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# PHILIPPINE DEPOSIT INSURANCE CORPORATION

Bank deposit mo, protektado!

Deposits are insured by PDIC up to P500,000 per depositor

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## ARCHIVE

### PDIC mulls New Regulatory Issuances vs. Moral Hazard

Philippine Deposit Insurance Corporation (PDIC) President Jose C. Nograles said that the PDIC is reviewing existing regulatory issuances (RIs) of the Corporation and drafting new ones to mitigate moral hazard. Moral hazard occurs when an individual or institution tends to behave recklessly because the risks are borne by another party. In the case of bank deposit insurance, the threat of moral hazard is heightened when there is an increase in deposit insurance coverage. Nograles emphasized, however, that it is the nature of insurance to recognize, address and minimize such risks.

*"We are looking at measures to strengthen our oversight function as co-regulator of banks as well as reviewing existing regulations and creating new ones. It is imperative for PDIC to promulgate the necessary regulatory issuances to mitigate moral hazard,"* Nograles said.

RIs are regulations for compliance by banks issued by the PDIC to help improve bank operations, promote transparency and enhance oversight. The review of RIs is a continuing undertaking of the PDIC. However, with the proposed increase in the maximum deposit insurance coverage (MDIC), there is now a greater imperative for PDIC to hasten the review and issue the appropriate RIs to strengthen PDIC's co-regulatory functions.

Among the RIs under review are those related to deposit record-keeping, beneficial ownership of deposits and bank examination. The regulation on deposit record-keeping provides for standards in record-keeping of bank deposits, and identifies the required documents for submission to PDIC and the criminal liability of bank directors, officers, employees and agents found to have willfully failed or refused to submit said documents as provided in the PDIC Charter. This is a significant RI aimed at assisting PDIC evaluate the financial health of banks and help in risk management. Proper record-keeping also redounds to the benefit of depositors as they are assured that their bank transactions are accurately recorded.

The RI on beneficial ownership provides a set of guidelines to determine beneficial ownership of deposits and weed out fictitious accounts. PDIC has the power to sanction bank officials violating RIs.

PDIC is also preparing new RIs aimed at determining which financial instruments are deemed deposit products and are covered by insurance. This will guard against moral hazard by classifying the types of deposits eligible for deposit insurance coverage.

Mitigating moral hazard 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.

President Gloria Macapagal-Arroyo earlier endorsed the Cabinet proposal to increase the MDIC to P1 million. Nograles said that PDIC supports such initiative since it is a preemptive measure in view of the current global financial crisis.

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2. [RP to beef up deposit insurance fund](#) (Manila Bulletin online)
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4. [Deposit insurer wants capital hike](#) (Standard Today)

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PDIC is a government instrumentality created in 1963 by virtue of Republic Act 3591, as amended, to insure the deposits of all banks. PDIC exists to protect depositors by providing deposit insurance coverage for the depositing public and help promote financial stability



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