



POSITION PAPER
ON THE
PROPOSED AMENDMENTS TO THE
CHARTER OF THE P.D.I.C.

The FinTech Alliance of the Philippines respectfully submits, for the consideration of the Committee on Banks, Financial Institutions, and Currencies, this position paper on the proposed amendments to the charter of the Philippine Deposit Insurance Corporation (PDIC) under Senate Bill No. 2096 and Senate Bill No. 1260.

At the outset, we would like to express our gratitude for the opportunity to submit this paper for the consideration of the Committee. It is a privilege to be able to be part of this process. We support the endeavors and acknowledge the work of the honorable senators who authored the said bills. In line with this, we have some matters that we would like to bring to the attention of the Committee in hopes of assisting in improving the proposed amendments.

The Alliance supports the amendments to the Charter of the PDIC that strengthens the institution and makes it a more effective tool to maintain the stability of the financial system. In that regard, we understand that part of these efforts include the desire to “future-proof” the institution. While this is a laudable objective in theory, it is problematic in its implementation. Simply put, it is impossible to foresee in what direction financial and technological innovation will proceed. A little over a decade ago, the solution to a computer science problem spawned the blockchain and in its wake, cryptocurrencies, smart contracts and decentralized finance. Some of these defy regulatory categorization and indeed, some flexibility on the part of regulators is necessary.

Having said that, the PDIC is not a regulator. Instead, its function is to provide financial cover against the imprudent use of deposits received from the general public by banks. It is generally understood, although less well-known, that because of fractional reserve banking, banks are systemically unable to return the full amount of deposits made by its customers. This makes them vulnerable to bank runs where, among others, mass hysteria among bank clients causes them to withdraw their full deposits even upon the flimsiest of reasons or even, false information. Runs of this nature, based on false or incorrect information, render banks especially vulnerable to the vicissitudes of emotion or public perception. Deposit insurance provides comfort to bank clients (some say indifference) that their money is safe regardless of the financial situation of the bank or



the prudence of its lending activities. In this sense, the PDIC should only establish the risk of a bank failure and provide coverage in case of such events.

Such risks are not present in the Fintechs regulated by the Bangko Sentral ng Pilipinas (BSP). Indeed, even Electronic Money Issuers (EMIs) do not receive money from its customers for lending purposes. Instead, each unit of electronic money is backed by actual fiat maintained by the EMI with a bank (as mandated by the BSP). In short, an EMI is required by the BSP to be in a position to fully satisfy any withdrawal claims made by its customers. Without the risks attendant in banks, EMI's should not be included among those institutions to be covered by deposit insurance. All other EMI's on the other hand, are unlike banks in the sense that they either do not hold their customer's money (such as virtual asset service providers or remittance companies). As to digital banks operating in the country, they are already covered by the law and are subject to the jurisdiction of the PDIC. Hence, no change in the law is necessary to cover that risk.

In short, the Alliance opposes any amendment that gives either the Monetary Board or the PDIC the authority to cover Fintechs, particularly EMIs, unless the product or service offered is exposed to the same risks brought by fractional-reserve banking.

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