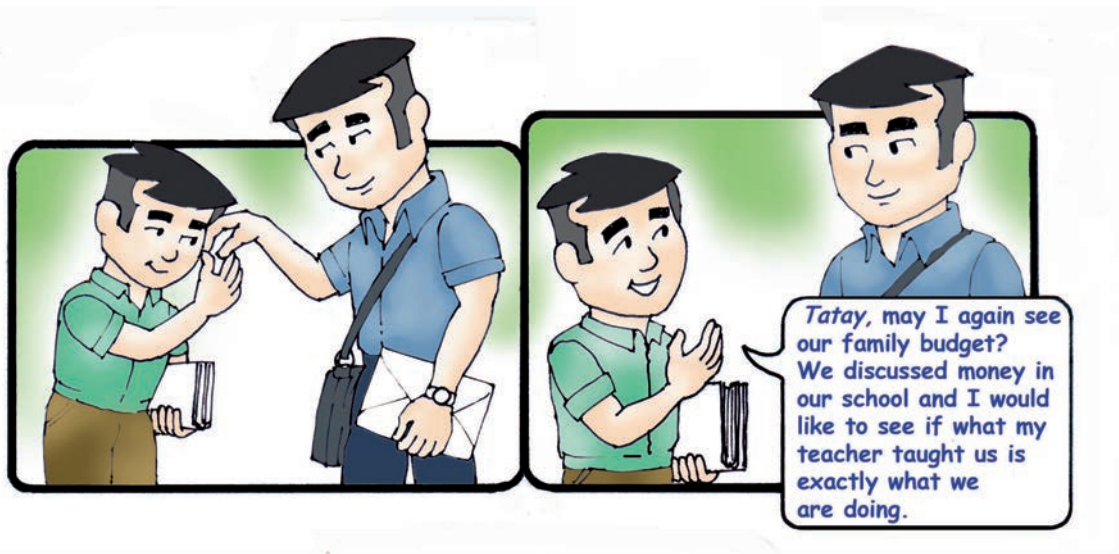
# CHAPTER 2



## The Different Life-Event Stages

Six weeks to go before *Mang* Domeng leaves his family for his job in the Middle East. Sonny is rushing home after getting off his school bus. He races to the room of his parents hoping to see his father there. *Mang* Domeng had just arrived from his pre-departure orientation seminar.

Almost out of breath, Sonny reaches for his father's hand and touches it to his forehead, the traditional sign of respect for parents and the elderly.

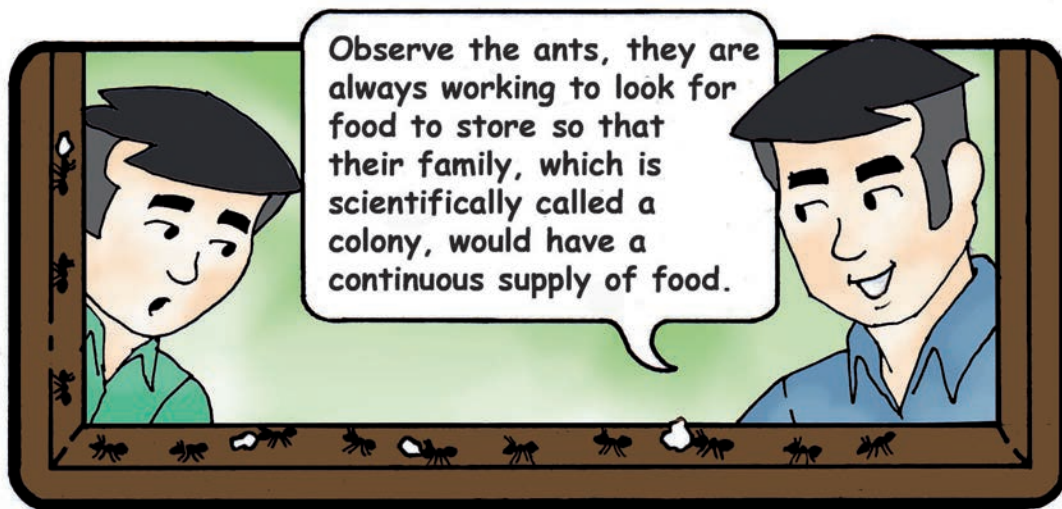


*Mang* Domeng reaches for their budget and hands it over to his son. As if finding a lost treasure, Sonny shouts, "Yes!"

A bit puzzled, *Mang Domeng* asks Sonny why he is so happy. Sonny replies, “*Tatay*, our teacher said that each family should be saving for the future and I was trying to see if we had savings.” But just as quickly as his face lit up after discovering they had savings, Sonny’s face suddenly took on a puzzled look.

Sonny asks, “*Tatay*, may I ask *po* what we are saving for in the future? I didn’t really get that part of the lesson in school.”

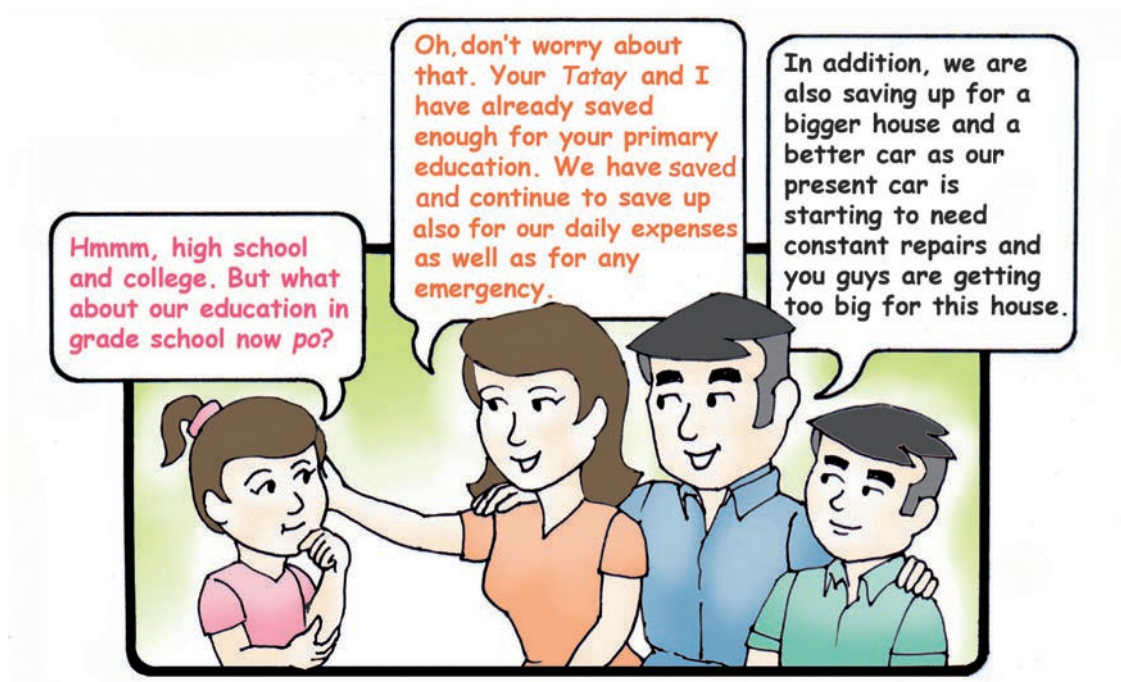
*Mang Domeng* asks Sonny to sit beside him by the bedroom window, anticipating that their talk would not be a brief one. He points out to Sonny a line of ants marching across the window sill.



“*Anak*,” says *Mang Domeng*, “people also save to be able to purchase a continuous supply of things that they need and want.”

“In our case, we are saving up for Tessie’s and your high school and college education. Your *Tatay* is able-bodied right now and capable of working hard in a foreign land. But that will not be forever. We just want to make sure that even if things do not work out as we planned, we will still have more than enough money for you and Tessie to complete your education,” *Mang Domeng* adds.

Just then *Aling Lorna* and Tessie walk in on the two and ask what they are talking about. *Mang Domeng* repeats what he had just told Sonny.



The two children look at each other and then burst into laughter.



## Financial Expert's Corner

*The reasons for saving will vary depending on the life-event stage of the individual or family. Please refer to Figure 1 for an overview of life-event stages and the corresponding reasons for saving.*

*As the individual hits the workforce, his reasons for saving will be focused on himself. The reasons for saving will be mostly for short-term needs and wants like night-outs with friends, the purchase of gadgets, clothes and sometimes, even a car. Some would be more open-minded and will save up for a post-graduate degree. Still others may discover the entrepreneurial spirit within them and save up to eventually start and run a small business. Typically, people would be in their early to mid-twenties in this life-event stage that we can call, “**Building a Career.**”*

*The call to “**Building a Family**” can come as early as 26 up to 35 years old. Those following this normal track will initially be focused on the wedding. With the way weddings are being conducted nowadays, couples-to-be would need to save up to several hundreds of thousand pesos just for the wedding ceremonies and honeymoon. This is probably why those getting married prefer to receive cash instead of non-cash wedding gifts.*

**NEWSFLASH:** CHILDREN’S EDUCATION JUST GOT LONGER WITH THE IMPLEMENTATION OF THE KINDERGARTEN (K) + 12 PROGRAM OF THE DEPARTMENT OF EDUCATION. THE TOTAL COST OF A K + 12 AND FOUR-YEAR COLLEGE EDUCATION NOWADAYS COULD RUN UP TO OVER PHP 2 MILLION FOR JUST ONE CHILD<sup>2</sup>.

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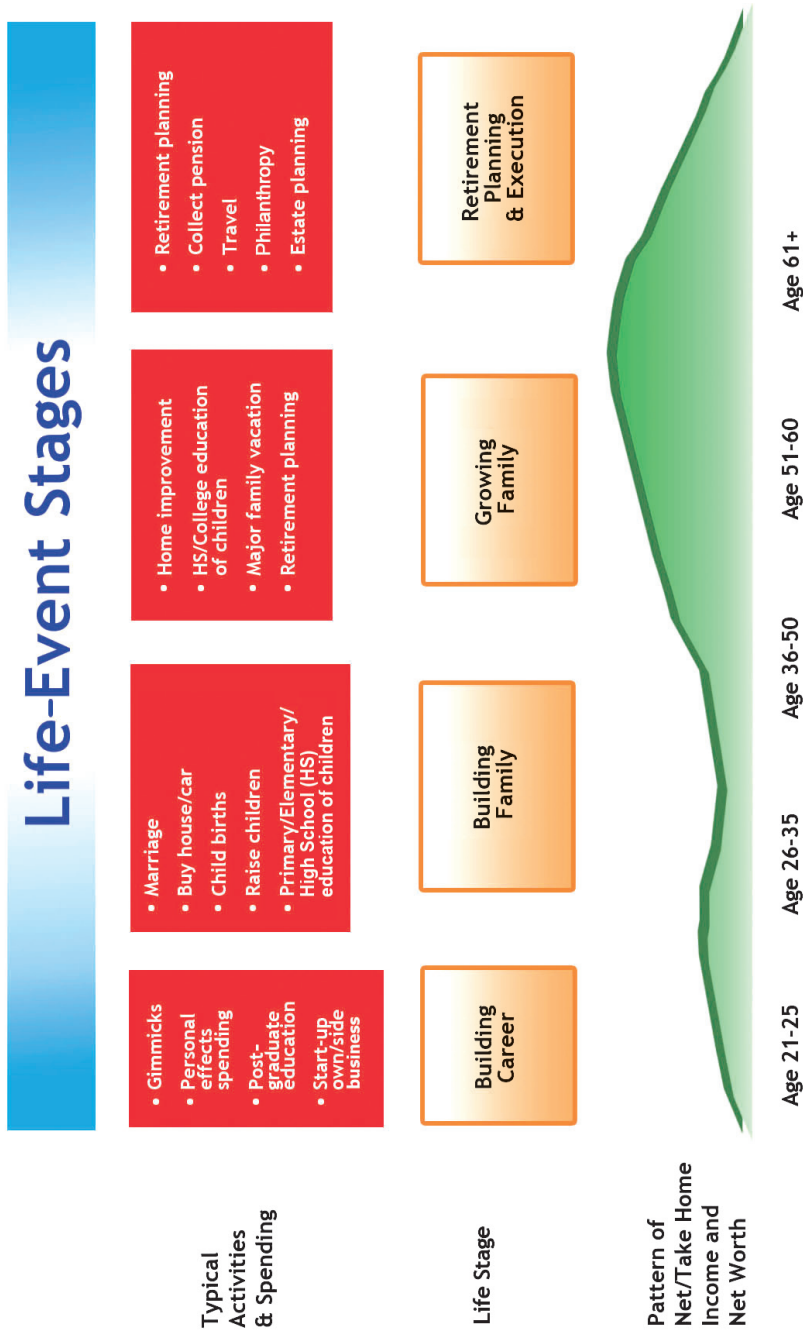
<sup>2</sup> Assumes Php80,000 for kindergarten inflated by 5% every year up to 12<sup>th</sup> grade. College tuition fee now is assumed at Php125,000 and inflated also by 5% every year.

The next life-event stage is where people look forward to improving their lifestyle, otherwise called, “**Growing the Family.**” This is where income approaches its peak and it is also where the excess income is spent on wants like a second car or home, a family vacation abroad and exclusive club memberships. This is also the life-event stage where children’s education hits the homestretch (i.e., college and post graduate). There may also be a desire for the parents to take special courses to pursue their childhood dreams like painting, guitar-playing and the like. Finally, this is the stage where retirement planning is taken much more seriously.

The last life-event stage called “**Retirement Planning and Execution**” is where parents try to enjoy the rest of their life in vacation mode. This is where travel may become more frequent and where “giving back” becomes more of the norm. That is why it is also in this period that estate planning becomes more important.

People will try to save up and even invest their money to achieve the spending pattern that they wish in each particular life-event stage. Saving remains the primary activity in the earlier life-event stages. Saving is supplemented by investing as early as the Building a Career life-event stage. Only when people reach the last life-event stage will the act of saving give way to spending down wealth.

Figure 1



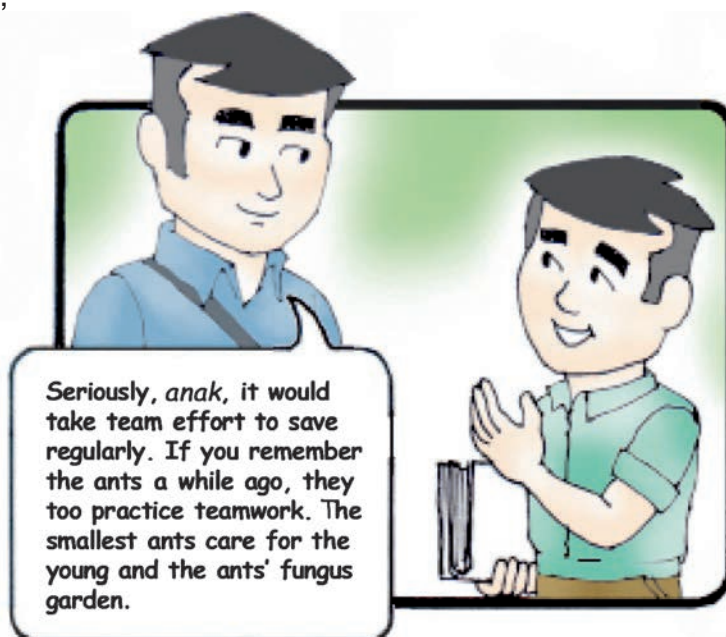
Reproduced with permission from the Personal Finance Advisers Philippines Corporation



## How to Save

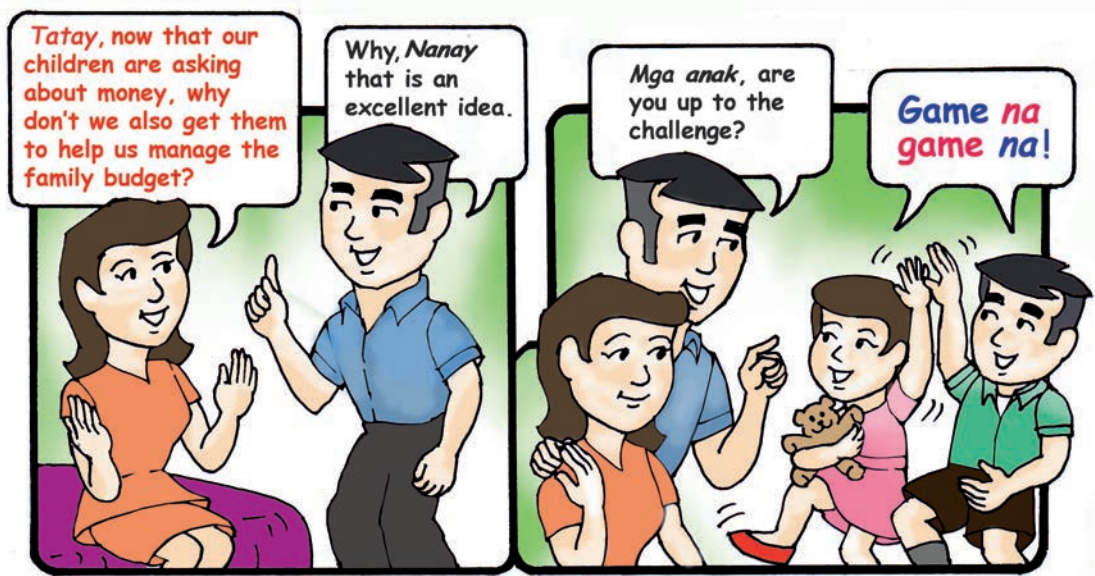


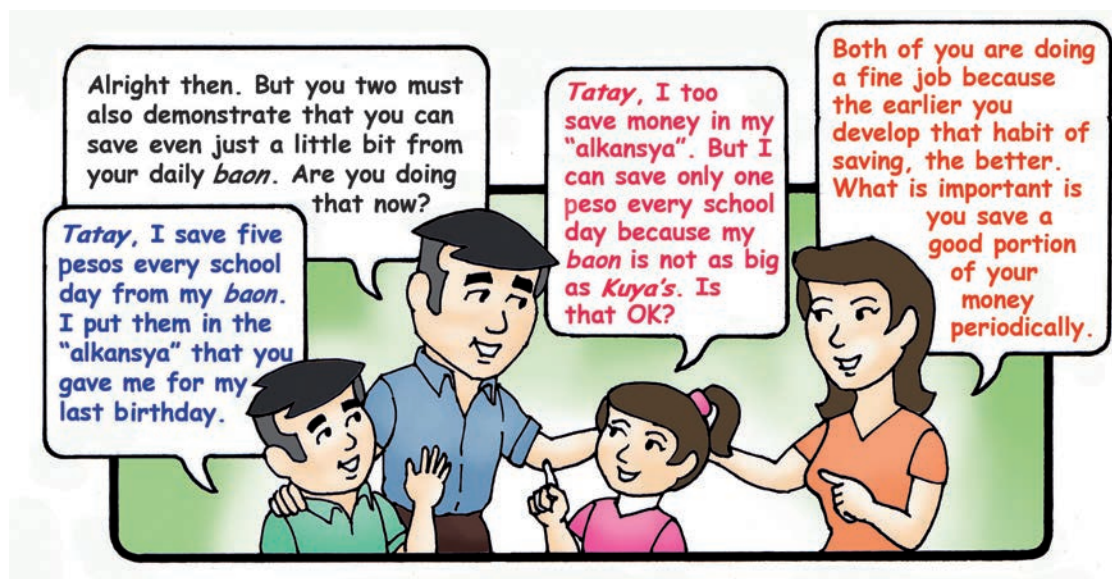
Mang Domeng, as if to reinforce his being the man of the house, immediately says,



“The second to the largest defend the leafcutter ants. The leafcutter ants cut and carry leaves back to the nest. The leafcutters have powerful jaws that vibrate 1,000 times a second and can carry 20 times their body weight – that’s like a grown person carrying a small car. The largest ants protect the nest, clear the way for the leafcutters and carry bulk items back to the nest,” *Mang Domeng* says.

He adds, “I am like the leafcutter ant while your *Nanay* is like the smallest ant. But more than that, your *Nanay* and I help each other out when we are tempted to spend instead of save. We also get the help of my employer to automatically take out a portion of my salary and put it in a savings account that we later allocate for investing. As they say, out of sight, out of mind. Your *Nanay* and I are trying to manage our expenses within the budget.”





### Financial Expert's Corner

*Saving is easier said than done. People tend not to save because it is perceived as a reduction in the funds they can use to enjoy life better. That is why behavioral economists say that instead of telling people to save say, 10% of their income, it would be better to ask them to live life to the fullest using 90% of their income. It is all about framing the problem.*

*People don't want to lose money and saving money now is very similar to losing money. If people "trick" themselves into believing that they actually earn 10% less and only have 90% of their true income that they can spend, they will find it easier to stick to spending that 90%. This is why automatic salary deductions for savings or automatic debit arrangements, where money from a bank account is transferred to an investment account, are the best way to save and invest.*

*As financial planners put it, the formula for budgeting should be:*

$$\text{Income} - \text{Savings} = \text{Expenses}$$

*The savings in the formula will be fixed and periodic. As one's income increases, savings should also increase. Expenses will be made to fit the lifestyle that Income minus Savings can afford. In Filipino, the saying is that, "Kapag maikli ang kumot, matutong mamaluktot (curl up if the blanket does not fit)."*

*One other way of looking at savings is to consider it like a special gross income tax. This tax is automatically levied on the gross income amount. The only difference is that the accumulated tax is invested and refunded when the need arises.*

## How to Know if Expenses are Justifiable

That evening, as *Mang Domeng* and *Aling Lorna* are preparing to go to bed, *Aling Lorna* asks *Mang Domeng* if there is an objective way to determine if expenses are really needed.

*Mang Domeng* says, "Expenses come in different shapes and sizes, so to speak. The easiest way to make expenses fit is to break them up into two major categories, namely "must spend" and "may spend". Basic necessities are must spends."

"In what way?", asks *Aling Lorna*.

"For example, we may have an air conditioner each for our room and that of the kids," says *Mang Domeng*. He adds, "Using the aircon especially during summer nights is a great comfort and a need. However, it would be wiser if we were to sleep in one room and use just one air conditioner a night. Using two aircon units on summer nights is definitely a want for us."

### Financial Expert's Corner

*A practical way of computing if your expenses are justifiable is by doing your income tax return in reverse. Please refer to Annex A on page 136 for the details.*



## Why and How to Save

1. There are many reasons why people save. These reasons vary depending on the life-event stage of the individual.
2. Typically, people would be in their early to mid-twenties in this life-event stage that we can call, “**Building a Career.**” This stage starts from age 21 to about 25.
3. The call to “**Building a Family**” can come as early as 26 up to 35 years old.
4. The next life-event stage is where people look forward to improving their lifestyle, otherwise called, “**Growing the Family.**” This happens from age 36 to about 50.
5. The last life-event stage called, “**Retirement Planning and Execution**”, is where parents try to enjoy the rest of their life in vacation mode. This starts from the age of 50 all the way up to the end of life.
6. The formula for budgeting should be: ***Income – Savings = Expenses*** where savings is fixed and periodic and should increase with increase in income.
7. One way of knowing whether expenses are justifiable is to compute the gross income needed to fund them. If your actual income falls below your needed income then you are already living beyond your means.

[illegible]





# CHAPTER 3



It's a Wednesday and both *Mang* Domeng and *Aling* Lorna are about to send off their kids to school. There are about five weeks to go before *Mang* Domeng flies back to the Middle East.

Both *Mang* Domeng and *Aling* Lorna were bothered by some commotion over at their dresser drawers. It's Tessie rummaging through the drawers.



"Firstly," *Aling* Lorna asks, "do you even know what a savings account is all about?"

Tessie replies, "No po, but I need to have one if I want to stop my BFF from bragging."

Both *Mang* Domeng and *Aling* Lorna could not help but chuckle. "OK, Tessie", says *Aling* Lorna, "give me time to freshen up and I will explain everything to you over breakfast."

A few minutes later, Tessie is already halfway through her breakfast eagerly waiting for her *Nanay*. Swinging her legs beneath her chair, Tessie shouts, “*Nanay*, please hurry up *po* as my bus will be here any minute.” Sonny, who was initially just minding his own business, is now slowly becoming intrigued about why Tessie is rushing their *Nanay*.

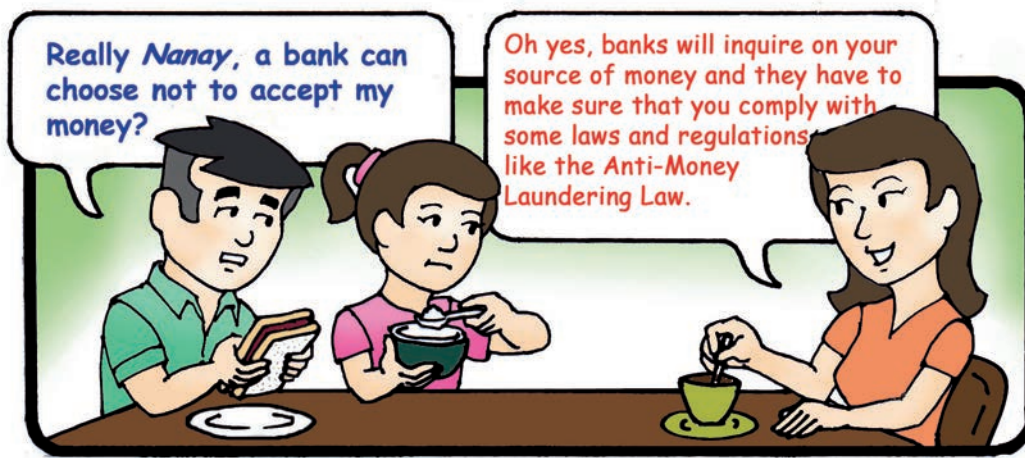
Once at the dining table, *Aling* Lorna sips her morning coffee and begins to explain to Tessie all about savings accounts.

“You see, Tessie,” *Aling* Lorna says, “a savings deposit account is used by people to keep money that they may need in the near future. These savings deposit accounts are opened and maintained with banks. Having a savings deposit account also makes it easier for your *Tatay* to be paid his salary. His employer just deposits the money to his account. He does not have to carry his salary around and be easily tempted to spend it. Putting his salary in a savings account also makes his salary safe from people who may want to steal his money. And it also makes it easy for your *Tatay* to send money to us from abroad by just telling his bank to remit the money to our own savings deposit account with a bank here in the country.”

*Aling* Lorna adds, “But it is the bank that decides if it wants to accept your deposit. Not only that, banks ask their depositors to comply with some requirements before they open an account. Such requirements may vary slightly from bank to bank. So far, we haven’t opened an account for you or your *Kuya* Sonny.”

### Financial Expert's Corner

The KYC (know your client) policies of banks, especially in the light of anti-money laundering practices, make deposit account opening slightly more tedious but safer for society in general. Apart from the standard account opening forms, banks will require supporting documents and valid identification documents (IDs). Examples of valid IDs are an unexpired driver's license and passport as well as Social Security System (SSS) and Government Service Insurance System (GSIS) IDs.



### Financial Expert's Corner

The Anti-Money Laundering Act of 2001 defines covered and suspicious transactions as follows:

- Covered transactions are single transactions in a bank with an amount over Five Hundred Thousand (Php500,000) Pesos within one (1) banking day

- *Suspicious transactions are transactions of clients of covered institutions, regardless of amounts, where:*
  - there is no legal source or basis for the transaction;
  - the client is not properly identified;
  - the business or personal finances of the client cannot possibly produce the suspicious amount;
  - the transaction is hidden through many layers of owners;
  - the transaction is significantly different from the client's historical transactions; and
  - the transaction comes from an unlawful activity

Tessie asks her *Nanay* if a bank will accept the coins in her piggy bank as a deposit.

*Aling* Lorna replies, "Yes, if the total amount of your coins meets the minimum amount banks require for opening savings deposit accounts. Once the account is opened, banks should accept any amount as deposit."

Sonny follows up with the question of whether banks will accept checks as deposit.

"Yes, Sonny, banks also accept checks for deposit," replies *Aling* Lorna. "Tessie," says *Aling* Lorna, "do you still remember our discussion about checks?"

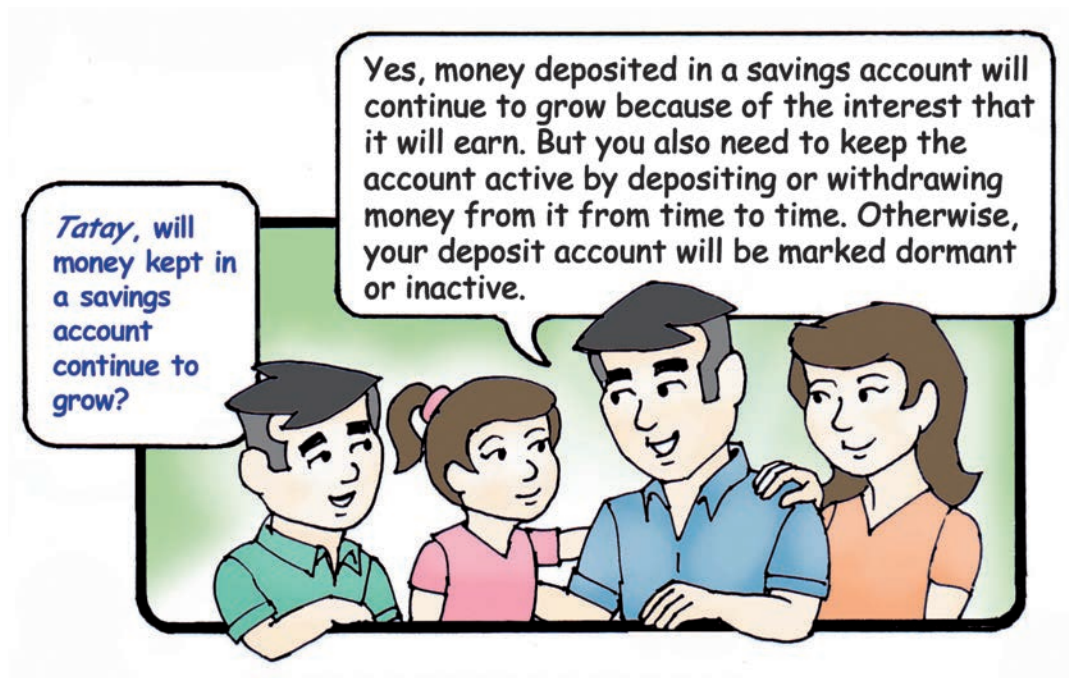
Tessie smilingly says, "Yes *po*, I still do." "Very good then," says *Aling* Lorna.



“But Sonny and Tessie,” reminds *Aling* Lorna, “banks only act as collectors of the amounts written on checks that are used for deposit. That is why banks will normally wait until they receive the actual cash those checks represent, a process called *check clearing*, before they consider an account successfully opened.”

### Financial Expert's Corner

*Even cashier's or manager's checks that are deposited with one bank and drawn from another one go through the normal three-day clearing time. A check that is deposited and drawn from the same bank does not have to go through the clearing system.*



### Financial Expert's Corner

*In accordance with the rules of the Bangko Sentral ng Pilipinas, savings deposit accounts that remain inactive for two (2) years will be considered dormant and will be charged the appropriate monthly service fee. The same applies for current or checking accounts that remain inactive for one (1) year. Accounts that are inactive for ten (10) years are escheated in favor of the Treasurer of the Philippines<sup>3</sup>.*

## Savings Accounts

“*Tatay*,” asks Sonny, “together *po* we have watched a lot of action movies where bad guys rob banks. What will happen to my money if my bank is robbed?”

*Mang Domeng* says, “*Anak*, money deposited with a bank remains safe and whole even if a bank branch is robbed, burns down or is destroyed by earthquake, typhoons, flood, and even lightning strike. Banks buy insurance for such events.”

“On the other hand,” *Mang Domeng* adds, “up to Php500,000 of a depositor’s money will be safe and kept whole even if the bank where the deposit is kept is closed down by the government. This is called deposit insurance coverage for depositors. This is provided by Philippine Deposit Insurance Corporation or PDIC. Do you remember seeing that sign on our bank that says deposits insured with PDIC? That’s what I’m talking about.”

Tessie asks when she will be able to get her own savings account passbook. *Aling Lorna* replies, “Tessie, you are too young to have your own passbook account. Legally, you are still a minor. But let me talk to your *Tatay* about it. I believe we can open a savings account in our name and in trust for you. I am certain that it is the same type of account that your BFF has.”

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<sup>3</sup> Ownership of the deposit account is transferred to the Philippine government through the National Treasury.

“Really *po*, *Nanay*?” Tessie excitedly asks.

“Yes, *Anak*,” Aling Lorna replies, “but just to let you know, you have a choice of having a passbook account or one with just an automatic teller machine or ATM card.”

### Financial Expert’s Corner

*Savings accounts can come with or without a passbook. A savings account with a passbook usually requires a higher opening and maintaining balance because of the added administrative work compared to an account that has an automatic teller machine (ATM) card in its place.*

*A typical ATM card will look like the illustration given in Figure 2 as follows:*

**Figure 2**



*It is important to sign on the back of the ATM card as the signature can be used as additional proof that an ATM card is indeed owned by a person claiming it after it was lost.*

*Banks may or may not issue an ATM card with an initial personal identification number (PIN). If you are issued an ATM with an initial PIN, it is advisable that you immediately change the PIN while inside the bank premises or through an ATM. It is also advisable for you not to use PINs that can be easily associated with you like the numbers equivalent to your birthday or parts of your cellular phone number. You should also commit your PINs to memory. You should not keep a copy of the PIN in your wallet, purse, bag or any other place where your ATM card is also kept.*



### **Did You Know?**

*ATM cards are at all times the property of banks. ATM cards are non-transferable. They cannot be lent for use by another person or be pledged as security in whatsoever manner. That is one important reason why ATM cards should not be pawned.*

Tessie says, “Now I get it, if I get an ATM, I can use that to brag to my BFF because that means I also have a savings account!”

*Mang Domeng* replies, “That may be true *anak* but firstly, you shouldn’t brag or compare yourself with others. You are your own person, with or without a savings account. Secondly, there’s another thing you can do with your ATM card.”

Tessie asks, “Really, what is that *po*, *Tatay*?”

Suddenly a horn honks. *Aling Lorna* says, “*Mga anak*, that is your school bus service. Hurry now or it may leave you behind. We will continue this later.”

As soon as their children had left for school, *Aling Lorna* asks *Mang Domeng*, “*Tatay*, what else is there that you could do with your ATM?”

*Mang Domeng*, “You can do your favorite thing with it, shop!”

### Financial Expert's Corner

*With current technology, ATM cards can now also be used as debit cards by just swiping them at point of sale/service (POS) machines at store counters. This is all the more reason to memorize PINs and keep the ATM card safe at all times. This also means that using ATMs like you would debit cards is a convenient but also fast way to spend your money. Prudence in spending is strongly suggested.*

*Deposits made through ATMs are subject to manual verification by at least two (2) authorized bank personnel. Checks deposited through ATMs will also have to go through the normal check clearing process.*

*Interbank ATM transactions, whether done in the Philippines or abroad (if the ATM card is capable of such) are subject to transaction fees. It is advisable to be aware of such fees as they can be sizeable when done frequently. Withdrawals done in a foreign country will also be subject to currency conversion rates.*

In the evening of the same day, *Mang Domeng's* children are excited to continue their morning's discussion.

After being told what else could be done with ATM cards, Sonny asks,

*"Tatay, how does a savings account passbook look like po?"*

*Mang Domeng* pulls out his own passbook similar to the picture shown in Figure 3 on page 42 and shows what is written on the first two pages.

*Mang Domeng* explains to his children that banks require depositors to sign on the passbook using invisible ink that is readable, just like magic, only when exposed to a special ultraviolet reader. He says that all that bank tellers

need to do is to cross-check the signature/s on withdrawal slips with that or those appearing on the passbook when placed under an ultraviolet reader.

*Mang Domeng* also explains that a passbook can be opened and used by only one person. This is called a single or individual account. Passbooks can also be opened by two or more people. This kind of account can either be an “AND”, “OR”, or “AND/OR” account. *Mang Domeng* relates that if a savings account is of the “AND” type, both signatories to the account must approve each transaction by signing on the withdrawal slip of the bank. If the savings account is of the “AND/OR” type, the instructions of one of the joint account holders will be taken by the bank as the instruction of the other joint account holder. This is why there appears in withdrawal slips the statement that “*I/we declare under the penalties of perjury that my/our co-depositor(s) is/are still living.*”



Figure 3

ABC Bank		
ACCOUNT NAME		
BRANCH	CURRENCY	ACCOUNT NUMBER
YOUR DEPOSITS ARE INSURED WITH THE PHILIPPINE DEPOSIT INSURANCE CORPORATION (PDIC) UP TO PHP500,000.00 PER DEPOSITOR.		
<p>Thank you for opening your account with ABC Bank.</p> <p>This book is a record of all your transactions with ABC Bank. Please present this to the teller every time you make a deposit or withdrawal.</p> <p>The balance appearing in this record book will be conclusive only if the record book is fully updated and the balance reflects all appropriate deposits/credits and/or withdrawals/debits.</p> <p>For your protection, please keep this record book in a safe place. Should this be misplaced or lost, please notify your branch of account immediately to avoid unauthorized transactions.</p> <p>It is agreed that the opening of this account is subject to ABC Bank rules and regulations.</p> <p>Thank you for giving us the privilege to serve you.</p>		
No. 123456		

Tessie expresses some concerns. “*Tatay*, I am not that tall and I have seen the counters for making deposits and withdrawals whenever *Nanay* brings me with her to the bank. Can you or *Nanay* make the deposit or withdrawal for me?”

Sonny chides Tessie and says, “Of course, *Tatay* or *Nanay* can make deposits or withdrawals for you with your savings account. Isn’t that true, *Tatay*?”

*Mang Domeng* replies, “You are correct, Sonny. Since *Nanay* and I will have our names as the trustors of Tessie, we can deposit and withdraw for her. But even with deposit accounts of adults, they can make deposits or withdrawals through people they trust. They just need to bear in mind that when withdrawing through representatives, they would need to authorize their representative by signing on a particular space provided in withdrawal slips. Their representative must also sign on the space provided for him in the withdrawal slip and present valid IDs to the bank teller to prove that he and the authorized representative are one and the same.”

### Financial Expert’s Corner

*Figure 4 illustrates the next two pages of a passbook where the printing of transactions is done. The line numbers on the left margin are used by bank tellers to instruct their computers on where to print the next banking transaction. A column for the transaction code describes the type of transaction. The description for each transaction code typically appears towards the back of a passbook as a legend table. If there is no legend table for codes, you can always consult your bank for the actual code description/s.*

Figure 4

	DATE	WITHDRAWAL	DEPOSIT	BALANCE	CODE
1					
2					
3					
4					
5					
6					
7					
8					
9					
10					
11					
12					
13					
14					
15					
16					
17					
18					
19					
20					
21					
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24					

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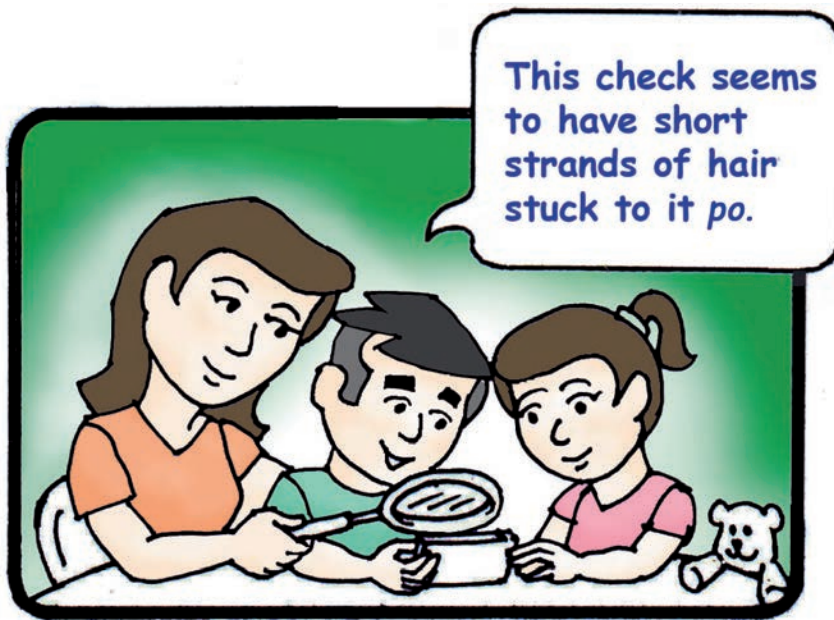
ABC BANK

## Checking Accounts

The astute Tessie now asks, “*Tatay*, if savings accounts are good for keeping money that you will need in a short while, what then are checking accounts good for *po*?”

*Aling* Lorna, who had just been watching with adoring eyes how the three loves of her life were interacting, butts in with, “Good question, Tessie.” She continues, “Checking accounts are ideal for people and institutions that need to make transactions using big amounts of money. A properly issued check does away with the need to bring hoards of cash that may just attract robbers.”

*Aling* Lorna smiles and continues, “Checks are made from special security paper and are printed only by the suppliers authorized by the *Bangko Sentral ng Pilipinas* and the Philippine Clearing House Corporation or PCHC.” Holding a magnifying glass in one hand, *Aling* Lorna gently pulls Sonny to her and says, “Take a closer look at our check with the magnifying glass and tell me what you see.”



*Aling* Lorna says, “You are correct. But those are not strands of hair. They are security fibers. They are placed there intentionally to make it difficult to make a fake check. Plus, there are many other things that protect a check from being counterfeited.”

To this end, *Aling* Lorna slowly explains each part of a check to her two children in the following fashion and using a check similar to the one presented in Figure 5.

## Financial Expert's Corner


Figure 5 shows a sample of a personal check. Commercial or corporate checks would basically have the same contents but would be larger in paper size to allow for two signatories. Having two signatories makes for good check and balance so that fraud is minimized, if not totally avoided.

A check can be presented to the depository bank of the payor for encashment. However, it is not uncommon for checks to be marked with two diagonal and parallel lines on their upper left corner. Crossing a check this way tells the depository bank of the payor that the check can only be accepted for deposit and not encashment. If the payor changes his mind, he or she can “un-cross” the check by signing on top of the two diagonal parallel lines.

Writing the word “cash” as the payee of the check means that anybody holding on to the check can literally deposit it in his account or encash it with the payor’s bank. It is safer to put an actual name as the payee to avoid having the check presented by an unintended payee.

**Figure 5**

**Front Side of Check**

ACCOUNT NO. 123-45-67890-1	ACCOUNT NAME JUAN DE LA CRUZ		CHECK NO. 12345678	R/T NO. 09876-543-2
PAY TO THE ORDER OF		DATE		
PESOS		<input type="text" value="P"/>		
<b>ABC Bank</b> KAIMITO BRANCH 123 SANGANG DAAN QUEZON CITY		SIGNATURE		
***1834867***18348***1834***183486789018***				

*Located on the upper left hand corner of the check is the checking account number. The coding of account numbers depends on the bank. However, it would usually contain codes for the location of the branch, the type of account, and the number of the account itself.*

*Some checks carry a bar code near their top portion. This bar code is a security feature of some banks to prevent the counterfeiting of their checks.*

*The R/T No. that appears on the upper right hand corner of the check is the code for a bank's branch and is used to facilitate the routing of checks.*

*The combination of the check number, the R/T No. and the checking account number form the number found on the left bottom corner of the check. This combination is written in magnetic ink character recognition or MICR format for reading and automatic encoding by computers. This information is read by the bank's computer before the check is delivered to the clearing house.*

“Wow, *Nanay*, that is very interesting. I did not know that one piece of check can contain so much information,” says Sonny.

Still eager but starting to get sleepy, Tessie asks for one final request for the day from her *Nanay*. “*Nanay*,” the groggy Tessie asks, “what are these markings on the back of the check?”

Using the same sample check, *Aling* Lorna explains the markings at the dorsal or back side of the check, similar to those shown in Figure 6, in the following fashion:



**Figure 6**

**Back Side of Check**

Space for PCHC Tracer Band		Do not Write Beyond this Point (Reserved for Bank Use Only)	DEPOSITOR'S ACCOUNT NUMBER	PAYEE'S SIGNATURE/ENDORSEMENT
Space for Bank Guarantee Stamp	Space for 2 <sup>nd</sup> Presentment Stamp			
	Space for Other Details			

Towards the right of the dorsal side of the check is where the payee or recipient of the amount on the check may sign for encashment purposes and also indicate his or her deposit account number in case the check is being deposited to his or her account.

The “space for the bank guarantee stamp” is used by the bank accepting the check to show that according to their review, the check complies as a negotiable check in its present form. The accepting bank, however, does not make any guarantees on whether the check is backed by sufficient deposits, which is the substance of the check.

In case a check is re-deposited after being declared drawn against insufficient funds (DAIF) or drawn against uncleared deposits (DAUD), the accepting bank will set its stamp of check negotiability in the area marked “space for 2nd presentment stamp.” Checks may be re-deposited only once. Checks issued from closed accounts as well as those where a “stop payment” order was issued by the payor cannot be re-deposited.

“OK, *mga Anak*, it’s getting late. Time to go to bed,” says *Aling Lorna*.

## Financial Expert's Corner

*To avoid having a check declared DAIF or DAUD and paying expensive penalties, it is best to learn how to balance a checkbook. There are no special skills needed. Just the patience and discipline to jot down all deposits to and check issuances/withdrawals made against the checking account is sufficient.*

*There is even no need to buy expensive software or an elaborate ledger as checkbooks come with mini-ledgers where balancing can be done.*

*It is enshrined in the Philippine Constitution under Article 3, Section 20 that “No person shall be imprisoned for debt or non-payment of a poll tax.”*

*However, Batas Pambansa 22 also states that a person can be punished by imprisonment of not less than 30 days but not more than one (1) year or by a fine of not less than but not more than double the amount of the check or both such fine and imprisonment at the discretion of the court, if a person issues a check:*

1. “knowing at the time of issue that he does not have sufficient funds in or credit with the drawee bank for the payment of such check in full upon its presentment”; and

2. “having sufficient funds in or credit with the drawee bank when he makes or draws and issues a check, shall fail to keep sufficient funds or to maintain a credit to cover the full amount of the check if presented within a period of ninety (90) days from the date appearing thereon.”



### Did You Know?

Second endorsement is the practice of accepting as payment a check that was issued to somebody else. The practice would include that somebody else signing at the back of the check of which he is the payee and endorsing it as payment to another party. The practice of second endorsement is nowadays not followed by banks especially in the light of anti-money laundering policies.

*The fine shall in no case exceed Two Hundred Thousand Pesos.*

## Time Deposit Accounts

It's the following Sunday. To enjoy more quality time, *Mang* Domeng and his family go to church and then eat at one of their favorite malls. After a full meal, it's time to go window shopping. First stop, the toy store.

Our Overseas Filipino Worker (OFW) family fans out. *Mang* Domeng and Sonny head for the robots and car section while *Aling* Lorna and Tessie head for the dolls. They meet up at the cashier with each child holding one toy of his/her choice. Even so, both children are beaming and can't stop jumping up and down as if their feet were on springs.

Next stop is the department store where *Mang* Domeng surprises *Aling* Lorna by asking her to pick out a new dress with matching shoes and bag. "Are you sure we can afford it?," asks *Aling* Lorna.

"Don't worry," *Mang* Domeng replies, "I've got it covered."

Last stop is the record bar where *Mang* Domeng buys original CDs of his favorite hits of the 70s and 80s to keep him company while he is far away from home.

After a quick stop at an ice cream stand, our OFW family heads home. With their parents barely out of their seatbelts, the children jump out of their car and rush into their house with their respective new toys in tow, ripping the toys' boxes as they run.

Still in their car, *Mang* Domeng and *Aling* Lorna cannot help feel very blessed with two such happy children, a modest home, a not-so-old car and the ability to afford the simple luxuries in life.

*Mang Domeng says to Aling Lorna, “Nanay, it’s a good thing we placed our money in time deposit. Whatever we had been spending on entertainment so far is just from the proceeds of the interest income on our placements. Keep safe our Certificate of Time Deposit (CTD)”.*

*“That’s right, Tatay,” says Aling Lorna, “if we did not listen to Sir Ed, our bank branch manager, we could be spending down our hard-earned savings instead of just the interest. Don’t worry, I will keep the CTD safe.”*

### **Financial Expert’s Corner**

*Time deposits are ideal for people and institutions that can afford to keep their money invested over a period of time. This period can range from a few days to several years.*

*It has been the practice of banks to absorb the documentary stamp tax (DST) on time deposits they offer. DST is charged to the depositor usually when:*

- 1. a request for pre-termination of a short-term time deposit is made; or*
- 2. a request for pre-termination of a long-term time deposit is received early on in the life of the time deposit*

*These rules will vary between banks and are guided by prevailing market practice.*

*For long-term time deposits, interest may be paid periodically or at maturity. People who can wait for their money to grow will normally pick the time deposit that pays interest at maturity. People who need to use the interest on the time deposits, like retirees, will naturally pick the time deposit that pays periodic interest.*

*Time deposits will typically be paired by the bank with the depositor's savings account for crediting of any interest earnings as well as the maturity proceeds. Linking a savings account with a time deposit that pays periodic interest helps to keep the savings account from being declared dormant.*

“By the way *Nanay*, our time deposit is about to mature,” says *Mang Domeng*. “Please make sure you renew it and as provided in our budget, add a little bit more.” He adds, “Don’t bother entertaining offers from never-heard-of companies; if the offer becomes too difficult to refuse, consult with me first.”

“Moreover,” he says, “when you make the placement, please get a Certificate of Time Deposit (CTD) from the bank that contains the following information:

1. our names
2. our address
3. bank branch
4. CTD number
5. principal amount of the time deposit with the amount also machine-stamped
6. term in days or years
7. opening date
8. maturity date
9. interest rate quoted on a per annum basis
10. interest payment schedule
11. settlement deposit account number

“Finally,” says *Mang Domeng*, “never forget that the CTD must be officially signed by the authorized personnel of the bank inside the bank’s premises.”

### Financial Expert's Corner

*It should be noted that if a time deposit will have a term of one (1) year or less, the equivalent gross interest will be computed based on the following formula:*

$$\text{Quoted bank rate (p.a.)} \times \frac{\text{tenor of time deposit}}{360} \times \text{principal}$$

*The gross interest rate for a time deposit with a tenor of more than one year will be computed as follows:*

$$\text{Quoted bank rate (p.a.)} \times \frac{\text{tenor of time deposit}}{365} \times \text{principal}$$

*The practice is that if the maturity and/or interest payment date of the time deposit falls on a weekend or holiday, the maturity proceeds and/or interest will be credited to the depositor's settlement account on the following banking day.*

*Time deposit accounts may be automatically renewed provided the depositor gives that specific instruction to the bank. The best practice among banks is to mail notices to the depositor that his or her time deposit has been automatically renewed. Any pre-termination of a time deposit will result in lower interest for the depositor and the payment of Documentary Stamp Tax, if applicable.*

*A sample computation of lower interest rate under a time deposit pre-termination is as follows:*

- 75% of the quoted gross interest rate for pre-termination within the first half of the quoted term; and
- 50% of the quoted gross interest rate for pre-termination during the second half of the quoted term.



## Closing the Deposit Account

*Aling Lorna just remembered, “Tatay, we have an account with another bank that we had not been touching for quite some time. Do you think we should already close it? After all, I find it more convenient dealing with Sir Ed.”*

*Mang Domeng replies, “Why not? We might just end up paying the dormant account charges.”*

### Financial Expert’s Corner

*Closing a deposit account is a two-way street. A bank can decide to close a deposit account at any time without any obligation to explain the reason to you as the depositor. In doing so, the bank will pay you the proceeds of the closed deposit net of any and all applicable charges.*

*In opening a deposit account, you must consent to giving authority to the bank to automatically close the same deposit account without prior notice if the deposit account is:*

- 1. mishandled with DAUD or DAIF checks;*
- 2. involved in fraudulent or illicit activities; or*
- 3. opened with misrepresentations.*

*In closing the deposit account, you, as the depositor, will also need to consent to holding the bank, together with its officers and employees, free from all liabilities of whatsoever nature arising from such account closing.*

*If you initiate deposit-account closing, you should also ensure that parties transacted with using the closed account are notified ahead of time. It is also your duty to replace post-dated checks. Otherwise, you may face the penalties provided under Batas Pambansa 22 especially if it can be proven that there was the intent of running away from financial obligations by closing the pertinent deposit account. And just like with bank-initiated account closings, the bank cannot be made responsible for liabilities arising from depositor-initiated account closings.*

## Depositing Your Money

1. Savings accounts are great for people and institutions that need a safe and readily accessible place to keep short-term money. Short-term money means that the money will have to be accessible immediately.
2. Checking accounts are ideal for people and institutions that need to make transactions using sizeable amounts of money. A properly issued check does away with the need to bring loads of cash.
3. Time deposits are ideal for people and institutions that can afford to keep their money invested over a period of time. This period can range from a few days to several years.
4. The type of deposit account being opened will depend on the need of the depositor.

[illegible]



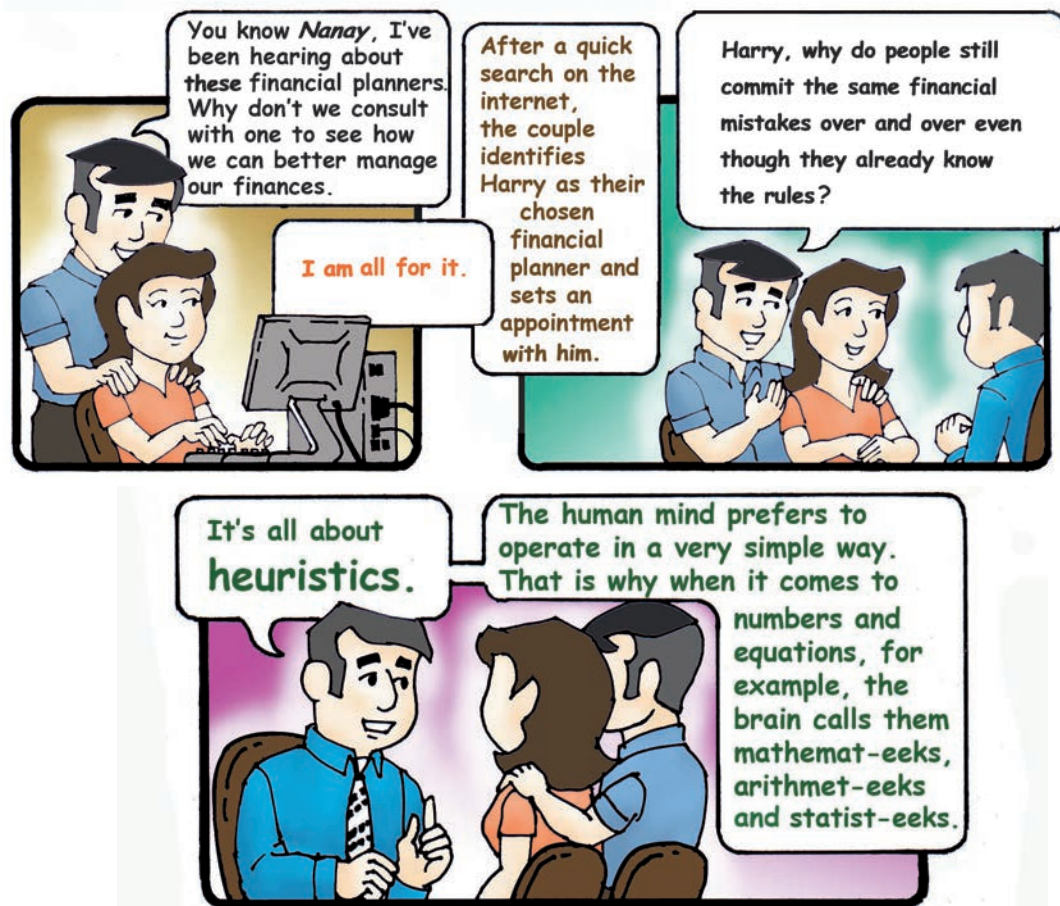
# CHAPTER 4





It's 5:30 AM on a Wednesday, and about four weeks till *Mang Domeng* flies back to his job in the Middle East.

*Aling Lorna* fears that when *Mang Domeng* is gone, they would not be as strong in resisting temptations to spend. While he is here, *Mang Domeng* is the commander-in-chief and everybody toes the line.



"But seriously," says Harry, "tell me how you would react to the picture I am going to show you." Harry proceeds to show the couple the following picture.

$$\begin{aligned}
F_p(\bar{x}, \bar{w}, \bar{d}, \bar{v}) = & \Theta(v_{t,\min} - v_{p,\min}) w_{t,\min} \sum_1^{\hat{n}_t} \Theta\left(\delta_{thres,\min} - \sum_1^b DDC_{ij} x_j\right) \left(\sum_1^b DDC_{ij} x_j - d_{p,\min}\right)^2 \\
& + \Theta(v_{t,\max} - v_{p,\max}) w_{t,\max} \sum_1^{\hat{n}_t} \Theta\left(\sum_1^b DDC_{ij} x_j - \delta_{thres,\max}\right) \left(\sum_1^b DDC_{ij} x_j - d_{p,\max}\right)^2 \\
& + \sum_{j=1}^{\hat{n}_t} \left[ \sum_{i=1}^{\hat{n}_t} \Theta(v_{i,\min} - v_{p,\min}) w_{i,\min} \sum_1^{\hat{n}_t} \Theta\left(\sum_1^b DDC_{ij} x_j - \delta_{thres,\min}\right) \left(\sum_1^b DDC_{ij} x_j - d_{p,\min}\right)^2 \right] \\
& - \delta_{thres,\max} \left( \sum_1^b DDC_{ij} x_j - d_{p,\max} \right)^2 \\
& - v_{p,\min} w_{t,\min} \sum_1^{\hat{n}_t} \Theta\left(\delta_{thres,\min}\right)
\end{aligned}$$

Mang Domeng says that he could barely understand the numbers while Aling Lorna says that she suddenly got a headache.

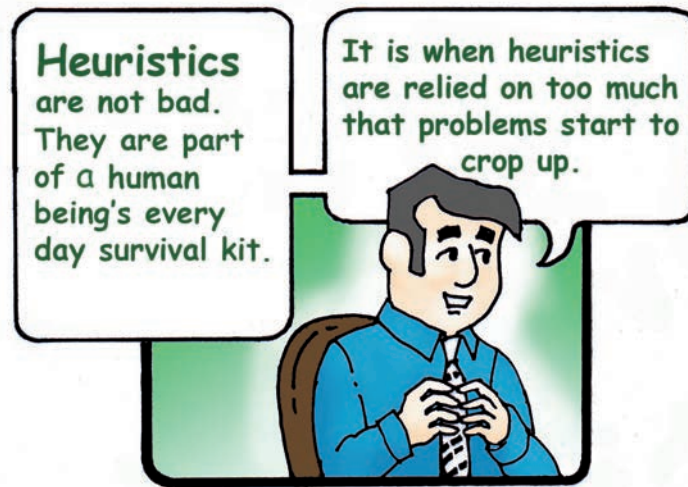
Harry says, “Behavioral economists say that people suffer from number numbness. And the best way for people to overcome this number numbness is to apply heuristics.”

## Heuristics

“What are these heuristics?”, asks Aling Lorna.

Harry replies with the following lengthy discourse while the couple listens intently:

“Heuristics are nothing more than educated guesses, rules of thumb, intuitive judgments and plain common sense. Heuristics are necessary for people to get through the myriad of decisions they have to make in a day, some say as much as 35,000 a day. And the way to cope is to use the short-cuts to decision-making that heuristics provide.”



The over-reliance on heuristics gives rise to distortions much like with the overuse of an ordinary magnifying glass. Using a magnifying glass with an extended arm will blow up the image of say, a single letter on a page of a newspaper. But take just one or two steps away, keeping the arm extended and the image of the letter turns from blurred to clear but inverted.

One kind of heuristic is that people usually think in relative terms.

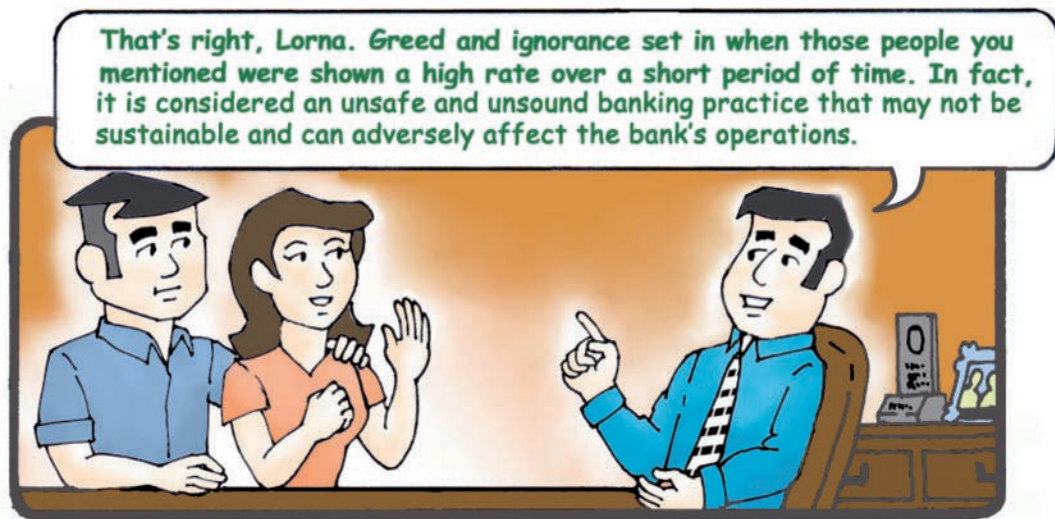
Someone is beautiful or handsome compared to someone else. A building is tall relative to a building that is not as tall. People would not consider the waiting time at a bank long if they did not have the waiting time with another bank to compare it to.

In addition to thinking in relative terms, people also assign a higher value to higher numbers and conversely a lower value to lower numbers. This is probably the reason why more expensive products are given higher model numbers, whether these are cellular phones or cars.

Still another heuristic is that people prefer to enjoy sooner than later. This is why there is a proliferation of instant goods and services from instant noodles, fastfood restaurants, communications on demand via the Internet and many more. In Filipino, it is called “now *na*” (now already).

All three heuristics, thinking in relative terms, assigning a higher value to higher numbers and the preference to enjoy things now rather than later can also apply to money and investing. Economics teaches that postponing present consumption through investing can lead to more consumption in the future. But heuristics says that short-term investment with a high payout will be preferred over a longer-term one even if the risks with the short-term investment are higher.

*Aling Lorna* exclaims, “You know *Tatay* and *Harry*, that is exactly what happened to *Delia’s* office employees’ association. They believed this sweet talk of a bank officer that their money would not only be safe but would also be earning higher than average interest rates over a short period of time. Nobody even dared to question how the bank could make a profit when it would pay a very high deposit rate at a time when average lending rates were much lower. Her co-employees took the lead and deposited their money. When they were asked why they deposited their money even though they knew it was too good to be true, these employees just said that they were hoping to enjoy the ride while it lasted. Unfortunately, the high payouts were unexpectedly cut short with very few being prepared for it. As a result, hundreds of millions of Pesos were lost.”





### Financial Expert's Corner

*Money and investing are quite difficult to comprehend because they invariably rely on computations that can range from simple to advanced calculations. Combine this with how busy people are nowadays and you have a situation where people just ask the following questions in judging an investment:*

- *What is the interest or how much will my money earn?*
- *When do I get my money back?*
- *Are both the principal and interest guaranteed?*

*However, thinking that a promised high return or interest over the short-term is better, makes sense only up to the point before it begins to run counter to the unbreakable law in investing which states that **high potential investment return equals high risk; low potential investment return equals low risk.***

## Risk vs. Return

“OK, Harry,” Mang Domeng says, “Please explain to us what you mean by risk and investment return.”

Harry continues with his lecture. This time around, he moves to his whiteboard and writes the following equations while the couple’s eyes are glued to the board. Harry says, “To better understand the workings behind risk and return, look at the formula for computing interest:

#### Formula 1

$$\text{Principal} \times \text{Net Interest Rate} \times \text{Time} = \text{Peso Interest}$$

Given the following assumptions,  
Principal = Php10,000  
Net Interest Rate = 2% p.a.  
Time = 1 year

*Aling* Lorna says, “Hey, that’s the savings interest formula that Sir Ed, our bank branch manager, taught me.”

“That’s correct, *Aling* Lorna,” says Harry. “Now after one year,” Harry continues, “the Peso interest would be computed as:

$$\text{Php}10,000 \times 2\% \times 1 = \text{Php}200$$

“Now,” Harry asks, “how do you think the future value of money is arrived at?”

*Mang* Domeng answers, “You simply add the interest you earned to your principal or original investment.”

“Correct again,” Harry says, “To get the future value of the investment, the Peso interest is merely added to the Principal as follows:

$$\text{Principal} + \text{Peso Interest} = \text{Future Value}$$

or

$$\text{Php}10,000 + 200 = \text{Php}10,200$$

Harry rounds up his mini-lecture by saying, “If all of the future value after the first year would be re-invested, the same formula can be applied. But this time around, the starting principal will be Php10,200. The more money is re-invested, the higher the future value will be. This is called *compounding returns*. On the other hand, if the interest would not be re-invested in the second year, only the original principal of Php10,000 will be used in the formula. The interest earned is



### Financial Expert's Corner

*It can be seen from the above formulas that the future value of any investment is dependent on the:*

- 1. size of the principal (re-)invested;*
- 2. level of interest (or return) to be earned; and*
- 3. time money is left to earn.*

simply spent away.

Harry says, “*Mang Domeng and Aling Lorna*, initially, your financial goals will be fixed and you will just play around with the amount of money you invest and re-invest, the rate at which your money earns and the time you allow your money to earn. Please avoid being greedy by running after very high returns or investing too long. As a rule, long-term instruments provide potentially higher returns. And the higher the potential investment return<sup>4</sup>, the higher the risk is as well. This is true for both short-term and long-term investment. This risk can come in the form of returns not meeting expectations and even leading to the loss of principal. It is best to be familiar with the prevailing rate of interest on deposits or bonds and compare them with what is being offered to you. It is also prudent to ask where the money will be invested to make sure these are legitimate activities and to understand whether the proposed yield is realizable.”

“Investing can really be risky,” comments *Mang Domeng*.

“That is true, *Mang Domeng* but short-term investments that seem to be safer also contain risks. Investment returns from relatively safer investments may not be enough to counter the inflation rate,” Harry explains.

“What does inflation rate mean?”, asks *Aling Lorna*.

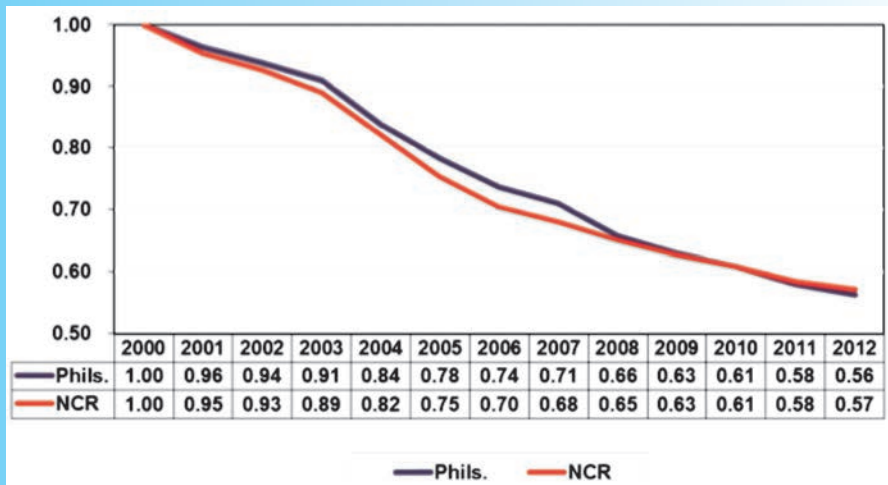
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<sup>4</sup> *People desire to enjoy things now rather than later. The only way people can be persuaded to postpone consuming things now is if they would be allowed to consume more in the future. And with investing under normal situations, this means long-term investments should give higher returns than short-term investments.*

Harry says, “Take the case of college tuition fees. If an investor’s child is newborn, it will only be after 17 years before the child starts college. If the investor wants his child to study at a college wherein the tuition fees are currently at Php80,000 a year, the future cost of the first year’s college education at an inflation rate of 5% per year would already be over Php180,000 by the time the child gets there. If the investor saves Php80,000 today and reinvested all earnings but only placed his money in a time deposit paying a net of 2% p.a., he would just have slightly over Php112,000 by the time his child steps into college. All investments bear risk, just in differing levels. And at the point of overemphasizing, the higher the potential investment return, the higher is the risk.<sup>5</sup>”

*Just see the value of the Philippine Peso through time as shown in the following figure:*

**Figure 7**



*Based on data from the National Statistics Office (NSO), a Peso in the year 2000 would only be worth Php0.57 by the end of 2012 in the National Capital Region (NCR) and Php0.56 for the Philippines as a whole. In other words, if Php1.00 could buy one pandesal in the year 2000, it could only buy 57% of that same pandesal in the year 2012 in the NCR.*

<sup>5</sup> Please note that only the first year of college tuition was considered in the discussion. Separate investments and computations for tuition fees for the other years of college education.

## Ponzi Schemes and Pyramiding

*Aling Lorna* asks Harry about investment schemes with unusually high returns being offered to her cousin, Esther, a small grocery store owner who already fell victim to the scheme perpetrated by the Ponzi Scheme<sup>6</sup>, which is now under a permanent cease and desist order from the Securities and Exchange Commission.

Harry says, “Time and again, people have been duped by scam artists with the lure of high and guaranteed returns. For the person who is aware of his weakness in decision-making, he would question the promised high return especially if there are no possible outlets to earn more than such returns. Why more? If the operation were legitimate, it would need to earn a profit for itself on top of the return or interest to be paid to the investors.”

“So how is it possible to run such scams?”, asks *Mang Domeng*.

Harry replies, “These operations just pay the high returns of their present investors from the money of future investors. That is why it is critical to such scams that they are able to sell to new investors. This scam is called *Ponzi scheme*. Ponzi scheme artists will even cite some elaborate investing strategies to make the operation look more legitimate and make people stop questioning the operation for fear of looking stupid.”

“I knew my rule of first knowing more about a certain investment was the right way!”, exclaims *Mang Domeng*. Harry agrees.

“In addition,” says Harry, “pyramiding may be applied on top of Ponzi schemes. *Pyramiding* involves an operation where people are invited to become members of a business group and are instructed to recruit new members to realize higher earnings. Pyramiding bastardizes the legitimate marketing strategy called *networking*. The Securities and Exchange Commission declared that an operation that focuses on recruitment and not the actual sale of a product or service is a pyramiding scam and therefore illegal.”

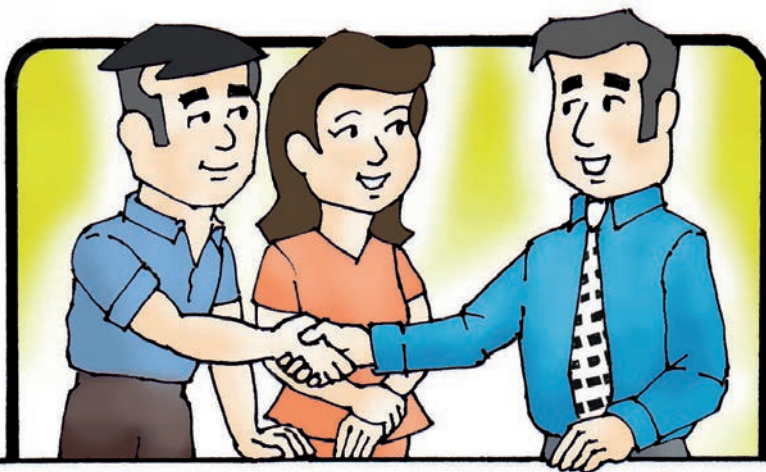
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<sup>6</sup> The SEC ordered a permanent cease and desist order on the said Ponzi scheme, which was found to be selling unregistered securities with unusually high income/dividend rates ranging from 3% to 5.5% per month over a 6-month to 1-year placement term.

*Mang Domeng* relates the story of other OFWs in his workplace who were victimized by a Ponzi scam promising high returns only to lose everything when the Ponzi collapsed just a few years later. Other OFWs had their family members joining pyramiding schemes only to see their investment in such schemes go down the drain when the pyramid could not find new distributors anymore to pay the supposed returns of earlier ones.

But before the couple leaves, Harry gives them one final lesson.

“You know *Mang Domeng* and *Aling Lorna*,” says Harry, “sometimes fraud is committed by certain erring officers and employees of a bank without the



Both *Mang Domeng* and *Aling Lorna* thank Harry for the wealth of information. The couple feels more equipped now to invest their hard-earned money. *Aling Lorna* also promises to share her new knowledge with her friends.

bank as an institution initially knowing. Such erring officers and employees would make fake certificates of time deposit to get unsuspecting depositors to place their money. What really happens is that the depositors' funds merely enter the pockets of these erring employees and not the vaults of the bank. That is why it would be best to get validation of your time deposit from other people within the bank. A statement of account generated by a bank's central office, either in printed form or online via the Internet, is one way as it would be difficult to be conniving with many people within a bank."

"Wow, thank you again Harry. You have truly been a big help to us," says *Mang Domeng*.

## Financial Expert's Corner

*The term Ponzi was adapted from the name Charles A. Ponzi. Charles Ponzi did not invent the scheme. However, he was the first person to dupe a great many people using the scheme in the United States.*

*Charles Ponzi was surely not the last individual to fool people into giving up their hard-earned money for the false promise of high short-term returns. In the Philippines, there have also been many Ponzi schemes that duped people out of billions of Pesos. And whatever the place, Ponzi and Pyramiding scammers are sure to prey on people's over-reliance on heuristics.*

*Ways to overcome these promises of high short-term returns are:*

- 1. Be aware of the propensity to be blinded by high short-term returns and always remember the unbreakable law of investing (high potential investment return equals high risk). The better way to make money is through moderate and sustainable profits than from one-time, big-time gains.*
- 2. Check the registration of the securities being offered with the Securities and Exchange Commission (SEC). It is not enough that a company is registered with the SEC as a corporation. This is called the primary registration. Selling the service of managing other people's money, including any promise of a return, requires a secondary license with the SEC. Depending on the type of product or service being sold, there may be other licenses to be secured from the Bangko Sentral ng Pilipinas or the Insurance Commission.*
- 3. Compare the promised high short-term returns with what banks are currently offering for investments with similar terms. If it is too good to be true, then it cannot be a legitimate operation.*



## More Than Just Interest Rates

1. Heuristics are nothing more than educated guesses, rules of thumb, intuitive judgments and plain common sense. Heuristics are necessary for people to get through the myriad of decisions they have to make in a day.
2. The future value of any investment is dependent on the
  - a. size of the principal (re-)invested;
  - b. level of interest to be earned; and
  - c. time money is left to earn
3. The ideal situation is that financial goals are fixed. And with fixed financial goals, the investor can just play around with the amount of money he (re-)invests, the rate at which he makes his money earn and the time he allows his money to earn. And at the risk of overemphasizing, the higher the potential investment return, the higher the risk.
4. Operations that get the promised high short-term returns from the investors' own money and from investments of succeeding investors are called **Ponzi schemes**.
5. Pyramiding involves an operation where people are invited to become members in a business group and are instructed to recruit new members to realize higher earnings.
6. Ways to overcome these promises of high short-term returns are to:
  - a. be aware of the propensity to be blinded by high short-term returns;
  - b. check the registration of the securities being offered with the Securities and Exchange Commission; and
  - c. compare the promised high short-term returns with what banks currently offer.

[illegible]



# CHAPTER 5



**J**ust three weeks left before *Mang* Domeng flies back to the Middle East, *Aling* Lorna informs him that she will be gone for the day to accompany her friend, Daisy, to the recently closed bank where *Aling* Daisy kept her deposits.

*Aling* Daisy has to attend the Depositors-Borrowers Forum organized by the Philippine Deposit Insurance Corporation (PDIC) in order for her to know how she could claim her deposit insurance. The distraught *Aling* Daisy asked *Aling* Lorna the favor of coming along with her to the forum.

Believing that bank closures and deposit insurance are important concerns for depositors like him, *Mang* Domeng volunteered to go with the two ladies to the closed bank.

During PDIC's Depositors-Borrowers Forum, PDIC personnel started with a brief introduction of PDIC and what it does.

## The PDIC at a Glance

Orly, the PDIC employee assigned at the premises of the closed bank, started the Depositors-Borrowers Forum by introducing the goals and mandates of PDIC.

"The two public policy objectives or goals expected for the PDIC to achieve are depositor protection and financial stability," Orly says. "To carry these out, the PDIC has to perform three mandates or core functions as Co-Regulator of banks, Deposit Insurer, and Receiver and Liquidator of closed banks."

And so begins Orly's discussion, with the audience giving their full attention.

As **Co-regulator** of banks, the PDIC conducts offsite and onsite monitoring of banks to ensure that banks are managed well and are not conducting business in an unsafe and unsound manner. The PDIC also assists banks to become stronger through bank strengthening initiatives and financial assistance.

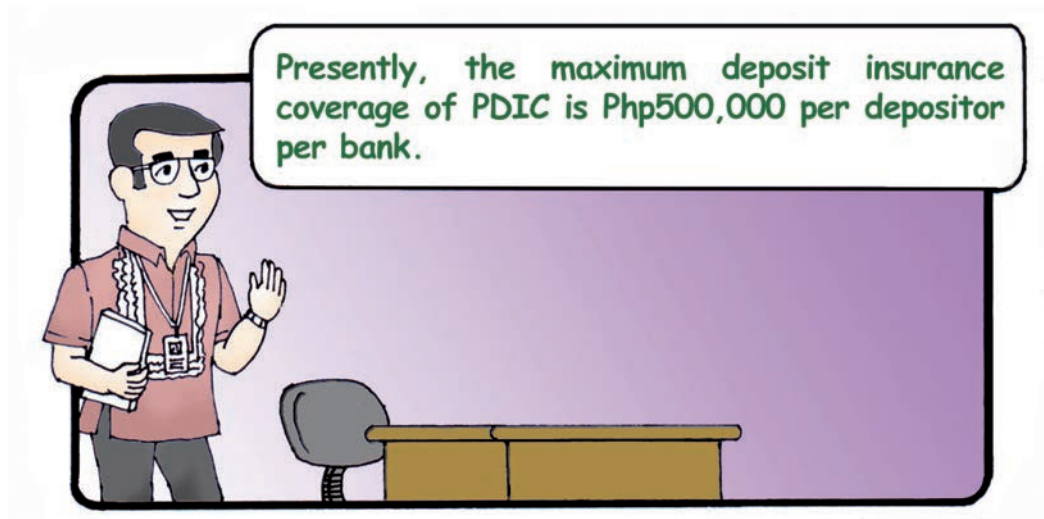
Furthermore, PDIC is authorized to investigate banks and file cases against erring bank owners, officials, and employees for fraud, irregularities, anomalies and for conducting business in an unsafe and unsound manner. (See *Annex B for Regulatory Issuance No. 2011-01 on page 138 and Annex C for BSP Circular No. 640 on page 144 re unsafe and/or unsound banking practices*)

As **Deposit Insurer**, PDIC assesses member-banks and collects from them insurance assessment payments. All banks that are licensed to operate as banks by the Bangko Sentral ng Pilipinas are mandated to become member-banks of PDIC.

Member-banks are assessed a flat rate of 1/5 of 1% of their total deposit liabilities annually. Assessments collected are added to the Deposit Insurance Fund, the funding source of payment of deposit insurance in the event of bank closures.

“And of course, as Deposit Insurer, the PDIC is mandated to pay the right deposit insurance amount to the right depositor,” Orly says. “This Depositors-Borrowers Forum is a venue to explain to depositors the claims settlement process. Please do not hesitate to ask questions,” he adds.

As if on cue, *Aling Daisy* raises her hand and asks, “What is the maximum amount covered by PDIC’s deposit insurance?”



“If all banks are members of PDIC, are all banking products also covered by PDIC?”, one inquisitive depositor asks.



Orly says, “The PDIC’s deposit insurance covers all forms of deposits in member-institutions, whether in local or foreign currencies. But there are bank products that are excluded from deposit insurance.”

### Financial Expert’s Corner

*The PDIC insures the following:*

*by type of deposit:*

- *savings*
- *special savings*
- *demand/checking*
- *negotiable order of withdrawal (NOW)*
- *negotiable/non-negotiable certificate of time deposits*

*by type of account:*

- *single account*
- *joint account*
- *account in trust for (ITF) another person*

*by currency:*

- *Philippine Peso*
- *acceptable foreign currencies*

*The PDIC excludes the following from deposit insurance, even if such are denominated, documented, recorded or booked as deposit by a bank:*

- *Investment products ;*
- *Deposit accounts or transactions that:*
  - *are unfunded, or fictitious or fraudulent*
  - *emanated from or constituting unsafe and unsound banking practice/s as determined by the PDIC in consultation with the BSP, after due notice and hearing and publication of PDIC’s directive to cease and desist against such deposit accounts/transactions*
  - *are determined to be proceeds of unlawful activity as defined in the Anti-Money Laundering Act (Republic Act 9160, as amended)*

Unable to suppress his smile, Orly says, “This is turning out to be quite a lively discussion, isn’t it? However, let us not forget about PDIC’s other core function as Receiver and Liquidator of closed banks.”

“Wait, I have a question. What happens when a bank, like this bank, is closed?” asks another depositor.

“I was just getting to that, *Ma’am*,” says Orly and resumes his discussion of PDIC’s functions.

When the Monetary Board of the Bangko Sentral ng Pilipinas issues a resolution ordering a bank’s closure or placing a bank under receivership, the PDIC is designated as the Receiver of the closed bank, and therefore, takes over the bank’s operations, records and assets.

As **Receiver**, the PDIC administers the assets, records and affairs of the closed bank; and preserves the closed bank’s assets for the benefit of the bank’s creditors. Depositors with deposits in excess of the deposit insurance coverage or uninsured deposits are considered creditors of the closed bank.

When a closed bank can no longer be rehabilitated, PDIC is directed by the Monetary Board to proceed with the liquidation of the bank as **Liquidator**. Liquidation of a closed bank’s assets involves conversion of real and other properties acquired (ROPA) and other assets to liquid assets to facilitate distribution to creditors.

Distribution to creditors requires approval of the courts in accordance with the rules on concurrence and preference of credits. Based on provisions of the law, secured creditors are paid first and any balance after payment of receivership and liquidation expenses and settlement of preferred and secured creditors shall be distributed to ordinary creditors which include depositors’ claims in excess of the maximum deposit insurance coverage.

# Deposit Insurance Claim Process

“This is probably the most crucial part of our discussion as we will now explain to you the process of claiming your deposit insurance,” Orly says before resuming with the discussion.

## ***Automatic payment for Valid Accounts with balances of Php50,000 and below***

Orly quickly announced that depositors with valid accounts amounting to Php50,000 and lower are not required to file claims. These valid accounts are settled through automatic payment.

To qualify for automatic payment, these depositors should not have obligations with the closed bank and should have complete and updated addresses in the bank records. Depositors of Php50,000 and below may update their addresses using the Mailing Address Update Form distributed during the Depositors-Borrowers Forum.

PDIC sends payment through postal money order to the depositor’s address on record. These money orders may be encashed in any of the local post offices or branches of the Landbank of the Philippines for the convenience of the depositors.

In case a depositor with a deposit account amounting to Php50,000 or below did not receive his check, he may visit and inquire with the local postal office nearest to his residence. If the check is not available, he may call the PDIC Public Assistance Hotlines at (632) 841-4630 to 31 or send an e-mail to pad@pdic.gov.ph. There are cases when some accounts below Php50,000 need further verifications.

*Aling Daisy asks, “How about if your deposit balance is over Php50,000?”*

## ***Filing of claims for Account balances of more than Php50,000***

Depositors with account balances of more than Php50,000 and depositors who have obligations with the closed bank, regardless of account type and account balance, are required to file claims. Orly answers, “Claims for deposit insurances with account balances of more than Php50,000 are filed personally by the depositor in the premises of the closed bank or at the designated site during the onsite Claims Settlement Operations. The designated site will be announced in the Notice to

Depositors through posters and in the newspapers. The Notice is also posted in the PDIC website, [www.pdic.gov.ph](http://www.pdic.gov.ph).

The Notice to Depositors will also indicate the period of the Claim Settlement Operations at the bank premises or designated site; and the requirements and procedures for filing claims.

When the onsite Claims Settlement Operations is concluded, claims can be filed at the PDIC Claims Counter located at the 4th Floor, PDIC Ayala Extension Office, SSS Building, corner V.A. Rufino St., (formerly Herrera St.), Makati City. Claims may also be mailed to:

**Claims Processing Department**

Philippine Deposit Insurance Corporation  
4/F SSS Building, 6782 Ayala Avenue cor. V.A Rufino St.  
1226 Makati City, Philippines

“Is there a time frame wherein we need to file our claims?”, asks *Mang Domeng*.

“Yes, Sir,” replies Orly, “depositors of closed banks have up to two years from the actual takeover of the closed bank, to file their claims.”

## Steps in Filing Claims

Orly then proceeds to outline the steps in the filing of claims, as follows:

1. The depositor will need to secure a Claim Form from any authorized PDIC representative. Copies of the form are distributed during the Depositors-Borrowers Forum and may also be secured at the premises of the closed bank. Depositors may also download the Claim Form from the PDIC website for convenience at: [http://pdic.gov.ph/files/ebd\\_cf.pdf](http://pdic.gov.ph/files/ebd_cf.pdf).

The Claims Status Sheet is given to a claiming depositor who is required to secure further documents and verifications by PDIC. (*Copies of the Claim Form and Claim Status Sheet are provided in Annexes D (page 146) and E (page 148), respectively.*)

PDIC form is free of charge. The PDIC requests the public to report individuals or groups that sell these forms.

Should a depositor be unable to file personally, a representative may file in his behalf provided the representative presents a duly notarized Special Power of Attorney executed by the depositor. If the Special Power of Attorney is executed outside of the Philippines, it should be duly authenticated by the Philippine Consul nearest to the depositor's residence abroad. The Special Power of Attorney Form may be secured during the Claims Settlement Operations or downloaded from the website at [http://www.pdic.gov.ph/files/spa\\_claims.pdf](http://www.pdic.gov.ph/files/spa_claims.pdf). (A sample of the Special Power of Attorney is provided in Annex F on page 149).

If a depositor fails to file his claim within a two-year period from bank closure or beyond the prescriptive period of two years, his claim is no longer an obligation of the PDIC, as Deposit Insurer. The depositor will file a claim against the assets of the closed bank. The release of payment will be subject to the order of preference of credit as provided for by the New Civil Code.

2. Fill out and sign the Claim Form. It is important that the signature in the form tallies with the depositor's signature in the closed bank's records and in the Identification Documents (IDs) to be presented during the Claims Settlement Operations.

Parents will need to sign the Claim Form for the deposits of their children who are below 18 years old. The agent in a “**By**” deposit and the trustee for an “**In Trust For (ITF)**” account can sign the Claim Form.

In the case of joint accounts such as “**Or**”, “**And/Or**” or “**And**” accounts, each depositor must accomplish his own Claim Form.

3. Together with the Claim Form, the following documents should also be submitted during the Claims Settlement Operations:
  - a. Original evidence of deposit such as savings passbook, certificate of time deposit, latest bank statement, unused checks, bank statements, and ATM card.
  - b. Two (2) valid photo-bearing IDs with the signature of the depositor/claimant. Examples of acceptable IDs are Driver's License, SSS/GSIS ID, Senior Citizen's ID, Passport, PRC ID, OWWA/OFW, Seaman's, Alien Certificate of Registration, Voter's ID, Integrated Bar of the Philippines ID.
  - c. If the depositor is below 18 years old, a photocopy of the birth certificate from the National Statistics Office (NSO) or duly certified copy from the local civil registrar should be submitted.

The PDIC will not accept claims that are incomplete or lacking in requirements. The PDIC may also require additional documents in the course of claims processing.

During the onsite claims settlement operations, PDIC representatives examine and validate depositors' records to ensure proper payment to the rightful depositor. When found to be valid, depositors are paid onsite.

The Claim Status Sheet is issued on cases when deposit insurance payment cannot be made outright. The Claims Status Sheet will indicate the status of a claim or additional requirements that need to be submitted by the depositor. In the case of claims sent through mail, the PDIC will send a letter-notice to the depositor on the status of his claim or additional documents required. The letter-notice will indicate the deadline for submission of these additional documents. Depositors are enjoined to comply with the requirements within the deadline set.



## Following Up the Status of Claims

“How can we know the status of our claim?”, asks *Aling Daisy*.

Orly replies, “The depositor or his duly designated representative may follow up a deposit insurance claim either by telephone, e-mail or in person. The PDIC Public Assistance Hotlines are (632) 841-4630 and (632) 841-4631. Depositors outside Metro Manila may follow up their claims toll free at 1-800-1-888-7342 or 1-800-1-888-PDIC. The Public Assistance Department’s e-mail address is pad@pdic.gov.ph. Status of claims may also be followed up via mail at the:

### **Public Assistance Department**

Philippine Deposit Insurance Corporation  
SSS Building 6782 Ayala Avenue cor. V.A. Rufino St.,  
1226 Makati City, Philippines

Depositors may also visit the Public Assistance Helpdesk located at the 4th Floor, SSS Building, 6782 Ayala Avenue, cor. V.A. Rufino St., 1226 Makati City, Philippines.

Orly adds, “Inquiries in person may also be made at the premises of the closed bank, or at the designated site during the Claims Settlement Operations period. In following up a deposit insurance claim, the depositor needs to have the following information ready for easy reference:

- name of the closed bank;
- name of the depositor, and
- claim number and/or account number.”

## Financial Expert's Corner

*Effective June 1, 2009, the maximum deposit insurance coverage is Php500,000.00 per depositor, per bank.*

*Under the PDIC Charter, the term “insured deposit” means:*

*“...the amount due to any depositor for legitimate deposits in an insured bank net of any obligation of the depositor to the insured bank as of the date of closure...”*

*When a depositor has an obligation in the closed bank, the amount of obligation is deducted from the deposits prior to payment of the deposit insurance claim. The maximum deposit insurance coverage of Php500,000 applies to each depositor regardless of the number of accounts he maintained with the closed bank.*

*Deposits maintained in the same right and capacity are consolidated regardless of whether the accounts are in the name of the depositor or in the names of others.*

*In determining the insured amount, the outstanding balance of each account is adjusted, such that interests are updated, withholding taxes are deducted, accounts maintained by a depositor in the same right and capacity are added together; and whenever applicable, unpaid loans and other obligations of the depositor are deducted. In no case shall insured deposit exceed Php500,000.*

*A joint account regardless of whether the conjunction “and”, “or” or “and/or” is used, shall be insured separately from an individually-owned deposit account.*



### Did You Know?

*The maximum deposit insurance coverage was doubled from Php250,000 to Php500,000 in 2009 as a pre-emptive and confidence-building measure in response to the global financial crisis of 2008.*

*At the maximum deposit insurance coverage of Php500,000, 97% of the total accounts in the Philippine banking system are insured.*

For example:

1. How much is Fe Santos's insured deposit if she has the following four deposit accounts in the same bank?

Account Name	Deposit (in Php)	Insured Deposit of Fe Santos (in Php)
Fe Santos	100,000	100,000
Ben Santos For the Account of Fe Santos	100,000	100,000
Charlie Santos In Trust For Fe Santos	100,000	100,000
Fe's Store (Sole Proprietor)	700,000	200,000
Total	1,000,000	500,000

All four accounts are in the name of Fe Santos and are owned by her. Employing the "same right and capacity" principle, these four accounts will be added together or consolidated; and in no case shall the maximum deposit insurance coverage due to Fe Santos exceed Php500,000.

2. How much is Fe Santos's insured deposit if she has the following three joint accounts in the same bank?

Account Name	Deposit (in Php)	Fe's Share in the Insured Deposit (in Php)
Fe Santos or Ben Santos	500,000	250,000
Fe Santos or Charlie Santos	1,000,000	250,000
Fe Santos and/or Divina Santos	1,000,000	0 <sup>a</sup>
Total	2,500,000	500,000

a/ Ms. Fe Santos does not have any insured deposit share since she already has Php500,000 in total shares in the two joint accounts she has with Ben and Charlie Santos.

Under the rules on joint accounts, each joint account is owned equally by the depositors unless a different sharing is indicated in the deposit document in the bank's records. The shares of each depositor in the insured deposits in all the joint accounts shall be added together and in no case shall the maximum deposit insurance coverage due to each depositor exceed Php500,000.

3. How much is Fe Santos's insured deposit for all her single and joint accounts in the same bank?

Accounts	Deposit (in Php)	Fe's Share in the Insured Deposit (in Php)
All single accounts of Fe Santos in Example 1	1,000,000	500,000
All joint accounts of Fe Santos in Example 2	2,500,000	500,000
Total	3,500,000	1,000,000

*Fe Santos is entitled up to the maximum deposit insurance coverage of Php500,000 in all her single accounts. She is also entitled up to the maximum deposit insurance coverage of Php500,000 in all her joint accounts. Hence, a depositor with single and joint accounts may have insured deposits of up to Php1 million.*

## Some Other Frequently Asked Questions

“Are there other things we should know about?”, asks *Aling Daisy*.

Orly replies, “The PDIC usually settles deposit insurance claims within six (6) months from bank closure provided that deposit insurance claims are filed within two (2) years from takeover and provided that documentation to the claim are complete.”

*Mang Domeng* curiously asks, “What happens if my deposit is over Php500,000?”

Orly replies, “Deposits in excess of the maximum deposit insurance coverage provided by the PDIC are claims against the assets of the closed bank and are no longer the obligation of the PDIC, as Deposit Insurer. Excess deposits or uninsured deposits may still be recovered subject to availability of funds upon liquidation of the closed bank and the order of preference and concurrence of credits under the Civil Code of the Philippines. For example, if the balance of your

account is Php600,000, Php500,000 shall be covered by deposit insurance, and Php100,000 shall be a claim against the assets of the closed bank. Claims for excess deposits are considered ordinary claims and are settled after all preferred claims are paid. Preferred claims include government taxes, labor claims, secured credits and trust funds.”

“Well, thank you very much for this Depositors-Borrowers Forum, Sir Orly,” says *Aling* Daisy at the end of the Forum. “Now, I don’t have to worry about my money, since I am assured that it is covered by PDIC’s deposit insurance. I will definitely file my deposit insurance claim during the scheduled Claims Settlement Operations.”

Turning to her friends, *Aling* Daisy says, “Thank you for coming with me today. Everything is clear to me now.”

“Don’t worry, Daisy,” replies *Aling* Lorna. “We learned a lot, too. Now we know what to do in case our bank is ordered closed.”

## Member: PDIC

1. PDIC was created by Republic Act 3591 in 1963 to “promote and safeguard the interests of the depositing public by way of providing permanent and continuing insurance coverage on all insured deposits.”
2. The two Public Policy Objectives of the PDIC are: depositor protection and financial stability.
3. To support the public policy objectives, the PDIC performs the following mandates:
  - Co-Regulator of banks
  - Deposit Insurer
  - Receiver and Liquidator of closed banks
4. The maximum deposit insurance coverage is Php500,000 per depositor per bank. The insurance covers all forms of deposits in member-banks whether in local or foreign currencies.
5. As to types of deposits, the PDIC insures the following:
  - savings
  - special savings
  - demand/checking
  - negotiable order of withdrawal (NOW)
  - negotiable/non-negotiable certificate of time deposits
6. The following are not covered by the PDIC:
  - Investment products;
  - Deposit accounts or transactions that:
    - are unfunded, or fictitious or fraudulent emanating from or constituting unsafe and unsound banking practice/s as determined by the PDIC in consultation with the BSP, after due notice and hearing and publication of PDIC’s directive to cease and desist against such deposit accounts/transactions



- are determined to be proceeds of unlawful activity as defined in the Anti-Money Laundering Act (*Republic Act 9160, as amended*)
7. A joint account is separately insured up to maximum deposit insurance coverage of Php500,000 from an individually-owned deposit account.
  8. The share of a depositor in the insured deposit of each joint account shall be added and in no case shall the insured deposit exceed Php500,000.
  9. Depositors of closed banks have up to two years from the actual takeover by the PDIC of the closed bank to file their claims.
  10. Deposits in excess of Php500,000 are claims against the assets of the closed bank and are no longer an obligation of the PDIC, as Deposit Insurer.

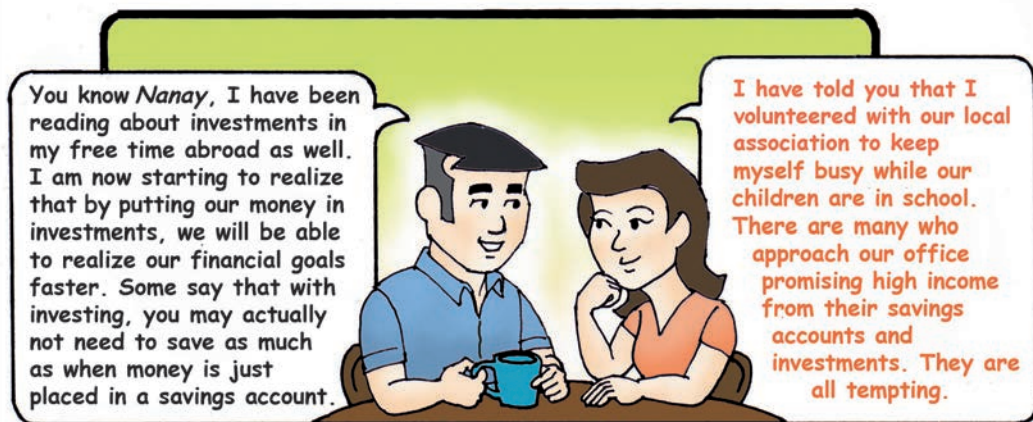
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# CHAPTER 6



It is just two weeks before *Mang* Domeng flies back to the Middle East. As they enter their house, *Aling* Lorna says, “*Tatay*, I’ve been thinking; when you come back, we should have accumulated some savings. Shouldn’t we invest it? When I watch the morning TV shows and read magazines, I always come across topics on investing.”



*Mang* Domeng proudly professes, “My rule is that if something sounds interesting to me but I don’t know a thing about it, I will first ask regulators or an expert about it. We should ask the Bangko Sentral ng Pilipinas and Securities and Exchange Commission.”

*Aling* Lorna exclaims, “You are right, *Tatay*. And since some of those approaching the association talk of bundled insurance, maybe we should also call the Insurance Commission.

“I remember what Harry said about Ponzi schemes and pyramiding scams,” remarks *Aling* Lorna. “If we are not careful with our hard-earned money, we might end up also as victim,” she adds.

“Yes,” exclaims *Mang* Domeng, “do you remember what happened to Lydia, our next door neighbor, and her relatives? They put a lot of their own money and even borrowed more to put into this investment that was allegedly paying 10% per month, net of taxes. That’s like earning 120% a year. But what company can also survive paying 120% a year in equivalent interest?”

“That’s right, *Tatay*,” says *Aling* Lorna. “Not long after the Ponzi scheme collapsed and the operator went missing in action, Lydia’s house had also been abandoned. It seems like no one lives in their house anymore. The rumor is that they, too, went into hiding from their creditors and probably fled to the province.”

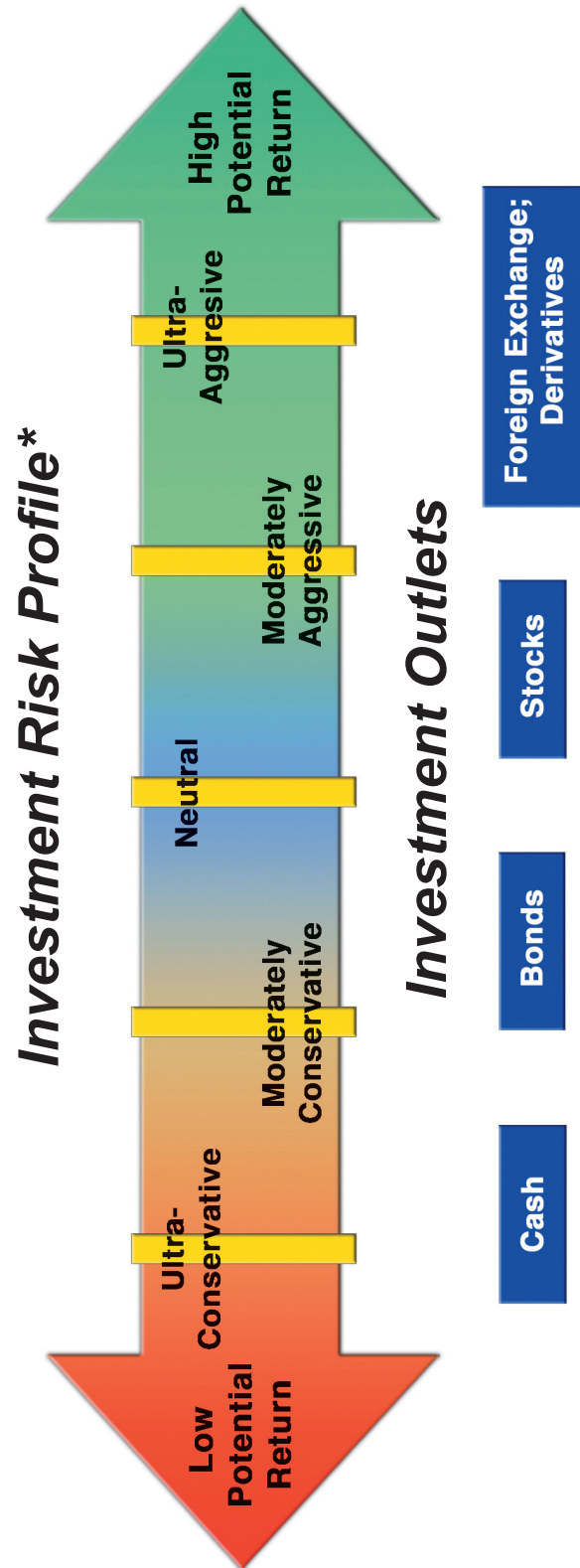
### Financial Expert’s Corner

*There are many places to put your money from under your pillow or inside a bamboo post to complex investment instruments and even a business. Figure 8 gives you broad categories of where to put money given your risk profile.*

*Risk profile as used in Figure 8 refers to the losses you are willing to take on your money. And the unbreakable rule in investing applies here, namely: the higher the risk, the higher the potential investment return; the lower the risk, the lower the potential investment return. Please note the word “potential” as there is no place where you can put your money where the investment return and even principal repayment are fully guaranteed.*



Figure 8



\*Reproduced with permission from the Personal Finance Advisers Philippines Corporation

## Cash or Near Cash

Eager to find out more about investing, *Aling* Lorna visits their bank. She once more engages the branch manager in a little discussion, this time about investing. The bank branch manager was more than willing to discuss the basics of investing starting with the simplest - cash or near cash products.



Ed, the bank branch manager, replies, "*Aling* Lorna, we have to find out what you need your money for. If it is just for your family's daily needs and to maintain a fund for emergencies, you will need to put your money in liquid accounts. Basically, any place you can put your money that allows for quick

withdrawal or conversion to cash with minimal transaction cost and without loss of principal is considered a cash or near cash account. Such accounts are classified as liquid. These include:

- Savings accounts with banks, cooperatives, savings and loans associations and other similar government-regulated institutions
- Checking accounts with banks
- Time deposits with banks, cooperatives, savings and loan associations and other similar institutions
- Special deposit accounts (SDAs)
- Special savings accounts (SSAs)

“And what do you mean by marketable?”, asks *Aling Lorna*.

Ed replies, “Marketability refers to an account’s quality of being easily sold and converted to cash but not necessarily without loss of principal and/or significant transaction cost”.

Years of experience have taught Ed to also caution his clients about potential risks. Thus, Ed adds, “Please note that not all of the cash or near cash accounts are covered by deposit insurance. The Philippine Deposit Insurance Corporation (PDIC) insures only the following accounts:

- Savings
- Special Savings
- Demand/Checking
- Negotiable Order of Withdrawal (NOW)
- Negotiable/Non-negotiable Certificate of Time Deposits”



Again with utmost concern for his client, Ed explains that there is a difference between special savings accounts and special deposit accounts. He says, “Special savings accounts are deposit liabilities of banks. Special deposit accounts or SDAs are placements made indirectly with the Bangko Sentral ng Pilipinas exclusively through Investment Management Accounts or IMAs of banks’ Trust Departments. Only special savings accounts of banks are covered by the PDIC. Since SDAs are not deposit liabilities of banks, they are not covered by the PDIC. The Bangko Sentral ng Pilipinas guarantees payment of the interest and repayment of the principal of SDAs.”



### Did You Know?

*By BSP regulation, IMAs must be opened with the Trust Department of a bank at a minimum amount of Php1 million. Because of this regulation, placements in SDAs must also be a minimum of Php1 million. Moreover, SDAs must be held up to maturity. As of this writing, the longest SDA tenor is 30 days.*

## Financial Expert's Corner

*For long-term time deposits, some banks would sometimes let the depositor shoulder the documentary stamp taxes if the depositor pre-terminates the long-term time deposit within the first year of placement. If the pre-termination is done after the first year of placement, banks may opt to pay for the documentary stamp taxes.*

*The interest rate on peso time deposits is subject to the final withholding tax on interest income of twenty percent (20%).*

*Banks also sell short-term commercial papers and Treasury Bills (T-bills), both of which have maximum original tenors of one year. Short-term commercial papers are issued by companies usually to fund their short-term working capital requirements. T-bills are borrowings of the National Treasury. T-bills differ from Treasury notes or T-notes. The latter would have original tenors in excess of one year. Sometimes, T-notes can be considered near cash if the remaining life of the note is one year or less.*

*Since a bank merely acts as a re-seller of short-term commercial papers, T-bills and T-notes, it does not guarantee the repayment of interest on such securities or of principal. The investor, in effect, will have no recourse to the bank should a credit event occur (i.e., such securities fail to pay interest and/or principal). Of course, government securities, which include T-bills and T-notes, have a very low risk of encountering a credit event. Still, the investor will have no recourse to the bank should a credit event occur. The investor will have to run after the actual issuer of the paper, bill or note for the interest and/or principal due him.*

*A short-term commercial paper will have to be studied well because it is the credit worthiness of the issuer and not the selling bank that will determine*

*the relative certainty of interest income from and principal repayment by the paper. This study should include any credit ratings given by independent rating agencies on the issuer in general and the paper in particular. Needless to say, commercial papers, whether short- or long-term, also need to be registered with the Securities and Exchange Commission.*

*Short-term commercial papers and T-bills are not covered by the PDIC as well.*

## Bonds

To give his client a more complete picture, Ed also talks about bonds to Aling Lorna.

“You know *Aling Lorna*,” Ed says, “you can also buy bonds with your money.”





Ed says, “In their simplest form, bonds are actually borrowings by companies and governments. In contrast to short-term commercial papers, bonds have maturities of over one year when they are originally issued. Bonds are securities registered with the Securities and Exchange Commission and sold to the public. Bonds would normally pay interest first and periodically over the life of the bond and repay the principal upon maturity.”

Ed apologizes to *Aling* Lorna for the following technical discussion, “However, there are also zero-coupon bonds wherein there are no interest payments. Zero-coupon bonds are sold for an amount lower than their face or maturity value. The difference between the amount invested by the bond holder and the bond’s face value represents the interest to the bondholder. The thing with zero-coupon bonds is that the coupon or interest stated for them is the effective interest rate earned by the bondholder. The interest earnings on a regular bond would only equate to the stated coupon rate if such interest earnings were re-invested at the same stated coupon rate by the bondholder. Bondholders will effectively earn the interest rate quoted on regular bonds if each interest collection is also made to earn the same quoted interest rate up to the maturity of the bond. So if the bondholder merely spends his interest earnings or reinvests them at a rate lower than the quoted bond interest rate, he will earn a lower effective rate.”

### Financial Expert's Corner

*Since bonds are securities sold to the public, they need to be registered with the Securities and Exchange Commission. However, by law, the securities issued by banks and the government are exempt from registration with the Securities and Exchange Commission.*

*Bonds can be bought and sold electronically through the Philippine Dealing and Exchange system or PDEX. As such, bondholders can more easily make capital gains or losses by trading bonds.*

*The actual investment instrument should indicate whether it enjoys any tax exemption afforded by law.*

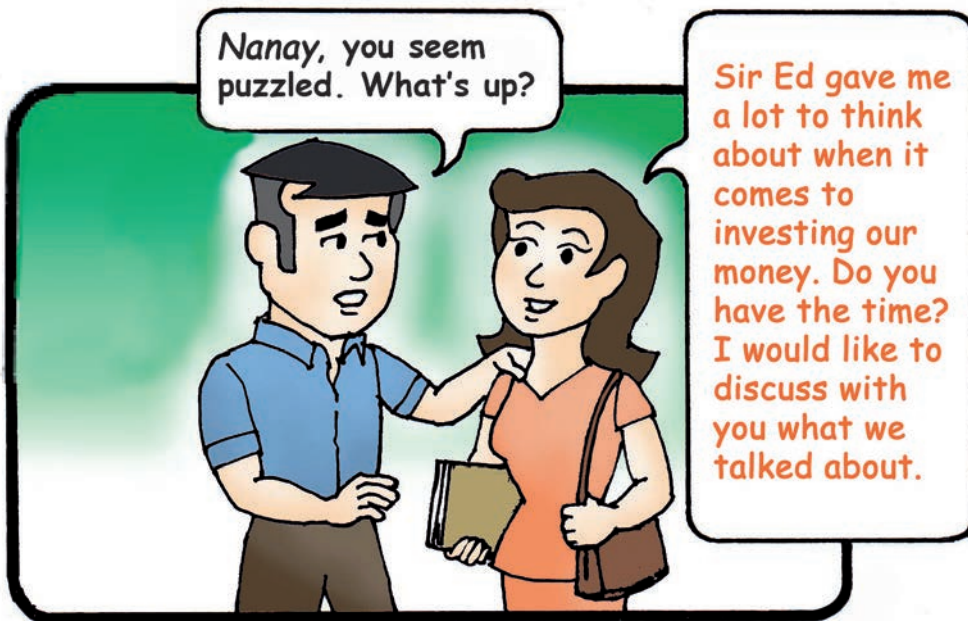
“Wow,” exclaims *Aling* Lorna, “that is a lot to digest in just one sitting. Sir Ed, I hope you don’t mind if I first discuss the matter with my husband before I invest with you.”

Ed replies, “That’s no problem *Aling* Lorna. Take all the time you need. And please take home the handouts we discussed.”

Taking all the materials and sample computations that she covered with her bank branch manager, *Aling* Lorna thanks Ed and heads back home.

## Stocks

*Mang Domeng* notices a bewildered look on *Aling Lorna*'s face as she enters the house after visiting the bank.



"Well, *Nanay*", says *Mang Domeng*, "I too have been busy doing research while you were away. Did you know that we can also potentially make money by buying stocks? I learned that stocks have been traded in the Philippines since the founding of the Manila Stock Exchange in 1927. Then 38 years later, the Makati Stock Exchange opened for business. In 1972, Presidential Decree 167 mandated the automatic listing of securities in all stock exchanges. In 1987, the Manila and Makati Stock Exchange adopted a common set of index stocks. In 1994, these stock exchanges were officially unified under the Philippine Stock Exchange."



After breakfast the next morning, *Mang* Domeng asks *Aling* Lorna if she is already up to discussing stocks. *Mang* Domeng promises to keep it short and simple. *Aling* Lorna, after making *Mang* Domeng repeat his promise of limiting the discussion to the level of a person with no background in stock investing, finally agrees.

*Mang* Domeng explains that stocks simply represent ownership in companies. Investing in stocks,” says *Mang* Domeng, “is like investing in land.” Drawing on a piece of paper, *Mang* Domeng writes out the following table:

	Land	Stocks
Income	Rental income	Cash dividends
One-time gains	Money made from selling land at a price higher than cost	Money made from selling stocks at a price higher than cost
Guarantees on income and return of principal	Tenant promises to pay rent and return land upon termination of rental agreement	No promises on cash dividend payments and return of entire principal upon the sale of stocks
Return of invested capital	When land is sold. However, value to be returned will depend on selling price, which in turn is dependent on prevailing market condition	When stocks are sold. However, value to be returned will depend on selling price, which in turn is dependent on prevailing market condition

“You see, *Nanay*, although they are not exactly the same, investing in land is very similar to investing in stocks.” *Aling Lorna* then exclaims, “Oh, so now I get it! Thanks, *Tatay*.”

“But *Nanay*,” *Mang Domeng* adds, “investing in stocks is not as easy as investing in land. You will need to buy stocks through a stockbroker licensed and registered with the Securities and Exchange Commission and Philippine Stock Exchange. And without the proper expertise, a person can lose big with stocks<sup>7</sup>.”

### Financial Expert's Corner

*Under the hands of experts, stocks can prove to be good long-term investments in the country. For the five-year period ending in 2012, the Philippine Stock Exchange (PSE), as represented by the PSE Index (PSEi) posted an annual compounded return of 9.9%. This is much higher than the 4.3% annual compounded yield of the one-year T-bill rate for the same five-year period ending in 2012.<sup>8</sup>*

*There is an indirect way of investing and this is through pooled funds. Among the pooled funds in the country are mutual funds and unit investment trust funds. Pooled funds gather funds of the investing public and put them in a fund that approximates their investment objectives and risk preference. Such funds are handled by professional fund managers, many of whom are able to outperform the PSEi through active trading strategies.*

*Mutual funds invested in local equities generated a 5-year annual compounded return as of the end of 2012 of 13% while equity-invested unit investment trust funds produced a 5-year annual compounded return of 16% also as of 2012. Stocks are not covered by the PDIC.*

<sup>7</sup> Presently, there is no need to hold on to actual stock certificates since stock ownership is now on book entry system or what they call scripless.

<sup>8</sup> Returns were imputed from data sourced from the Philippine Stock Exchange, Bangko Sentral ng Pilipinas, Philippine Investment Funds Association and Trust Officers' Association of the Philippines.

## Foreign Exchange, Derivatives

It is the following Friday and *Mang* Domeng is going through their family budget meticulously. He suddenly realizes that the volatile Peso-to-US Dollar exchange rate is adding a lot of uncertainty to their budgeting. For example, as the Peso appreciates, *Mang* Domeng would need to work harder to fund their Peso-denominated expenses, which comprise the bulk of their budget.

*Mang* Domeng decides to visit their bank branch manager to ask for some advice.

Upon reaching the bank, Ed, the branch manager with his sixth sense was already waiting to greet him. “Good morning, *Mang* Domeng,” Ed says gleefully while motioning to *Mang* Domeng to have a seat, “How may I be of service to you today?”

*Mang* Domeng looks at Ed intently and asks, “Ed, as you know, I am an OFW earning in US dollars. Lately, the value of peso has been changing versus the US dollar. The effect on us is that we need to make continuous and sometimes large adjustments to our family budget. Does your bank have a solution for this?”

Ed tells *Mang* Domeng that their bank has tools to manage the movements of foreign exchange. He says that the bank is authorized by the Bangko Sentral ng Pilipinas to sell derivative products that could help smoothen out the movements in the exchange rate. Ed also talks to *Mang* Domeng about foreign exchange trading.

But Ed is also quick to point out that foreign exchange trading and derivatives are very complex financial products, which may also be risky investments in themselves. To put it simply, Ed says, “*Mang* Domeng, it would probably best for you to convert immediately to Pesos that portion of your earnings that is meant to be spent in the Philippines. The balance that you will keep in US dollars should be spent on items that require that currency as well. This way, you minimize the currency risk on your money.”



## Financial Expert's Corner

*The advent of globalization and high-speed Internet connection has also ushered in cross-border investing and, with it, global currency trading.*

*Foreign exchange or FX trading is not for the weak of heart. Since trades remain open overnight, investment positions can be magnified or lost in the blink of an eye. Trading is done largely through FX brokers who may or may not be regulated in their home country.*

*Regulations will vary from one country to another. There is currently no local regulatory body overseeing FX trading.*

*FX trading losses are not covered by the PDIC.*

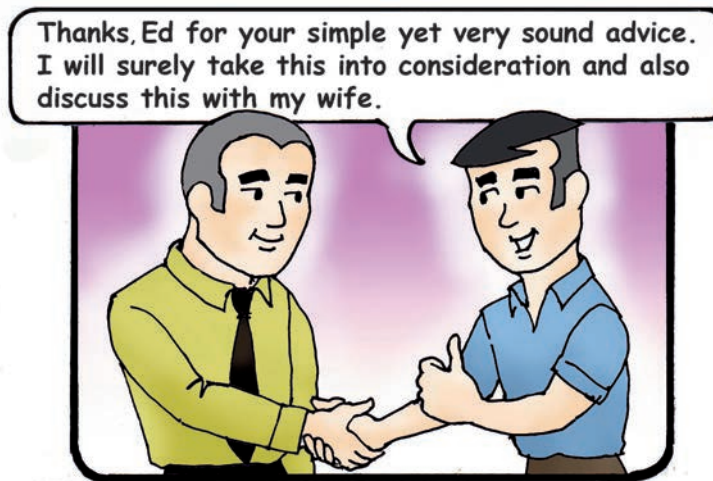
*Derivatives are fairly new securities being offered in the Philippines as banks are only now starting to get their derivatives license from the Bangko Sentral ng Pilipinas.*

*Derivatives are basically contracts between two parties that specify conditions under which payments are to be made between such parties. For example, a bank could offer a structured product that pays a higher than normal interest rate over a 90-day period provided that the price of gold falls within a certain price range at the end of the 90 days. If the price of gold falls on or outside of the target price range at the end of the 90-day period, the investor would be paid a lower than normal interest rate.*

*By their very nature, returns on derivatives are derived from other underlying securities, commodities, exchange rates or even stock market indexes. Pre-terminating a derivative can be very costly on the part of the investor as well, if it is even allowed.*

*Like FX trading, derivatives are also not covered by the PDIC.*

“And, *Mang Domeng*,” Ed adds, “if part of your Pesos will be used for preparing for your retirement, watch out for the implementation of the Personal Equity Retirement Account or PERA law. Under the PERA law, money that is set aside for your retirement will enjoy tax exemption. You, as an OFW, will be allowed a maximum of Php200,000 a year in contributions to your PERA funds. In addition to being tax exempt, your yearly contributions will afford you a 5% tax credit. More importantly, when you reach the age of 55 and provided you would have contributed for five non-consecutive years to your PERA funds, you can withdraw your investments plus earnings tax-free.”



### Financial Expert's Corner

*The Personal Equity and Retirement Account Law or PERA (Republic Act 9505) provides exemption of investments of PERA contributions from the final withholding tax on interest income of twenty percent (20%) and the one-half of one percent (1/2 of 1%) stock transaction tax. PERA also gives five percent (5%) tax credits on contributions. Individuals can make PERA contributions up to a maximum of Php100,000 a year for non-overseas Filipino workers (OFWs) and Php200,000 a year for OFWs. Contributions and earnings on an individual's PERA may be claimed tax-exempt at retirement provided the PERA contributor has reached the age of 55 years old and has made contributions to his PERA for five (5) non-consecutive years. For more on PERA, please see Annex G on page 150.*

## Other Places to Put Your Money

1. While there are many places to put money, the wise saver should remember that the cardinal rule in investing has never been broken: ***the higher the potential investment return, the higher the risk.***
2. Basically, any place you can put your money that allows for quick withdrawal or conversion to cash with minimal transaction cost and without loss of principal is considered as *cash* or *near cash* account.
3. In their simplest form, bonds are actually borrowings by companies and governments. Such borrowings take the form of securities sold to the public called *bonds*.
4. *Stocks* represent ownership in companies. Stock investors can earn (cash, stock) dividends from their investments as well as enjoy capital gains through price appreciation. Of course, stock prices can also decline due to factors both internal and external to companies represented by the stocks.
5. Foreign exchange or FX trading is not for the weak of heart. Since trades remain open overnight, investment positions can be magnified or lost, in the blink of an eye. Trading is done largely through FX brokers who may or may not be regulated in their home country. Regulations will vary from one country to another. There is currently no local regulatory body overseeing FX trading.
6. Derivatives are basically contracts between two parties that specify conditions under which payments are to be made between such parties.
7. FX trading and derivatives are not covered by deposit insurance.
8. PERA is a law that provides tax benefits for people who set aside and invest a maximum Php100,000 (Php200,000 for OFWs) a year towards their retirement. The tax benefits range from exemption for the 20% final withholding tax on interest income and stock transaction tax of  $\square$  of 1% to a 5% tax credit based on yearly savings towards retirement.

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# CHAPTER 7





It is just one more week before *Mang* Domeng flies back to the Middle East. He will be gone for a year. He decides for him and *Aling* Lorna to have a chat with Orly to get an overview of how they should handle their finances, particularly their dealings with banks.

Orly agrees to meet with the couple at his PDIC office.



## 7 Habits of a Wise Saver:

1. Know Your Bank
2. Know Your Bank's Products
3. Know Your Bank's Service Fees
4. Keep Your Bank Records Safe and Updated
5. Transact only with Authorized Personnel Inside Bank Premises
6. Be Informed About PDIC Deposit Insurance
7. Be Prudent

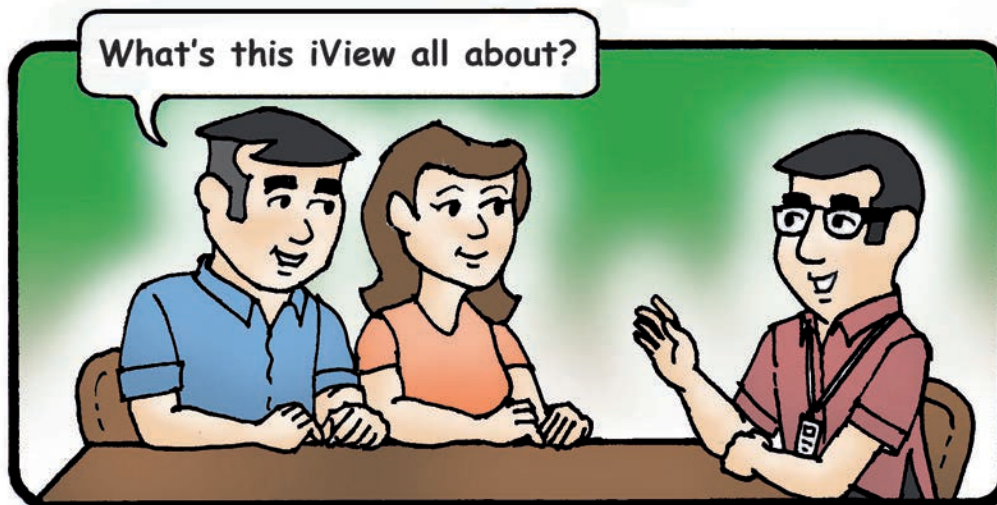


## 1. Know Your Bank

Orly says, “Banking is based on a relationship of trust and confidence. You, *Mang Domeng* and *Aling Lorna*, as the depositors will entrust your hard-earned money to the bank not only for better safekeeping but also for additional earnings in the form of interest and even non-guaranteed returns. The saying that a fool and his money are soon parted literally means that only a fool will give his money to somebody he does not trust. That is why it is only wise to get to know the bank where you will give your trust and confidence.”

“So how do we do that?”, asks *Aling Lorna*.

“The easiest and safest way to know a bank well,” says Orly, “is from official government sources like the Philippine Deposit Insurance Corporation, *Bangko Sentral ng Pilipinas* and the Securities and Exchange Commission (SEC). The SEC, in fact, has a service called *iView*.



Orly says, “iView allows you to view the financial statements of any company that is registered with the SEC from the comfort of your own personal computer at a cost. Each iView load comes with a username and password that you can load to the account you will create under the SEC iView service. Your load is debited for every page you view and print.

Loads have a validity of one year from date of purchase.

Banks themselves publish their financial statements in newspapers while some make these statements available for viewing on their websites.”

Orly adds, “Apart from official sources, you can also inquire about banks through their current depositors, some of whom may even be your relatives and friends. Other sources would be media, especially if there is significant news about the bank you are considering such as mergers or breakthrough products and services. And if you need assistance in understanding financial statements, you can always call on a financial planner.”

## 2. Know Your Bank’s Products



“Nowadays, banks form part of large conglomerates. It would not be unusual for banks tasking their branch managers to legally carry several products of their respective affiliates and subsidiaries. It is, therefore, important to know the exact mechanics of the products being sold. It is not enough for the branch manager or sales officer, for example, to know what he is selling. The responsibility of knowing a product inside and out also falls squarely on the shoulders of the buyer. Remember that information is worthless if it is not processed,” Orly explains.

“But whatever the financial product they are selling, we can still run after the bank, right?” asks *Mang Domeng*.

Orly says, “Some products, for example, would allow you to have recourse to your bank. This means that you can run after your bank if interest and/or principal is not paid or not paid on time. Sometimes, your bank acts merely as a broker of products with no liability, provided there was no mis-selling done, as to the payment of interest and principal.”

### Financial Expert's Corner

*Some bank products come with PDIC deposit insurance and some do not. Still, some products can potentially pay high returns but with high risk like derivatives while others come with bank guarantees but with markedly lower interest.*

*Products that banks peddle come with documentation ranging from simple brochures to comprehensive prospectuses. It is your duty to read and understand such documentation. Banks will be more than willing to lend a hand in helping you understand such documentation.*

*When it comes to finding out whether your bank is paying you reasonable interest on time deposit, compare their deposit rates with the weighted average interest rate (WAIR) on time deposits of all commercial banks. The WAIR can be found in the home page of [www.pdic.gov.ph](http://www.pdic.gov.ph) and looks like the table shown below:*

WEIGHTED AVERAGE INTEREST RATES (WAIR)* ON TIME DEPOSITS OF ALL COMMERCIAL BANKS	
Month/2013	In Percent (%), Per Annum
	Short Term (<360 days)
August	1.04
September	1.18
October	1.07



### 3. Know Your Bank's Service Fees



He goes on to show the following non-exhaustive list of fees/charges that banks levy on their depositors:

- monthly service charge for falling below required average daily balance
- monthly dormancy charge
- fee for closing within 1 month from account opening
- interbank ATM transactions
- stop payment orders
- overdraft accrual charges
- ATM card replacement
- replacement of lost passbook
- bank certification
- manager's check
- peso checkbook
- dollar demand draft
- safe deposit box rentals
- peso telegraphic transfer
- remittance charges

In addition to the above fees, the Philippine Clearing House Corporation (PCHC), the company that is tasked to provide, maintain and render an effective, convenient, efficient and economical check clearing service to participating banks, also has charges for:

- Temporary overdraft – honored (funded)
- Drawn Against Uncleared Deposits/ Drawn Against Insufficient Funds
- Stop payment – funded
- Stop payment – unfunded



#### Did You Know?

*Contents of safety deposit boxes are not covered by PDIC's deposit insurance. Technically, the bank should not know the contents of the safety deposit box and would, therefore, not be in a position to know the value of the contents. But more importantly, safety deposit boxes are not in the nature of deposits covered by the PDIC.*

### Financial Expert's Corner

*Apart from the above charges, you should also check the minimum amounts required to open and maintain accounts with your bank. Smaller banks tend to require lower minimum opening and maintaining balances. You should, however, not sacrifice bank stability for this seeming affordability.*

## 4. Keep Your Bank Records Safe And Updated

Orly tells *Mang Domeng* and *Aling Lorna* that bank records are not mere pieces of paper.

He expresses concern over the fact that depositors tend to leave banking documents unfiled and not updated simply because they have become commonplace. Orly advises the couple that banking documents are the evidence of their transactions with banks.

Orly says, “Some banks help out by providing secure Internet-based records of your transactions. But whether your bank provides such a service or not, you should still keep your own records. Deposits and withdrawals can be monitored through your deposit account passbook. You can always have your passbook updated with your bank. Keep your savings passbook in a safe and secure place to avoid unwanted people developing interest in your savings account.”

Just like passbooks, Orly also reminds the couple to keep their certificates of time deposit in a safe place. “You do have to surrender such certificates when claiming your time deposit at maturity or when pre-terminating them. If you are the type of depositor who has his time deposit automatically renewed or rolled over, keep track of the validity of such automatic renewal or roll-over.”

Finally, Orly mentions that checkbooks should also be kept in a secure place. He adds, “You do not want unauthorized people forging your signature and issuing checks left and right.”

### Financial Expert's Corner

*Regardless of type of deposit account, you should also keep your bank updated on your particulars like a change in telephone numbers or mailing address. Not only will you ensure that you will receive mails from the bank on time, you will also be properly informed by the bank of any important announcements and in a timely manner.*

## 5. Transact only with Authorized Personnel Inside Bank Premises

Aling Lorna recounts to Orly and Mang Domeng the many stories of depositors in their local association overly trusting bank personnel with their transactions to the point of overlooking the most basic of documentation. She adds that sometimes, people do this just to cut short their waiting time in the bank.



Orly mentions that each banking transaction should also come with evidence that the transaction was done. Examples would be a machine validated deposit or withdrawal slip, an updated passbook, duly signed time deposit certificate, and an official receipt for a remittance. To be safe, you should do all your transactions inside a bank's premises and make sure that you are transacting with authorized bank personnel.



### Financial Expert's Corner

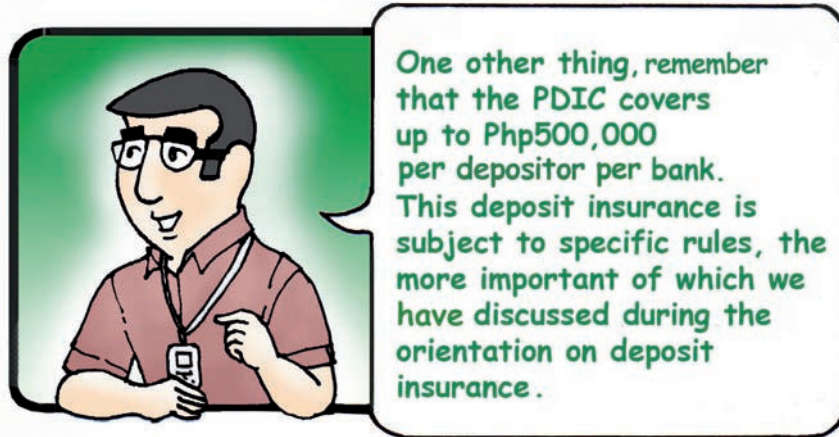
*Please note that the Bangko Sentral ng Pilipinas also gives authority to banks to solicit deposits outside their bank premises on the condition that such places of solicitation should be within one (1) hour normal travel time from the bank. This authorization should always be verified with the Bangko Sentral ng Pilipinas before doing any transaction outside bank premises.*

*There are roving tellers who routinely collect deposits outside of bank premises. But these tellers are contracted by depositors themselves with banks under very specific conditions (e.g., deposit pick-up schedules), are properly identified and are heavily guarded.*

*Nowadays, banks offer banking transactions via the Internet or telephone. While these transactions are outside physical banking premises, they are conducted under secure websites and telecommunication protocols of banks. Technically, therefore, Internet and telephone banking transactions are still done within banking premises.*

*So, other than with BSP-authorized deposit solicitors, contracted roving tellers and through banks' official websites/telephone banking numbers, you should not do banking transactions outside of bank premises. When in doubt, always consult the Bangko Sentral ng Pilipinas or your bank's branch manager.*

## 6. Be Informed About PDIC Deposit Insurance



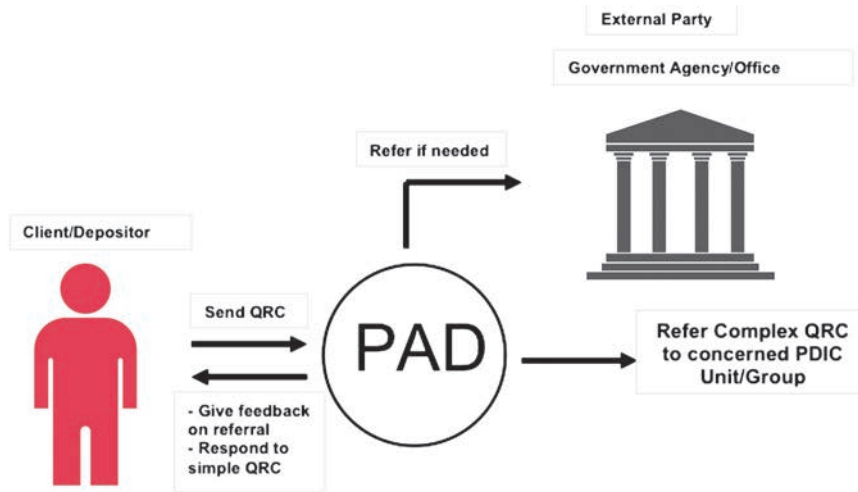
Orly points out to the couple that they can visit the PDIC's website at **www.pdic.gov.ph** for more information on deposit insurance. The PDIC department in charge of assistance and inquiries on deposit insurance is the Public Assistance Department (PAD). The PAD has a Helpdesk to address walk-in clients. The PAD can be reached at (632) 841-4630 to 31 or via e-mail at [pad@pdic.gov.ph](mailto:pad@pdic.gov.ph). Depositors outside Metro Manila can call toll free at 1-800-1-888-PDIC or 1-800-888-7342.

If depositors prefer face-to-face contact, they may also visit the PAD Helpdesk at the 4th Floor, SSS Building, 6782 Ayala Avenue, cor. V.A. Rufino Street, Makati City.

Without missing a beat, Orly adds, "Unknown to many, the PDIC does not only provide services concerning closed banks. It also assists depositors on their complaints against operating and closed banks. The PDIC does play a vital role in fostering stability in the Philippine banking system."

Showing the picture in Figure 9, Orly says, "The Public Assistance Department (PAD) of the PDIC, the department where I belong, handles queries/requests/complaints (QRCs) from depositors and the general public on matters relating to both operating and closed banks through a well-defined process."

Simple QRCs received through mail or email shall be responded to within five (5) working days from the date of receipt by the PDIC while those received over the telephone or from walk-in clients shall be answered within the day. On the other hand, complex QRCs shall be referred to the concerned PDIC unit/group or government agency/office within three (3) working days from date of receipt by the PDIC. The client shall be simultaneously advised of the referral indicating the name of the concerned officer, group/unit contact numbers and email addresses.”



**Figure 9**

Only says, “In the case of complaints, it is important that the letter sent to PDIC is signed by the depositor/client and contains the following:

1. nature of the complaint
2. details of transaction that is the subject of the complaint
3. as many supporting documents (photocopies only) as possible.”

*Note: At present, QRCs coming from depositors and the public are not referred to the concerned banks that are the subject of complaints. Instead, these are forwarded to the BSP-Financial Consumers Affairs Group for their information and appropriate action.*

“Orly, I am an OFW,” *Mang Domeng* says, “is there a way for me to file a complaint from abroad?” “There is, Sir,” replies Orly, “An alternative way of filing a complaint is to fill out the eComplaint Form found on <http://pdic.gov.ph/index.php?complaint=1>.” Orly proceeds to project on the screen a sample of the eComplaint Form as shown in Figure 10 below:

**Figure 10**

DEPOSITOR CORNER	
Last Name	First Name MI
Postal Address	
Age	Contact Number Email Address
Complaint for LIVE BANKS	Complaint for CLOSED BANKS
Name of Live Bank	Name of Closed Bank
Date Incident Happened November 27 2012	Nature of Complaint : (Please check appropriate box)
Nature of Complaint : (Please check appropriate box)	<b>Claims-Related</b>
<b>ATM-Related</b>	<input type="checkbox"/> To File Claim <input type="checkbox"/> To Inquire
<input type="checkbox"/> No Cash Dispensed <input type="checkbox"/> Card Captured	<input type="checkbox"/> To Receive Check
<input type="checkbox"/> Short Cash Dispensed	<input type="checkbox"/> To Follow-up Claim (entry for Stub No. & Date Filed)
<b>Regular Deposit Account</b>	Claim Stub No.
<input type="checkbox"/> Unserved Withdrawal <input type="checkbox"/> Unauthorized Withdrawal	Date Filed November 27 2012
<b>Others:</b> (Please specify)	<b>Others:</b> (Please specify)
Brief narration of complaint:	Brief narration of complaint:
Reset	Submit

Orly quickly adds, “Even if sent from abroad, the complaint letter prepared by the depositor should contain the following:

1. nature of the complaint
2. details of any transaction that is the subject of the complaint; and
3. as many supporting documents (photocopies only) as possible.”

“The complaint letter as well as supporting documents may also be sent through email at [pad@pdic.gov.ph](mailto:pad@pdic.gov.ph),” Orly adds.

### Financial Expert's Corner

*If the depositor is following up on claims against a closed bank, the complaint letter should include the depositor's claim stub number and the name of the closed bank.*

*For its part, the PDIC will send an official acknowledgment letter to the complainant within 24 hours of receipt of the complaint letter. The PDIC processes all complaints and provides resolution to each case. **Resolution** is defined as "shedding light on all facts and merits of the case without the result necessarily positively favoring the complainant."*

## 7. Be Prudent

To confirm his own belief, *Mang Domeng* asks Orly if it is safe to place money with banks and other institutions that provide high interest rates.

Orly replies, "*Mang Domeng*, there is an unbreakable rule in investing. The higher the potential return, the higher is the risk not only of not achieving the return but also losing part if not all of your capital."

Orly adds, "It would be best to validate promises of high returns with third party sources like regulators, financial planners and even other investors. And please remember that the PDIC already provides the regularly updated weighted average interest rates of time deposits among commercial banks in the country. This alone is a powerful basis to know whether what is being offered to you is too good to be true."

*Mang Domeng* excitedly replies, “See, *Nanay*, I knew I was right. If interest rates are abnormally high, they are just being used to lure us to high risk investments.”

*Aling Lorna* replies, “*Tatay*, I never doubted your wisdom. As you can see, I had taken down a lot of notes that I plan to share with our association.”

*Orly* adds, “Yes, *Mang Domeng* and *Aling Lorna*, people and institutions that offer unusually high rates know that people have a tendency to be greedy. If we don’t watch our greed, we would easily succumb to such questionable offers.”

*Mang Domeng* and *Aling Lorna* thank *Orly* once more and head back home.



“Oh, by the way,” *Aling Lorna* says, “we promised the children to open in trust for savings accounts for them.”

“That’s right,” *Mang Domeng* says, “let’s go to the bank now and do just that.”



## Financial Expert's Corner

*William Pollard was quoted as saying that, "Information is a source of learning. But unless it is organized, processed, and available to the right people in a format for decision-making, it is a burden, not a benefit."*

*This book, in its entirety, is all about organized information that is being made available to the depositing public. But this information will be useless unless it is processed by you, the depositor.*

*Treat this book as your shield against unscrupulous people who are out to defraud depositors of their hard-earned money, including you. Chances are, you did not win your savings or accumulate your money over a short period of time. You, therefore, owe it to yourself to also avoid making rash decisions with your money especially when eye-popping returns are flashed before you.*

*When an offer is too good to be true, it is likely to be fraudulent. To be sure, compare offered interest with the Weighted Average Interest Rates provided in the website of the PDIC. You should also consult regulators like the PDIC, BSP, SEC and IC. These institutions provide advisories and maintain information in their offices and websites that caution depositors and the investing public on fraudulent schemes and perpetrators of scams. Remember that being registered as a corporation with the SEC does not come with the authority to offer investments to the public. There needs to be a secondary license.*

*But do remember that the person ultimately responsible for your money is you. So be careful. The money you save is your own.*

## The Power of Information

1. You, as the depositor, will entrust your hard-earned money to the bank not only for better safekeeping but also for additional earnings in the form of interest. That is why it is only wise to get to know the bank where you are going to place your trust and confidence.
2. It is, therefore, important to know the exact mechanics of the products being sold. It is not enough for the branch manager or sales officer, for example, to know what he is selling. The responsibility of knowing a product inside and out also falls squarely on the shoulders of the buyer.
3. Knowing your bank and its products would not be complete if you do not find out if they have the product that suits your needs. Each and every product will also have its own set of documentation, account maintenance rules and fees/charges.
4. There have been many stories of depositors overly trusting bank personnel with their transactions to the point of overlooking the most basic of documentation. Sometimes, people do this also to shortcut their waiting time in the bank. That is why you should, at all times, transact only with the authorized personnel of the bank for the particular transaction.
5. Remember that the PDIC covers up to Php500,000 per depositor, per bank. This deposit insurance is subject to specific rules, the more important of which were discussed in Chapter 5 of this book.
6. The unbreakable rule in investing is the higher the potential return, the higher is the risk not only of not achieving the return but also losing part, if not all of your capital.



## Your Personal Notes

[illegible]

[illegible]

# GLOSSARY



**Accrued interest** – earned but still unpaid interest on a fixed income placement

**ATM** – automated teller machine

**Bonds** – long-term debt securities issued by either the Government or private sector companies

**BSP** – Bangko Sentral ng Pilipinas

**Budget** – an articulated plan for the use of your money with specific amounts and dates of accomplishment as targets

**Checking account** – a facility that allows a person to issue checks, which represent claims of payees against the issuer's bank account

**Check clearing** – the process by which checks are debited and credited among banks

**Compounding** – earning interest upon interest

**Coupon rate** – the nominal interest rate paid by a bond

**DAIF** – Drawn Against Insufficient Funds

**DAUD** – Drawn Against Uncleared Deposits

**Deposit Insurance** – Protection provided by the Philippine Deposit Insurance Corporation at a maximum coverage of Php500,000 per depositor per bank

**DST** – documentary stamp tax

**Face value** – the maturity value of a bond

**Financial planning**– the practice of putting control in the way you source and use cash



**Government securities** – debt securities issued by the Government

**IC** – Insurance Commission

**Inflation** – the amount of increase in the price of a good, service or property

**Insurance** – coverage against uncertainties that can be inflicted on person and property

**Interest rate** – the earnings on your fixed income placement expressed as an annual percentage of your original investment

**Investment** – delayed consumption with the end of earning more at a future time when the investment matures or is sold

**Market value** – the price at which people would be willing to purchase an asset for

**Maturity** – when an investment or insurance policy can be converted to cash

**Mutual fund** – a pooling of funds, where the fund is a separately incorporated entity managed by an investment management company

**NOW** – negotiable order of withdrawal

**PAD** – Public Assistance Department

**PDEX** – Philippine Dealing and Exchange Corporation

**PDIC** – Philippine Deposit Insurance Corporation

**PERA** – Personal Equity Retirement Act of 2008

**PSE** – Philippine Stock Exchange

**PSEi** – Philippine Stock Exchange Index

**Ponzi Scam** – an illegal financial scheme where earnings on an investment are paid only out of the investments of succeeding investors.

**Pyramiding** – an illegal selling scheme where the main source of income is derived from recruiting people

**Retail Treasury Bonds**– treasury bills or bonds with denominations of Php5,000 that are intended for small investors, the maturity for which depends on the type of security

**Savings** – the money you set aside for a rainy day

**SEC** – Securities and Exchange Commission

**Share of stock** – a certificate that represents ownership in a company; compared to creditors, stockholders have a subordinated claim to the company's income

**T-bills** – treasury bills; certificates of indebtedness with short-term repayment periods issued by the National Treasury and sold in an auction to Government Securities Eligible Dealers.

**T-bonds** – treasury bonds; certificates of indebtedness with repayment periods of 5 years or longer, issued by the National Treasury and sold in an auction to Government Securities Eligible Dealers.

**Time deposit** – a short-term placement with a bank that is insured with the PDIC.

**UITF** – unit investment trust fund

# ANNEXES



## Determining If Your Expenses Are Justifiable

The method of doing the income tax return in reverse is borrowed, with permission from the Personal Finance Advisers Philippines Corporation. It helps determine how much you should be making to fund your lifestyle and pay the attendant taxes on your income. While OFWs are exempt from income taxes, it is best to pretend that they are paying taxes as OFWs as they may not work abroad forever.

The steps are as follows<sup>9</sup>:

1. Estimate your total annual living expenses, including debt payments for a year. If you cannot compute your annual expenses, determine your monthly expenses and multiply them by 12 months. If you can only remember your daily expenses then multiply them by 365 days. Please give allowance for unusual or infrequent expenses like Christmas spending and tuition fees. Include what you think is the amount of annual savings you will need to set aside to fund your future goals.
2. Determine your personal and additional exemptions<sup>10</sup>
3. Deduct the total exemptions from your total expenses and label the answer “X”
4. Locate in Table 1 below the bracket within which your “X” falls.

<sup>9</sup> Please note that doing the income tax return in reverse gives an estimate only of the needed income to pay for income taxes and your lifestyle and does not include mandatory deductions for Philhealth, Pag-ibig, SSS and GSIS contributions. Also, OFWs who are not taxed on their income can simply compare their monthly expenses to their monthly net income to see if they are living within their means.

<sup>10</sup> An individual taxpayer, whether single or married, is allowed a basic personal exemption of Php50,000. For married individuals where only one of the spouses earns a gross income, only the earning spouse will be given the personal exemption. A single or married individual will be given an additional exemption of Php25,000 per qualified dependent child and for a maximum of only 4 qualified dependents. A dependent child is a legitimate, illegitimate or legally adopted child largely dependent on and living with the taxpayer provided that the dependent is not more than 21 years old, unmarried and not gainfully employed or if such dependent, regardless of age, is incapable of self-support because of mental or physical defect. Please refer to the Tax Code for more details on this discussion.

<b>Table 1<sup>11</sup></b>		
<b>"X"</b>	<b>Divisor</b>	<b>Lump Sum</b>
<= Php10 000	0.95	<i>Php 0</i>
Php 10,001 to Php 30,000	0.90	<i>Php 500</i>
Php 30,001 to Php 70,000	0.85	<i>Php 2,000</i>
Php 70,001 to Php 140,000	0.80	<i>Php 5,500</i>
Php 140,001 to Php 250,000	0.75	<i>Php 12,500</i>
Php 250,001 to Php 500,000	0.70	<i>Php 25,000</i>
<i>over Php 500,000</i>	<i>0.68</i>	<i>Php 35,000</i>

5. Deduct from your "X" the lump sum amount found in the same row as the bracket that "X" falls into.
6. Divide the result in number 5 by the divisor found in the same row that your "X" falls into.
7. Add back to your answer in number 6 your total exemptions to arrive at the amount of gross household income that you and your spouse should be earning in a year.

If your needed gross annual household income as computed is higher than your actual annual income, then you should begin questioning your expenses, starting with your "may spend". "May spends" should be easier to cut or even take out altogether. Again, if you do not know your annual income, just get your monthly income and multiply it by 13 months or get your daily income and multiply it by 395 days. The additional one month or 30 days is to account for the legally mandated 13 month pay. If your guaranteed annual income is equivalent to more than 13 months or 395 days, please use the appropriate number of guaranteed months or days.

If a re-computation of your needed gross annual household income, after minimizing or zeroing out the may spend, still yields an amount that is higher than your actual income, then you should examine closely if what you consider as "must spends" are really such. This practice of reviewing and hopefully controlling expenses will pave the way for savings.

<sup>11</sup> The table was derived by the Personal Finance Advisers Philippines Corporation.

## **Regulatory Issuance No. 2011-01**

**TO : All Member Banks**  
**SUBJECT : Unsafe and/or Unsound Banking Practices**

Pursuant to its authority to prescribe and issue rules and regulations under Section 2(d)(1) of Republic Act No. 3591 (the PDIC Charter), as amended, the PDIC Board of Directors, by virtue of Resolution No. 2010-12-159 dated 15 December 2010, hereby promulgates the following rules and regulations on unsafe and/or unsound banking practices in relation to Sections 4(f)(3), 7(a), 8(8), and 21(f)(10) of the PDIC Charter.

### **I. Statement of Policy**

The State, through the PDIC, safeguards the interests of the depositing public by ensuring the safety and soundness of banking institutions. To protect the country's banking system and the depositing public, the PDIC shall regulate banking practices, acts, or omissions, which are likely to have adverse effects on the condition of banks, prejudice the interests of the depositing public or the Deposit Insurance Fund, or which are likely to result in violations of any law, rule, or regulation.

### **II. Unsafe and/or Unsound Banking Practices**

The PDIC hereby adopts the general principles and guidelines in *Bangko Sentral ng Pilipinas* (BSP) Circular No. 341 (series of 2002), as amended by BSP Circular No. 640 (series of 2009), relating to the determination of activities that may be considered unsafe and/or unsound banking practices.

### **III. Principles in the Determination of Unsafe and/or Unsound Deposit-Related Practices**

In addition to the banking practices the PDIC may deem unsafe and/or unsound under Section II hereof, the PDIC shall deem a deposit-related practice, activity, transaction, or omission committed or being committed by banks or its directors, officers and employees or agents to be an unsafe



and/or unsound banking practice when it has resulted or may result in:

1. Unreasonable delay in the processing or determination of the validity of deposit claims in the event of bank closure; or
2. Material loss or damage or abnormal risk to the bank's depositors, creditors, shareholders, or to the PDIC; or
3. Material loss or damage or abnormal risk or danger to the safety, stability, liquidity, or solvency of the bank.

#### **IV. Unsafe and/or Unsound Deposit-Related Practices**

The following may be considered unsafe and/or unsound deposit-related practices:

1. Performance of any deposit-related practice, activity, or transaction without the requisite approvals or without adequate controls, as mandated by existing laws, rules, and regulations, which may result to unaccounted, undocumented and/or unrecorded deposits.
2. Failure to keep bank records (printed and/or electronic) within the bank premises especially deposit documents such as, but not limited to, signature cards, depositor information files, and deposit ledgers.

For purposes of this section, "premises" shall refer to places where a bank has a legal right to stay or occupy to conduct its operations and/or keep its records. It includes, but is not limited to, lands and buildings, warehouses, storerooms, online storage, and offsite or backup sites owned or leased by a bank. For those not owned by the bank, it must be covered by a contract showing the bank's legal right to stay or occupy therein.

3. Granting high interest rates when the bank has: (i) negative unimpaired capital and (ii) either a liquid assets-to-deposits ratio of less than 10% or an operating loss.

A bank is deemed offering high interest rates on deposits if the interest rate is over 50% of the prevailing comparable market median rate for similar bank categories. Liquid assets refer to the sum of Cash, Due from BSP/Banks and Financial Assets, net of allowance for credit losses.

4. Non-compliance with PDIC Regulatory Issuances.
5. Other deposit-related practices, activities, and transactions which the PDIC may identify through appropriate issuances.

Attached for guidance is a list of specific activities which the PDIC may consider to be unsafe and/or unsound banking practices (Annex A). The PDIC may hereafter consider other acts or omissions as unsafe and/or unsound pursuant to the general principles and guidelines in this Regulatory Issuance.

## **V. Consequences of Unsafe and/or Unsound Practices**

The commission of unsafe and/or unsound practices as defined in this Regulatory Issuance may have these consequences:

1. Deposit accounts and all information related thereto may be inquired into or examined by PDIC upon the finding of unsafe and/or unsound banking practices, notwithstanding any provisions of law to the contrary. (Section 8, 8th par., PDIC Charter)
2. The PDIC Board of Directors may issue a cease and desist order, and require the bank or its directors or agents concerned to desist and/or correct the practices or violations. (Section 7, PDIC Charter)
3. Deposit insurance on deposit accounts or transactions constituting, and/or emanating from, unsafe and/or unsound banking practice/s as determined by the PDIC Board shall not be paid, after due notice and hearing, and publication of a directive to cease and desist from engaging in the cited unsafe and/or unsound practice/s. (Section 4 (f), PDIC Charter)

The foregoing shall be without prejudice to the criminal, civil, and administrative actions that may be instituted against, or fines imposed upon, the bank and its responsible directors, officers, employees, or agents, pursuant to the provisions of the PDIC Charter, PDIC Regulatory Issuances, and other pertinent laws.

#### **VI. Separability Clause**

Sections of this Regulatory Issuance shall be deemed severable, and should any section, subsection, paragraph, sentence, or phrase of this Issuance be declared by a court of competent jurisdiction to be invalid, unenforceable, or unconstitutional, such decision shall not affect the validity of the Issuance as a whole, or any part thereof, other than the part so declared to be invalid, unenforceable, or unconstitutional.

#### **VII. Effectivity**

This Regulatory Issuance shall take effect fifteen (15) days after publication in the Official Gazette or in any newspaper of general circulation.

For strict compliance.

**JOSE C. NOGRALES**

President

## **ANNEX A: Deposit-Related Activities Which May Be Considered Unsafe and/or Unsound Banking Practices**

The activities enumerated herein are considered only as guidelines and are not conclusively presumed to be unsafe and/or unsound. Similarly, not all practices, which may be considered as unsafe and/or unsound, are mentioned in the list. In all cases, the PDIC shall give due consideration to the circumstances of each case vis-à-vis the general principles and guidelines set forth in the Regulatory Issuance.

1. Solicitation and acceptance of deposits outside bank premises, including branches, without BSP authority as required under “Servicing Deposits Outside Bank Premises” in the Manual of Regulations for Banks (MORB).
2. Solicitation and acceptance of deposits outside bank premises, including branches, as authorized by the BSP but without complying with the minimum safeguards set forth under “Servicing Deposits Outside Bank Premises” or “Electronic Banking Services and Operations” of the MORB.
3. Non-compliance with the minimum identification and documentation requirements for depositors for opening of deposit accounts as set forth under Rule 9.1.c and 9.1.d of the Revised Implementing Rules and Regulations of R.A. 9160, as amended by R.A. 9194.
4. Failure to keep bank records (printed and/or electronic) within the bank premises especially deposit documents such as, but not limited to, signature cards, depositor information files, and deposit ledger.
5. Recording deposits or withdrawals without legitimate supporting documents.
6. Offering and accepting high cost deposits despite the Cease and Desist Order issued by the Monetary Board.
7. Granting high interest rates when the bank has (i) negative unimpaired capital and (ii) either a liquid assets-to-deposits ratio of less than 10% or an operating loss.

8. Allowing depositors to deposit directly into the bank's deposit account/s with other banks without implementing controls.
9. Allowing unauthorized bank personnel and non-bank personnel to handle deposit transactions.
10. Failure to reconcile inter-branch deposit transactions or deposit float items within 7 banking days.
11. Allowing depositors to deposit, withdraw, and/or transfer funds without proper documentation such as a duly accomplished deposit or withdrawal slip or debit/credit memo, or its equivalent.
12. Making, use or issuance of bank advertisements, marketing proposals or strategies, and other similar statements or issuances, which directly or indirectly offer, promise, represent, or promote: (a) a separate and distinct PDIC deposit insurance cover for deposit accounts maintained in the same right and capacity of a depositor, either in his own name or in the name of others who have no beneficial ownership over the account/s; or (b) deposit insurance coverage that is inconsistent with and otherwise violative of the laws, rules and regulations and/or policies on beneficial ownership and deposit splitting.
13. Failure to adopt a Board-approved Operations Manual (OM) on Deposit Record Keeping and/or submission of an inadequate OM that does not reflect deposit practices.
14. Allowing bank employees to process their own deposit transactions including those of their relatives up to fourth degree of consanguinity or affinity.

**BSP Circular No. 640**

*(Activities Which May Be Considered Unsafe  
and Unsound Banking Practices)*

Pursuant to Monetary Board Resolution No. 1723 dated 23 December 2008, Annex A (List of Activities Which May Be Considered Unsafe and Unsound Banking Practices) of Circular No. 341 dated 6 August 2002 is hereby amended as follows:

Section 1. The opening paragraph and Items c and g of Annex A of Circular No. 341 are hereby amended to read as follows:

“The activities enumerated herein are considered only as guidelines and are not irrebutably presumed to be unsafe or unsound. Conversely, not all practices which might under the circumstances be termed unsafe or unsound are mentioned here. The Monetary Board may NOW AND THEN consider any other acts/omissions as unsafe or unsound practices.”

- “c. Operating in a way that produces a deficit in net operating income WITHOUT ADEQUATE MEASURES TO ENSURE A SURPLUS IN NET OPERATING INCOME IN THE FUTURE.”

X X X

- “g. Excessive reliance on large, high-COST or volatile deposits/ borrowings TO FUND AGGRESSIVE GROWTH THAT MAY BE UNSUSTAINABLE. FOR THIS PURPOSE, A BANK IS CONSIDERED OFFERING HIGH-COST DEPOSITS/BORROWINGS IF THE EFFECTIVE INTEREST RATE PAID ON SAID DEPOSITS/ BORROWINGS AND/OR NON-CASH INCENTIVES IS 50% OVER THE PREVAILING COMPARABLE MARKET MEDIAN RATE FOR SIMILAR BANK CATEGORIES, MATURITIES AND CURRENCY DENOMINATION AND ACCOMPANIED BY OTHER CIRCUMSTANCE/S SUCH AS:

“12. HIGH INCIDENCE OF SPURIOUS AND FRAUDULENT LOANS DUE TO PATENTLY INADEQUATE RISK MANAGEMENT SYSTEMS AND PROCEDURES RESULTING IN SIGNIFICANT IMPAIRMENT OF CAPITAL;

“13. BANK’S NICHE MOSTLY CONSISTS OF BORROWERS WHO HAVE



IMPAIRED OR LIMITED CREDIT HISTORY, OR MAJORITY OF THE LOANS ARE EITHER CLEAN/UNSECURED OR BACKED WITH MINIMUM COLLATERAL VALUES EXCEPT THOSE UNDERWRITTEN USING MICROFINANCE TECHNOLOGY CONSISTENT WITH CIRCULAR NO. 272 DATED 30 JANUARY 2001 AND OTHER ACCEPTABLE CASH FLOW-BASED LENDING SYSTEMS; AND THE BANK DOES NOT HAVE A ROBUST RISK MANAGEMENT SYSTEM IN PLACE LEAVING THE BANK VULNERABLE TO LOSSES;

- “14. LOAN RATES ARE EXCESSIVELY HIGHER THAN MARKET RATES TO COMPENSATE THE ADDED OR HIGHER RISKS INVOLVED. EXCESSIVELY HIGHER RATES ARE THOSE CHARACTERIZED BY EFFECTIVE INTEREST RATES THAT ARE 50% OVER THE PREVAILING COMPARABLE MARKET MEDIAN RATE FOR SIMILAR LOAN TYPES, MATURITIES AND COLLATERALS;
- “15. ASSIGNMENT OF LOANS ON WITHOUT RECOURSE BASIS WITH REAL ESTATE PROPERTIES AS PAYMENT, RESULTING IN TOTAL INVESTMENT IN REAL ESTATE IN EXCESS OF THE PRESCRIBED CEILING.

Section 3. Item s and u of Annex A of Circular No. 341 are hereby amended to read as follows:

- “s. Failure to heed warnings and admonitions of the supervisory AND REGULATORY authorities.

x x x

- “u. Any OTHER action likely to cause insolvency or substantial dissipation of assets or earnings of the institution or likely to seriously weaken its condition or otherwise seriously prejudice the interest of its depositors/investors/clients.”

## Sample Claim Form (Page 1)

	<b>PHILIPPINE DEPOSIT INSURANCE CORPORATION</b> SSS Bldg, Ayala Ave. Cor. V.A. Rufino St., 1226 Makati City, Philippines Telephone No. 841-4630 to 31	<b>CLAIM FORM</b>						
<b>Name of Bank:</b> _____ <b>Branch:</b> _____		For PDIC Use Only <b>Bank Code:</b> _____ <b>Date:</b> _____ <b>Claim No.:</b> _____						
<b>Personal Information (PRINT legibly)</b> <b>Name of Depositor / Claimant:</b> _____ <div style="display: flex; justify-content: space-between;"> <span>First Name</span> <span>Middle Name</span> <span>Last Name</span> </div> <b>Complete Mailing Address (Do not abbreviate):</b> <div style="display: flex; justify-content: space-between;"> <span>House No.</span> <span>Street</span> <span>Barangay</span> </div> <div style="display: flex; justify-content: space-between;"> <span>Town / City</span> <span>Province</span> <span>Zip Code</span> </div> <b>Date of Birth:</b> (mm/dd/yyyy) ____/____/____ <b>Home Phone:</b> _____ <b>TIN:</b> _____ <b>Mobile Phone:</b> _____ <b>GSIS/SSS No.:</b> _____ <b>Email Address:</b> _____								
<b>Spouse's Name:</b> _____ <div style="display: flex; justify-content: space-between;"> <span>First Name</span> <span>Middle Name</span> <span>Last Name</span> </div>		<b>Date of Birth:</b> (mm/dd/yyyy) ____/____/____						
<b>Mother's Maiden Name:</b> _____ <div style="display: flex; justify-content: space-between;"> <span>First Name</span> <span>Middle Name</span> <span>Last Name</span> </div>		<b>Date of Birth:</b> (mm/dd/yyyy) ____/____/____						
<b>Account Information</b>								
#	Account Type*	Account Number	Co-Depositor's Name			Co-Depositor's Name		
1			First Name	Middle Name	Last Name	First Name	Middle Name	Last Name
2			First Name	Middle Name	Last Name	First Name	Middle Name	Last Name
3			First Name	Middle Name	Last Name	First Name	Middle Name	Last Name
*Account Type Legend: SA – Savings Account; CA – Current Account; SSA – Special Savings Account; CTD – Certificate of Time Deposit.								
<input type="checkbox"/> I certify that I am indebted/obligated to the bank either as principal borrower, co-principal, co-maker, or as guarantor or surety for any debt, or I have money or property accountability to the bank.  <input type="checkbox"/> I certify that I am not indebted/obligated to the bank either as principal borrower, co-principal or co-maker, neither am I guarantor nor surety for any debt, nor do I have money or property accountability to the bank.  I, the undersigned, solemnly swear that I am the owner/co-owner of the abovementioned account/s and I am holding myself liable to any person, natural or juridical, that may be prejudiced by my representations, in addition to other liabilities, civil or criminal, that may arise therefrom. I further release and discharge PDIC from any and all obligations in connection with this claim.  Under pain of perjury and other applicable penalties, I hereby certify to the truth and accuracy of the statements I made above and any and all information and documents I may or have provided to PDIC.  I hereby authorize PDIC to verify or confirm with appropriate issuing agency/agencies the authenticity of any and all documents submitted.  I further agree to receive from PDIC the payment of insured deposit with the closed _____, which in no case exceeds the Maximum Deposit Insurance Coverage (MDIC) in accordance with R.A. 3591, as amended. If discovered later that PDIC made any undue payment or overpayment on my insured deposit with the bank due to any of my representation/s or declaration/s, I undertake to refund the undue payment received or amount of overpayment and indemnify PDIC and/or the bank for any loss or damage.								
SUBSCRIBED AND SWORN TO before me in _____, this ____ day of _____, by affiant who has satisfactorily proven his/her identity through his/her _____ issued on _____ in _____.  <div style="text-align: right;">           Signature of Depositor/Claimant over Printed Name            _____         </div>								
Notary Public/ Claim Examiner								
-For PDIC Use Only- <b>Signature Verified Against:</b> <input type="checkbox"/> Signature Card <input type="checkbox"/> Subsidiary Ledger <input type="checkbox"/> Valid ID: ID #1 _____ <input type="checkbox"/> Duplicate CTD <input type="checkbox"/> Affidavits    #2 _____ <input type="checkbox"/> Others _____								
Signature Verified by: _____  Claim Examiner Date: _____								

## Sample Claim Form (Page 2)

## INSTRUCTIONS IN FILING A CLAIM WITH PDIC

Requirements:

1. **PDIC Claim Form**  
Fill out all entries in the Claim Form (avoid abbreviation of address). Please ensure that the depositor/claimant signs on the blank provided for "Signature of Depositor/Claimant over Printed Name" with his/her signature as appearing in bank records and IDs to be submitted to PDIC.
2. **Original Evidence of Deposit**
  - Passbook for Savings Account
  - Certificate of Time Deposit
  - Latest statement and unused checks for current/checking account
  - ATM Card
3. **Original and enlarged photocopy of two (2) valid photo-bearing IDs with clear signature of depositor/claimant such as Driver's License, SSS/GSIS ID, Senior Citizen's ID, Passport, PRC ID, OWWA/OFW ID, Seaman's ID, ACR ID, Voter's ID, IBP.** Please ensure that the ID number is clear and legible.
4. **Original copy and photocopy of the Birth Certificate from NSO or duly certified copy from the local civil registrar, for depositors below eighteen (18) years old.**

Options on how to file your Claim:

- Submit personally to the PDIC representative assigned at the closed bank, a designated site, or at the 4<sup>th</sup> Flr., SSS Bldg., Ayala Avenue corner V.A. Rufino St., Makati City, or
- Through mail at: Claims Processing Department  
Philippine Deposit Insurance Corporation  
4<sup>th</sup> Floor, SSS Building  
6782 Ayala Ave., cor. V.A. Rufino St.  
1226 Makati City, Phils.

*Upon evaluation of your claim and documents submitted, other requirements may be requested by PDIC to complete the processing of your claim.*

## GABAY SA PAGPA-FILE NG CLAIM SA PDIC

Mga Kailangan:

1. **PDIC Claim Form**  
*Punan ang lahat ng "Entries" sa Claim Form. Tiyaking pirmado ng depositor/claimant ang patlang na "Signature of Depositor/Claimant over Printed Name". Siguraduhin ding ang pirma ay katulad ng pirma sa bangko at mga isusumiteng ID sa PDIC.*
2. **Orihinal na katibayan ng deposito:**
  - *Passbook para sa Savings Account*
  - *Certificate of Time Deposit*
  - *Pinakahuling bank statement at mga di-nagamit na tseke para sa Current/Checking Account*
  - *ATM Card*
3. **Orihinal at pinalaking kopya ng dalawang (2) valid IDs na may litrato at malinaw na pirma ng depositor o ng kanyang kinatawan, tulad ng Driver's License, SSS/GSIS ID, Senior Citizen's ID, Passport, PRC ID, OWWA/OFW ID, Seaman's ID, ACR ID, Voter's ID, IBP.** *Siguraduhin na malinaw ang ID number.*
4. **Orihinal at photocopy ng Birth Certificate na galing sa NSO o kopya na duly certified ng local civil registrar, para sa mga depositors na below eighteen (18) years old.**

Mga Pamamaraan Kung Paano o Saan Ipa-file ang Claim:

- *Ibigay sa mga kinatawan ng PDIC na nakatalaga sa nagsarang bangko, itinalagang lugar o sa opisina ng PDIC sa 4<sup>th</sup> Flr., SSS Bldg., Ayala Avenue corner V.A. Rufino St., Makati City;*
- *Ipadala sa koreo sa:* Claims Processing Department  
Philippine Deposit Insurance Corporation  
4<sup>th</sup> Floor, SSS Building  
6782 Ayala Ave., cor. V.A. Rufino St.  
1226 Makati City, Phils.

*Matapos ang pagsusuri ng inyong claim at ng mga dokumento na isinumite, maaring humingi ang PDIC ng karagdagang dokumento o iba pang "requirements" para makumpleto ang pagproseso ng inyong claim.*

## Sample Claim Status Sheet

	<b>PHILIPPINE DEPOSIT INSURANCE CORPORATION</b> SSS Bldg, Ayala Ave. Cor. V.A. Rufino St., Makati City, Philippines <b>Telephone No. 841-4630 to 31</b>	<b>Claim Status Sheet (CSS)</b>																													
<b>(To be filled-up by depositor/claimant)</b>		<b>ACCOUNT INFORMATION</b>																													
Name of Bank :		Branch:	FOR PDIC USE ONLY																												
		Bank Code:	Claim No:																												
Name of Depositor/Claimant :																															
First Name		Middle Name	Last Name																												
<b>(For PDIC use only) DOCUMENTS SUBMITTED</b>																															
We hereby acknowledge receipt of the Claim Form with the following documents :																															
<table style="width: 100%; border: none;"> <tr> <td style="width: 33%;">Original Savings Passbook of Account No.</td> <td style="width: 33%;">[1] _____</td> <td style="width: 33%;">[2] _____</td> <td style="width: 33%;">[3] _____</td> </tr> <tr> <td>Original Current Passbook of Account No.</td> <td>[1] _____</td> <td>[2] _____</td> <td>[3] _____</td> </tr> <tr> <td>Unused Checks for Account No.</td> <td>[1] _____</td> <td>[2] _____</td> <td>[3] _____</td> </tr> <tr> <td>Original CTDs of Account No.</td> <td>[1] _____</td> <td>[2] _____</td> <td>[3] _____</td> </tr> <tr> <td>Photocopy of Valid IDs with ID No.</td> <td>[1] _____</td> <td>[2] _____</td> <td>[3] _____</td> </tr> <tr> <td>Photocopy of Birth Certificate of _____</td> <td>[1] _____</td> <td>[2] _____</td> <td>[3] _____</td> </tr> <tr> <td>Secretary Certificate/SPA _____</td> <td></td> <td></td> <td></td> </tr> </table>				Original Savings Passbook of Account No.	[1] _____	[2] _____	[3] _____	Original Current Passbook of Account No.	[1] _____	[2] _____	[3] _____	Unused Checks for Account No.	[1] _____	[2] _____	[3] _____	Original CTDs of Account No.	[1] _____	[2] _____	[3] _____	Photocopy of Valid IDs with ID No.	[1] _____	[2] _____	[3] _____	Photocopy of Birth Certificate of _____	[1] _____	[2] _____	[3] _____	Secretary Certificate/SPA _____			
Original Savings Passbook of Account No.	[1] _____	[2] _____	[3] _____																												
Original Current Passbook of Account No.	[1] _____	[2] _____	[3] _____																												
Unused Checks for Account No.	[1] _____	[2] _____	[3] _____																												
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Photocopy of Valid IDs with ID No.	[1] _____	[2] _____	[3] _____																												
Photocopy of Birth Certificate of _____	[1] _____	[2] _____	[3] _____																												
Secretary Certificate/SPA _____																															
Authorized Representative/Atty-in-Fact _____		Received by _____ PDIC Representative : _____ Name _____ Date (mm/dd/yy) _____																													
_____ Others _____																															
<b>STATUS OF CLAIM</b>																															
<input type="checkbox"/> <b>A. DOCUMENT DEFICIENT :</b> Please submit/comply with the following requirements (marked ✓ below): _____ Photocopy of Valid ID's with signature _____ Bank Statement _____ Notarized Affidavit of Guardianship _____ Notarized Affidavit of Disinterested Persons _____ BIR Estate Tax Clearance _____ BIR Certificate Authorizing withdrawal of Deposit _____ Board Resolution _____ Certificate of Registration (SEC / DTI/ CDA) _____ Special Power of attorney, if executed abroad must be authenticated by Phil. Consulate _____ Notarized Secretary's Certificate re: Authorized Representative _____ List of Incumbents Officers _____ Notarized Affidavit of Deed of Extra Judicial Partition of the Estate (duly filed with BIR) _____ Notarized Affidavit of Self-adjudication _____ Notarized Deed of Undertaking _____ * Marriage Certificate of _____ _____ * Birth Certificate of _____																															
<b>DEADLINE FOR SUBMISSION/COMPLIANCE:</b> _____ _____ * Death Certificate of _____ _____ Others _____ _____ Statement of Account ** _____ Account/Clearance as : _____ Borrower _____ Co-Maker _____ _____ DOS _____ Others _____ _____ Certification of Outstanding Balance and absence of bank records in case of lost evidence of deposit ** * Please present original copy and submit photocopy ** To be secured from Authorized Deputy of _____																															
<b>This serves as a NOTICE of the requirements of the claim.</b> Pursuant to PDIC policy, failure to submit/comply with the above listed requirements on or before the deadline shall be ground for denial of your claim. Documents to be submitted by mail should be addressed to the:																															
<b>Claims Processing Department</b> Philippine Deposit Insurance Corporation 4 <sup>th</sup> floor, SSS Bldg., Ayala Ave. cor. V.A. Rufino Street 1226 Makati City, Philippines																															
<input type="checkbox"/> <b>B. REFERRED TO RECEIVERSHIP &amp; LIQUIDATION DEPARTMENT</b> For bank documents/clearance/certification/statement of loan account																															
<input type="checkbox"/> <b>C. REFERRED TO PRESETTLEMENT EXAMINATION DEPARTMENT</b> For validation of the account																															
<input type="checkbox"/> <b>D. DENIED CLAIM</b> Based on verification/examination of available bank records, your account is not covered by deposit insurance due to _____. Accordingly, we regret to inform you that your deposit insurance on said account is <b>DENIED</b> . Pursuant to PDIC Regulatory Issuance No. 2011-03, you may request for a reconsideration of the denial of your claim within <b>sixty (60)</b> days from receipt hereof, otherwise, this denial shall be deemed final. For the procedures, requirements and the format of the request for reconsideration, you may visit our website at <a href="http://www.pdic.gov.ph">www.pdic.gov.ph</a> .																															
Received original passbook/CTD/Bank statement & Unused Checks.    Received Status of Claim /    With deadline for submission of documents																															
Processed by: _____		Received by: _____																													
Claim Examiner	Date	Depositor/Claimant	Date																												
<b>NOTE: For any inquiries, please call the Public Assistance Department Hotlines at 841-4630 to 4631.</b>																															
<b>SWORN STATEMENT</b>																															
_____ I certify that I am indebted / obligated to the bank either as principal borrower, co-principal, co-maker, or as guarantor or surety for any debt, or I have money or property accountability to the bank. _____ I certify that I am not indebted/obligated to the bank either as principal borrower, co-principal or co-maker, neither am I guarantor nor surety for any debt, nor do I have money or property accountability to the bank.																															
I, the undersigned, solemnly swear that I am the owner/co-owner of the abovementioned account/s and I am holding myself liable to any person, natural or juridical, that may be prejudiced by my representations, in addition to other liabilities, civil or criminal, that may arise therefrom. I further release and discharge PDIC from any and all obligations in connection with this claim. Under pain of perjury and other applicable penalties, I hereby certify to the truth and accuracy of the statements I made above and any and all information and documents I may or have provided to PDIC.																															
I hereby authorize PDIC to verify or confirm with appropriate issuing agency/agencies the authenticity of any and all documents submitted. I further agree to receive from PDIC the payment of insured deposit with the closed _____, which in no case exceeds the Maximum Deposit Insurance Coverage (MDIC) in accordance with R.A. 3591, as amended. If discovered later that PDIC made any undue payment or overpayment on my insured deposit with the bank due to any of my representation/s or declaration/s, I undertake to refund the undue payment received or amount of overpayment and indemnify PDIC and/or the bank for any loss or damage.																															
			Signature of Claimant/Depositor over Printed Name																												
SUBSCRIBED AND SWORN TO before me in _____, this _____ day of _____, by affiant who has satisfactorily proven his/her identity through his/her _____ issued on _____ in _____.																															
Notary Public/ Claim Examiner																															

## Sample Special Power of Attorney

### SPECIAL POWER OF ATTORNEY

#### KNOW ALL MEN BY THESE PRESENTS:

- I, \_\_\_\_\_, by these presents do hereby depose and state that I am:
- Of legal age, single/married and a resident of \_\_\_\_\_;
  - The owner of Savings Account/ Certificate of Time Deposit/ Current Account No/s. \_\_\_\_\_ maintained with \_\_\_\_\_;
  - In possession of the foregoing since the opening of the account/s and there is no conflict or dispute arising from my ownership and possession of the same;
  - NAMING, CONSTITUTING AND APPOINTING \_\_\_\_\_ (name of attorney-in-fact), who is of legal age, single/married and a resident of \_\_\_\_\_, as my true and lawful attorney-in-fact, for me and my name, place and stead, for my own use and benefit, to do and perform any or all of the following acts and things, to wit:
    - File a claim for payment of the deposit insurance with the Philippine Deposit Insurance Corporation (PDIC) for the above-stated account/s;
    - Sign all documentary requirements relative thereto;
    - Receive cash (if the amount is ₱5,000 & below) or check payment from PDIC for my insured deposit.

**HEREBY GIVING AND GRANTING** unto my attorney-in-fact full power and authority to do and perform every act and thing whatsoever requisite and necessary to be done in and about the premises, as fully to all intents and purposes as I might or could lawfully do if personally present, hereby ratifying and confirming all that my attorney-in-fact or substitute shall lawfully do or cause to be done by virtue of these presents;

**HEREBY ASSERTING** that I shall be held personally liable to any person, natural or juridical, that may be prejudiced by my representations, in addition to other liabilities, civil or criminal, that may arise therefrom; hereby releasing and discharging PDIC from any and all further obligations in connection with this claim; and I further undertake to refund PDIC the amount paid to me/received by my attorney-in-fact including interest thereon and indemnify PDIC, the bank and/or third parties for any loss or damage occasioned by such payment.

**IN WITNESS WHEREOF**, I have hereunto set my hand on this \_\_\_\_ day of \_\_\_\_\_ at \_\_\_\_\_.

\_\_\_\_\_  
Principal  
ID/ No. \_\_\_\_\_  
Issuance/Validity Date \_\_\_\_\_

Conforme:

\_\_\_\_\_  
Name & Signature of Attorney-in-Fact

Signed in the presence of:

#### ACKNOWLEDGMENT

Republic of the Philippines)  
\_\_\_\_\_) S.S.

**BEFORE ME**, a Notary Public for and in \_\_\_\_\_ on this \_\_\_\_ day of \_\_\_\_\_, personally appeared \_\_\_\_\_, known to me to be the same person who executed this Special Power of Attorney and acknowledged to me that the same is his/her free and voluntary act and deed.

Witness my hand and seal.

Notary Public

Doc. No. \_\_\_\_\_;  
Page No. \_\_\_\_\_;  
Book No. \_\_\_\_\_;  
Series of \_\_\_\_\_.



## **Republic Act No. 9505**

*August 22, 2008*

### **AN ACT ESTABLISHING A PROVIDENT PERSONAL SAVINGS PLAN, KNOWN AS THE PERSONAL EQUITY AND RETIREMENT ACCOUNT (PERA)**

**Section 1. Title.** - This Act shall be known as the “Personal Equity and Retirement Account (PERA) Act of 2008”.

**Sec. 2. Declaration of Policy.** - It is declared the policy of the State to promote capital market development and savings mobilization by establishing a legal and regulatory framework of retirement plans for persons, comprised of voluntary personal savings and investments. The State recognizes the potential contribution of PERA to long-term fiscal sustainability through the, provision of long-term financing and reduction of social pension benefits.

**Sec. 3. Definition of Terms.** - Unless the context requires otherwise, the following terms shall have the following significance as used in this Act:

(a) “Administrator” is an entity accredited by the Bureau of Internal Revenue (BIR), after pre-qualification by the concerned Regulatory Authority. The Administrator shall be responsible for overseeing the PERA, whose core functions shall include, but not limited to: reporting on contributions made to the account, computing the values of investments, educating the Contributor, enforcing PERA contributions and withdrawal limits, collecting appropriate taxes and penalties for the government, securing BIR Income Tax Credit Certificates for the Contributor, consolidating reports on all investments, income, expenses and withdrawals on the account and ensuring that PERA contributions are invested in accordance with the prudential guidelines set by the Regulatory Authorities.

(b) “Contributor” is any person with the capacity to contract and possesses

a tax identification number. The Contributor establishes and makes contributions to a PERA.

(c) “Custodian” is a separate and distinct entity unrelated to the Administrator, accredited by the Bangko Sentral ng Pilipinas, providing services in connection with the custodianship of funds and securities comprising the PERA investments. The Custodian shall be responsible for receiving all funds in connection with the PERA, maintaining custody of all original securities, evidence of deposits or other evidence of investment. The Custodian shall operate independently from the Administrator. The Custodian is required to report to the Contributor and the concerned Regulatory Authority at regular intervals all financial transactions and all documents in its custody under a PERA.

(d) “Early withdrawal” shall pertain to any withdrawal prior to the period of distribution as set forth under Sec. 12 hereof.

(e) “Investment Manager” is a regulated person or entity authorized by a Contributor to make investment decisions for his PERA. As such, it shall assume fiduciary duty and responsibility for PERA investments. An Investment Manager shall act with utmost fidelity by observing policies directed towards confidentiality, scrupulous care, safety and prudent management of PERA funds.

(f) “Personal Equity and Retirement Account (PERA)” refers to the voluntary retirement account established by and for the exclusive use and benefit of the Contributor for the purpose of being invested solely in PERA investment products in the Philippines. The Contributor shall retain the ownership, whether legal or beneficial, of funds placed therein, including all earnings of such funds.

(g) “PERA Investment Product” refers to a unit investment trust fund, mutual fund, annuity contract, insurance pension products, pre-need pension plan, shares of stock and other securities listed and traded in a local exchange, exchange-traded bonds or any other investment product or outlet which the concerned Regulatory Authority may allow



for PERA purposes: Provided, however, That to qualify as a PERA investment product under this Act, the product must be non-speculative, readily marketable, and with a track record of regular income payments to investors. The concerned Regulatory Authority must first approve the product before being granted tax-exempt privileges by the BIR.

(h) “Regulatory Authority” refers to the Bangko Sentral ng Pilipinas (BSP) as regards banks, other supervised financial institutions and trust entities, the Securities and Exchange Commission (SEC) for investment companies, investment houses stockbrokerages and pre-need plan companies, and the Office of the Insurance Commission (OIC) for insurance companies.

(i) “Overseas Filipino” refers to (1) an individual citizen of the Philippines who is working or deriving income from abroad, including one who retained or reacquired his Philippine citizenship under Republic Act No. 9225, otherwise known as the “Citizenship Retention and Reacquisition Act of 2003”; or (2) the legitimate spouse, whether or not said spouse is of Filipino ancestry, and the children of the Filipino citizen mentioned in item (1) hereof.

**Sec. 4. Establishment of a PERA.** - A Contributor may create and maintain a maximum of five (5) PERA, at any one time: Provided, That the Contributor shall designate and maintain only one (1) Administrator for all his PERA. The Contributor shall make all investment decisions pertaining to his PERA. However, he has the option of appointing an Investment Manager, either in writing or in electronic form, to make investment decisions on his behalf without prior consultation.

**Sec. 5. Maximum Annual PERA Contributions.** - A Contributor may make an aggregate maximum contribution of One hundred thousand pesos (P 100,000.00) or its equivalent in any convertible foreign currency at the prevailing rate at the time of the actual contribution, to his her PERA per year: Provided, That if the Contributor is married, each of the spouses shall be entitled to make a maximum contribution of One hundred thousand pesos (P 100,000.00) or its equivalent in any convertible foreign currency per year to his/her respective PERA: Provided, further, That if the Contributor is an overseas Filipino, he shall

be allowed to make maximum contributions double the allowable maximum amount. A Contributor has the option to contribute more than the maximum amount prescribed herein: Provided, That the excess shall no longer be entitled to a tax credit of five percent (5%). The Secretary of Finance may adjust the maximum contribution from time to time, taking into consideration the present value of the said maximum contribution using the Consumer Price Index as published by the National Statistics Office, fiscal position of the government and other pertinent factors.

**Sec. 6. Employer's Contribution.** - A private employer may contribute to its employee's PERA to the extent of the amount allowable to the Contributor: Provided, however: That the employer complies with the mandatory Social Security System (SSS) contribution and retirement pay under the Labor Code of the Philippines. Such contribution shall be allowed as a deduction from the employer's gross income. The Contributor, however, retains the prerogative to make investment decisions pertaining to his PERA.

**Sec. 7. Separate Asset.** -The PERA shall be kept separate from the other assets of an Administrator/Custodian and shall not be part of the general assets of the Administrator/Custodian for purposes of insolvency.

**Sec. 8. Tax Treatment of Contributions.** - The Contributor shall be given an income tax credit equivalent to five percent (5%) of the total PERA contribution: Provided, however: That in no instance can there be any refund of the said tax credit arising from the PERA contributions. If the Contributor is an overseas Filipino, he shall be entitled to claim tax credit from any tax payable to the national government under the National Internal Revenue Code of 1997, as amended.

**Sec. 9. Tax Treatment of Investment Income.** - All income earned from the investments and reinvestments of the maximum amount allowed herein is tax exempt.

**Sec. 10. Tax Treatment of Distributions.** - All distributions in accordance with Sec. 12 hereof are tax exempt.

**Sec. 11. Termination.** - Any premature termination shall be treated as an early withdrawal under Sec. 13 hereof: Provided, That the penalties thereunder shall not apply if the entire proceeds there from are immediately transferred to another PERA investment and/or another Administrator.

**Sec. 12. Distributions Upon Retirement/Death.** - Distributions may be made upon reaching the age of fifty-five (55) years: Provided, That the Contributor has made contributions to the PERA for at least five (5) years. The distribution shall be made in either lump sum or pension for a definite period or lifetime pension, the choice of which shall be at the option of the Contributor. The Contributor, however, has the option to continue the PERA. Complete distribution shall be made upon the death of the Contributor, irrespective of the age of the Contributor at the time of his death.

**Sec. 13. Penalty on Early Withdrawal.** - Any early withdrawal shall be subject to a penalty, the amount of which would be determined by the Secretary of Finance and payable to the government: Provided, That the amount of the penalty shall in no case be less than the tax incentives enjoyed by the Contributor. No early withdrawal penalty shall be imposed on any withdrawal of any funds for the following purposes:

- (a) For payment of accident or illness-related hospitalization in excess of thirty (30) days; and
- (b) For payment to a Contributor who has been subsequently rendered permanently totally disabled as defined under the Employees Compensation Law, Social Security Law and Government Service Insurance System Law.

**Sec. 14. Non-Assignability.** - No portion of the assets of a PERA may be assigned, alienated, pledged, encumbered, attached, garnished, seized or levied upon. PERA assets shall not be considered assets of the Contributor for purposes of insolvency and estate taxes.

**Sec. 15. Rules and Regulations.** - Consistent with the policy of promoting transparency in PERA investment and thereby affording protection to the Contributor, the Department of Finance, the Bureau of Internal Revenue and the concerned Regulatory Authorities, with the Bangko Sentral ng Pilipinas as lead agency, shall coordinate to establish uniform rules and regulations pertaining to the following subject matters:

- (a) Qualification and disqualification standards for Administrators, Custodians and Investment Managers, including directors and officers thereof;
- (b) Qualified and/or eligible PERA investment products;
- (c) Valuation standards for PERA investments;
- (d) Disclosure requirements on the terms and conditions of the PERA investments;
- (e) Minimum requirements imposed on the Administrators as regards inculcating financial literacy in investors;
- (f) Ascertainment of client suitability for PERA products;
- (g) Fees to be charged by the Administrator, Custodian or Investment Manager shall always be reasonable and approved by the concerned Regulatory Authority;
- (h) Record-keeping, reporting and audit requirement of Administrators and Custodians pertaining to records for all contributions, earnings and total account balances; and (i) Other pertinent matters to be determined by the Regulatory Authorities.

**Sec. 16. Administration of Tax Incentives.** - The BIR shall issue the implementing rules and regulations regarding all aspects of tax administration relating to PERA. The BIR shall coordinate the qualification standards of the Administrator with the Regulatory Authorities.

**Sec. 17. Penalty.** - A fine of not less than Fifty thousand pesos (P50,000.00) nor more than Two hundred thousand pesos (P200,000.00) or imprisonment of not less than six (6) years and one (1) day to not more than twelve (12) years or both such fine and imprisonment,

at the discretion of the court, shall be imposed upon any person, association, partnership or corporation, its officer, employee or agent, who, acting alone or in connivance with others, shall:

- (a) Act as Administrator, Custodian or Investment Manager without being properly qualified or without being granted prior accreditation by the concerned Regulatory Authority;
- (b) Invest the contribution without written or electronically authenticated authority from the Contributor, or invest the contribution in contravention of the instructions of the Contributor;
- (c) Knowingly and willfully make any statement in any application, report, or document required to be filed under this Act, which statement is false or misleading with respect to any material fact;
- (d) Misappropriate or convert, to the prejudice of the Contributor, contributions to and investments or income from the PERA;
- (e) By gross negligence, cause any loss, conversion, or misappropriation of the contributions to, or investments from, the PERA; or
- (f) Violate any provision of this Act or rules and regulations issued pursuant to this Act. Notwithstanding the foregoing, any willful violation by the accredited Administrator, Custodian or Investment Manager of any of the provisions of this Act, or its implementing rules and regulations, or other terms and conditions of the authority to act as Administrator, Custodian or Investment Manager may be subject to the administrative sanctions provided for in applicable laws. The above penalties shall be without prejudice to whatever civil and criminal liability provided for under applicable laws for the same act or omission.

**Sec. 18. Abuse of the Tax Exemption and Privileges.** - Any person, natural or juridical, who unduly avails of the tax exemption privileges herein granted, possibly by co-mingling PERA accounts in an investment with other investments,

when such person is not entitled hereto, shall be subject to the penalties provided in Sec. 17 hereof. In addition, the offender shall refund to the government double the amount of the tax exemptions and privileges enjoyed under this Act, plus interest of twelve percent (12%) per year from the date of enjoyment of the tax exemptions and privileges to the date of actual payment.

**Sec. 19. Separability Clause.** - If any provision or part hereof is held invalid or unconstitutional, the remainder of the law or the provision not otherwise affected shall remain valid and subsisting.

**Sec. 20. Repealing Clause.** - All laws, decrees, orders, rules and regulations or parts thereof inconsistent with this Act are hereby amended or modified accordingly.

**Sec. 21. Effectivity.** -This Act shall take effect fifteen (15) days following its publication in a newspaper of general circulation: Provided, That the tax incentives granted hereunder shall take effect on January 1, 2009.



[illegible]

















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For more information on ***Usapang Pera: Mga Dapat Alamin***, please contact:

### **Corporate Communications Department**

Corporate Affairs Group

Philippine Deposit Insurance Corporation

10/F, SSS Bldg., 6782 Ayala Ave. cor. V.A. Rufino St., 1226 Makati City

Tel. No. 841-4637/ 841-4638

E-mail: [ccd@pdic.gov.ph](mailto:ccd@pdic.gov.ph)



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**PHILIPPINE DEPOSIT INSURANCE CORPORATION**  
SSS Building, 6782 Ayala Avenue  
corner V.A. Rufino St., 1226 Makati City, Philippines  
Tel. Nos: (632) 841-4000 to 30  
Fax No: (632) 841-4833  
Website: [www.pdic.gov.ph](http://www.pdic.gov.ph)  
E-mail: [info@pdic.gov.ph](mailto:info@pdic.gov.ph)