

PDIC supports P500K deposit insurance

By Doris C. Dumlao

OFFERING COMFORT TO DEPOSITORS unnerved by the massive banking shakeout in the United States and Europe, state-owned Philippine Deposit Insurance Corp. (PDIC) has backed proposals to double the maximum deposit insurance coverage to P500,000, alongside five-pronged reforms to strengthen its capability as a coregulator of the local banking system.

At the proposed P500,000 level of insured deposits, 97.2 percent of all deposit accounts

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in the banking system will be fully insured, compared to 95.1 percent coverage at present, based on the PDIC's estimate.

"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," PDIC president Jose Nograles said in a statement yesterday.

Nograles said these reforms were needed to ensure that an increase in deposit insurance coverage—from the current P250,000 per depositor—would "effectively translate to enhanced depositor protection, depositor confidence, and a stronger banking system."

Nograles made the announcement in response to the "financial defense package" proposal of presidential economic adviser and Albay Gov. Joey Salceda, as well as to House Bill No. 5315 sponsored by his brother, Speaker Prospero Nograles, and Manila Rep. Jaime Lopez.

These proposals all called for such an increase in deposit insurance coverage through an amendment of the PDIC charter.

"We are not looking at additional assessment on banks but an increase in government contribution," Nograles said, supporting Salceda's proposal to beef up the PDIC's capitalization through an increase in government contribution.

The PDIC agreed this was needed so that its Deposit Insurance Fund (DIF), the source of insurance payments, would remain sufficient to meet potential demands at a higher level of insurance.

Additional P45B

But the PDIC ruled out charging Philippine banks a higher premium to insure the deposits they generate from the public. Instead, it is seeking an additional P45 billion in fresh contribution from the government to bring the DIF to around P100 billion.

Based on the PDIC's audited financial statements at end-2007, the DIF stood at P54.3 billion of which government contribution was a meager P3 billion.

And to guard against moral hazard and to strengthen oversight, Nograles said the PDIC would need the authority to conduct independent examination of banks.

Under existing rules, bank examination cannot be conducted within one year from the last examination date. It also requires that PDIC seek prior approval from the Bangko Sentral ng Pilipinas' Monetary Board before it can conduct its own examinations.

The inability of the PDIC to move swiftly increases its risk exposure, Nograles said.

Managing risks better

Third, in conjunction with the independent examinations, the PDIC is seeking 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. Impos-

ing additional risk premium when warranted will enable the PDIC to manage its risks as an insurer.

Fourth, the PDIC wants the authority to determine which deposit products are covered by insurance to better manage its risks in the light of new and complex products.

Nograles cited the US case where new products were developed and mutated to the point that risks were no longer properly measured or considered, contributing to the meltdown.

The fifth measure sought by the PDIC is the authority to organize a "bridge bank" as a method for orderly liquidation of failed banks.

Importance of bridge bank

Bridge banking, which is practiced in such countries as Japan, Korea and Taiwan, refers to a temporary bank created by regulators to administer the deposits and liabilities of a failed bank.

A bridge bank will enable the PDIC to help preserve critical banking functions by acquiring the assets and assuming the liabilities of a failed bank until a final resolution can be reached, Nograles said.

The bridge bank authority is one of the 21 Core Principles for Effective Deposit Insurance Systems published by the International Association of Deposit Insurers (IADI).

The IADI framework is designed to enhance the effectiveness of deposit insurance systems.

The IADI is an international organization of 52 deposit insurers established to contribute to the stability of financial systems worldwide. The PDIC is one of its founding members and Nograles is a member of its policy-making executive council.

Net income: P1.23B

The PDIC, the BSP's coregulator of the banking system, has remained profitable despite an increase in the number of banks placed under its receivership.

Based on government documents, its audited net income after tax hit P1.23 billion in 2007, more than double the P445.22 million net income posted a year earlier.

The BSP padlocks banks and places them under PDIC receivership for eventual liquidation of assets once they are found insolvent, a situation where assets are not enough to cover liabilities.

The local central bank shut down 17 banks, mostly small rural banks, and placed them under PDIC receivership and liquidation last year, compared to 11 banks padlocked in 2006. The PDIC shelled out P1.3 billion to pay insured deposits last year.

The PDIC also takes part in most government assistance to distressed but still viable banks. The assistance may come in four forms: Liquidity assistance, purchase of assets, assumption of liabilities and deposit placement.

The creation of the PDIC in 1963 was precipitated by the closure of several banks, prompting the then Central Bank of the Philippines to initiate legislation patterned after the US Federal Deposit Insurance Act.