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## ARCHIVE

### Fresh equity key to deposit insurance plan

Any move to raise the ceiling on insured deposits should be accompanied by government equity infusions into the central bank and the state deposit insurer, the two institutions' chiefs Wednesday said.

Bangko Sentral ng Pilipinas Governor Amando M. Tetangco, Jr. said the central bank supports the proposal to hike the maximum deposit insurance coverage but the BSP and the Philippine Deposit Insurance Corp. (PDIC) also need to be strengthened.

"We support the proposed increase in deposit insurance coverage. But this and other reforms should be taken in a context of an overall plan to strengthen the BSP and PDIC," Mr. Tetangco told reporters.

Jose Ma. Clemente "Joey" S. Salceda, Albay governor and Palace adviser, has suggested hiking the insured deposit ceiling to P500,000 from P250,000. President Gloria Macapagal Arroyo on Tuesday said she wants it set at P1 million.

Mr. Salceda has also proposed a national government equity infusion of P40 billion into the central bank and P10 billion in PDIC. He also pointed out the need to give "pre-emptive inspection powers" to PDIC and the central bank.

The BSP is waiting for P40 billion in additional capitalization from the government. The Securities and Exchange Commission needs to approve the issuance of so-called financial stability bonds for this purpose.

Jose C. Nograles, PDIC president, said the government should infuse P45 billion to beef up the Deposit Insurance Fund where insurance payments are sourced.

Leonilo G. Coronel, Bankers Association of the Philippines executive director, said raising the insured deposit ceiling was needed to prevent deposit flight to other countries that have promised a 100% guarantees.

But he stressed the need for more oversight by the BSP and the PDIC to check "moral hazards." He pointed out that a higher deposit insurance coverage could trigger complacency among depositors and prompt them to park their funds in risky banks.

"[Increasing the maximum deposit insurance coverage is] certainly worth looking into because other countries have hiked their deposit [guarantees]," Mr. Coronel said in a telephone interview. "But we have to strengthen the regulatory framework. If regulations are strong enough, we can avert losses."

As the increase to either P1 million or P500,000 would be left to Congress to decide, Mr. Tetangco said lawmakers should be wary of the costs this would incur.

Banks pay annually an insurance premium equivalent to a fifth of 1% of total deposits to the PDIC. It is not clear who will shoulder the added cost since a higher insured deposit ceiling necessarily requires a higher insurance premium.

Mr. Coronel said: "It makes sense to do it to allay fears and to prepare ourselves, but we have to balance it against costs."

Mr. Nograles said the P45 billion in fresh capital would fund the proposed P1 million deposit insurance coverage. It would allow the PDIC raise the Deposit Insurance Fund to over P100 billion. The fund stood at P54.3 billion as of December 2007.

The PDIC chief, who met with Malacañang officials Wednesday, said the government would ask Congress to amend the PDIC charter to accommodate the increased capitalization, which he said would be a "quick response mechanism".

"We're not contemplating an increase in assessment. We are requesting P45 billion, which we can access on a staggered basis," he said.

Banks have said a hike in insured deposit ceiling would dent efficiency ratios — operating expenses in relation to profits — and that the additional cost could be passed on to borrowers by way of increased loan rates.

Mr. Nograles said he had proposed a plan to have the PDIC revert to the P250,000 deposit insurance coverage "after three years when the situation normalizes".

"The P1 million is only for three years, but extendable. We don't know how long this global financial crisis will persist," he said. (Business World, 10/23/2008)

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