

A Brief History of Deposit Insurance in the Philippines



Just like in the United States of America, deposit insurance in the Philippines was borne out of the need to stabilize the banking system from a rash of withdrawals that led to bank runs. In the US, disruptions caused by bank failures recurred during the 1800s up to the 1930s. While numerous solutions were put forth, many of them were based on the deposit insurance principle.

Solutions to stabilize the US banking industry were originally implemented at the level of the State and initially solicited support from banks on a voluntary basis.

As the banking crisis in the US worsened in the 1930s, the US Congress passed the Banking Act of 1933, which created the Federal Deposit Insurance Corporation (FDIC). By its very name, the FDIC provided deposit insurance on a national level, starting at USD2,500 per depositor and made membership by banks mandatory.

Thirty years later, the Philippines went through a similar banking crisis. In order to stabilize the situation and restore confidence in banks, the Philippine government created its own version of deposit insurance system through Republic Act 3591, which created the Philippine Deposit Insurance Corporation (PDIC) on June 22, 1963 to protect depositors and help maintain financial stability. Unlike the Federal Deposit Insurance of the US, the Philippines initially adopted a voluntary membership by banks in the PDIC.

Mr. Basilio Estanislao, then Special Assistant to Central Bank Governor Andres Castillo and later Director of the PDIC itself, was tasked to prepare the manuscript for Republic Act 3591. Director Estanislao was quoted to have said that:

“The philosophy behind deposit insurance is for the government to protect the small, unsophisticated depositors who comprise the majority, and not the big ones who are more discriminatory.”

The foundation for this statement of Director Estanislao is confidence, the major ingredient that makes any financial system flourish. Take confidence away and the financial system crumbles like a house of cards. This is also why President Franklin D. Roosevelt in his first “fireside chat” to the people of the United States of America on March 12, 1933 said that:

“After all, there is an element in the readjustment of our financial system more important than currency, more important than gold, and that is the confidence of the people.”

The PDIC commenced operations in 1968 after the appointment of the Board of Directors and the release of the PDIC’s initial permanent insurance fund in the amount of Php5 million. A year later, Republic Act 5571 made banks’ membership with the PDIC mandatory.

Thereafter, a series of government actions led to the increase in the maximum deposit insurance coverage for depositors. Starting with just a maximum deposit insurance coverage of Php10,000 under Republic Act 3591, the maximum deposit insurance coverage was raised as follows: (see Table 1)

Table 1

Year	MDIC ¹ (Php)	Total Deposits (Php millions)	Total Number of Deposit Accounts	Number of Member Banks
1963	10,000	3,876	1,754,562	Not Available
1978	15,000	53,157	17,457,566	1,092
1984	40,000	150,574	26,789,471	1,098
1992	100,000	492,236	17,939,958	919
2004	250,000	2,754,233	26,169,561	891
2009	500,000	4,660,722	34,522,007	785
2012	500,000	5,746,298	41,775,024	696

¹ Maximum Deposit Insurance Coverage
Sources: BSP, PDIC

The PDIC Charter was further amended in 2009 as a pre-emptive measure to build confidence in the banking system amid the brewing global crisis during that time. Aside from the doubling of maximum deposit insurance coverage from Php250,000 to Php500,000, the PDIC was granted the flexibility to adjust the maximum deposit insurance coverage when the financial stability of the banking system is threatened.

The latest amendments to the PDIC Charter also provided for institutional and financial strengthening measures to build up the Deposit Insurance Fund and to reinforce PDIC's role as a member of the country's financial safety net while continually providing depositor protection. PDIC's co-regulatory powers were also expanded in terms of determining insured deposits, examining deposit accounts in cases of finding of unsafe and unsound banking practices, and conducting special bank examinations.

Over the decades, the PDIC has broadened its role from providing depositor protection to helping maintain financial stability. Committed to the interest of the depositing public it serves, PDIC remains strong and resilient, moving closer to its vision of becoming a world-class organization in depositor protection.