PDIC eyes hike in deposit insurance coverage to strengthen banks

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STATE-RUN Philippine Deposit Insurance Corp. (PDIC) said it supports the proposal to double insurance coverage to enhance depositor protection and strengthen the banking system.

In a statement, Jose Nograles, PDIC president, said the state insurer fully supports the proposal to increase the maximum deposit insurance coverage to P500,000 from the current P250,000.

Presidential economic adviser Jose Salceda had proposed a financial defense package as contained in House Bill 5315, sponsored by House Speaker Prospero Nograles and Rep. Jaime Lopez.

“There is a need for a package of five corollary measures to beef up PDIC reserves and strengthen its regulatory and oversight functions as a proactive move in view of the present financial turmoil overseas,” the PDIC executive said.

At the P500,000 level, 97.2 percent of all deposit accounts will be fully covered by insurance, compared with 95.1 percent at the current level. The balance of 2.8 percent is partially covered by insurance with respect to the first P500,000 of the deposit account.

“We are not looking at additional assessment on banks but an increase in government contribution,” the PDIC chief said.

To support the proposal, he said there is a need to boost PDIC’s Deposit Insurance Fund (DIF), which is the source of insurance payments. As of last year, the DIF reached P54.3 billion, of which P3 billion represented the government contribution.

The PDIC president said the state insurer is looking at an additional P45 billion to bring the DIF to around P100 billion. He said the PDIC also needs authority to conduct independent examination of banks to guard against moral hazard and strengthen the state insurer’s oversight functions.

Under the existing rules, bank examination cannot be conducted within one year from the last examination date.

The PDIC is required to seek prior approval from the Monetary Board before conducting its own examination.

In conjunction with the independent examinations, PDIC is also proposing authority to assess risk premium over and above the existing flat rate of 20 basis points on banks found to be at risk as a result of its independent examination. Imposing additional risk premium when warranted will enable PDIC to manage its risks as an insurer, its president said.

He said there is also a need for an authority to determine which deposit products are covered by insurance. This will enable PDIC to manage its risks in the light of new and complex financial products. The state insurer’s president cited the US case, wherein new and complex products were developed and mutated to the point that risks were no longer properly measured or considered, contributing to the ongoing global financial meltdown.

The fifth corollary measure is the bridge bank authority as a new failure resolution method for orderly liquidation. “This will enable PDIC to establish a bridge bank to help preserve critical banking functions by acquiring the assets and assuming the liabilities of a failed bank until a final resolution can be accomplished,” the state-insurer’s president said.

Neighboring countries like Japan, South Korea and Taiwan practice bridge banking, he added.
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