

## **PDIC wants stronger oversight**

*Business World, October 10, 2008, page S2/1*

The Philippine Deposit Insurance Corp. (PDIC) posed no objection to the increase in the maximum deposit insurance coverage but stressed that this move should be accompanied by measures to beef up its capital and strengthen its oversight powers.

In a statement, PDIC President Jose C. Nograles asked for a package of "corollary measures" to accompany the increase in the insured deposit ceiling to P500,000 from P250,000.

These measures are:

- \* an increase in the PDIC capitalization;
- \* authority to conduct independent bank examinations;
- \* authority to assess risk premium on banks;
- \* authority to determine which deposits are covered by insurance; and
- \* a bridge bank authority.

Mr. Nograles said these measures are necessary to ensure that the increase in the maximum deposit insurance coverage would translate into higher depositor protection, better depositor confidence and a stronger banking system.

House Bill 5315 has been filed at the House of Representatives, seeking to double the insured deposit ceiling by 100%. Its authors, House Speaker Prospero C. Nograles and Manila Rep. Jaime C. Lopez, chairman of the banks and financial intermediaries committee, said it is imperative that depositors remain confident in banks amid the global financial meltdown.

Mr. Nograles said that 97.2% of all bank deposits would be covered by insurance if the ceiling were raised to P500,000, up from 95.1% at present.

He pointed out, however, that a capital infusion into PDIC is needed if the Deposit Insurance Fund, where insurance payments are sourced, were to remain adequate given the higher insured deposit cap.

The fund stood at P54.3 billion as of December, of which P3 billion represented the government contribution. Mr. Nograles wanted the fund strengthened to P100 billion.

He also said PDIC should be allowed to conduct bank examinations without first seeking permission from the Monetary Board and to hold these examinations even before a year is up.

Present rules require a Monetary Board go-ahead, while examinations are banned within a year from the last examination. Mr. Nograles said "the inability of the PDIC to move swiftly increases its exposure."

As a result of its examination, the PDIC should be allowed to impose additional risk premium over the existing 20-basis-point flat rate on banks at risk.

"Imposing additional risk premium... will enable PDIC to manage its risks as an insurer," Mr. Nograles said.

To allow PDIC to manage its risks, it should be furthermore allowed to examine which deposits are covered by insurance.

And lastly, Mr. Nograles is asking for a bridge bank authority as bank failure resolution.

A bridge bank authority would allow the government to take over a failed bank by acquiring its assets and assuming the liabilities until a final resolution is reached. It deviates from the "paybox" system where the FDIC automatically acts as receiver and liquidator of a failed bank.