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# Philippine Deposit Insurance Corporation [1]

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## Abstract

At the height of the Global Financial Crisis in October 2008, moves by other countries to expand the scope of their bank deposit insurance led the Philippine government to consider similar measures. Unlike most countries, however, the government did not make the changes immediately. After a lengthy legislative process, the President signed a bill on April 29, 2009, doubling the Philippine Deposit Insurance Corporation's (PDIC's) coverage from PHP 250,000 to PHP 500,000 (about USD 5,300 to USD 10,600) per depositor, with any losses in excess of PHP 250,000 covered by the national government. The changes took effect on June 1, 2009. The mandatory insurance applied to all banks operating in the Philippines and included commercial, checking, savings, time, and thrift accounts. The PDIC's Deposit Insurance Fund was very well-funded before the crisis, with assets to cover 6.1% of total estimated insured deposits at the end of 2007. Between June 1, 2009, and May 31, 2012, the PDIC reported internally that it paid 51,889 depositor accounts at 79 closed banks a total of PHP 12.8 billion. Government funding for deposits exceeding PHP 250,000 expired on May 31, 2012. The deposit insurance limit has remained at PHP 500,000 per depositor since 2009.

**Keywords:** Account guarantees, deposit insurance, Global Financial Crisis, the Philippines, Philippine Deposit Insurance Corporation

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# Overview

During the Global Financial Crisis (GFC), the Philippines government responded with liquidity support, regulatory forbearance, and easing of reserve requirements to promote bank liquidity. Moves by other countries to expand the scope of their bank deposit insurance in early October 2008, also led the Philippine government to consider similar measures (PDIC 2008b; Salceda 2008). On October 10, 2008, the Philippine Deposit Insurance Corporation (PDIC) announced its full support for two legislative proposals that would double the deposit insurance limit (PDIC 2008c). The measure was advertised as a "pre-emptive move to maintain public confidence in light of the current financial crisis overseas" (PDIC 2008d).

The PDIC, established in 1963, was one of the oldest and most well-funded national deposit insurers in the world. Its deposit insurance fund, worth PHP 54.3 billion (USD 1.1 billion)[3] at the end of 2007, covered 6.1% of estimated insured deposits at the PHP 250,000 insurance limit. PDIC President Nograles said that the government would need to fund the new insurance limit with additional taxpayer contributions, rather than with supplementary assessments on banks, as other countries had (PDIC 2008c). He argued that the government's equity contribution in the fund was just PHP 3 billion; the PDIC recommended that the government increase its support to PHP 45 billion to fund the expanded insurance coverage (PDIC 2008c). Other proposed measures included strengthening the PDIC's co-regulatory functions to permit it to independently examine banks without the BSP Monetary Board's approval,

## Key Terms

| | |
|---|---|
| Purpose: "To strengthen the mandatory deposit insurance coverage system to generate, preserve, [and] maintain faith and confidence in the country's banking system" (Republic Act No. 9576 2009a) | |
| Launch Dates | Announcement: Oct. 9, 2008<br>Authorization: April 29, 2009<br>Operation: June 1, 2009 |
| End Dates | Guarantee has remained at PHP 500,000 since 2009 |
| Eligible Institutions | All banks or banking institutions operating in the Philippines |
| Eligible Accounts | Commercial, checking, savings, time, thrift accounts, and balances issued in accordance with the BSP's rules |
| Fees | No additional fees; regular premiums could not exceed 0.2% of deposit liabilities per annum |
| Size of Guarantee | PHP 500,000 per depositor |
| Coverage | 2009: PHP 1.41 billion in insured deposits, representing 34.52 million accounts in 797 banks |
| Outcomes | Between June 1, 2009, and May 31, 2012: paid 51,889 depositor accounts at 79 closed banks totaling PHP 12.8 billion |
| Notable Features | The president signed the act in April 2009, six months after legislators first proposed the increase<br><br>Long payout process led to waiver for small claims |

[3] On Oct. 1, 2008, USD 1.00 = PHP 47.25, per Yahoo Finance.

allowing the PDIC to assess additional risk-based premiums, giving the PDIC authority to determine which deposit accounts were eligible for payment, and introducing a bridge bank authority to effectively resolve failed institutions (PDIC 2008c).

The PDIC's announcement followed two proposals published in the days before that would both double the insurance cap—one in a plan released by Presidential Economic Adviser Joey Salceda and one in a proposed legislation, House Bill No. 5315, sponsored by Speaker Prospero C. Nograles and Congressman Jaime Lopez (HB No. 5315 2008; PDIC 2008c; Salceda 2008). Salceda also proposed injecting PHP 40 billion into the central bank and PHP 10 billion into the Deposit Insurance Fund (DIF) to pay for the increase.

A long legislative process ensued. The early debate focused on whether the PHP 500,000 limit would be sufficient (PDIC 2008e). President Gloria Macapagal Arroyo proposed raising it to PHP 1 million on October 21 (PDIC 2008e). Leonilo G. Coronel, Bankers Association of the Philippines executive director, argued that the PHP 1 million coverage was "worth looking into" to prevent capital flight to other countries that had increased their guarantees (PDIC 2008e). PDIC President Nograles noted that such an increase would fully cover 99.8% of all rural accounts and 98.5% of all deposit accounts in the banking system (PDIC 2008f). However, others pointed out that it was imperative for the PDIC to first strengthen its regulatory framework and ensure that the government was financially prepared to handle a larger increase in deposit insurance coverage (PDIC 2008g; PDIC 2008a).

On December 9, 2008, the PDIC announced that the House of Representatives had voted out a consolidated measure doubling the maximum deposit insurance limit from PHP 250,000 to PHP 500,000 per depositor (PDIC 2008h). A week later, on December 17, the BSP announced the simultaneous closure of nine rural banks (PDIC 2008i). The PDIC estimated that these banks, along with five other institutions closed in December 2008, maintained a total of over 135,000 deposit accounts across 50 domestic locations (PDIC 2009b). To help expedite the pre-settlement examination process, the PDIC hired KPMG Manabat Sanagustin & Co., CPAs (PDIC 2009c).

Although the Senate had previously approved its own version of the consolidated measure (Senate Bill [SB] 2964) on January 19, 2009, it was not until February 24, 2009, that the House of Representatives passed, upon second reading, what had become House Bill (HB) 5911 (PDIC 2009d; PDIC 2009e). SB 2964, written as proposed amendments to the PDIC Charter, included provisions to strengthen the financial and regulatory powers of the PDIC and specifically gave the institution, with the President's approval, the power to increase the deposit limit in a crisis (SB 2964 2008). That clause was later included in the final Republic Act that the President would later sign into law. A second key difference between SB 2964 and HB 5911 concerned how long Congress would appropriate funds to cover deposits in excess of PHP 250,000. While the Act would ultimately specify a limit of three years, as proposed by HB 5911, senators had proposed a term of six years (HB 5911 2009; SB 2964 2008).

Following the House's third review of HB 5911 on March 2, 2009, and the Senate's final evaluation of SB 2964 on March 5, 2009, both chambers of Congress convened to reconcile the two bills and endorse the resulting joint resolution for signing by the President of the Philippines (Republic Act No. 9576 2009).

The ultimate piece of legislation, Republic Act No. 9576, was passed into law as a series of amendments to the PDIC Charter on April 29, 2009, but did not take effect until June 1, 2009 (Republic Act No. 9576 2009). The increased deposit insurance limit and corollary measures, including broader co-regulatory authorities for the PDIC to combat moral hazard, applied to all banks operating in the Philippines (PDIC 2009f; GoP 2009). The increase applied to commercial, checking, savings, time, thrift accounts, and balances issued in accordance with the BSP's rules (Republic Act No. 9576 2009). Pursuant to its Charter, the PDIC would begin the examination process once the BSP had closed a bank and determined whether it could be rehabilitated (GoP 2009). Although this process could take up to 180 days, in early 2010, the government began waiving the required submission of claims for depositors with PHP 5,000 or below in their accounts (PDIC 2011).

To support the Deposit Insurance Fund (DIF), the law waived all of the PDIC's tax obligations for a five-year period starting June 1, 2009 (Republic Act No. 9576 2009). This resulted in a tax subsidy of PHP 13.9 billion between 2009 and 2014, according to PDIC annual reports. Starting in 2014, PDIC continued to be exempt under the law from all taxes except value-added taxes, which represented a significant permanent government subsidy (PDIC 2016). An authority at the PDIC reported that, between June 1, 2009, and May 31, 2012, the PDIC reported that it paid 51,889 depositor accounts at 79 closed banks a total of PHP 12.8 billion. Of this total, the national government was responsible for paying PHP 4.9 billion. Government coverage for deposits in excess of PHP 250,000 expired, as legislated, on May 31, 2012 (Republic Act No. 9576 2009). However, the PDIC has continued to cover deposits up to PHP 500,000 since 2009 (PDIC n.d.).

**Summary Evaluation**

The Philippines received praise from the International Monetary Fund (IMF), the World Bank, and the International Association of Deposit Insurers (IADI) for its passage of the PDIC Charter amendments (International Monetary Fund 2009; IMF and World Bank 2011; PDIC 2009e; PDIC 2009g). IMF officials expressed early support in the legislative process and the Secretary General of the IADI, Donald Inscoe, applauded the government for implementing measures that would strengthen the PDIC's capacity to "adapt to the changing environment" in crisis times and benefit the "entire financial system" (PDIC 2009e; PDIC 2009g). In its 2011 Financial Sector Assessment Program (FSAP) Update, the World Bank congratulated the Philippine government and the PDIC "for not overreacting during the recent global crisis and shifting to a blanket guarantee" (IMF and World Bank 2011). The report went on to applaud officials for examining the risk of failure when determining the appropriate level of coverage (IMF and World Bank 2011).

PDIC President Jose C. Nograles attributed the rapid growth in total deposits between 2009 and 2010 to the "sustained public confidence in the domestic banking industry" (PDIC 2010a).

The 2011 World Bank FSAP Update also expressed apprehension regarding the PDIC's lack of legal authority to meet its obligations without "jeopardizing its fund" (IMF and World Bank 2011). Although the Philippine government guaranteed any government loans made to the PDIC, the deposit insurer's inability to adjust fees or charge special assessments raised concerns that it would be unable to "adequately respond to difficult situations in a timely manner" (IMF and World Bank 2011). Additionally, the weak regulatory framework for the banking system provided a "great deal of forbearance" that could increase moral hazard and ultimately cost depositors (IMF and World Bank 2011). Relatedly, although the PDIC and BSP shared data for "informational purposes," the mechanism for exchange was insufficient for timely bank resolution and, subsequently, depositor payouts (IMF and World Bank 2011). The FSAP Update suggested that this was due to the PDIC's narrow role as the liquidator and deposit administrator of failed banks, rather than as an overseer of open banks (IMF and World Bank 2011). Furthermore, it seemed that the PDIC Charter amendment allowing the PDIC to inspect deposits of banks deemed to be involved in unsafe or unsound banking practices "remained too limited" to manage risks and ensure a smooth transition into receivership (IMF and World Bank 2011). In summary, the IMF and World Bank believed that the PDIC was still impeded by its own processes and restricted legal authority (IMF and World Bank 2011).

| Context: The Philippines 2008–2009 | |
|---|---|
| **GDP (SAAR, nominal GDP in LCU converted to USD)** | $173.7 billion in 2008<br>$168.9 in 2009 |
| **GDP per capita (SAAR, nominal GDP in LCU converted to USD)** | $1,998 in 2008<br>$1,904 in 2009 |
| **Sovereign credit rating (five-year senior debt)** | Data for 2008:<br>Moody's: B1<br>S&P: BB+<br>Fitch: BB+<br><br>Data for 2009:<br>Moody's: Ba3<br>S&P: BB+<br>Fitch: BB+ |
| **Size of banking system** | $72.1 billion in 2008<br>$73.2 billion in 2009 |
| **Size of banking system as a percentage of GDP** | 41.5% in 2008<br>43.3% in 2009 |
| **Size of banking system as a percentage of financial system** | 100% in 2008<br>100% in 2009 |
| **Five-bank concentration of banking system** | 65.1% in 2008<br>64.4% in 2009 |
| **Foreign involvement in banking system** | 1.0% in 2008<br>1.0% in 2009 |
| **Government ownership of banking system** | 13% in 2008<br>Data not available for 2009 |
| **Existence of deposit insurance** | Yes, in 2008<br>Yes, in 2009 |
| *Sources: Bloomberg, World Bank Global Financial Development Database, World Bank Deposit Insurance Dataset.* | |

## Key Design Decisions

1. **Purpose: The PDIC raised its deposit insurance in response to financial turmoil related to the Global Financial Crisis (GFC) and similar measures taken by other countries.**

Moves by other jurisdictions to expand the scope of their bank deposit insurance in early October 2008 also led the Philippine government to consider similar measures (PDIC 2008b; Salceda 2008). On October 10, 2008, the Philippine Deposit Insurance Corporation (PDIC) announced its full support for two legislative proposals that would double the maximum deposit insurance limit (PDIC 2008c).

Section 3 of Republic Act No. 9576 doubled the deposit insurance limit from PHP 250,000 to PHP 500,000 per depositor (Republic Act No. 9576 2009). The Act also conferred broader co-regulatory powers upon the PDIC, such as the ability to determine insured deposit eligibility and conduct special examinations if a member bank were deemed to be unsound (Republic Act No. 9576 2009).

To support the Deposit Insurance Fund (DIF), the law waived all of the PDIC's tax obligations for a five-year period following the date of effectivity (i.e., June 1, 2009), and, thereafter, waived all income tax, final withholding tax, value-added tax on assessments collected from member banks, and local taxes (Republic Act No. 9576 2009). It also allowed the PDIC to issue tax-free notes, debentures, bonds, and other obligations (Republic Act No. 9576 2009).

2. **Part of a Package: While the government legislated an increase to the deposit insurance limit, the central bank took active steps to strengthen its regulatory framework and enhance interbank liquidity.**

Given its experience in dealing with the Asian Financial Crisis of 1997–98, the government of the Philippines believed itself well-prepared to handle the potentially severe economic fallout stemming from the GFC (BSP 2008). A report from the central bank, Bangko Sentral ng Pilipinas (BSP), noted that the domestic banking system had very little exposure to subprime mortgages and other securitized products, benefited from improved risk management and liquidity frameworks, and was subject to heightened supervisory scrutiny compared to those in Western economies (BSP 2008). Despite the relative strength of the banking sector, however, the BSP also reported that the domestic economy suffered from ongoing volatility in commodity and consumer prices, rising interest rates, the depreciation of the peso against the US dollar, capital outflows, and a sudden decline in export activity (BSP 2008).

To address these issues, the BSP introduced measures to strengthen its daily monitoring of the banking system and enhance interbank liquidity (International Monetary Fund 2009). It also moved to preemptively reduce the reserve requirement by two percentage points to 19%, while doubling the amount allocated for the rediscount window from PHP 20 billion to PHP 40 billion (International Monetary Fund 2009). The BSP also opened a dollardenominated deposit window and a short-term dollar repurchase facility to address fragmentation in the dollar interbank market (International Monetary Fund 2009). Philippine banks, for their part, informally agreed to reduce their surplus dollar positions by 50%, increase interbank dollar lending, and heighten oversight of clients' foreign investments (International Monetary Fund 2009).

**3. Legal Authority: The Philippine government amended the PDIC Charter with the passage of Republic Act No. 9576 on April 29, 2009.**

Republic Act No. 9576 came into effect on June 1, 2009. The months-long legislative process involved multiple readings by both the House and Senate, which reviewed their own versions of the amendment (PDIC 2008b; PDIC 2009e). A consolidated measure was finally passed by the House and Senate on March 4 and 5, 2009, respectively; the President of the Philippines then signed it into law on April 29 as a collection of amendments to the PDIC Charter (Republic Act No. 9576 2009). The law took effect on June 1, 2009 (GoP 2009b).

Republic Act No. 9576 gave the PDIC the power to adjust the deposit insurance limit in the event that the Monetary Board of the BSP identified "a condition that threatens the monetary and financial stability of the banking system that may have systemic consequences" (Republic Act No. 9576 2009). Such a determination would compel the Secretary of Finance to call for a special meeting by the PDIC Board of Directors, who would then vote on the adjustment (Republic Act No. 9576 2009). If the Board's vote were unanimous, the decision would go the President of the Philippines for final approval (Republic Act No. 9576 2009).

**4. Administration: The PDIC was the sole administrator of deposit insurance in the Philippines; as such, the PDIC enlisted KPMG to assist with the examination of failed banks during the GFC.**

On January 6, 2009, the PDIC announced that it had signed an agreement with KPMG Manabat Sanagustin & Co., CPAs, to expedite the pre-settlement examination of 12 banks placed under PDIC receivership in December 2008 (PDIC 2009a). With KPMG's assistance, the PDIC intended to begin paying out deposits by mid-February (PDIC 2009a). PDIC personnel estimated that payouts would not have commenced until September 2009 without external support (PDIC 2009a).

**5. Governance: The PDIC was governed by a board of directors with two private-sector representatives; it relied heavily on the BSP to share regulatory information.**

The PDIC was an "attached" agency of the Department of Finance, but it was operationally independent (World Bank 2011, 7). The PDIC's Board of Directors, pursuant to Section 2 of the PDIC Charter, consisted of five members: the Secretary of Finance (ex-officio Chairman), the Governor of the BSP (ex-officio member), the President of the Corporation (Vice Chairman of the Board, appointed for a term of six years by the President of the Philippines, from either the public or private sector), and two private-sector representatives (each appointed for six years by the President of the Philippines for staggered terms) (GoP 2009).

Although the PDIC could not conduct independent examinations of its member institutions, Section 8 and Subsections 9(b-1), 9(d), and 9(d-1) of the PDIC Charter outlined its abilities to do so either jointly or with the approval of the BSP (GoP 2009). The PDIC could also carry out "special" inspections alongside the BSP if a bank were to be "threatened" or face "impending closure" (GoP 2009). Subsection 9(d[1]) required insured banks to "keep and maintain a true and accurate record or statement" of their daily deposit transactions, although the PDIC was unable to access more detailed reports and records until after the bank's liquidation (GoP 2009). Until that point in the bank resolution process, the BSP served as the PDIC's main source of information (IMF and World Bank 2011).

The PDIC was required by subsection 20(a) of its Charter to submit annual reports of its operations to Congress "as soon as practicable" after January 1 (GoP 2009). Subsection 20(b) also provided for an external examination of the PDIC's activities by the government's Commission on Audit (GoP 2009).

**6. Communication: The PDIC publicized the increased deposit insurance limit as a "pre-emptive move to maintain public confidence in light of the current financial crisis overseas."**

In advocating for the increase in the deposit insurance limit, the PDIC's president said it was a "pre-emptive move to maintain public confidence in light of the current financial crisis overseas" (PDIC 2008d). The PDIC noted in a press release the very large percentage of depositors whose accounts would be fully insured: 97.2% of all deposit accounts, up from 95.1% under the previous limit. The other 2.8% of accounts would be partially covered, up to the new limit of PHP 500,000 (PDIC 2008d).

Once the legislature approved the increase, the PDIC communicated with depositors and banks through multifaceted "awareness campaigns" (IMF and World Bank 2011). These included frequently publishing updates to their website, arranging speaking engagements, and distributing advertisements to insured institutions. The World Bank commended the PDIC for its efforts to ensure public understanding of the deposit insurance system, which "should" have particularly benefited small depositors (IMF and World Bank 2011).

Upon the closure of a bank by the BSP, the PDIC sent staff from the Depositors Assistance Bureau (DAB) to begin coordinating between local government officials and bank staff while also publicizing information about the institution's failure (IMF and World Bank 2011). The DAB would then hold a Depositor Forum to explain the claims procedure, distribute claim forms to affected depositors, and assist with the filing of any related documentation (IMF and World Bank 2011).

**7. Size of Guarantees: The Philippine government doubled the deposit insurance limit from PHP 250,000 to PHP 500,000 per depositor.**

The PDIC guaranteed the first PHP 250,000, while the National Government guaranteed any excess amount up to PHP 500,000 (GoP 2009). The new limit covered PHP 1.41 billion in deposits, representing 34.52 million accounts in 797 banks; this amounted to 30% of total deposits in 2009, up from 23% in 2008 (PDIC 2010b; PDIC 2009h).

The Philippine government had previously raised the deposit insurance limit from PHP 100,000 to PHP 250,000 in 2004 (IMF and World Bank 2011).

**8. Source(s) and Size of Funding: The PDIC used the Deposit Insurance Fund (DIF) to pay out the first PHP 250,000 per depositor; the National Government funded any amount in excess of PHP 250,000, and up to PHP 500,000. A tax waiver in the 2009 law gave the PDIC an ongoing government subsidy.**

The DIF consisted of a PHP 3 billion Permanent Insurance Fund, assessment collections from member institutions, "reserves for insurance and financial assistance losses," and "retained earnings" to fulfill its obligations (GoP 2009). Subsection 6(a) of the PDIC Charter provided the legal authority for the PDIC Board of Directors to set the assessment rate. However, that rate could not exceed 0.2% per annum of a bank's total deposit liabilities, and the PDIC already charged that level, so the PDIC could not raise its assessment during the GFC (GoP 2009).

The 2009 law gave Congress the ability to annually appropriate the necessary funds to cover any shortfalls for three years (HB 5911 2009; SB 2964 2008; Republic Act No. 9576 2009).

The PDIC reported that, of the PHP 12.8 billion that the PDIC paid out to depositors of failed banks between June 1, 2009, and May 31, 2012, the national government assumed responsibility for PHP 4.9 billion. According to PDIC Vice President of Corporate Affairs Jose Villaret Jr., the PDIC was required to pay for all insured deposits upfront, regardless of amounts, and then submit a claim for reimbursement to the Department of Budget and Management. The Department would then include the claim in the following year's appropriations bill. The entire process, from the PDIC's initial submission to reimbursement by the government, took about two years.

To support the Deposit Insurance Fund (DIF), the law also waived all of the PDIC's tax obligations for a five-year period starting June 1, 2009 (Republic Act No. 9576 2009). This resulted in a tax subsidy of PHP 13.9 billion between 2009 and 2014, according to PDIC annual reports. Starting in 2014, PDIC continued to be exempt under the law from all taxes except value-added taxes, which represented a significant permanent government subsidy.

The PDIC's deposit insurance fund remained well-funded throughout the GFC. It held PHP 54.3 billion at the end of 2007, covering 6.1% of estimated insured deposits at the PHP 250,000 insurance limit (PDIC 2008j). It rose to PHP 60.5 billion at the end of 2008 (6.3%) and declined only slightly to PHP 60.3 billion at the end of 2009, despite a relatively large number of bank failures (PDIC 2009h; PDIC 2010b). In its 2009 annual report, the PDIC reported that estimated insured deposits rose 46% to PHP 1.41 trillion in 2009, when the insurance cap increased from PHP 250,000 to PHP 500,000. Due to the increase in insured deposits, the fund's coverage fell from 6.3% in 2008 to 4.3% in 2009. Throughout the GFC, however, the DIF stayed above the PDIC's performance standard.[4] By the end of 2020, the

[4] In 2003, the PDIC set a long-term PHP 60 billion target for the DIF. It increased the target to PHP 90 billion in 2004, when the deposit cap was raised from PHP 100,000 to PHP 250,000 but continued in its annual reports to set a "performance standard" of 66% of its target, or essentially still PHP 60 billion. In 2010, it replaced the

DIF had grown to PHP 214.8 billion, representing 7% of estimated insured deposits (PDIC 2011). According to Section 18 of the PDIC Charter, the PDIC could borrow from the BSP or "any bank designated as depository or fiscal agent of the Philippine Government" on a short-term basis if there were an "emergency or urgent need" to meet its legally prescribed obligations (GoP 2009).

**9. Eligible Institutions: The increased deposit insurance limit applied to all banks or banking institutions operating in the Philippines.**

Section 5 of the PDIC Charter mandated PDIC membership for "any bank or banking institution, which is engaged in the business of receiving deposits as herein defined on the effective date of this Act, or which thereafter may engage in the business of receiving deposits" (GoP 2009). Although the PDIC had no authority to review bank applications, it automatically granted deposit insurance to any institution that received a license from the BSP to conduct banking services (IMF and World Bank 2011).

Subsection 4(b) of the PDIC Charter defined eligible institutions broadly to include "banks, commercial banks, savings banks, mortgage banks, rural banks, development banks, cooperative banks, stock savings and loan associations and branches and agencies in the Philippines of foreign banks and all other corporations authorized to perform banking functions in the Philippines" (GoP 2009).

Deposits of branches and subsidiaries of foreign banks licensed by the BSP to perform banking functions in the Philippines were also insured under the PDIC (GoP 2009).

As of September 30, 2009, the PDIC insured a total of 797 banks (IMF and World Bank 2011).

**10. Eligible Accounts: The increased deposit insurance limit applied to all deposit accounts, except those involving fraud or other unsound practices.**

The amendment to the PDIC Charter resulting from Republic Act No. 9576 defined "deposit" in subsection 4(f) as the following:

> The term "deposit" means the unpaid balance of money or its equivalent received by a bank in the usual course of business and for which it has given or is obliged to give credit to a commercial, checking, savings, time or thrift account, or issued in accordance with Bangko Sentral rules and regulations and other applicable laws, together with such other obligations of a bank, which, consistent with banking usage and practices, the Board of Directors shall determine and prescribe by regulations to be deposit liabilities of the bank… (GoP 2009).

fixed target with a risk-based formula that resulted in an improvement in its performance to 86%. In 2012, the PDIC switched to a target of 5% of estimated insured deposits. In 2016, it switched to a range of 5.5%-8.0% based on a new methodology (Diaz n.d.; IADI 2018).

The PDIC Charter amendment resulting from the passage of Republic Act No. 9576, effective June 1, 2009, excluded from coverage investment products, unfunded or fraudulent accounts, deposit accounts "constituting, and/or emanating from, unsafe and unsound banking practice/s" or unlawful activity (GoP 2009; Republic Act No. 9576 2009). Otherwise, all deposits specified by the PDIC Charter remained covered.

**11. Fees: PDIC members were normally required to pay a semiannual assessment, and there were no additional fees associated with the increased deposit insurance limit.**

Subsection 6(a) of the PDIC Charter outlined the rules governing the assessment rate, which was determined by the Board of Directors and was not to exceed one-fifth of 1% per annum. This was calculated based on the total deposits held by the bank, as defined in subsection 4(f) and submitted by the bank via certified statement and did not make allowances for indebted depositors (GoP 2009). Because the PDIC could not adjust fees or charge special assessments in the event that losses exceeded forecasts, the assessment rate had remained at the aforementioned level for several years (IMF and World Bank 2011). It was uniform for all institutions and not risk based.

Although the PDIC was solely responsible for the collection of fees, it did not have the ability to raise premiums or charge any special assessments (IMF and World Bank 2011).

**12. Process for Exercising Guarantee: The normal resolution and payout procedures outlined in the PDIC Charter could result in payouts taking between two and six months, which prompted the government to introduce a waiver for small depositors' claims.**

According to subsection 10(a) of the PDIC Charter, the PDIC acted as the legally mandated receiver of insured banks closed by the Monetary Board of the BSP (GoP 2009). The procedures outlined in Section 14 stipulated that the PDIC pay out insured deposits "as soon as possible," either in cash or by transfer from another insured institution (GoP 2009). However, the PDIC was required to wait to begin examining depositors' claims until the BSP completed its own review of the failed bank to determine whether it could be rehabilitated, a process which could often take up to 180 days (IMF and World Bank 2011). To complicate matters, failed banks were allowed up to 90 days to submit their own post-receivership resolution plans (IMF and World Bank 2011). The timeliness of the payouts therefore depended heavily on the length of the BSP's assessment, during which the PDIC had "little involvement with the bank," as well as the availability of bank records and related documentation (IMF and World Bank 2011).

Between 2001 and 2008, the PDIC commenced its claims process an average of 21 days following the BSP's determination of a bank's failure (IMF and World Bank 2011). This allowed most depositors to receive payments approximately two months after a bank's closure (IMF and World Bank 2011). The World Bank determined, however, that the "larger and simultaneous failures" related to the GFC would result in a longer timeframe (IMF and

World Bank 2011). A vast majority of insurance payouts made in 2010, for instance, were issued in response to banks that had failed in 2009 (PDIC 2011).

Beginning in 2010, the government waived the submission of claims for depositors with PHP 5,000 or below in their accounts to "ensure the immediate access by small depositors to their deposit insurance payments without incurring additional costs and time" (PDIC 2011). Payments were then sent by registered mail to the depositors' addresses on file with the closed bank (PDIC 2011). The PDIC reported that it was able to pay out 150,340 accounts amounting to PHP 107 million (94% of all eligible deposits with balances of PHP 5,000 and below) by year-end 2010 (PDIC 2011).

**13. Other Restrictions on Eligible Institutions/Accounts: The new legislation did not impose any additional restrictions on participants or accounts.**

Republic Act. No 9576 did not contain any additional restrictions on eligible participants or accounts (Republic Act No. 9576 2009).

**14. Duration: There was no specified end date for the increased limit on deposit insurance.**

The Philippine government codified the new cap in the amendment to subsection 4(g) of the PDIC Charter, effective June 1, 2009 (Republic Act No. 9576 2009). Government coverage for deposits in excess of PHP 500,000 expired, as legislated, on May 31, 2012 (Republic Act No. 9576 2009).

Pursuant to Section 13 of the PDIC Charter, the government reviewed the deposit insurance limit two years following the passage of Republic Act No. 9576 and every five years thereafter, considering factors such as inflation adjustments and per capita GDP (GoP 2009; IMF and World Bank 2011). Additionally, subject to approval by the President of the Philippines, the PDIC could adjust a change to the maximum deposit insurance coverage "in case of a condition that threatens the monetary and financial stability of the banking system that may have systemic consequences" (GoP 2009).

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## Legal/Regulatory Guidance

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