

Banco filipino case analysis

Business



- CASE OVERVIEW 1964- Banco Filipino was established.

1969- Banco Filipino starts giving customers the ability to deposit in any online BF branch, making it the first bank to process online transactions in real-time. 1970- Banco Filipino started expanding into the countryside with its first provincial branch opening in Naga City. 1972- The bank's customer base grew to one million customers, even in the midst of martial law. 1975- It was voted as the most preferred bank in Metro Manila. 1981- The bank already had 89 branches, four billion pesos worth of assets, three million customers and three thousand shareholders.

July 17, 1984- Banco Filipino was forced to declare a Bank Holiday. July 23, 1984- Banco Filipino declared a self-imposed bank holiday due to its illiquidity January 25, 1985- Bangko Sentral ng Pilipinas ordered its closure over alleged insolvency. 1991- The Supreme Court declared that the Bank's closure is illegal. 1994- The bank reopened fifteen out of its 92 original branches.

1995- Banco Filipino became a member of BancNet. After that, it launched the BF cash card. 1996- It issued its first Visa credit card. 1998- The Savings Bank was re-listed on the Philippine Stock Exchange. 1999- The Supreme Court declared that Banco Filipino is entitled to damages payments caused by its illegal closure.

2009- The Supreme Court allowed the Makati RTC to proceed with hearing the P18. 8-billion damage suit filed by the Banco Filipino. March 2010- The Makati RTC required the BSP to provide Banco Filipino with rehabilitation assistance and pay the latter costs in all amounting to at least P30 billion

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pesos. March 10, 2011- The Philippine Stocks Exchange (PSE) has delisted Banco Filipino from its official registry, rendering the bank unable to buy or sell shares of stocks. March 15, 2011- Start of Bank Holiday March 17, 2011- The BSP's Monetary Board ordered the closure of Banco Filipino and placed it under the receivership of state-run Philippine Deposit Insurance Corporation (PDIC).

April 1, 2011- Banco Filipino filed a complaint against BSP and the Monetary Board. • ANALYSIS Banco Filipino encountered a very big overdraft and admitted that there had been “ extraordinary financial panic”. The bank mismanaged the money of the depositors, they spent lavishly and currently has unpaid loans to the bank itself and the central bank. The bank also failed to submit regular reports to the Philippine Stock Exchange leading to delisting of its thinly traded stocks. It was learned that Banco Filipino has failed to submit financial reports to the Securities and Exchange Commission in recent years.

These reports are important in determining if Banco Filipino was still in good financial condition. Moreover, Banco Filipino did not conduct board meetings to find out the actual state of the bank. Banco Filipino lured depositors with interest rates way above prevailing market rates by paying 6-13. % for special savings deposit which makes the bank's interest expense higher than its interest income. It has also been discovered that more than half of the bank's total loan portfolio of P4.

1 billion was represented by DOSRI Accounts (Directors, Officers, Stockholders and their Related Interests), some of which the bank

deliberately refused to report to the BSP as required by law. Most of the loans becomes past due and remains uncollectible this date. This resulted in operating losses, which the bank concealed through the falsification of bank reports. The bank also spent as much as P162 million in one year for the payment of management consultants and refused to reduce the number despite an express BSP directive to do so. Banco Filipino Savings and Mortgage Bank was trying to sell hundreds of properties developed by its sister companies before it was placed under the receivership of state-run Philippine Deposit Insurance Corporation. Hundreds of the acquired assets are not been paid by buyers as of August 2010.

The bank had acquired these properties from different parts of the Philippines. Although the bank acquired a lot of assets, Banco Filipino's debt exceeded its assets by P8. billion and it was no longer able to settle its obligations as they fall due. • RECOMMENDATIONS Banco Filipino had poor governance and financials. They were asked to close before due to insolvency but it was already resolved. Unfortunately, they currently have a problem again which only shows that they are being managed badly.

There should be a system of effective internal control, which covers all aspects of banking business and its operation, to ensure that the bank achieved its goals and long-term profitability targets in a controllable manner. Losses can be prevented through effective control mechanism. Banco Filipino should make sure that transactions are accurately recorded and that the financial and management reporting is reliable and complete. The bank should also establish a system that consists of policies designed to achieve the objective of compliance with the applicable laws and regulations

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policies and procedures in the banking industry. A risk assessment should also be made to identify and evaluate the internal and external factors that could adversely affect the achievement of the bank's performance.

Necessary measures should be taken for reducing risk resulting from misappropriation and errors. The board of directors should monitor in a regular and timely manner the capital adequacy, liquidity, asset quality, profitability performance in conformity with its budget, and its full compliance with the banking regulations. Ethical values should be observed. There should be appropriate authority delegation. Segregation of duties shall also be established by assigning different people the responsibilities for authorizing transactions, recording transactions, and maintaining custody of assets to avoid collusion in the organization. [pic]