



(First of two parts)

ONE of the three pillars of central banking is effective supervision and regulation.

The other two pillars are:

1. maintenance of price stability and
2. maintenance of an effective payment and settlement system.

The Bangko Sentral ng Pilipinas acts as supervisor and regulator of the following institutions:

1. banks
2. subsidiaries and affiliates of banks
3. quasi-banks
4. subsidiaries and affiliates of quasi-banks engaged in allied activities
5. trust entities
6. non-stock savings and loan associations
7. pawnshops and
8. offshore banking units or OBUs.

According to level of capitalization and authorized banking functions and activities, banks are classified into:

1. universal banks
2. commercial banks

3. thrift banks

4. rural banks

5. cooperative banks

6. Islamic banks

7. other banks

The Bangko Sentral's supervisory powers over the above-named institutions are exercised primarily through:

1. Issuance of rules

2. Examination and investigation — which could be either regular or special

3. Prompt Corrective Action

4. And when necessary, Resolution Issuance of rules

In the exercise of its rule-making authority, the Bangko Sentral sets policy directions and issues instructions to banks and other supervised institutions through memorandums and circulars.

All these issuances are pursuant to and consistent with the General Banking Law of 2000 (RA 8791), the New Central Bank Act (RA 7653) and other applicable laws.

Such issuances cover the whole range of banking activities starting from:

- 1) organization/ capitalization/equity investments;
- 2) composition of board of directors;
- 3) qualifications/disqualifications of officers and directors (“fit and proper rule”); and
- 4) operations [e.g., a. self-dealing transactions (DOSRI), b. lending limits (SBL), c. reserve requirements, d. mergers and consolidations, e. branching, f. disclosures, g. provision for losses and write offs, h. acquisition of real estate, i. other banking services,] to name just a few.

Examination and Investigation

The Bangko Sentral ng Pilipinas conducts regular examinations and, when circumstances warrant, special examinations.

Regular examinations are conducted at specified intervals (at least once year, but in no case shall the present examination be done within 12 months from the last examination).

By a vote of at least five members of the Monetary Board, a special examination may be conducted any time.

As insurer of bank deposits, the Philippine Deposit and Insurance Commission (PDIC) has been granted by law concurrent authority to examine banks.

During the examination of supervised institutions, the Bangko Sentral checks the institution's compliance with the laws, rules and regulations.

The Bangko Sentral also assesses the institution's:

C - Capital adequacy

A - Asset quality

M - Management quality

E - Earnings

L - Liquidity

S - Sensitivity to Market Risk

Each of the above components is rated from 1 to 5, with 5 being the highest.

A component rating of 3 is considered Satisfactory.

A less than satisfactory component rating indicates that the institution requires special attention.

A composite rating of 2 triggers Prompt Corrective Action.

Next week, I will discuss the last two “tools” by which the BSP exercises its supervisory powers: Prompt Corrective Action and Resolution.

Note: The foregoing article and its sequel will also appear in the author’s forthcoming book — “Central Banking for Every Juan and Maria.”