

Management of the Deposit Insurance Fund *(Philippine Experience)*

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Investment Management for Deposit Insurance Agencies



February 20-22, 2013
MUMBAI, INDIA



निक्षेप बीमा और प्रत्यय गारंटी निगम
DEPOSIT INSURANCE AND CREDIT GUARANTEE CORPORATION

(भारतीय रिज़र्व बैंक की संपूर्ण स्वामित्ववाली सहयोगी Wholly owned subsidiary of the Reserve Bank of India)



PRESENTATION OUTLINE

- I. Deposit Insurance Risk Exposure
- II. Establishing the Deposit Insurance Reserves Target
 - Basic Principles
 - Target Methodology
- III. Investment of Funds
- IV. Alternative Fund Sources
- V. Recent Legislative Amendments to Build-up the DIF
- VI. Future Plans and Programs

I. DEPOSIT INSURANCE RISK EXPOSURE

As of December 31, 2012

Amounts in Billion pesos

Bank Type	No. of Banks	% of Total	Total Deposits (TD)	% of Total	Insured Deposits		
					Amount	%	ID/TD
TOTAL INDUSTRY	697	100%	5,747	100%	1,595	100%	28%
Commercial Banks	37	5%	5,089	89%	1,347	85%	26%
Thrift Banks	70	10%	530	9%	163	10%	31%
Rural Banks	590	85%	128	2%	84	5%	66%

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II. DEPOSIT INSURANCE RESERVES TARGET

Basic Principles

- Capital adequacy is essential to ensure that the Corporation can absorb losses arising from bank failures under normal or non-systemic conditions. (*A deposit insurance system should be able to deal with a limited number of simultaneous bank failures, but the resolution of a systemic banking crisis requires that ALL financial system safety net participants work together effectively*).
- The insurance reserves shall be maintained at a reasonable level that ensures capital adequacy.

II. THE METHODOLOGY

Criteria Used to Determine Insurance Reserves Target

1. The Fund should be sufficient to cover actual losses on failed banks **for the worst two contiguous years;**
2. It should be able to address the failure of at least one large bank that, under ordinary market conditions, **would not be considered systemic;** and
3. An additional margin of comfort to cover unanticipated risks by providing sufficient funds to cover an additional year's failures and/or an additional large bank failure

II. THE METHODOLOGY

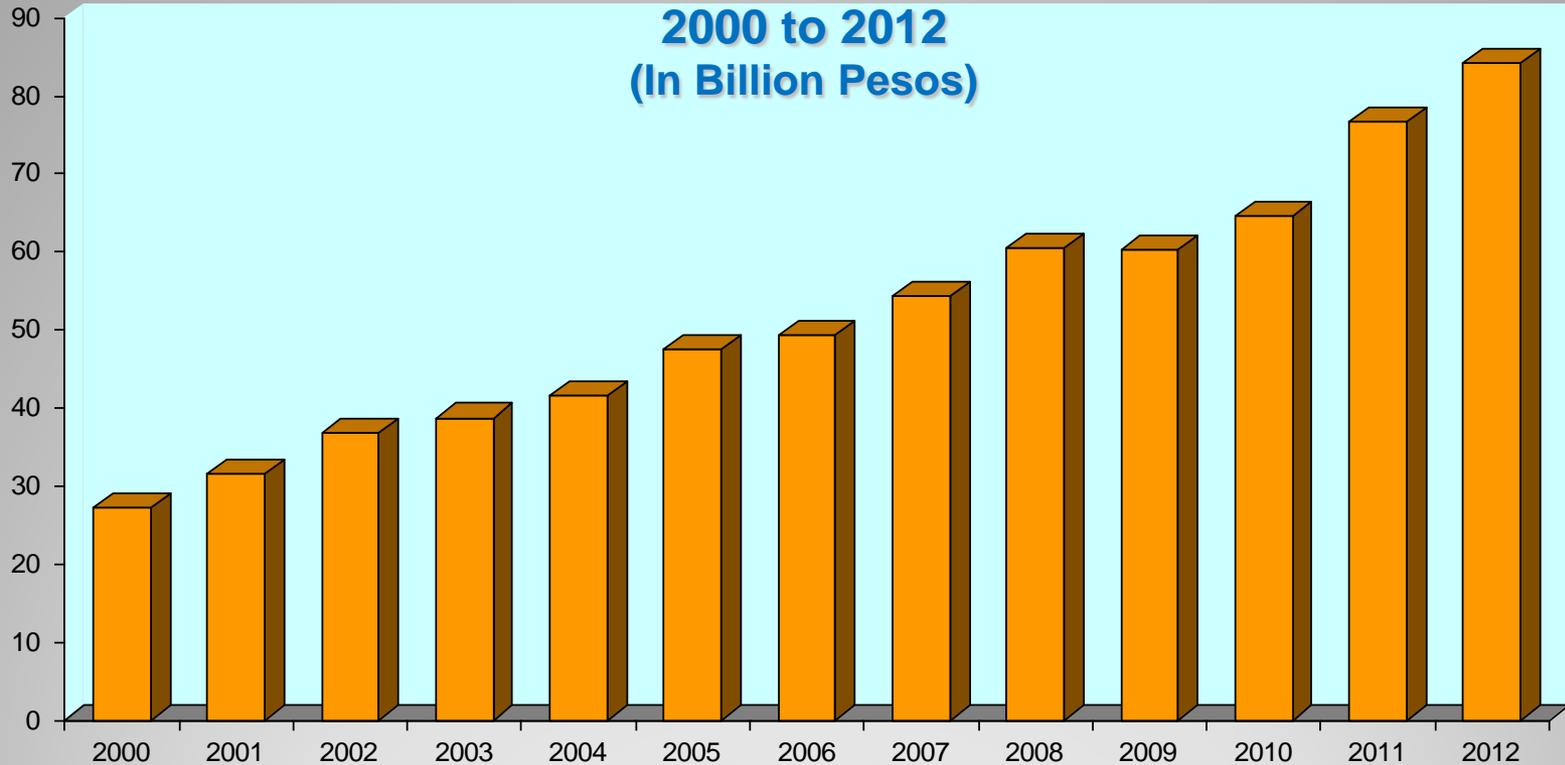
Criteria Used to Determine Insurance Reserves Target

Based on the above-mentioned criteria, it was determined that the optimal fund target for PDIC is

5% of EID

DEPOSIT INSURANCE FUND

2000 to 2012
(In Billion Pesos)



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Average 2000 - 2012
DIF	27.196	31.497	36.709	38.721	41.613	47.565	49.385	54.266	60.462	60.259	64.589	76.722	84.240	
Growth Rate														
Amount	3.783	4.301	5.212	2.012	2.892	5.952	1.820	4.881	6.196	(0.203)	4.330	12.133	7.518	5.069
%	16.2%	15.8%	16.5%	5.5%	7.5%	14.3%	3.8%	9.9%	11.4%	-0.3%	7.2%	18.8%	9.8%	11.4%

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III. INVESTMENT OF FUNDS

INVESTMENT OBJECTIVES / GUIDELINES:

1. To ensure the Corporation's viability via investment portfolio management to optimize investment income and continuously build up the Deposit Insurance Fund;
2. To provide adequate liquidity to ensure timely settlement of insurance calls and maturing obligations and to meet other operational requirements of the Corporation;
3. Investments shall be made in accordance with the "prudent person" rule, i.e. investments shall be made with judgement and care, not for speculative purposes, but considering the probable safety of capital and income to be derived.

III. INVESTMENT OF FUNDS

Section 17 of the PDIC Charter

(a) Money of the Corporation not otherwise employed shall be:

- invested in obligations of the Republic of the Philippines or
- in obligations guaranteed as to principal and interest by the Republic of the Philippines.

(b) The banking or checking accounts of the Corporation shall be:

- kept with the *Central Bank* or
- any other bank designated as depository or fiscal agent of the Philippine government.

III. INVESTMENT OF FUNDS

FUNDS MANAGED

On-Books

Corporate Fund

Sinking Fund

Off-Books

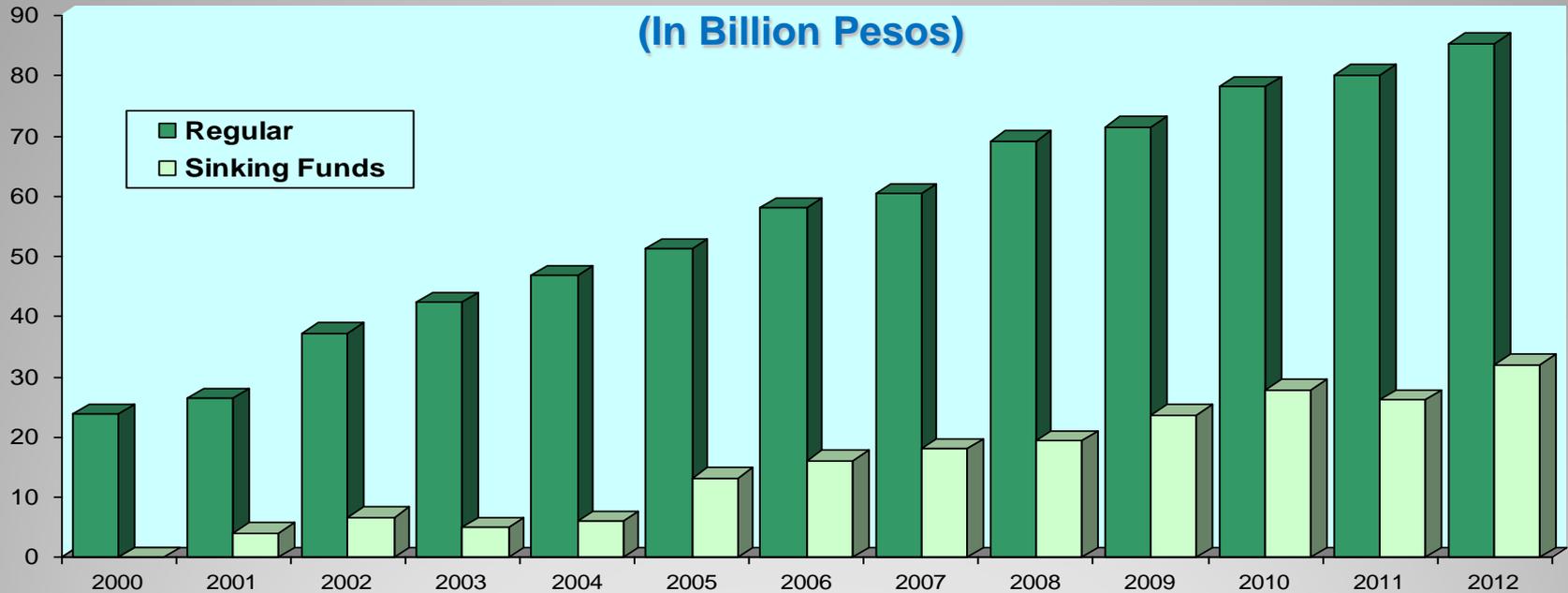
BuRL Funds

Pledged GS Fund

INVESTMENTS & SINKING FUNDS

2000 - 2012

(In Billion Pesos)



Investments	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Average 2000 - 2012
Regular	23.817	26.391	29.527	42.390	46.797	51.305	58.025	60.404	69.154	71.587	78.145	80.149	85.370	60.255
Sinking Funds	-	4.165	6.774	5.061	6.065	13.216	16.148	18.125	19.456	23.745	27.857	26.148	32.024	16.565
Total	23.817	30.556	36.301	47.451	52.862	64.521	74.173	78.529	88.610	95.332	106.002	106.297	117.394	92.185

Growth Rates (%)

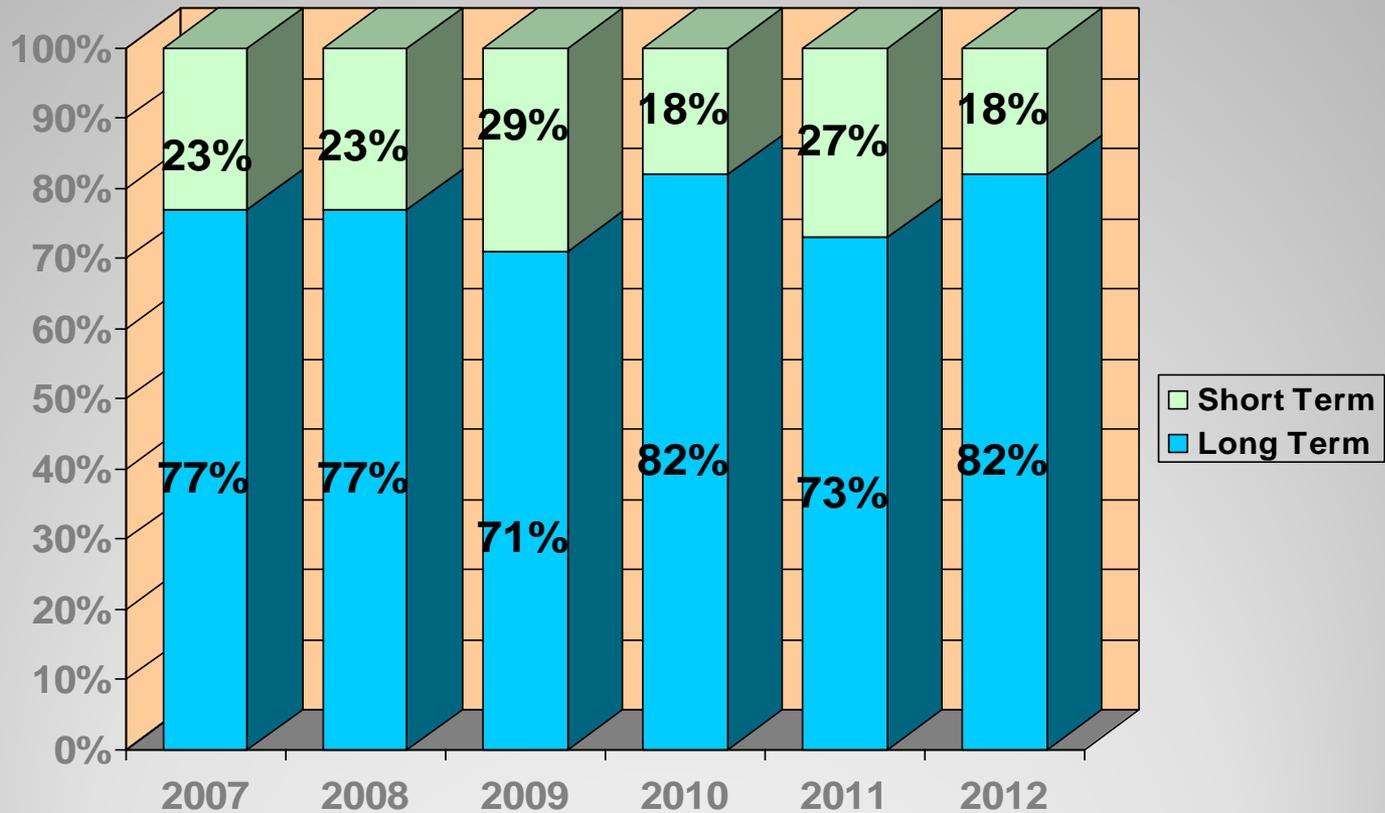
Regular Inv.	10.7%	10.8%	11.9%	43.6%	10.4%	9.6%	13.1%	4.1%	14.5%	3.5%	9.2%	2.6%	23.4%	13.9%
Sinking Funds	-	100.0%	62.6%	-25.3%	19.8%	117.9%	22.2%	12.2%	7.3%	22.0%	17.3%	-6.1%	64.6%	34.6%
Total Investments	10.7%	28.3%	18.8%	30.7%	11.4%	22.1%	15.0%	5.9%	12.8%	7.6%	11.2%	0.3%	32.5%	17.3%

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III. INVESTMENT OF FUNDS

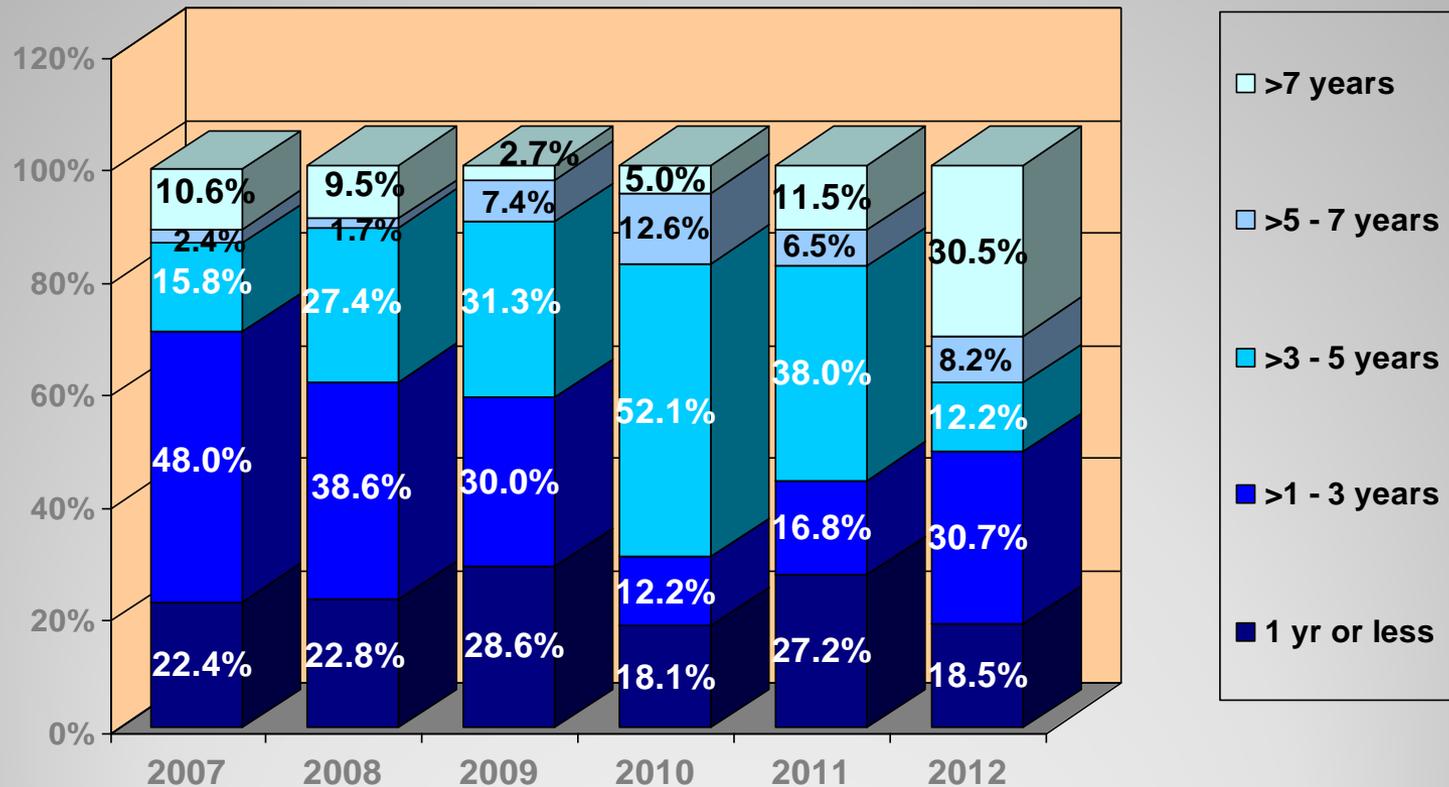
PORTFOLIO MIX



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III. INVESTMENT OF FUNDS

MATURITY PROFILE



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III. INVESTMENT OF FUNDS

DATE	1 - 3 Years			3 - 5 Years			5 - 7 Years			7 - 10 Years			10+ Years		
	PDIC	iBoxx Asia	Tracking Variance	PDIC	iBoxx Asia	Tracking Variance	PDIC	iBoxx Asia	Tracking Variance	PDIC	iBoxx Asia	Tracking Variance	PDIC	iBoxx Asia	Tracking Variance
12.31.12	6.390	2.400	3.990	8.489	3.530	4.959	4.667	3.830	0.837	5.106	4.060	0.502	5.608	5.560	0.048
11.30.12	6.390	2.140	4.250	8.484	3.580	4.904	4.667	3.880	0.787	5.114	4.240	4.604	5.616	5.570	0.046
10.31.12	6.415	2.450	3.965	8.646	4.020	4.626	4.681	4.430	0.251	5.311	4.680	0.510	5.652	5.440	0.212
09.30.12	6.413	2.390	4.023	9.134	4.000	5.134	4.886	4.580	0.306	5.336	4.720	4.801			
08.31.12	6.402	2.890	3.512	9.15	4.220	4.93	5.008	4.620	0.388	5.385	4.850	0.535			
07.31.12	6.404	2.870	3.534	9.8370	4.180	5.657	5.3100	4.660	0.650	5.4630	4.910	0.553			
06.30.12	6.386	3.160	3.226	6.5270	4.320	2.207	10.6420	4.930	5.712	5.5562	5.270	0.286			
05.31.12	6.549	2.960	3.589	10.6020	4.270	6.332	6.3080	5.030	1.278	5.5970	5.490	0.107			
04.30.12	6.496	3.000	3.496	9.0160	4.210	4.806	6.3580	4.920	1.438	5.6000	5.270	0.330			
03.31.12	6.497	3.200	3.297	6.7180	4.120	2.598	12.4960	4.640	7.856	5.5729	5.210	0.363			
02.29.12	6.680	2.990	3.690	6.7810	4.040	2.741	10.9110	4.410	6.501	5.6040	4.820	0.784			
01.31.12	6.678	2.700	3.978	6.781	4.240	2.541	11.566	4.490	7.076	5.741	4.910	0.831			
12.31.11	6.684	2.300	4.384	6.384	4.21	2.174	11.572	4.740	6.832	6.212	4.940	1.272			
12.31.10	7.522	3.450	4.072	6.384	4.42	1.964	10.645	4.880	5.765	7.319	5.510	1.809			
12.31.09	7.102	5.080	6.854	6.439	5.940	0.499	9.058	7.180	1.878	19.844	7.830	12.014			

COMPOSITE YIELD

Tenor	Amount	PDIC	iBoxx	Dec 2012	Nov 2012	Dec 2011
				Variance	Variance	Variance
1-3 yrs	24,011	6.390%	2.400%	3.990%	4.250%	4.384%
3-5 yrs	9,556	8.489%	3.530%	4.959%	4.904%	2.571%
5-7 yrs	6,439	4.667%	3.830%	0.837%	0.787%	6.832%
7-10 yrs	17,645	5.106%	4.060%	1.046%	0.874%	1.272%
10+ yrs	6,192	5.608%	5.560%	0.048%	0.046%	
	63,843	6.100%	3.479%	2.621%	2.548%	2.729%

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IV. ALTERNATIVE FUND SOURCES

Core Principle 11: A deposit insurance system should have available all funding mechanisms to ensure prompt reimbursement of depositors' claims.

Authority to Borrow

For the settlement of insured deposits and financial assistance to banks

- **From the Central Bank**

Borrowing interest rate shall not exceed the treasury bill rate

- **From any depository or fiscal agent of the Philippine Government**

Short-term loans, credit lines & other credit accommodations

IV. ALTERNATIVE FUND SOURCES

Issuance of Bonds, Debentures and Other Obligations

- For the settlement of insured deposits and financial assistance to banks
- Local or foreign
- Tax-exempt
- Board approves the issuance / re-issuance, interest rates, term / maturity, servicing, placement and redemption
- Shall be provided reserves for the redemption or retirement of the obligations

V. RECENT LEGISLATIVE AMENDMENTS TO BUILD-UP THE DIF

1. Exemption from Taxes

- **First 5 years** : Tax obligations of the PDIC chargeable to Tax Expenditure Fund (TEF)
- **6th year and thereafter** : PDIC exempt from
 - income tax
 - final withholding tax
 - VAT on assessment collections
 - local taxes

V. RECENT LEGISLATIVE AMENDMENTS TO BUILD-UP THE DIF

2. Issuance of Bonds, Debentures and Other Obligations

- Fully guaranteed by the National Government
- Not to exceed two times the DIF as of date of the debt issuance

VI. FUTURE PLANS AND PROGRAMS

1. Phase II of the FIRST Initiative

- a. Bank Failure Prediction Model
- b. Stress Testing Model

2. Possible legislative amendments to give the PDIC Board authority to:

- a. Increase premiums above 20 bps; and
- b. Make special assessments when the Fund falls below target

THANK YOU

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