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RP to beef up deposit insurance fund

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The government is issuing a multi-year obligation authority (MYOA) to restock the Philippine Deposit Insurance Corp. (PDIC) capital by P45 billion more to beef up its deposit insurance fund (DIF) as a defensive move.

This is a pre-emptive measure against the global financial crisis, but not as defined or immediate as what the US government and other governments in Europe did, which is to guarantee the deposits of their banking systems.

PDIC president Jose Nograles said the additional buffer fund will be given through a MYOA. He explained that while PDIC do not need the DIF soon, it is more for confidence-building that the agency has access to these funds.

"(How soon we need it) will depend on the conditions," said Nograles. "We don't need it tomorrow, but it's really part of defensive financial (and) we have authority to access some money if needed."

Nograles is also amending proposals to increase the maximum deposit insurance coverage from P250,000 to P500,000 which will only be for a period of three years.

"(Plus) we will have authority to increase amount of coverage or duration if the condition that threatens monetary or financial stability exists as determined by the BSP (Bangko Sentral ng Pilipinas), NEDA (National Economic Development Authority) and DOF (Department of Finance)," he added.

At P500,000 about 97.2 percent of all deposit accounts will be fully covered by insurance. Right now, 95.12 percent of all the 31.98 million deposit accounts in the country are fully insured. Deposits contribute 75 percent of the banking system's funding needs. About 98 percent of these deposits are sourced domestically.

In the meantime PDIC is proposing the gradual restocking of the DIF. "We're stable and we don't have to raise the funds immediately," said Nograles. "(But) we have to build up confidence in the system, that people know that we can access up to P100 billion and the government can fund us."

The DIF is the source of PDIC insurance payments. As of end-December 2007, this fund totaled P54.3 billion, of which government contribution is only P3 billion. PDIC is looking at an additional P45 billion to bring the DIF to around P100 billion.

Nograles said other measures that they are taking is reviewing regulatory issuances, improving deposit record-keeping so that depositors are protected by having accurate records in the bank.

To strengthen its oversight functions, Nograles said that PDIC also needs 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 of the BSP’s Monetary Board before it can conduct its own examinations. "The inability of the PDIC to move swiftly increases its risk exposure," said Nograles.

To further strengthen PDIC’s role as deposit insurer, it is proposing 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," PDIC said. "(There) is also a need for an authority to determine which deposit products are covered by insurance (as this will) enable PDIC to manage its risks in the light of new and complex financial products."

PDIC is likewise proposing 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.