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PDIC supports increase in maximum insurance 5 Corollary Measures Needed

Philippine Deposit Insurance Corporation President Jose C. Nograles said that the PDIC fully supports proposals to double the maximum deposit insurance coverage (MDIC) from P250,000 to P500,000. To ensure that the increase in MDIC will effectively translate to enhanced depositor protection, depositor confidence, and a stronger banking system, Nograles also said, "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 President made this announcement in response to the Financial Defense Package Proposal of Presidential Economic Adviser and Governor Joey Salceda and House Bill No. 5315 sponsored by Speaker Prospero C. Nograles and Congressman Jaime Lopez which both called for such an increase. At the P500,000 level, 97.2% of all deposit accounts will be fully covered by insurance, compared to 95.1% at the previous level. The balance of 2.8% are 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", Nograles clarified.

First among the corollary measures as Gov. Salceda proposed is an increase in PDIC's capitalization through an increase in government contribution. This is needed so that the PDIC's Deposit Insurance Fund (DIF) which is the source of insurance payments will remain sufficient to meet potential demands at a higher level of insurance. Audited Financial Statements as of December 31, 2007 show the DIF at 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.

Secondly, to guard against moral hazard and strengthen oversight, 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 Monetary Board before it can conduct its own examinations. The inability of the PDIC to move swiftly increases its risk exposure. He stressed the importance of strengthening PDIC's co-regulatory function.

Thirdly, 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.

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

The fifth corollary measure is the bridge bank authority as a new bank 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. Bridge banking is being practiced in neighboring countries such as Japan, Korea, and Taiwan, among others.

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 Core Principles are designed to enhance the effectiveness of deposit insurance systems and are based on IADI research and guidance papers and practical experience of members, associates and observers. The IADI is an international organization of 52 deposit insurers established to contribute to the stability of financial systems worldwide. The PDIC is a founding member of the organization and Nograles is a member of its policy making Executive Council.

Nograles expressed optimism that the increased MDIC coupled with the foregoing five corollary measures will further contribute to depositor protection and confidence as well as a robust banking system.

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