



Gov't eyes P45-B equity in PDIC

By Doris Dumlao

October 20, 2008

THE GOVERNMENT PLANS TO INFUSE P45 BILLION IN FRESH equity into state-owned Philippine Deposit Insurance Corp. using a similar scheme being worked out to recapitalize the Bangko Sentral ng Pilipinas.

The move is expected to boost local banking regulation and depositor protection given the global financial meltdown.

In an interview at the sidelines of his meeting with top BSP officials last week, PDIC president Jose Nograles said the cash infusion would beef up the country's deposit insurance fund, or source of insurance payments, to P100 billion from P55 billion.

Upon the suggestion of presidential economic adviser and Albay Gov. Joey Salceda, Nograles said the plan was for the national government to issue a multi-year obligation authority (MYOA) or written commitment to allot additional funds for PDIC, the central bank's co-regulator of the banking system.

"It's really part of defensive financial strengthening. We'll have authority to access some money if needed. We're in a stable position so we don't have to raise the funds immediately," Nograles said.

The P45-billion cash infusion is among the key reform measures sought by PDIC now that Congress is keen on amending its charter to pave the way for the doubling in deposit insurance coverage to P500,000 a depositor.

Based on discussions with legislators, Nograles said it was possible that the PDIC charter amendments would be passed within the year. He said congressmen would like to prioritize this piece of legislation to shield the country from the worst financial shakeout to hit the United States and Europe since the Great Depression in the 1930s.

"It's because of the urgency of shoring up our deposit insurance fund. This is part of confidence-building -- that people know that we can access up to P100 billion and government can fund us up to P100 billion," Nograles said. "It's a defensive, preemptive measure. If you look at other countries, some even gave blanket guarantees."

The PDIC chief's brother, Speaker Prospero Nograles, and Manila Rep. Jaime Lopez have already filed a bill in the Lower House seeking amendments to the PDIC charter. A counterpart bill has been filed in the Senate by Sen. Francis Escudero.

At the proposed P500,000 level of insured deposits, 97.2 percent of all deposit accounts in the banking system will be fully covered by insurance, compared to 95.1 percent at present, based on the PDIC's estimate.

“At 97.2 percent (insurance coverage), that means we can protect immediately all the small depositors,” Nograles said.

The scheme considered for PDIC's fund-raising, similar to a framework developed to raise P40 billion in additional capital for the BSP, will allow the deposit insurer to get new money while the cost to the government will be staggered over a long-term period.

Based on such concept, the government through the Department of Budget and Management will sign the MYOA to appropriate from its budget a certain amount each year, for instance for the next 10-15 years. The government will set up a special purpose trust (SPT) that will float bonds backed by the state's multi-year written commitment.