

FOURTEENTH CONGRESS OF THE)
REPUBLIC OF THE PHILIPPINES)
Second Regular Session)

8 OCT 20 1951

SENATE
S. No. 2688

RECEIVED BY: Jh

INTRODUCED BY HONORABLE MAR ROXAS

EXPLANATORY NOTE

Over the past few weeks, we witnessed the United States, the world's largest economy, beset by massive foreclosures, shrinking consumer spending and rising inflation. The turmoil has, so far, led to three of its five major investment banks—Bear Stearns, the 158-year old Lehman Brothers, and Merrill Lynch & Co.—to fold up, file for bankruptcy, or be sold to other banks. The US Federal Government also had to rescue its biggest insurance company, the American International Group Inc. (AIG), at the cost of \$85 billion.

With the collapse of the US mortgage market, US banks and financial institutions, as primary lenders, sustained the hardest and most crippling losses. The sudden drop in the value of the capital assets they held coupled by their accumulating debts have caused write downs estimated at \$334 billion, setting off a wave of costly bank closures unprecedented in the history of the United States. These events have generated fear among bankers and investors, triggering a severe credit crunch and staggering worldwide stock market plunges. The \$700 billion bailout package infused by the US Federal Government into its banking system, meant to address the problem, seemed to have accomplished little to contain the panic and uncertainty.

The Philippine banking system has soundly held out, as it remains stable amidst the turbulence. However, it must be emphasized that our banking system is only as strong as the trust and confidence reposed in it by the public. Should fear and panic prevail, the stability of our banking system will be eroded. Thus, measures must be enacted to maintain and shore up confidence in our banking industry, to shield depositors from bank failures, and to ease the impending impact of the global financial crisis to the Philippine economy.

A well-functioning deposit insurance protects the public from market imperfections by guaranteeing the liquidity of their insured deposits and assuring them that their hard-earned savings, or at least a portion thereof equivalent to the covered insured deposit, would be safe, intact and available for withdrawal by depositors, notwithstanding the performance of their banks. The guarantee of a prompt access to deposits even in bank failures reduces the possibility of a "run" on banks. In short, deposit insurance prevents panic from spreading throughout a financial system, which can severely threaten even the healthiest of banks.

This bill seeks to cushion the Philippines from the impact of the current global economic turmoil and assure Philippine depositors that their hard-earned savings are adequately protected and safeguarded by the Philippine Deposit Insurance Corporation (PDIC) through the adoption of the following primary and secondary measures:

Increase of deposit insurance from P250,000.00 to P500,000.00. The primary proposal is to increase the maximum deposit insurance coverage (MDIC) provided by PDIC from P250,000.00 to P500,000.00 per depositor for a period of three years from the effectivity of this Act. We note that this initiative comes on the heels of countries all over the world substantially increasing the deposit guarantee for their citizens to encourage savers to keep their deposits in the banks and to even attract more depositors. The British Government has recently increased the guarantee to its savers from £35,000 to £50,000. The governments of Spain, Belgium and The Netherlands have agreed to raise deposit guarantees from €20,000 to €100,000. Some deposit insurers in Asia have also increased their deposit insurance to cover all deposits. The Federal Deposit Insurance Corporation of the United States of America opted for a temporary increase of its deposit insurance coverage.

To mitigate the moral hazard resulting from the increase in the MDIC, additional amendments to the PDIC Charter are indispensable to achieving the task at hand. These are:

Authority to conduct independent examinations. PDIC's authority to examine banks is limited by the need for prior Monetary Board approval and the requirement of a 12-month period between examinations. Upon the expansion of PDIC's responsibilities under this bill, PDIC must be granted independent examination powers for it to be able to: (1) determine the condition and performance of banks in an adequate and timely manner, (2) determine the amount of risks undertaken by covered banks and impose appropriate risk premiums for banks in danger of closing, and (3) obtain all information necessary for the purpose of determining and effectively implementing the appropriate and most cost-effective resolution method for distressed banks so that its depositors are paid efficiently and effectively.

Authority to assess additional risk premium on banks. An increase in the deposit insurance coverage increases moral hazard such as banks taking excessive risks (like offering above market interest rates on deposits without the commensurate income to support such rates) to encourage deposit growth with depositors confident of being protected from losses due to PDIC insurance coverage. This moral hazard can easily defeat the purpose for which the present reforms are being made. To curb moral hazard, it is necessary to impose a risk premium, on top of the existing flat rate assessment, on banks found to be at risk by PDIC based on an evaluation of the bank's performance and condition, or, when there is a financial crisis.

The exigency of this bill cannot be overstated, as the full impact of the global financial crisis may be felt in the Philippines at any time. Through these reforms in the country's deposit insurance system, it is hoped that the Philippine banking industry, and the millions of Filipino depositors whose hard-earned savings are at stake, would become better prepared to withstand the dreadful effects of the financial credit crunch.

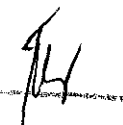
In view of the foregoing, approval of this bill is earnestly requested


M A R ROXAS
Senator

FOURTEENTH CONGRESS OF THE)
REPUBLIC OF THE PHILIPPINES)
Second Regular Session)

8 OCT 20 1893

SENATE

RECEIVED BY: 

S. B. No. 2688

INTRODUCED BY HONORABLE MAR ROXAS

AN ACT
GRANTING BROADER PROTECTION TO BANK DEPOSITORS AND
REFORM POWERS TO THE PHILIPPINE DEPOSIT INSURANCE
CORPORATION BY AMENDING REPUBLIC ACT NO. 3591, AS AMENDED,
OTHERWISE KNOWN AS "THE CHARTER OF THE PHILIPPINE DEPOSIT
INSURANCE CORPORATION" AND FOR OTHER PURPOSES.

*Be it enacted by the Senate and House of Representatives of the Philippines in
Congress assembled:*

1 SECTION 1. Section 4, paragraph (g) of Republic Act No. 3591, as amended, is further
2 amended as follows:

3 "(g) The term "insured deposit" means the amount due to any depositor for deposits in
4 an insured bank net of any obligation of the depositor to the insured bank as of the date of
5 closure, but not to exceed two hundred fifty thousand pesos (P250,000.00). Such net amount
6 shall be determined according to such regulations as the Board of Directors may prescribe. In
7 determining such amount due to any depositor, there shall be added together all deposits in
8 the bank maintained in the same right and capacity for his benefit either in his own name or
9 in the name of others. A joint account regardless of whether the conjunction "and," "or,"
10 and/or" is used, shall be insured separately from any individual-owned deposit account:
11 Provided, That (1) if the account is held jointly by two or more natural persons, or by two or
12 more juridical persons or entities, the maximum insured deposit shall be divided into as
13 many equal shares as there are individuals, juridical persons or entities, unless a different

1 sharing is stipulated in the document of deposit; and (2) if the account is held by a juridical
2 person or entity jointly with one or more natural persons, the maximum insured deposit
3 shall be presumed to belong entirely to such juridical person or entity: Provided, further,
4 That the aggregate of the interests of each co-owner over several joint accounts, whether
5 owned by the same or different combinations of individuals, juridical persons or entities,
6 shall likewise be subject to the maximum insured deposit of two hundred fifty thousand
7 pesos (P250,000.00): Provided, furthermore, that the provisions of any law to the contrary
8 notwithstanding, no owner/holder of any negotiable certificate of deposit shall be recognized
9 as a depositor entitled to the rights provided in this Act unless his name is registered as
10 owner/holder thereof in the books of the issuing bank.

11 FOR THE PERIOD OF THREE YEARS FROM THE EFFECTIVITY OF THIS ACT,
12 THE MAXIMUM INSURANCE DEPOSIT COVERAGE SHALL BE INCREASED FROM
13 TWO HUNDRED FIFTY THOUSAND PESOS (P250,000.00) TO FIVE HUNDRED
14 THOUSAND PESOS (P500,000.00).”

15 SECTION 2. Section 6, paragraph (a) of Republic Act No. 3591, as amended, is further
16 amended as follows:

17 “Section 6. (a) The assessment rate shall be determined by the Board of Directors:
18 Provided, that the REGULAR assessment rate shall not exceed one-fifth (1/5) of one per
19 centum (1%) per annum; PROVIDED THAT THE BOARD OF DIRECTORS OF THE
20 CORPORATION, THROUGH APPROPRIATE IMPLEMENTING RULES AND
21 REGULATIONS, MAY PRESCRIBE A RISK-BASED RATING SYSTEM APPLICABLE TO
22 ALL MEMBER BANKS, WHEREIN AN ADDITIONAL RISK PREMIUM ASSESSMENT OF
23 A MAXIMUM OF ONE-HALF (1/2) OF ONE PER CENTUM (1%) MAY BE IMPOSED ON
24 BANKS WHOSE RISK RATING FALLS BELOW SATISFACTORY. THE RISK PREMIUM
25 ASSESSMENT SHALL BE IN ADDITION TO THE REGULAR ASSESSMENT RATE. The

1 semi-annual assessment for each insured bank shall be in the amount of the product of one-
2 half (1/2) the assessment rate multiplied by the assessment base but in no case shall it be less
3 than five thousand pesos (P5,000.00). The assessment base shall be the amount of the
4 liability of the bank for deposits as defined under subsection (f) of Section 4 without any
5 deduction for indebtedness of depositors.

6 The semi-annual assessment base for one semi-annual period shall be the average of
7 the assessment base of the bank as of the close of business on March thirty-one and June
8 thirty and the semi-annual assessment base for the other semi-annual period shall be the
9 average of the assessment base of the bank as of the close of business on September thirty and
10 December thirty-one: Provided, that when any of said days is a non-business day or legal
11 holiday, either national or provincial, the preceding business day shall be used. The certified
12 statements required to be filed with the Corporation under subsections (b) and (c) of this
13 Section shall be in such form and set forth such supporting information as the Board of
14 Directors shall prescribe. The assessment payments required from the insured banks under
15 subsections (b) and (c) of this Section shall be made in such manner and at such time or times
16 as the Board of Directors shall prescribe, provided the time or times so prescribed shall not
17 be later than sixty (60) days after filing the certified statement setting forth the amount of
18 assessment.

19 SECTION 3. Section 8, paragraph Eighth of Republic Act No. 3591, as amended, is
20 hereby amended to read as follows:

21 "Eighth - [To conduct examination of banks with prior approval of the Monetary
22 Board: Provided, that no examination can be conducted within twelve (12) months from the
23 last examination date:] TO CONDUCT INDEPENDENT EXAMINATIONS OF BANKS, AS
24 PROVIDED IN THIS ACT, SUBJECT TO RULES AND REGULATIONS PRESCRIBED BY
25 THE BOARD OF DIRECTORS OF THE CORPORATION; Provided, [further,] that, to avoid

1 overlapping of efforts, the examination shall maximize the efficient use of relevant reports,
2 information and findings of the Bangko Sentral NG PILIPINAS (BSP) which it shall make
3 available to the Corporation[:]. [Provided, finally that the Board of Directors shall, in close
4 coordination with the Monetary Board, prescribe such guidelines as may be necessary to
5 ensure that there are no duplications of functions.] THE CORPORATION IS, LIKEWISE,
6 AUTHORIZED TO MAKE ITS EXAMINATION REPORTS AVAILABLE TO THE BSP;
7 PROVIDED FINALLY, THE CORPORATION MAY PARTICIPATE WITH THE BSP IN
8 THE EXERCISE OF THIS AUTHORITY TO EXAMINE BANKS WHENEVER THE BOARD
9 OF DIRECTORS OF THE CORPORATION DEEMS IT NECESSARY.”

10 SECTION 4. Separability Clause. - If, for any reason, any section or provision of this
11 Act shall be held unconstitutional or invalid, the other section or provision not otherwise
12 affected shall remain in full force and effect.

13 SECTION 5. Repealing Clause. - All laws, presidential decrees, executive orders,
14 proclamations, rules and regulations which are inconsistent with the provisions of this Act
15 are hereby repealed or modified accordingly.

16 SECTION 6. Effectivity Clause. - This Act shall take effect fifteen (15) days from its
17 publication in the Official Gazette or in at least two (2) newspapers of general circulation.

18

19 Approved,