

International Deposit Insurance Survey

Section 1: Background Information

1.1 Organization (deposit insurer) responsible for administering the deposit insurance system:

1.1.1 Organization Name:

Bangko Sentral ng Pilipinas

1.1.2 Organization Address:

Apolinario Mabini St. or Vito ruz St.,Malate, Manila, Philippines 1004

1.1.3 Organization Telephone No:

(632) 523-4832

1.1.4 Organization Fax No:

1.1.5 Organization Internet Address:

bsp.gov.ph

1.2 Contact Person(s):

1.2.1 Contact Person(s) Name:

1.2.2 Contact Person(s) Address:

1.2.3 Contact Person(s) Telephone:

1.2.4 Contact Person(s) Fax:

1.2.5 Contact Person(s) E-mail address:

1.2.6 Are there other deposit insurance systems operating in your country ? (i.e. applying to other types of non-bank or non-depository institutions e.g.. insurance, securities) Please state their name(s) and contact information:

1.3 Please provide information on other participants in your financial system safety-net:

1.3.1 Name of Central Bank:

1.3.2 Central Bank Address:

1.3.3 Central Bank Telephone:

1.3.4 Central Bank Fax:

1.3.5 Central Bank Internet Address:

1.3.6 Central Bank Contact Person:

1.4 Financial Supervisor:

1.4.1 Financial Supervisor Name:

1.4.2 Financial Supervisor Address:

1.4.3 Financial Supervisor Telephone:

1.4.4 Financial Supervisor Fax:

1.4.5 Financial Supervisor Internet Address and contact:

1.5 Other related entities:

1.5.1 Other Related Entities Name:

1.5.2 Other Related Entities Address:

1.5.3 Other Related Entities Telephone:

1.5.4 Other Related Entities Fax:

1.5.5 Other Related Entities Internet Address:

Section 2: Objectives, Mandates & Powers

2.1.1 When and why was the DIS established (please provide details)?

PDIC was established in 1963 through Republic Act (RA) 3591, to help promote a stable and sound banking system and foster public confidence in the banking system. Through deposit insurance, PDIC is able to protect less-financially sophisticated depositors from loss of their deposits in case of bank failures and serves as a safety net to the banking system conducive to financial stability.

2.1.2 What are the stated public policy objectives or mandate for your country's DIS? When was the last time they were reviewed and changed?

The PDIC Charter does not contain its public policy objectives. However, the stated mandates are: deposit insurance and financial assistance to distress banks/banks in danger of closing. In the amendment of its Charter in 1992 (last revision of the Charter) under RA 7400, PDIC was mandated to conduct independent examination of banks, and was made mandatory receiver and liquidator of banks closed by the Monetary Board.

2.1.3 What process was used to determine these objectives in your country?

After the passage of RA 3591, amendments were made to specific provisions of the Charter either directly (e.g. RA 6037 making membership compulsory, Presidential Decrees increasing insurance coverage, reconstituting Board membership, raising the permanent insurance fund, etc.) or indirectly through enactment of relevant laws. However, an amendment of the PDIC Charter was made under RA 7400, inputs of which were derived from the institutional strengthening program implemented by PDIC in 1988. The program was funded under a World Bank grant wherein experts from peer institutions were engaged, and areas to strengthen the Corporation identified. After almost 10 years of implementing PDIC's expanded mandate, PDIC initiated a review of RA 7400 recognizing the need to further strengthen the legal framework within which it operates in order to strengthen delivery of services. The proposed revision to the PDIC Charter was made with the assistance of legal consultants engaged under a grant funded by the Asian Development Bank. Initiatives were also undertaken by legislative officials, although proposed revision primarily focused on the need to increase insurance coverage. In finalizing PDIC proposals, consultations were made with the primary regulator, the Bangko Sentral ng Pilipinas (central bank of the Philippines) to ensure consistency and harmony in related activities. Proposed amendments were also discussed in meetings held with the various banking industry associations, to solicit views and opinions of stakeholders. Proposed draft bills are currently with the committees on banks of the Congress of the Philippines.

2.1.4 What is the legal basis under which the DIS was established? Please provide a copy.

Legislation

Republic Act 3591 As Amended - The Charter of the Philippine Deposit Insurance Corporation enacted in 1963 (including Republic Act 7400, latest amending law).

2.1.5 Is there a formal process for a periodic review of the policy objectives/mandates?

Other

There is no established process for periodic review, although problems and issues encountered in the course of executing its mandate are documented for future reference. Once afforded the opportunity to propose revisions to its Charter, consultations are made with concerned government and private entities to ensure harmony and consistency in related matters. The process adopted in coming up with RA 7400 and the now proposed amendment are noted to be similar in approach, wherein inputs are obtained from projects undertaken in enhancing the capacity of the Corporation.

2.1.6 What sort of system do you have?

Government legislated and administered

2.1.7 Who makes decisions to pay depositor claims?

DIS

2.2 Which of the following powers has been provided to the DIS in order to carry out its mandate?

2.3 Authority to

2.3.1 Enter into contracts

Yes

Membership is mandatory upon grant of license to operate by the Monetary Board. Bank representative is required to attend a briefing at PDIC for orientation on requirements for continuous membership.

2.3.2 Set regulations or by-laws for conduct of its business

Yes

Membership is mandatory, upon grant of license to operate by the Monetary Board. Bank representatives are required to attend briefing at PDIC for orientation on requirements for continuous membership.

2.4 Authority over entry and exit of member deposit taking institutions

2.4.1 Establish terms and conditions of membership

Yes

2.4.2 Authority to terminate the insured status of a member institution

Yes

2.5 Depositor reimbursement

2.5.1 Affect reimbursement of depositors claims

No

2.5.2 Access to depositor information

Yes

2.5.3 Use various methods of reimbursing depositors claims

2.6 Funding

2.6.1 How funding is provided

2.6.2 Terms and conditions of premiums or levies

Yes

2.6.3 Borrowing authorities and limits

Yes

Member banks are required to submit relevant financial and non-Financial information to PDIC on a periodic basis. Same information are also regularly required for submission by the primary regulator, the BSP. An information exchange agreement between PDIC and BSP is expected to be finalized by the end of 2002 to rationalize, among others, bank report submission process. Prior to May 2000, PDIC can require other reports from member banks in line with its examination powers. However, this power was repealed when PDIC's authority to conduct examinations of banks was revoked under the new General Banking Law enacted in May 2000. Efforts are being pursued to restore this power in the proposed PDIC Charter now filed in Congress.

2.7 Information Requirements

2.7.1 Access to information directly from member deposit taking institutions or its auditors

Yes

Yes, with regular sharing restricted to BSP on-site examination reports. Other relevant data which are on a per request basis are expected to be regularized upon finalization of the information exchange agreement between the two agencies.

2.7.2 Access to information through supervisory authorities

No

Prior to the enactment of the General Banking Law in May 2000, PDIC was given the power to conduct independent examinations of member banks.

2.8 Enforcement and intervention

2.8.1 Authority to conduct examinations and/or reviews

2.8.2 Ability to set standards or guidelines for member institutions

No

2.8.3 Authority to take enforcement actions against members (i.e. such as the authority to require a change in institutional control and/or behaviour).

Yes

2.8.4 Authority to cancel deposit insurance of a member institution

2.8.5 Authority to hold officers and directors of failed institutions legally liable for the failure of the institution

Yes

In close coordination with Bangko Sentral.

2.9 Failure resolution

2.9.1 Authority to decide on appropriate form of failure resolution

Yes

2.9.2 Authority to provide financial assistance (e.g. in the form of a loan -- with or without security -- by purchasing assets from the institution or through some other process).

No

However, PDIC may assume liabilities of the insured bank as a form of financial assistance.

2.9.3 Authority to guarantee deposits with member institutions or guarantee loans to an institution by other parties

2.10 Authority to:

2.10.1 Undertake formal liquidation

2.10.2 Purchase and assumption (sale and merger)

2.10.3 Open assistance (bridge bank)

2.10.4 Other forms of failure resolution

2.11 Optimizing recoveries

2.11.1 Ability to act as a receiver

Yes

2.11.2 Ability to act as a liquidator

Yes

Section 3: Governance Arrangements

3.1.1 Is the DIS a legally separate organization from other public or private bodies? (e.g. central bank, supervisor, industry association)

Yes

3.1.2 What is the form of governance used by the DIS organization?

Board of Directors

null|null|null|null|null|

3.1.3 How is the governing body selected?

The Board is composed of 5 members, with 3 as ex-officio members, namely: Secretary of Finance, PDIC President and Governor of the Bangko Sentral ng Pilipinas (country's central bank). Two part-time members from the private sector are appointed by the President of the Philippines to serve in the Board for 6 years.

3.1.4 What is the composition of the governing body?

Chairperson - Secretary of Finance Vice Chair - PDIC President Members - Governor, Bangko Sentral ng Pilipinas - two representatives from the private sector

3.1.5 What are the duties and responsibilities of the governing body?

The Board is responsible in preparing and issuing rules and regulations as it considers necessary for the effective discharge of its responsibilities. It directs the management, operations and administration of the Corporation; appoints, establishes the rank, fixes the remuneration and removes any officer or employee for cause, subjective to civil service and pertinent compensation laws; and authorizes expenditures as are in the interest of the effective administration and operations of the Corporation.

3.1.6 Is there any direct or indirect representation in the management of the DIS by member insured institutions?

Yes

Yes, only in so far as the finance department and central bank are concerned; private sector is also represented by two members.

3.1.7 Is there any direct or indirect representation in the management of the DIS by the central bank?

3.1.8 Is there any direct or indirect representation in the management of the DIS by the regulator?

3.1.9 Is there any direct or indirect representation in the management of the DIS by the supervisor?

3.1.10 Is there any direct or indirect representation in the management of the DIS by other?

3.1.11 Please provide a breakdown of the management structure of the DIS

PDIC is headed by the President and Chief Executive Officer, assisted by the Executive Vice President and Chief Operating Officer. Senior Vice Presidents are appointed to head the Insurance and Risk Management Sector; Claims, Receivership and Liquidation Sector; Legal Services Sector, and Corporate Affairs Sector. The Office of the President, the Office of the Executive Vice President, the Office of the Corporate Board Secretary and the Management Control Group form the Corporate Direction and Control Sector. Vice Presidents are appointed to head groups under each sector, and departments under each group are headed by managers.

3.1.12 Do you have an internal control and audit systems

Yes

3.1.13 Are directors and officers of the DIS and/or supervisors personally liable for their decisions in the normal course of their activities?

Other

Other - The Charter provides that directors, officers and employees shall not be subject to any action, claim, or demand for or in connection with any act done or omitted to be done by them in good faith in the exercise of their powers relevant to receivership, liquidation and financial assistance. If acts or decisions however are found to have been made in bad faith, then DIS officers are made personally liable. See also response to Section 4, item 7.

3.1.14 Is there an advisory committee to the DIS?

No

3.1.15 Has the DIS ever taken legal action against directors of failed member institutions? Or others? What position did the person(s) hold?

No

Yes. In mid 2000, a Bank Fraud Unit was created under the legal services sector of the Corporation purposely to pursue cases against erring bank officials. As of April 12, 2002, a total of 35 cases have been filed in courts involving owners, directors and officers of closed banks taken over by PDIC.

3.1.16 Please indicate which of the following tools are used as part of your accountability regime.

Section 4: Human Resources & Infrastructure

4.1.1 What is the total number of employees at the DIS (e.g. full-time, part-time and contract) ?

718 employees as of April 15, 2002

4.1.2 Are the majority of DIS employees dedicated staff or do they come from other organizations (i.e. government, central bank, private sector)?

Yes

All 718 personnel are regular full-time employees; additional contractual personnel are engaged to supplement regular workforce (218).

4.1.3 Does the DIS train and develop its own staff? If so, briefly describe programs which have been put in place for training and development?

Yes

Yes. The PDIC Institute implements in-house and off-house training interventions such as seminars and workshops to upgrade the employees' competencies on behavioral skills, functional and operational knowledge, and management and leadership proficiencies. Professional lecturers and instructors are contracted by the Corporation to conduct in-house training workshops/seminars. Budget for off-site training are also allocated to accommodate invitations from accredited institutions. With the assistance from foreign grants, employees are also given the opportunity to attend foreign conferences/meetings, study visits and seminar/workshops to gain international best practices on deposit insurance.

4.1.4 Is there shared training and development between the staff of the DIS and other authorities involved in financial sector supervision or regulation? (i.e. central bank, supervisor, regulator, other)

Yes

Seminar workshops on the areas of bank examination and analysis, credit risks and market risks analysis were conducted under joint collaboration among the BSP Institute, PDIC Institute and the Asian Development Bank (ADB) under the APEC Financial Regulators Training Initiative (note: PDIC is a member of the “ADB Advisory Group for Banking Supervision Component “ of the APEC Financial Regulators Training Initiative.) Participants to the workshops are PDIC and BSP employees.

4.1.5 Are compensation and incentives offered sufficient to attract and retain skilled staff? Please elaborate.

3

PDIC compensation structure is comparable with those of local commercial/universal banks.

4.1.6 Are confidentiality provisions for employees provided for?

Yes

4.1.7 Do employees of the DIS receive legal protection against lawsuits for their actions taken in good faith and acting in the best interests of the DIS?

Yes

Yes, in so far as these relate to receivership, liquidation and financial assistance functions. Under existing Charter, there is a provision which provides that the Corporation, its directors, officers and employees shall not be subject to any action, claim or demand for or in connection with any act done or omitted to be done by them in good faith in the exercise of their functions. Relatedly, a Board resolution was also issued wherein the Corporation shall underwrite or advance litigation costs and expenses of or provide legal assistance to directors, officers, employees or agents of the Corporation in connection with any civil, criminal, administrative or any other action or processing to which such director, officer, employee or agent is made a party by reason of or in connection with the exercise of authority, performance of functions and duties.

4.1.8 What percentage of the budget is spent on training and development and information technology?

Training and development and information technology comprise approximately 2 percent and 7 percent of the total budget, respectively. (Based on 2001 budget utilization).

Section 5: Information Sharing & Interrelationship Among Safety-Net Players

5.1.1 Who performs examinations of DIS member institutions?

Central Bank

PDIC used to have the power to conduct independent bank examinations until it was repealed with the enactment of the new General Banking Law in May 2000 leaving the sole authority to examine banks to the BSP. However, PDIC may exercise its right to examine banks that have requested for PDIC financial assistance.

5.1.2 Please describe the examination process that is used to evaluate member institution performance?

The Bangko Sentral ng Pilipinas (BSP), the central bank of the Philippines, conducts regular examination of banks on annual basis or special examinations as approved by the Monetary Board (the policy-making body of the BSP). During bank examinations, the financial condition of the bank and the safety and soundness of its practices are assessed in compliance to prescribed prudential standards. The examinations entail investigation of all the bank’s books that pertain to capital asset quality, management, earnings and liquidity. However, individual deposit records are not subject to examination because of strict secrecy laws.

5.1.3 What information is collected from member institutions for the DIS and other parties?

PDIC receives quarterly reports on statement of condition with schedules and statement of income and expense from member banks. The BSP requires banks to submit the same and other reports which include, weekly required and available reserves, weekly compliance with prudential regulations, monthly outstanding derivatives contracts, quarterly investment management activities, monthly past due and rolled over receivables, weekly interest rates on loans/deposits and daily consolidated foreign exchange assets and liabilities.

5.1.4 What arrangements (i.e. formal or informal) are in place between organizations responsible for deposit insurance and other parties comprising the safety-net (e.g. central bank, supervisor, regulator) regarding the sharing of information concerning member institutions? Please provide details of these agreements.

The BSP provides PDIC with reports of examination of banks on a regular basis for a fee per page and other information such as banks applying for and with outstanding assistance from BSP, with deficiencies from capital and reserve requirements. Other reports and data needed by PDIC to carry out its functions are on a per request basis. PDIC provides BSP with data on banks applying for and with outstanding assistance from PDIC. Similar with BSP, all other reports and data needed from PDIC are provided upon request. The current arrangement is guided by a Monetary Board resolution that covered very specific information for exchange. These are currently being addressed through a memorandum of agreement, still under constant consultation and discussion between BSP and PDIC, which seeks to identify relevant information to be shared, including the implementing guidelines.

5.2 On a scale from 1 to 5, 1 being low and 5 being high, please rate both the accessibility (i.e. access to all necessary information for the DIS to fulfill its mandate) and timeliness (i.e. information is received when needed) of information that is shared amongst members of the safety net.

5.2.1 accessibility

3

5.2.2 timeliness

3

5.2.3 Is there a consistent definition/classification across authorities of problem institutions

Yes

Yes. Both the BSP and PDIC define problem banks as those with inadequate capital to cover risk assets. Both agencies also regard banks as problem banks when they suffer from insufficient liquidity, chronic legal reserves deficiency, under or applying for assistance for rehabilitation, or declared to have or are engaged in unsafe and unsound banking practices. In the case of PDIC, however, banks who are delinquent in remitting assessment premiums are also considered problem banks.

5.2.4 When policy regarding the DIS and financial sector is developed or amended, are other bodies consulted and/or advised (e.g. central bank, supervisor, regulator, government, industry associations) ? If you do consult and/or advise what bodies do you do it with?

5.2.5 Is discussion with other bodies encouraged prior to the implementation of new policy?

5.2.6 How often do you contact other DIS?

Occasionally

5.2.7 Is the DIS consulted when the regulator, supervisor or central bank enters into an agreement with a financial institution that is experiencing problems?

Section 6: Membership

6.1.1 What types of institutions are covered in your DIS?

All deposit-taking institutions which include 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

6.1.2 Is membership in the DIS mandatory for designated deposit taking institutions?

Yes

6.1.3 Do you have terms and conditions of membership? (i.e. laws, regulations or agreements which member institutions have to abide by) If so, please explain the application process used and any conditions of membership imposed on institutions by the DIS.

Other

Since membership is mandatory, banks do not apply for membership with PDIC. Upon grant of license to operate as a bank by the Monetary Board, the bank automatically becomes a member. The bank's representatives, however, are required to attend a briefing at PDIC for the conditions set forth by PDIC for its continuous membership, notable of which are the regular payment of assessment premium and practice of safe and sound banking.

6.1.4 Is the membership of foreign institutions (i.e. foreign bank branches and/or subsidiaries) covered in the same way as domestic institutions? If not, please describe the difference.

Yes

Membership of branches and subsidiaries of foreign banks in the Philippines is covered in the same way as domestic institutions as prescribed by law. Differences may occur only on the types of deposit offered as eligible for deposit insurance.

6.1.5 If more than one safety-net organization is responsible for the application process for membership, how is the application process coordinated between the parties responsible?

Since there is no formal application for membership (because membership is mandatory), the coordination between the safety-net parties may be exhibited only when the Monetary Board has granted an applicant bank with license to operate, and advised the bank representative to attend a membership briefing of the PDIC.

6.1.6 Are deposit-taking institutions required to re-apply for membership after a certain period of time?

Other

Membership to PDIC is effective as long as the bank is operating and not yet under liquidation. The insurance status of deposits in that bank may however be terminated should the bank be found practicing unsafe and unsound banking including, but not limited to, non-payment of insurance premium. Upon correction of such violations, the bank may re-apply for reinstatement of insured status subject to terms and

conditions as may be set by PDIC.

6.1.7 How many member institutions do you have?

926 (as of 31 December 2001)

6.1.8 What is the total level of assets, deposits and insurable deposits of all DIS member institutions?

As of 31 December 2001, total assets of member institutions is P3,271.07 billion (US\$63.63 billion); total deposits is P2,199.51 billion (US\$42.79 billion); estimated total insured deposits is P417.56 billion (US\$8.12 billion). (All conversions @ P51.404:US\$1 end of December 2001) For additional data, you can log on at www.pdic.gov.ph

Section 7: Coverage

7.1.1 Is there a formal definition of a deposit and or insured deposit used by your DIS? If so what is it?

7.1.2 What types of deposits are eligible for coverage in your DIS?

Savings account,Chequing account,Foreign currency deposits,Inter-bank deposits,Other time deposits|null|null|null|null|null|null|null|null|null

7.1.3 Is coverage

per depositor per institution

7.1.4 What is the coverage limit per depositor?

P100,000 per depositor per bank (equivalent to US \$1,945.37 at an exchange rate of P51.404 per US \$, as of end of December 2001).

7.1.5 How was this figures arrived at?

The primary consideration in determining coverage limit is that such amount provides credible protection to small and unsophisticated depositors. There is now a proposal at Congress to increase the limit to P200,000 to bring its purchasing power at par with the 1992 level, the year the existing limit of P100,000 was set.

7.1.6 For eligible financial instruments with maturity dates, what is the longest contract term covered by the DIS?

no limit

7.1.7 What types of depositors are not eligible for coverage in your DIS?

Other

null|null|null|null

7.1.8 Is the coverage amount indexed?

No

7.1.9 What is it indexed to?

n/a

7.1.10 Does your DIS use coinsurance? If coinsurance is used please describe the approach used.

No

7.1.11 Is the public widely aware of the presence of coinsurance?

7.1.12 Are coverage levels affected by resolution methods? If so, please explain.

No

7.1.13 To what extent, is there a public expectation that the DIS coverage limit would be extended to 100% coverage in the event of a banking crisis or the failure of a very large institution? Please provide recent examples, if applicable.

No

7.1.14 How is a decision made on the insurance eligibility of new financial products?

All deposits in Philippine banks are insured and no assessment is made on any deposit product for their eligibility to deposit insurance. PDIC determines the insurance eligibility of the bank's deposit products only upon closure, particularly during receivership where PDIC assesses the features and characteristics of the product as may be consistent with those defined for coverage.

7.1.15 When member institutions merge how are insured deposits treated?

When member institutions merge, their insured deposits are consolidated. The insured deposits of a depositor in both banks shall be consolidated to be subjected to the maximum limit of P100,000 per depositor.

7.2 Does your country offer the following?

7.2.1 Islamic banking

7.2.2 Islamic deposit insurance

Section 8: Funding & Fund Management

8.1.1 What type of funding is used by the DIS?

8.1.2 Is the DIS funded by levying insurance premium assessments against member institutions or, by some other means such as general tax revenues?

Premium assessment

Other. The DIS is funded partly by the government through a paid-in capital or so-called Permanent Insurance Fund (currently at P3 billion) and in part by premium assessment collected from member banks.

8.1.3 If insurance premiums are assessed, are they assessed as a flat rate or are they differential in some way, please explain? (e.g. risk based)

PDIC employs a flat rate.

8.1.4 What is the current premium rate? If there have been changes to this rate, details would be appreciated.

PDIC currently charges banks 1/5th of 1% of total amounts of deposit liabilities. This rate was 1/12th of 1% prior to 1992.

8.1.5 How often is the premium assessed?

Premium assessment is collected semi-annually, calculated based on average deposit liabilities of member banks as of the end of March and June for the 2nd semester premium, payable not later than July 31; and based on the average deposit liabilities as of the end of September and December for the 1st semester premium, payable not later than January 31 of the following year.

8.1.6 Is the premium assessed on total deposits, insured deposits or something else?

Total deposits

8.1.7 Are premiums paid by member institutions tax deductible as a business expense?

Yes

8.1.8 For premiums that are differentiated please explain the risk assessment system that is used to ascertain a premium assessment.

n/a

8.1.9 Does the DIS have a target with respect to the optimal size of the DIS fund? (Yes is chosen go to question 8.10 otherwise Skip the next 2 questions)

8.1.10 How is the optimum level (i.e. target) of the fund determined?

n/a

8.1.11 What investment policies (i.e. safeguards against abuse) exist concerning the use of the fund?

Yes

8.1.12 If a fund is not maintained, is an assessment levied on institutions after the failure of a financial institution has occurred? If so, please explain how the levies are determined and losses distributed among institutions.

8.1.13 Which of the following sources of additional funding, for emergency or liquidity purposes, does the DIS have access to?

8.1.14 Are member institutions required by law to issue, on a regular basis, subordinated debt?

No

Section 9: Reimbursing Depositors

9.1.1 Please describe the procedure for reimbursing depositors used by your DIS?

Depending on the state/quality of depositor records and the number of depositors affected, it may take

anywhere from 21 days to 90 after bank closure date before PDIC can start reimbursement of insured depositors' claims. Depositors are required to file a claim with PDIC within 18 months from bank closure date or within the prescribed period as announced by PDIC through newspapers, and posters in the vicinity of the closed banks. Claimants can secure their claim forms for free from PDIC representatives present at the premises of the closed banks or the claims counter at the PDIC headquarters at Makati City. Claim forms can also be downloaded from the PDIC Website. Together with the accomplished forms, depositors are also required to submit proofs of deposit, (i.e., original savings passbook, original certificate of time deposit or latest bank statement). The depositors can get reimbursement the same day the claim is filed provided they submit complete documents/requirements. Deposits amounting to not more than P1000 are paid in cash, and all others are paid in check. Payment is made either by PDIC through its disbursing officers assigned in the closed bank site or at the PDIC headquarters, or through transferee banks. See reply to no. 6.

9.1.2 Are depositors required to file a claim when a member institution fails? If so, what is the process?

Yes

Yes. Please refer to reply in no. 1 for more details.

9.1.3 When is the DIS obligated to reimburse insured depositors?

PDIC reimburses depositors of banks ordered closed by the Monetary Board as long as these banks are PDIC members at the time of closure. Depositors of banks with insured status terminated by PDIC due to non-payment of assessments and ordered closed past the prescribed 90-day grace period from order of termination are not covered by deposit insurance.

9.1.4 Is there an established legal basis upon which to base the reimbursement process? Please explain.

Yes

It is stated in Section 10 (c) of the PDIC Charter that “Whenever an insured bank shall have been closed on account of insolvency, payment of insured deposits on such bank shall be made by the Corporation as soon as possible either (1) by cash or (2) by making available to each depositor a transferred deposit in another insured bank in an amount equal to the insured deposit of such depositor: Provided, however, That the Corporation, in its discretion may require proof of claims to be filed before paying the insured deposits, and that in any case where the Corporation is not satisfied as to the viability of a claim for an insured deposit, it may require final determination of a court of competent jurisdiction before paying such claim:...”

9.1.5 Is the DIS subject to explicit standards for prompt reimbursement? If so what are they?

Yes

Section 10 (c) of the PDIC Charter states that “ Whenever an insured bank shall have been closed on account of insolvency, payment of insured deposits on such bank shall be made by the Corporation as soon as possible either (1) by cash or (2) by making available to each depositor a transferred deposit in another insured bank in an amount equal to the insured deposit of such depositor:before paying such claim: Provided, further, That failure to settle the claim within six (6) months from the date of filing of the claim for insured deposit shall, upon conviction, subject the directors, officers or employees of the Corporation responsible for the delay, to imprisonment from six (6) months to one (1) year: Provided, however, That the period shall not apply if the validity of the claim requires the resolution of issues of facts...” On the part of PDIC, a turn-around-time(TAT) from takeover to start of claims settlement operations (CSO) is set to serve as a standard. As of date, the standards set are as follows:For banks with good records:* Initial CSO for accounts with deposit balances not exceeding Php 10,000 -Single-unit bank: within 21 calendar days from bank takeover- Multi-unit bank: within 25 calendar days from bank takeover* CSO for all insured deposits:- Single-unit bank: 30 calendar days from start of initial CSO.- Multi-unit bank: 45 calendar days from start of initial CSO.For banks with poor state of records:* with less than 5,000 accounts:- Single-unit bank: within 50 calendar days from bank takeover-Multi-unit bank: within 70 calendar days from bank takeover* with more than 5,000 accounts:-Single-unit bank: within 70 calendar days from bank takeover- Multi-unit bank: within 90 calendar days from bank takeover

9.1.6 What methods of payment can be used and under what circumstances are they used?

PDIC's mode of payment of insured deposit claims can be either through direct settlement or transfer deposit scheme. Under the direct settlement scheme, PDIC disbursing officers are sent to the site of the closed bank to reimburse insured depositors. Payment at the PDIC headquarters is also being done upon request of the depositor-claimant. The transfer deposit scheme is usually resorted to if there is an available government bank within the vicinity of the closed bank (either walking distance or cost of transport is minimum from the closed bank site), and if there is no available disbursing officer. In the event that the PDIC account in the government bank within the vicinity is closed upon termination of the 18-month prescriptive period, the depositor-claimant can claim his check representing his insured deposit directly from the PDIC head quarters or through registered mail.

9.1.7 Are the rules regarding clearing, set-off, trust accounts, and related issues well defined (through the legal system or formal agreement)? Please explain.

Yes

Trust accounts are not covered by deposit insurance but these accounts enjoy preference once distribution of liquidation proceeds is implemented. On set-off, PDIC follows Book 4, Title I, Chapter 4, Section 5 (Compensation), Articles 1278 to 1290 of The Civil Code of the Philippines (Republic Act 386), relevant provisions of which include, among others: Art. 1278. Compensation shall take place when two persons, in their own right, are creditors and debtors of each other. (1195) Art. 1279. In order that compensation may be proper, it is necessary: (1) That each one of the obligors be bound principally, and that he be at the same time a principal creditor of the other; (2) That both debts consist in a sum of money, or if the things due are consumable, they be of the same kind, and also of the same quality if the latter has been stated; (3) That the two debts be due; (4) That they be liquidated and demandable; (5) That over neither of them there be any retention or controversy, commenced by third persons and communicated in due time to the debtor. (1196) Art. 1280. Notwithstanding the provisions of the preceding article, the guarantor may set up compensation as regards what the creditor may owe the principal debtor. (1197) Art. 1281. Compensation may be total or partial. When the two debts are of the same amount, there is a total compensation. (n) Art. 1282. The parties may agree upon the compensation of debts which are not yet due. (n) Art. 1283. If one of the parties to a suit over an obligation has a claim for damages against the other, the former may set it off by proving his right to said damages and the amount thereof. (n) Art. 1284. When one or both debts are rescissible or voidable, they may be compensated against each other before they are judicially rescinded or avoided. (n)

9.1.8 What are financial institutions obligated to hold with respect to deposit records?

PDIC, in the course of its assessment audit in validating premiums remitted, requires from member banks the following reporting forms/schedules relevant to deposits: Consolidated Schedule of Deposits and Other Related Accounts, and a breakdown of said schedule on foreign currency deposits. Bank records made available to PDIC staff conducting assessment audit are the general ledgers on deposit accounts and FCDO accounts.

9.1.9 When is the DIS given access to an institutions financial and depositor records?

Yes

9.1.10 Does the DIS have the option of making advance payments to depositors in situations of dire need (i.e. in an emergency)?

Yes

Yes, PDIC allows payment of a depositor's insured deposit claim ahead of the official start of claims settlement operations in the closed bank only in highly meritorious cases. Depositors should notify PDIC in writing of the nature of emergency and attach pertinent supporting documents that will facilitate approval of the request.

9.1.11 Does the DIS make interest payments to depositors during the time taken for reimbursement? Please explain.

No

No; PDIC computes interest accruing up to the date of bank closure only.

9.1.12 What information is communicated to depositors regarding the

reimbursement process?

Depositors are given information on when, where and how to file claims for insured deposits. Information dissemination is made through newspapers, local radio stations, and posters in the vicinity of the closed banks. Same information is also made available through the PDIC Website. Information personnel are also present in the site of the closed bank during the first few days of the takeover and claims settlement operations to attend to queries such as on the amount of insurance cover that can be claimed, documentary requirements, etc., as well as assist depositors in filling-up the necessary forms.

9.1.13 What process does the DIS use to ensure that depositor secrecy and confidentiality is maintained during the reimbursement process?

PDIC personnel are made to sign a security declaration document which binds PDIC personnel to confidentiality of information obtained during employment by the Corporation. Specifically in the reimbursement process, only claims personnel have ready access to the registers of insured deposits.

9.1.14 What steps are taken to verify, reconcile and settle insured deposit accounts?

During the takeover stage, presettlement examination is conducted where deposit accounts are reviewed and insured deposits determined, after which masterlists or registers of depositors with corresponding insured deposit amounts are generated. List of depositors who are also borrowers of the closed bank is also secured for possible set-off. To ensure that claimed deposits are paid to the rightful owners, PDIC requires depositors to present complete requirements supporting their claims, e.g., valid identification card, and proofs of deposit (e.g., savings passbook, certificate of deposit, bank statement). If the claimant is not the depositor, a duly notarized special power of attorney shall be required from the authorized representative.

9.1.15 What steps are taken to ensure that an institutions depositor records are accurate, up to date and accessible?

In Section X161, Part One of the Manual of Regulations for Banks issued by the Bangko Sentral ng Pilipinas (the primary regulator), it is stated that “Banks shall have a true and accurate account, record or statement of their daily transactions, particularly those referring to their deposit liabilities. The making of any false entry or the willful omission of entries relevant to any transaction, is a ground for the imposition of administrative sanctions under Section 37 of Republic Act No. 7653 and the disqualification from office of any director or officer responsible therefor under Section 9-A of Republic Act No. 337, as amended...”

9.1.16 Does the DIS document its experiences with respect to each reimbursement action (i.e. lessons learned) in order to allow for continuous improvement?

Yes

PDIC claim agents and disbursing officers are required to submit accomplishment report after end of each travel assignment. The report highlights the total accounts and amount reimbursed to depositors and the significant observations/experiences during the reimbursement process. Information personnel also present during the takeover and initial claims settlement operations also prepare their own accomplishment reports which include problems encountered.

9.1.17 What technologies does the DIS use to facilitate the reimbursement process?

PDIC has started automation of some of the activities of the reimbursement process to ensure faster and more efficient processing and settlement of insurance claims, such as : recording of claims received together with supporting documents submitted by the depositor-claimants; assignment of claim number; locating in the register of insured deposits the names of the depositor-claimants; recording the status of the claim, i.e., whether paid or unpaid; automatic check printing; and generating monitoring reports on claims received, processed and paid. Aptly called the Computerized Claims and Pay-off Operations System or the CCPOS, the system was implemented in most of the banks with payoff operations started in 2001. CCPOS is highly portable that it can be downloaded to a laptop for use during on-site payoff operations and uploaded to the server during payoff recess. PDIC has also started the development of Claims Tracking System (CTS) that will monitor the real-time status of claims that still remain unpaid either due to incomplete submission of documentary requirements or deficient documents; or further verification by PDIC is needed before the filed claims can be cleared for payment. Once operational, the CTS will enable PDIC to provide a quick response to depositors' queries about the status of their filed claims and the expected date of release of payment by PDIC.

Section 10: Public Information & Awareness

10.1.1 What obligations are there to inform the public?

The Philippine Deposit Insurance Corporation believes that public office is a public trust. Being a government corporation, it is its duty and obligation to enable the depositing public to know how the government protects their savings deposited in banks. By providing access to information, PDIC provides the public with valuable data that can assist them to decide how best to manage their finances and equip them to fully understand how deposit insurance works. Empowering the public helps them to be vigilant about the developments in the banking industry.

10.1.2 Who is responsible for communicating information about the DIS to the general public?

DIS

The deposit insurance agency is responsible for communicating information about the DIS to the general public .|null|null|null|null|null|

10.1.3 Are these explicitly stated in policy or law?

10.1.4 Are the terms and conditions of DIS explained in a manner that the general public can understand fully?

Yes

10.1.5 If so, what methods are utilized?

Brochures,Use of Official Sign to display insured status,Telephone call center,Website,Other
Aside from brochures, information series on specific subject area are printed in leaflet forms, e.g., PDIC Profile, Guide to Safe Banking, Depositors' Protection, Acquisition/Rehabilitation of Closed Bank, Depositor's Guide to Claims Settlement, Receivership and Liquidation of Closed Banks. Some of these materials are also published in the vernacular. Comic posters are also produced such as those illustrating steps in filing claims and how claims are processed.The Corporation has its Depositors Assistance Bureau (DAB) which actually serves as the call center. This is a one stop shop client desk which has a kiosk where depositors, who have problems with their banking transactions, complaints against banks, questions that need clarification or concerns regarding their bank accounts, or problems related to their claims, may call, visit or write to. Four (4) staff are assigned to handle concerns but an Action Officer is always present at the kiosk 8 hours a day Mondays to Fridays 8:00 am-5:00 pm to assist depositors/clients. Aside from the personal service of an Action Officer, the DAB provides e-service where clients can communicate through the portals.There are plans to equip the kiosk with computer units locally connected to the network. Each unit shall have a portal which is the PDIC website. Information about the PDIC which are available in the Internet shall be the same information that may be accessed by the public. The portal has a powerpoint presentation on the PDIC Story in case there is a requirement for small group orientation.The DAB has a counseling nook for use of clients who need to discuss concerns with PDIC representatives. The nook provides privacy to clients who are emotional and need to be isolated for immediate and proper attention. It also has a research area for researchers and students of banking and finance.|null|null|null|null|

10.1.6 At what point is information disclosed to the public about an institution that is having problems and how is information disclosed?

It is only upon takeover (closure order served to and officially received by the highest officer in the bank whenever possible) by the PDIC that the public is informed that a bank is now under PDIC receivership. Multi media (trimedia and Internet) is used.

10.1.7 Has a survey of public awareness about the DIS been conducted? If so/ what were the results? If not why not? Please include supporting documentation.

10.1.8 Has the DIS ever embarked on a public awareness campaign to increase

awareness and knowledge? If yes, how many times has this been done and when was the last time?

Yes

Yes, PDIC embarks on a public awareness campaign as may be necessary. Information campaigns are usually undertaken during the annual Banking Week in January; Savings Consciousness Week in June-July; National Credit Consciousness Week in April; and anniversary of the Corporation in June. Aside from the usual print and broadcast campaigns, outreach or orientation programs focused on specific target groups are also conducted. In 1995, a unique public awareness program was undertaken where PDIC organized an on-the-spot painting contest among high school students to instill savings consciousness and promote understanding of deposit insurance. The most recent information campaign made was in 2001, where a four-part radio infomercial and a 30-second TV infomercial ushered a nationwide campaign to increase public awareness of PDIC and savings mobilization. The radio/TV infomercials ran from June 15 to October 14, 2001. Outreach orientation programs were also held where target participants included personnel of banks located in the regions, and students of selected schools in the metro area.

10.1.9 Please describe the approach used; objectives, target audience, communication strategy, and timing results.

Please refer to reply to item no. 8. Since no survey was conducted on public awareness, results or effectiveness of the various information programs adopted are not known.

Section 11: Risk Assessment & Intervention

11.1.1 Does the DIS have a risk monitoring function to analyze and assess the risk of member financial institutions?

Yes

11.1.2 Does the DIS perform examinations of its member institutions? If not, who does?

No

No. The Bangko Sentral ng Pilipinas (BSP) has the power to conduct examination of banks. However, the PDIC may exercise its right to examine banks that have requested for, or are with outstanding, PDIC Financial Assistance (FA). Such examinations may be conducted prior to the grant of FA, during the grant to monitor the bank's progress, and even after the FA loan has been fully paid.

11.1.3 Does the DIS receive information/data/statistics directly from its member institutions or from a third party, such as a regulator or supervisor? If so what information is received and how often?

Yes

PDIC receives quarterly Statements of Condition (SOCs), Statements of Income and Expense, and supporting schedules, and deposit breakdown from member banks. These data are supplemented by information provided by the BSP on regular basis such as reports of examination, banks applying for and with outstanding loans from BSP and banks with deficiencies from capital and reserve requirements.

11.1.4 What is the risk assessment approach used by the DIS to monitor financial institutions? Please describe. Please be sure to include the criteria used to determine member institution risk.

PDIC's risk rating process, referred to as the Bank Monitor, is a periodic off-site assessment of the financial condition of all member banks to determine their performance quality and degree of perceived risk of failure. Data are primarily obtained from financial reports submitted quarterly by member banks complemented by latest available audit findings based on on-site examinations conducted by BSP and/or PDIC (the latter only for banks with and/or applying for financial assistance since revocation of its on-site examination power). Events subsequent to cut-off date, which have material effect on bank rating (e.g., closure) are also taken into account. Banks are risk rated from 1 to 5 with 1 having the highest level of risk and conversely the lowest operating performance and 5 reflecting the least risk and the highest level of

operating performance. Higher risk ratings correspond to higher failure/closure probabilities further differentiated per bank type. Domestic banks are generally categorized based on internal evaluation of capital adequacy using risk assets ratio (RAR). Asset quality, earnings, liquidity, and strength of management and internal control are also considered in the evaluation. Branches of foreign banks whose liabilities are fully guaranteed by the head office abroad are ranked consistent with the rating assigned by accredited international credit agencies to the mother unit.

11.1.5 Please list and describe the actions taken by the DIS in situations where member institutions are causing concern. Please indicate when coordination occurs with other supervisory/regulatory authorities and the mechanisms used.

PDIC prepares for the probable closure of banks found to be in critical condition by setting aside insurance provisions based on their reported insured deposits. Provisions are set at 100% of insured deposits for banks classified in category 1, around 90% for banks in category 2, around 60% for banks in category 3, around 12% for banks in category 4 and 0.10% for banks in category 5. Banks found to be under critical condition (such as those classified in categories 1-2) are referred to the BSP. These findings are validated during onsite examinations of the BSP. Coordination between PDIC and BSP takes place also for banks determined to have good prospects for being rehabilitated but require financial assistance and for banks closed by the Monetary Board, in which case PDIC acts as receiver and liquidator of the closed bank.

Section 12: Failure Resolution

12.1.1 Is your DIS involved in the failure resolution of member institutions?

Yes

12.1.2 Who determines whether a member institution has failed or is insolvent?

The BSP

12.1.3 Under what conditions can the DIS cancel/terminate the deposit insurance of a member institution?

PDIC can terminate the insured status of a bank when it incurs premium assessment deficiencies or outrightly fails to pay assessment premiums despite regulatory calls to do so.

12.1.4 How is the failure/non viability of a member institution determined?

A bank is deemed failed or non-viable when it is found to be capital-deficient according to local prudential standards as found during a BSP examination. A bank is ordered closed if it is unable to pay its liabilities as they become due in the ordinary course of business, has insufficient realizable assets to meet its liabilities or cannot continue in business without involving probable losses to its depositors or creditors, or has willfully violated a cease and desist order that has become final, involving acts or transactions which amount to fraud or dissipation of assets of the institution.

12.1.5 How many member institutions have failed in your country in the last 20 years?

From 1992 to 2001, 166 banks have been ordered closed by the Monetary Board, while 14 banks suffered from insolvency or serious illiquidity but were provided assistance by PDIC for rehabilitation.

12.1.6 Do banks go through the regular corporate bankruptcy process? If no, what is the process used?

No

No. The regular bankruptcy process embodied in the Insolvency Law requires insolvent corporations to file for bankruptcy in courts (voluntary) or wait for at least three of its creditors to file petition for its insolvency (involuntary). Both of these courses lead to the receivership and liquidation of the corporation's assets. In the case of banks, however, the Monetary Board (MB) under Section 30 of the New Central Bank Act, may immediately and without need for prior hearing, forbid a bank from doing business in the Philippines and designate the PDIC as receiver.

12.1.7 Is the receiver of failed institutions also the one that disposes of the institutions? If not, who does?

Yes

Yes. Under Section 31 of the Insolvency Law, the properties of an insolvent corporation are transferred to an assignee elected by the creditors or appointed by the Court, who represents the insolvent corporation and acts for the benefit of the creditors. Thus, the assignee handles the liquidation of assets of the insolvent institution. For financial institutions, the Monetary Board designates the PDIC as receiver of banking institutions and designates any person of recognized competence in banking or finance as receiver of quasi-banks. If the receiver determines that the institution cannot be rehabilitated or permitted to resume business with safety to its depositors, creditors and the general public, the Monetary Board shall notify in writing the board of directors of its findings and direct the receiver to proceed with the liquidation of the institution.

12.2 Which methods of failure resolution are used in your country to deal with failures. Also, please indicate the frequency of use of the various methods in the last 20 years.

12.2.1 Formal liquidation

12.2.2 Purchase and assumption (sale and merger)

12.2.3 Open bank assistance (e.g. recapitalization)

12.2.4 Bridge banks and other interim solutions

12.2.5 What criteria are used to determine the method of failure resolution?

PDIC's failure resolution follows the least cost principle. If the cost to PDIC of providing financial assistance to the bank is lower than or equal to the cost of bank closure, the bank is rehabilitated. (Cost of bank closure refers to expenses incurred by PDIC in paying off claims of insured depositors and in taking over and disposing of the bank's assets). Otherwise, if cost of closure is greater, PDIC recommends closure of the bank to the Monetary Board. However, if the prospective closure of a distressed bank is deemed to be systemic by the Monetary Board, the application of least cost principle in bank resolution is relaxed.

12.2.6 Is the deposit insurer required to resolve failed or failing insured depository institutions in a manner that is least costly to the DIS?

Yes

12.2.7 Please indicate what kind of private companies, if any, are included in the failure resolution process?

PDIC's policy on financial assistance for bank rehabilitation allows any private corporation to acquire control of, merge or consolidate with an insured bank under distress, controlling at least 2/3 of the voting shares of the bank being acquired. This is on condition that the acquiring corporation has a proven track record in banking. Further, the acquiring bank or corporation should be in sound financial condition, with the capability to absorb and manage the distressed bank's losses with minimal assistance and incentives from regulators. It should also possess quality management with a good track record to ensure the survivability of both the acquiring and distressed banks.

Section 13: Claims, Recoveries & Estate Management

13.1.1 Does the DIS play a role in the claims and recoveries process? If yes please describe this role

Yes

PDIC is the country's insurer and receiver/liquidator of closed banks. After receipt of Monetary Board resolution ordering the closure of a bank, PDIC takes over the bank and controls its assets, liabilities, records and affairs. Part of the takeover team are pre-settlement examination personnel who take charge of examining deposit records of a closed bank and preparing registers of insured depositors; after which, PDIC will start accepting and paying claims for insured deposits. As receiver, PDIC collects the loans, can institute foreclosure proceedings on mortgages, administers leases and performs other activities to recover assets but it shall not commit any act that will involve the transfer or disposition of any asset of the closed bank. As soon as possible but not later than 90 days from takeover, PDIC determines whether the bank can still be rehabilitated or should be liquidated. As Liquidator, PDIC converts the assets into money which process includes disposal through public bidding, negotiated sale or other appropriate mode of disposal.

13.1.2 What is the primary objective of the DIS when dealing with claims and recoveries (i.e.. maximization of nominal and present value recoveries, financial system stability, system discipline)?

PDIC's primary objective in claims and recoveries is to help maintain stability and depositor confidence in the banking system through: reimbursing the insured depositors as soon as possible and expediting liquidation to be able to maximize recoveries of the bank's assets for distribution to its creditors.

13.1.3 What role does the private sector play in the claims, recovery process?

PDIC itself conducts the claims and recovery process; however, it may engage PDIC-accredited collection agents and real estate brokers to assist them in loan collection and disposal or recovery of assets.

13.1.4 What approaches and strategies are adopted by the deposit insurer to accomplish the objectives of claims and recovery activities?

For claims, please refer to relevant discussions in Section 9. To expedite the recovery process, PDIC, in mid 2000, created an Asset Management Group (AMG) solely for the purpose of asset management and disposal. This differs from the previous set-up where takeover, receivership and liquidation, including sale/disposal of assets, are being done by the same group. With the creation of the AMG, focused is given solely to asset management and disposal. Strategies such as advertising of real estate properties through the PDIC website has been started. Warehouse sale for furniture, fixtures and equipment is being adopted. For loan recovery, PDIC has started accrediting collection agents who can assist in loan collection. The same strategy has been initiated in asset disposal where PDIC has also started accrediting real estate brokers to assist in selling real properties.

13.1.5 By what standard is the DIS judged with respect to performing its function in claims and recoveries (e.g.x. Comparative private sector or DIS benchmarks, internal assessments, past experience)?

PDIC sets its own standards in performing its claims and recoveries functions and regularly evaluates its performance to identify areas of strengths and weaknesses to be able to improve delivery of services to its clients. The Corporation also continuously reviews and streamlines its policies and procedures to ensure alignment with the set standards and targets. For instance, in taking over banks ordered closed by the Monetary Board (MB), a turn-around-time (TAT) of 1 working day after receipt of the MB Order is set in deploying takeover teams. TATs are also set in conducting inventory of closed banks' records as well as in submission of Receivership Reports to PDIC Board and MB. For recoveries, a target is set at the start of the year specifying the amount which serves as the target goal of the unit in-charge. In 2001, a project was undertaken wherein a consultant was engaged to review and streamline processes and procedures in the CRL sector, and draft corresponding manuals of operations.

13.1.6 What assets have you found to be the hardest to recover? Why? What types of strategies have been used to recover different assets?

Assets hardest to recover: unsecured loans; properties with squatters; properties still occupied by former owners, properties with legal problems like third party claims, documentation problems, "lis pendens", lost titles, etc. Strategies used to recover different assets: Loans: PDIC may entertain requests for compromise settlement, i.e., condonation/reduction of penalty charges, reduction of interest, as well as settlement through installment basis, if it will be more advantageous to the closed banks. For some loans, PDIC started accrediting agents for engagement in loan collection. Real Properties: public bidding, advertisement, engagement of real estate brokers, on-line selling, direct selling. Furniture, Fixtures and Equipment: warehouse selling and negotiated sale.

13.1.7 Does the DIS have rights of subrogation (i.e. the subrogation of insurance entity to the rights of insured depositors) or an equivalent arrangement?

Yes

Yes, PDIC is subrogated to the rights of the depositors of closed banks up to the extent of insurance payment.

13.1.8 Is there depositor priority when banks fail? (i.e. Do depositor claims rank in priority above other unsecured creditors in the liquidation of a bank?)

No

Depositors do not enjoy preference in the distribution of assets of the closed banks. Their claims for the uninsured portion of their deposits are ranked among the other ordinary creditors of the closed bank.

13.1.9 Are rights of set-off available or imposed in your country's legal system? Please describe the various forms set-off can take.

Yes

Yes, rights of offset is imposed under Republic Act 386 or The Civil Code of the Philippines, as contained in Articles 1279 and 1281. "Art. 1279. In order that compensation may be proper, it is necessary: (1) That each one of the obligors be bound principally, and that he be at the same time a principal creditor of the other; (2) That both debts consist in a sum of money, or if the things due are consumable, they be of the same kind, and also of the same quality if the latter has been stated; (3) That the two debts be due; (4) That they be liquidated and demandable; (5) That over neither of them there be any retention or controversy, commenced by third persons and communicated in due time to the debtor. x x x Art. 1281. Compensation may be total or partial. When the two debts are of the same amount, there is a total compensation. x x x "

Section 14: Other Issues

14.1.1 What is your view on recent trends and emerging issues in the financial sector in your country and the potential impact they might have on the DIS?

The Philippine banking system is currently beleaguered by worsening quality of assets. If not addressed immediately and adequately, this could threaten the financial condition of banks that may eventually lead to bank failures posing risks to PDIC. The deterioration of banks' asset quality was a result of poor governance and weak risk management practices of banks. The problem was compounded by limitations of the prevailing regulatory framework and triggered by the regional financial crisis that started in 1997. At present banks are restructuring loans, expediting foreclosures and expanding loss reserves to address the increasing bad assets. However, the magnitude of the problem requires more resolution particularly from the public sector. There are proposals to strengthen the capabilities of BSP and PDIC to effectively supervise and monitor the condition of banks. There are also proposals to provide incentives for investors to encourage the establishment of special purpose asset vehicles to dispose the non-performing assets. But both proposals require legislative action, which will take some time for approval.

14.1.2 Are there any issues related to deposit insurance which you would like to see more research in?

Determining the relevant insurance assessment scheme (whether uniform or differentiated rates) given certain conditions would be of help. Also needed are studies that can provide guidance in estimating the required level of insurance reserves and determining its adequacy vis-à-vis insured deposits. Moreover, researches that evaluate systems for early warning and predicting bank failures (in a developing country

context) will contribute to the enhancement of our risk management approaches. Another important research topic concerns the determination of the appropriate resolution method applied to a distressed bank. Techniques or models used by other deposit insurers in selecting the appropriate resolution method given certain conditions may provide guidance in developing policies and guidelines in other countries. The research can be extended to include evaluation methods to assess the degree of success or failure of the selected resolution approach.