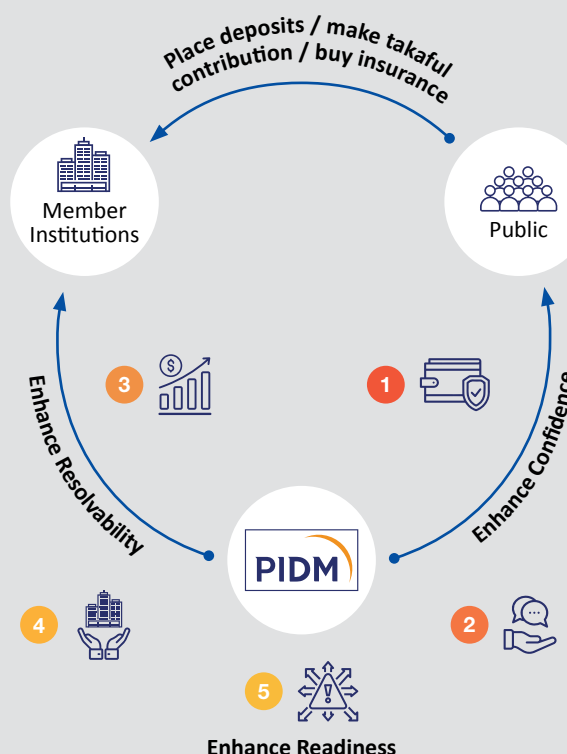


HOW PIDM PROTECTS FINANCIAL CONSUMERS

PIDM is a statutory body established in 2005 under the Malaysia Deposit Insurance Corporation Act¹ (PIDM Act).² In fulfilling our mandate as a financial consumer protection authority and resolution authority for our member institutions, PIDM protects financial consumers in Malaysia by:

- 1 Protecting deposits and takaful and insurance benefits
- 2 Creating awareness and enhancing trust
- 3 Providing incentives for member institutions to remain safe and sound
- 4 Ensuring member institutions can be resolved effectively
- 5 Enhancing readiness for crisis



1 PIDM PROTECTS DEPOSITS AND TAKAFUL AND INSURANCE BENEFITS

PIDM protects deposits as well as takaful and insurance benefits of **financial consumers** in the event a member institution fails. This protection is automatic, and financial consumers need not pay a single 'sen' for it. PIDM has 42 member banks and 50 insurer members.

PIDM Protection for Depositors in Member Banks

PIDM protects up to RM250,000 per depositor per member bank. There is separate protection for conventional and Islamic deposits held by individuals, joint owners, sole proprietorships, trustees, partnerships and companies.

PIDM deposit coverage protects 96% of depositors in full. PIDM coverage remains high and is above the recommended coverage level in the **International Association of Deposit Insurers' (IADI)** Core Principles for Effective Deposit Insurance Systems. IADI recommends that the deposit insurance coverage level be at least 80% of total depositors (person) and at 20% - 30% of total deposits (value).



Who are financial consumers?

They are customers of PIDM member institutions:

- who place their monies in banks; and
- who hold takaful certificates or insurance policies in Malaysia.



What is IADI?

IADI is a non-profit organisation formed in May 2002 to enhance the effectiveness of deposit insurance systems by promoting guidance and international cooperation.

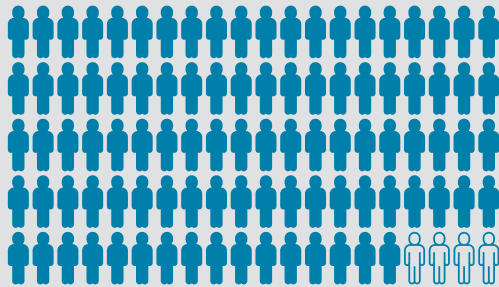
PIDM is an active member of **IADI**.

¹ The Malaysia Deposit Insurance Corporation Act 2005

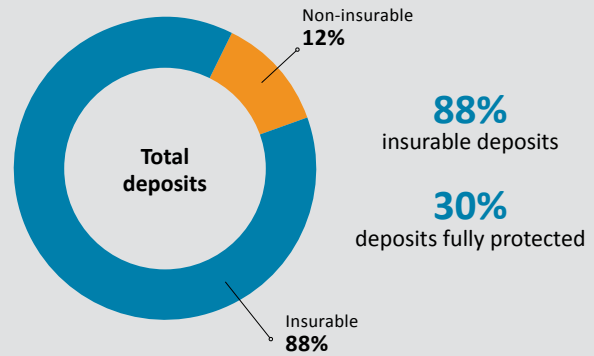
² The latest Act following various amendments is the Malaysia Deposit Insurance Corporation Act 2011

HOW PIDM PROTECTS FINANCIAL CONSUMERS

96% of depositors protected in full




96%
depositors fully protected




Individuals
97%


Joint owners
93%


Trustees
97%


Sole proprietorships
96%


Partnerships
95%

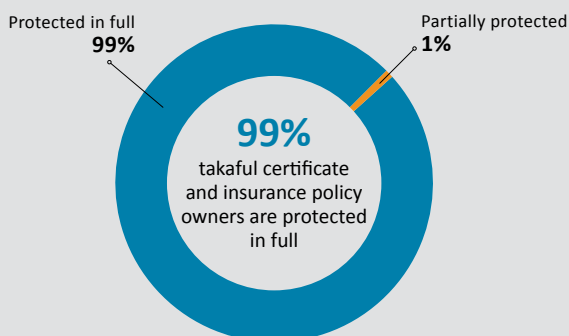

Companies
84%

Source: PIDM

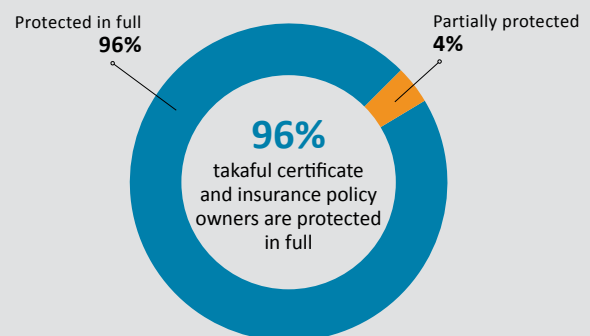
PIDM Protection for Takaful Certificate and Insurance Policy Owners of Insurer Members

For takaful certificate and insurance policy owners, PIDM protects eligible takaful or insurance benefits up to RM500,000. This protection covers 99% of family takaful certificate and life insurance policy owners, and 96% of general takaful certificate and general insurance policy owners, in full. There is separate protection for takaful certificates and insurance policies held by individuals and groups, as well as for own damage and third-party claims.

Family Takaful and Life Insurance



General Takaful and General Insurance

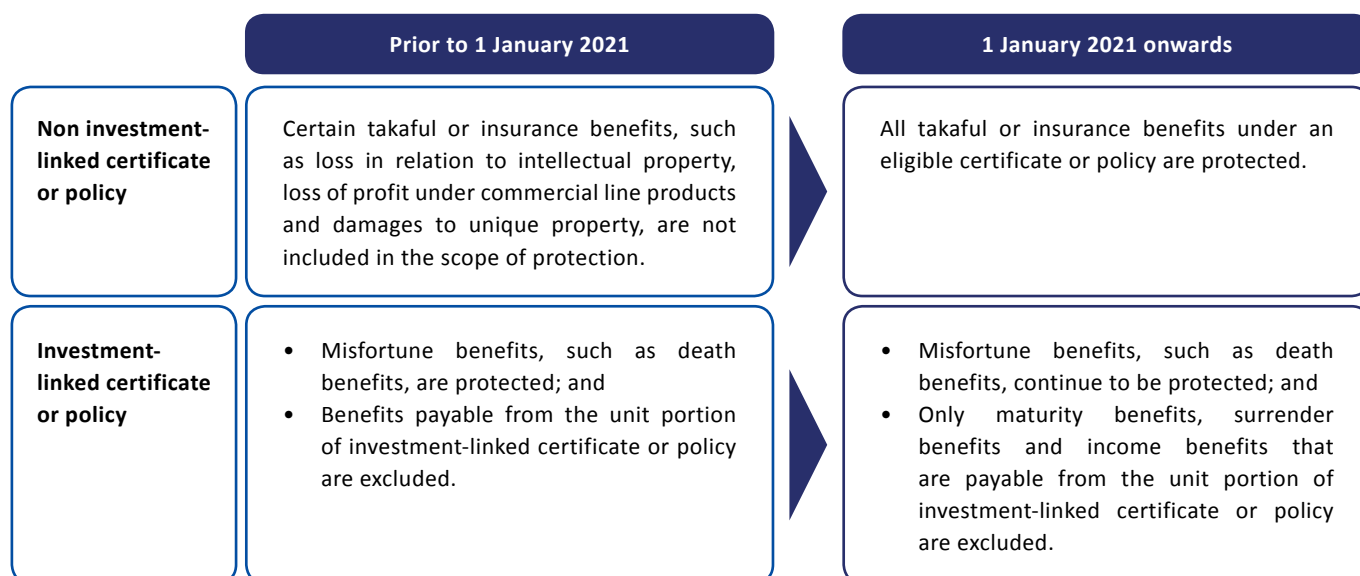


Source: PIDM Survey

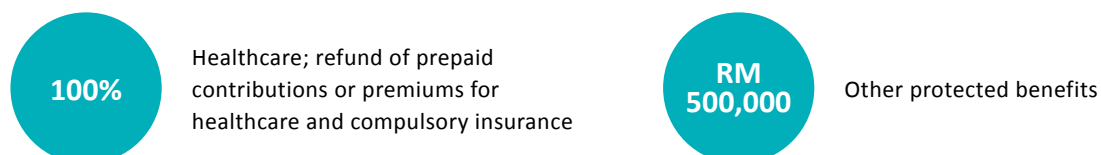
HOW PIDM PROTECTS FINANCIAL CONSUMERS

Enhanced Protection in 2021

Effective from 1 January 2021, PIDM enhanced our protection for takaful certificate and insurance policy owners further and now protects almost all types of benefits under eligible certificates and policies (subject to conditions and limits specified in the respective takaful and policy contracts). The diagram below depicts the change:



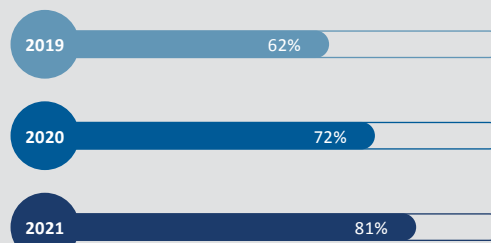
Limits of protection (subject to conditions and limits specified in the respective takaful and policy contracts)



2 PIDM CREATES AWARENESS AND ENHANCES TRUST

PIDM carries out extensive public awareness activities to ensure that consumers are aware that our protection systems exist and understand their benefits and limitations. This is crucial in providing financial consumers with clarity, reassurance and confidence towards these financial protection systems in order to mitigate the risk of runs on our member institutions during situations of stress or uncertainty. Our public awareness efforts also seek to build financial resilience among Malaysians and enhance confidence in our ability to carry out our mandate, including our role as a resolution authority, as we strive to transcend from mere awareness to trust, in the eyes of the public.

PIDM Public Awareness Level (2019 - 2021)

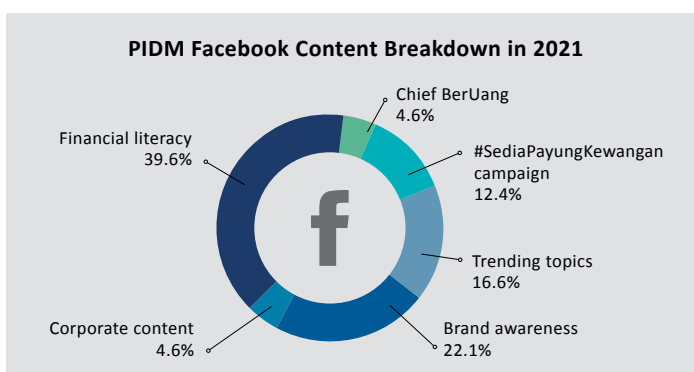


Public awareness of PIDM has increased significantly in the past three years,³ from 62% in 2019 to an all-time high of **81% in 2021**, a testament to the effectiveness of the public communications strategy and efforts that we have been carrying out throughout the years.

³ From the results of PIDM's nationwide public awareness survey which is conducted annually

HOW PIDM PROTECTS FINANCIAL CONSUMERS

In 2021, we shifted towards a more targeted approach, from our previous focus on traditional advertising to a more sustainable and long-term financial education approach, which led to the introduction of PIDM's good financial management icon, "Chief BerUang", and the launch of our financial resilience campaign – #SediaPayungKewangan (#SPK).⁴ Riding on the digital wave that was amplified by the pandemic, we increased our media buy allocation in digital and social media platforms, and focused on developing and sharing more content via Facebook, YouTube and LinkedIn.



In addition to brand awareness via radio, print and digital advertisements, we continued to promote understanding of our protection systems through collaborations with media partners, online publishers via written articles, podcasts and video content about the key features of the Deposit Insurance System (DIS) and the Takaful and Insurance Benefits Protection System (TIPS). Highlights of our public awareness efforts and achievements in 2021 can be found in the Performance section.

A key objective of PIDM's communications strategy is to generate long-term public trust and confidence in PIDM through content and methods of communication. We have started to diversify our content by featuring our corporate social responsibility and other corporate activities to build more sustainable and longer-term recall for PIDM. We have also developed human-interest stories of our employees and scholars, who shared their personal life experiences with the audience. The overall objective is to use relatable content to help amplify PIDM's presence, while at the same time, achieve more visibility and greater awareness and understanding about PIDM and our protection systems. Moving forward, we are also striving for increased public advocacy levels.

Public awareness regarding PIDM and our role has led to better familiarity and increased trust in PIDM. This is crucial as all the efforts we have expended and the systems we have put in place to protect financial consumers would not be impactful if the public is not aware of such protection or do not trust us to carry out our mandate. Therefore, PIDM will continue to work hard to ensure that the public knows – not only who we are, what we do and how we do it – but more importantly, that they can rely on us to protect them in their time of need.

3 PIDM PROVIDES INCENTIVES FOR MEMBER INSTITUTIONS TO REMAIN SAFE AND SOUND

PIDM supports overall financial stability by promoting the safety and soundness of our member institutions by giving incentives for sound risk management through the Differential Premium System framework for member banks (DPS), the Differential Levy System framework for insurance companies (DLS) and the Differential Levy System framework for takaful operators (DLST).

PIDM collects premiums from member banks and levies from insurer members, annually. Member institutions are charged based on their risk profiles under the DPS, DLS and DLST. The premiums and levies collected are on an **ex-ante funding mechanism**.



What is ex-ante funding mechanism?

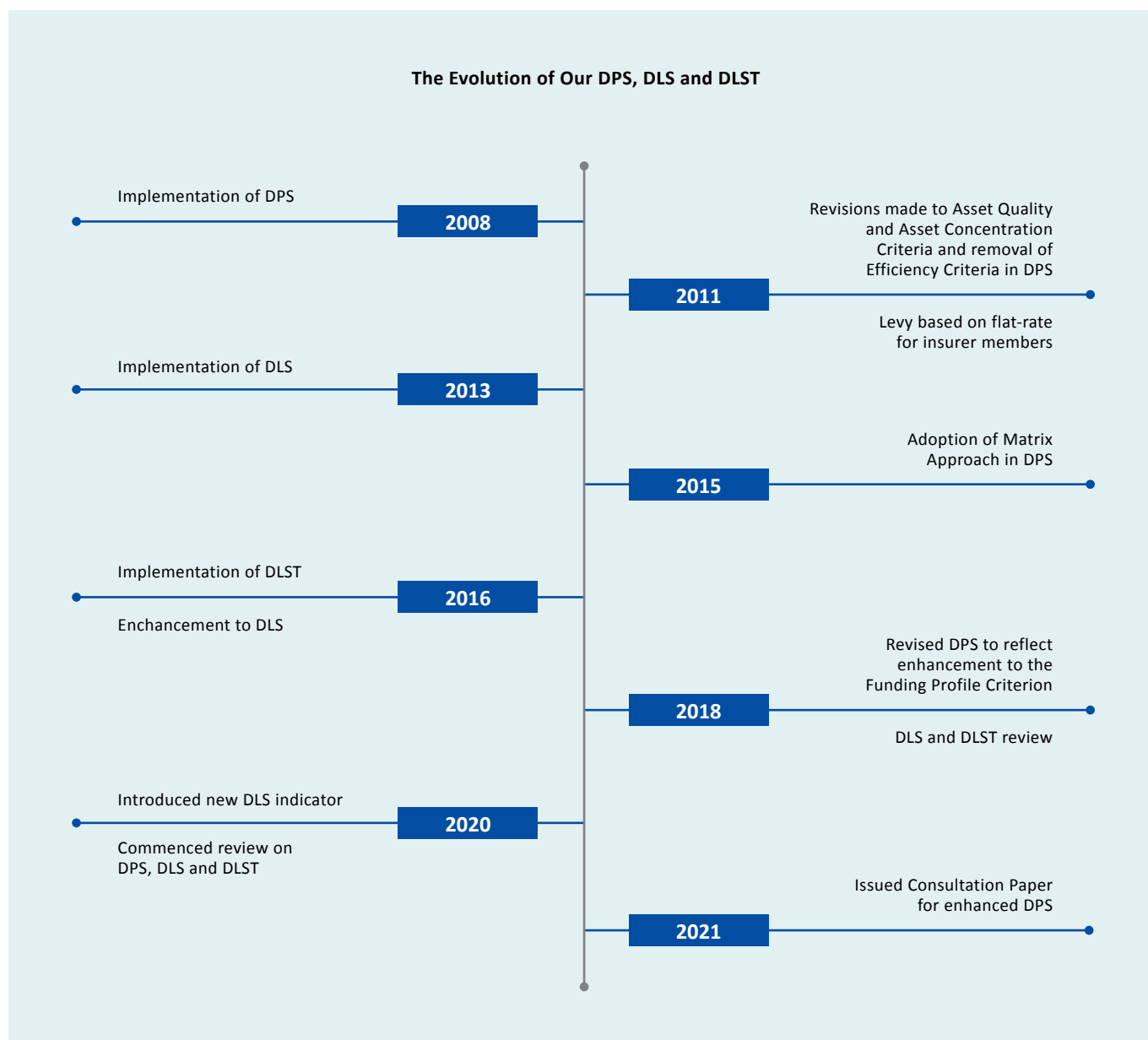
It is where we collect funds in the form of premiums and levies from our member institutions in advance, during business as usual.

⁴ Read more about this campaign under "In Review: Communicating Financial Resilience for Sustainable Living" in this Part

HOW PIDM PROTECTS FINANCIAL CONSUMERS

Differential Premium and Levy Systems

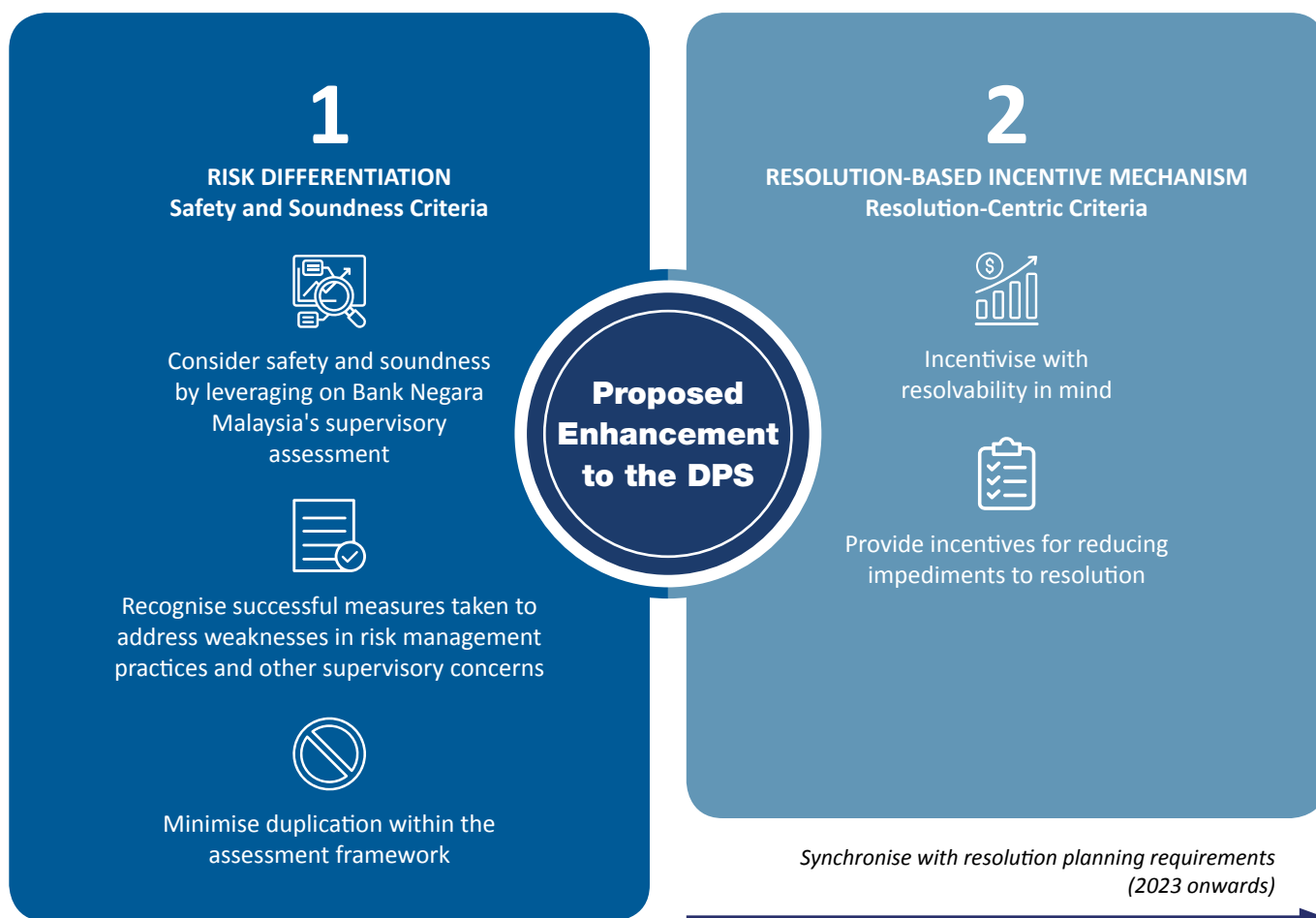
The DPS, DLS and DLST have gone through various stages of maturity and are enhanced progressively to remain effective and relevant. The introduction of the DPS in 2008, the DLS in 2013 and the DLST in 2016, enabled the collection of premiums and levies to be differentiated according to the risk profile of each member institution. Member institutions with a higher risk profile are required to pay higher premiums or levies than those with a lower risk profile. These frameworks incentivise member institutions to enhance their risk management practices, thereby increasing their resilience and preventing failure, while at the same time promoting stability in the financial system.



HOW PIDM PROTECTS FINANCIAL CONSUMERS

DPS - Moving Forward

To adapt to the changes in the operating environment and the regulatory landscape, PIDM has issued a consultation paper on the proposed enhancement to the DPS in August 2021. The proposed enhancement is envisaged to continue to promote sound risk management practices across the financial system, while at the same time provide meaningful incentives towards orderly resolution of member institutions. A similar review of the DLS and DLST will follow suit. Ultimately, outcomes of future enhancements look to contribute to the overall stability of the financial system.



4 PIDM ENSURES MEMBER INSTITUTIONS CAN BE RESOLVED EFFECTIVELY

PIDM, in line with our mandate to ensure prompt and effective resolution that minimises cost to the financial system, embarked on a journey with Bank Negara Malaysia (BNM) to develop a robust **Recovery and Resolution Planning (RRP)** framework.



What is RRP?

RRP consists of recovery planning (RCP) and resolution planning (RSP), two separate but inter-related components aimed at enhancing the supervisability, recoverability and resolvability of financial institutions.

HOW PIDM PROTECTS FINANCIAL CONSUMERS

The RRP Journey in Malaysia

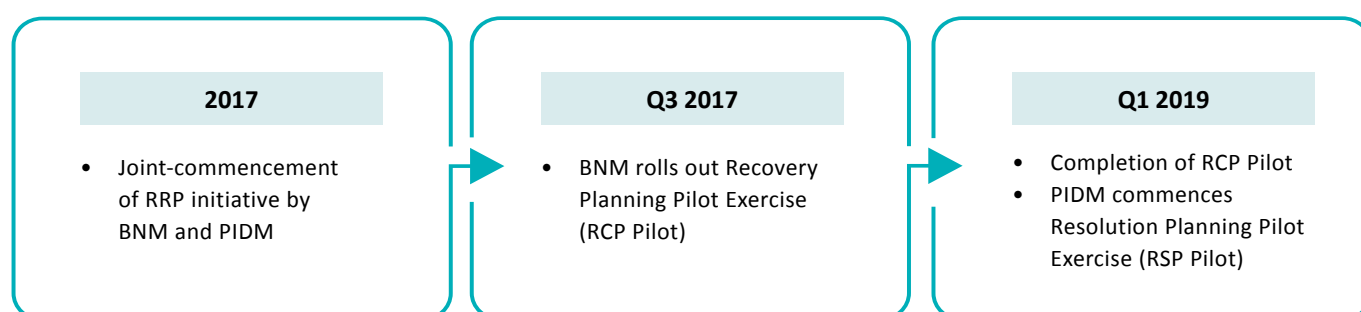
PIDM and BNM jointly commenced the RRP initiative for the industry in the year 2017, with BNM leading the **RCP** process and PIDM leading the **RSP** process.



What are RCP and RSP?

RCP seeks to ensure that financial institutions prepare and maintain a recovery plan that sets out options to restore their financial health back to acceptable levels when under severe stress.

RSP seeks to facilitate a prompt and orderly resolution by enabling the development of a feasible and credible resolution plan for financial institutions during business-as-usual.



RSP Pilot

PIDM completed the RSP Pilot with three pilot banks in Q2 2021. This exercise provided us with some practical insights which are instructive in the impending RSP rollout:



The need for active engagements and collaborative working arrangements with member institutions

Interactive engagements between pilot banks and PIDM through a series of workshops and meetings throughout the RSP Pilot proved helpful in clarifying PIDM's information requirements and expectations.



The need for streamlined information requests

Close engagement between BNM and PIDM, aimed to minimise potential overlap in information requests between RSP and RCP, managed to reduce regulatory burden.

Moving forward, information requirements for RSP will focus on specific information needs, while leveraging significantly on information submitted for RCP.



The need for proportional application of requirements

The scope, extent and timeline of RSP information requirements to be proportionately customised, tailored and targeted to the member institution's strategy, issues, size and complexity.

HOW PIDM PROTECTS FINANCIAL CONSUMERS

RSP – What to Expect Next?

The RSP process in Malaysia is expected to be on an iterative basis, driven by member institutions' progress and readiness.

As we aspire towards an effective resolution regime, we are cognisant that collaboration and coordination with key stakeholders – in particular member institutions – is essential. To prepare for a smooth RSP journey ahead, early planning and commitment is necessary. Over the next two years, member institutions can expect the issuance of a consultation paper on the RSP Framework, which will be followed by the issuance of the RSP Guidelines, and finally the rollout of RSP. Similar to RCP, the RSP process is envisaged to be implemented in phases.



In the longer term, PIDM expects to work collaboratively with member institutions to develop the **operational plan** in support of the effective implementation of their **resolution strategy**. A credible resolution plan entails identifying and addressing impediments while building the necessary operational capability for the implementation of the resolution strategy.



What is a resolution strategy and an operational plan?

A **resolution strategy** sets out the key elements of the proposed approach to resolution while an **operational plan** sets out the arrangements to implement the preferred resolution strategy.

Just as a pilot steers an aircraft safely towards its intended destination, the lessons learned from the pilot exercise will put us, and our member institutions, in good stead to navigate the complexities of the RSP process, as we propel forward in our journey towards resolution readiness.

5 PIDM ENHANCES READINESS FOR CRISIS

In times of crisis, there is no time to lose. Quick response time is often expected. However, responding without preparedness and sound judgement might compromise an organisation and put it in a disadvantageous position, delaying any attempt for recovery. It is crucial therefore, for an organisation to prepare its best for crisis scenario possibilities.

At PIDM, our organisational resilience journey is essentially premised on a “just-in-case” concept where we start building organisational resilience to prepare for any eventuality, way before it happens. This can be contrasted with a “just-in-time” approach, where action is taken only as needed.

HOW PIDM PROTECTS FINANCIAL CONSUMERS

In managing a crisis, carrying out a **crisis management plan (CMP)** requires knowing roles and responsibilities, when to escalate, when to act, and what (and what not!) to do. To ensure that PIDM is ready, in 2021 we put our CMP to test via a series of simulations, with a focus on crisis communication.



What is a CMP?

PIDM's **CMP** maps out roles and responsibilities, interactions between parties, escalation measures and a decision matrix, activating involvement, messaging and reporting for future mitigation efforts and initiatives.

Putting Plans to the Test, Like Full-Dress Rehearsals

All the world's a stage, and all the men and women merely players...and one man in his time plays many parts.⁵
- William Shakespeare

Just as it is necessary for actors to undergo gruelling rehearsals to ensure they know their parts well and deliver their lines smoothly and on cue, our financial safety net players also have to make the necessary preparations, including simulations, to ensure that they are familiar with their respective roles. Prior to opening night, theatre productions would typically conduct full-dress rehearsals, where everything comes together on stage as if the real show is actually happening, without the audience. Similarly, it is also crucial for PIDM and other safety net players to conduct joint simulations, as a means to understand each other's roles and coordinate their responses.

To this end, PIDM has conducted several crisis simulations in 2021, including an inter-agency simulation exercise among the key financial safety net players. In the coming years, we plan to conduct annual simulations testing different areas of intervention and failure resolution, so that when it's showtime – after the curtains are raised and the spotlights come on – together, we will be able to put on a sterling performance.

Seamless Reimbursement and Adoption of DuitNow Payment Option

In contributing towards crisis preparedness, we have also **enhanced our reimbursement capabilities** in the event we are required to undertake reimbursement to depositors.

In pursuit of this goal, PIDM was admitted as a direct member of the PayNet Real Time Retail Payments Platform in 2021. As a member, PIDM will be able to undertake bulk reimbursement in a swift and secure manner, referencing depositors' proxy of national identification number and business registration number under DuitNow transfer. The collaboration with PayNet will also allow PIDM to tap into future retail payment facilities offered by PayNet.



What are enhanced reimbursement capabilities?

Enhanced reimbursement capabilities for us is to ensure that depositors will be reimbursed seamlessly and that depositors have quicker access to their funds, with minimal inconvenience and disruption, in the event of a bank failure.

The DuitNow payment method will be in addition to PIDM's existing payment channels of inter-bank transfers and cheque payment.

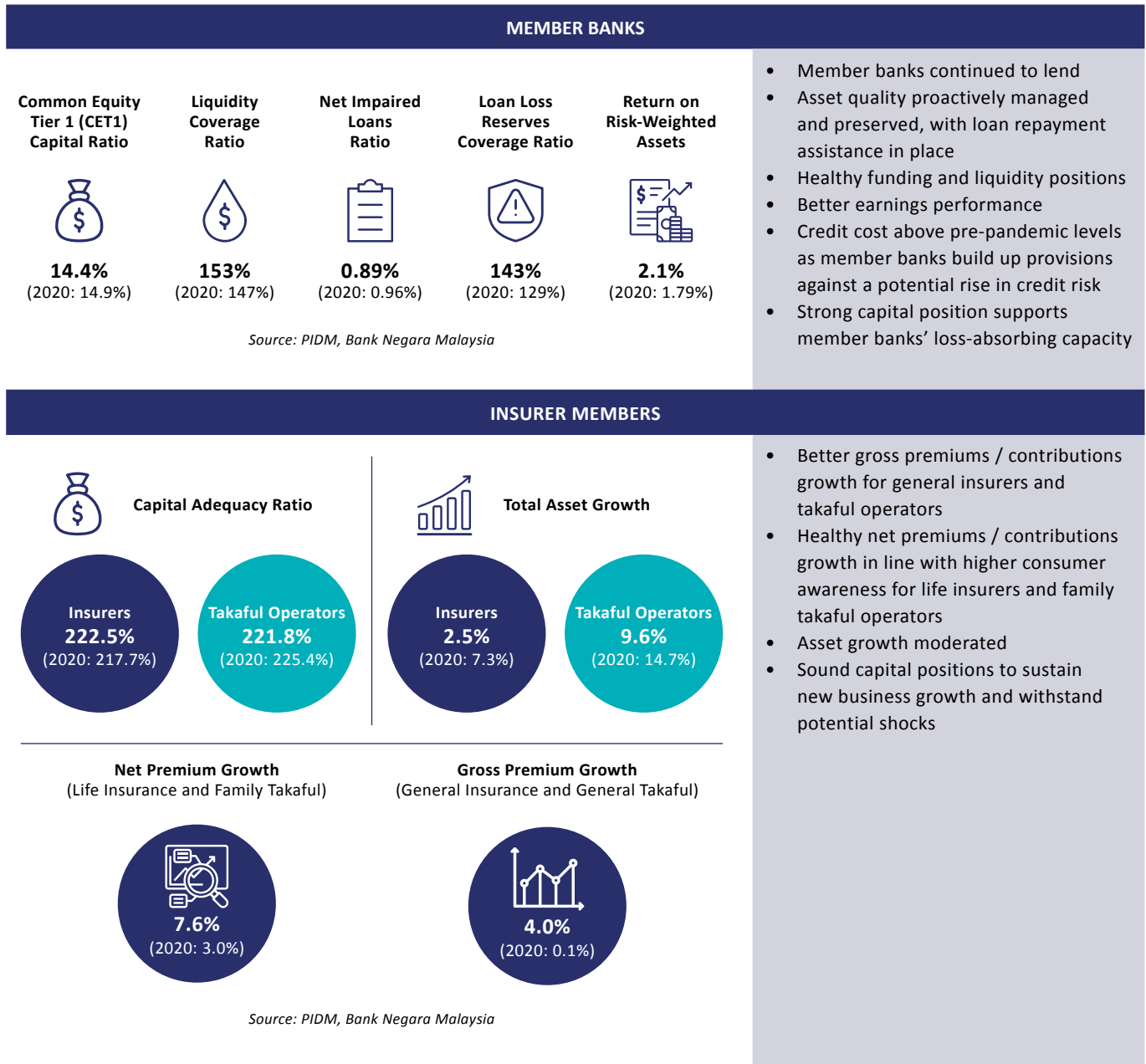
As part of our efforts for crisis preparedness, moving forward, PIDM will consider initiatives to instil greater public awareness among depositors, and for them to be better informed during a crisis or bank failure. PIDM will also continue our efforts to upgrade the reimbursement infrastructure to allow for more user-friendly customer interfaces, enhanced request management functions, as well as more secure online authentication with the capability to incorporate an electronic Know-Your-Customer solution.

⁵ As You Like It, Act II, Scene VII

HOW PIDM PROTECTS FINANCIAL CONSUMERS

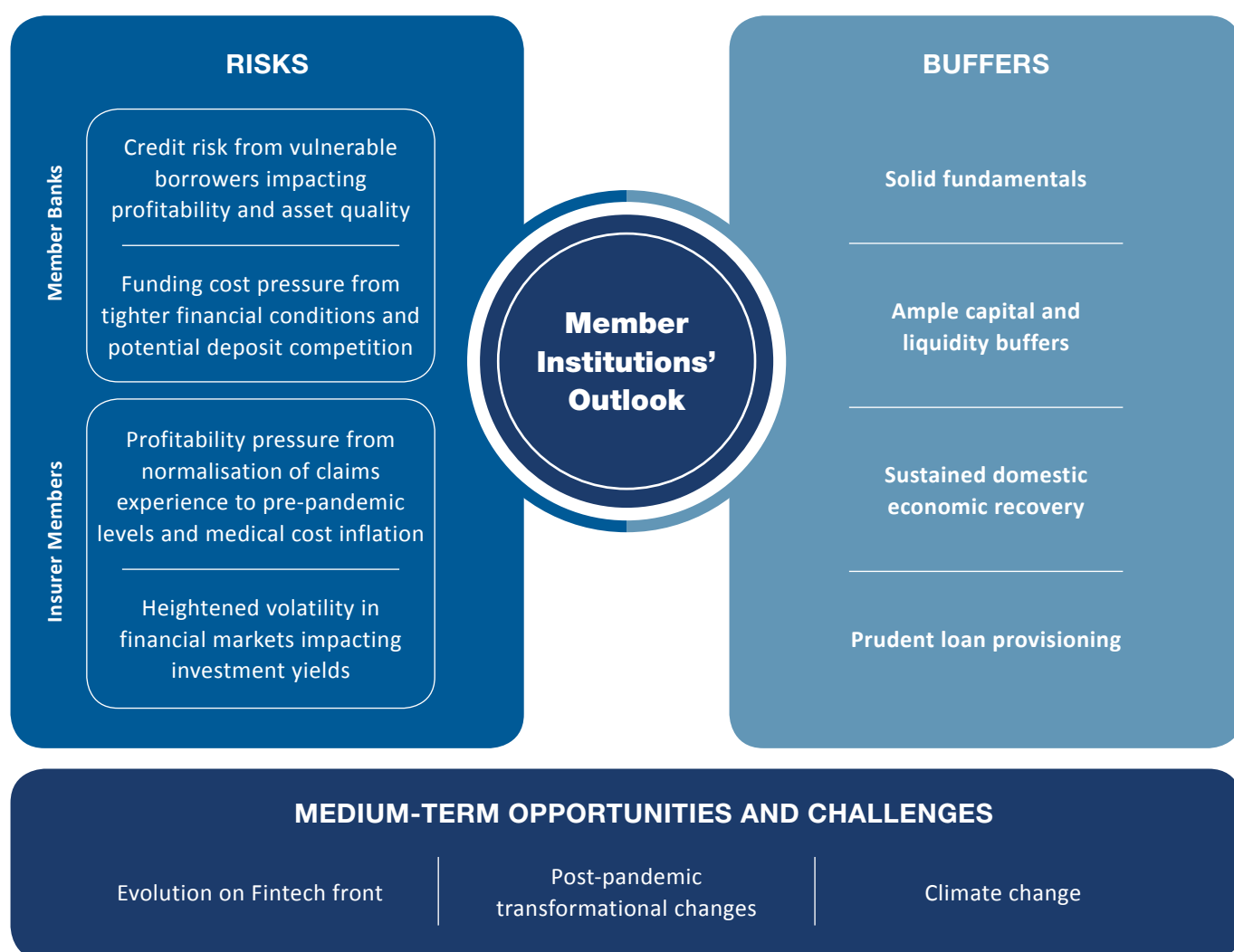
In Focus: Amid Fundamentally Solid Member Institutions, the Focus on Resolution Planning and Crisis Preparedness Continues to Be a Priority in Preparation for Any Eventuality

Two years into the COVID-19 pandemic, our member institutions remained resilient. Their sound fundamentals and strong buffers allowed them to continue supporting households and businesses impacted by the pandemic.



Looking ahead, solid fundamentals and ample buffers would allow member institutions to continue supporting financial intermediation as the economy recovers further, and weather any potential challenges.

HOW PIDM PROTECTS FINANCIAL CONSUMERS



PIDM member institutions have been able to support financial intermediation amid the adverse economic and financial shocks during the pandemic. Nonetheless, the RSP and crisis preparedness initiatives are aimed at enhancing operational resolution readiness in preparation for any eventuality or financial crisis.

Everything we do before a pandemic will seem alarmist. Everything we do after a pandemic will seem inadequate. This is the dilemma we face, but it should not stop us from doing what we can to prepare. We need to reach out to everyone with words that inform, but not inflame. We need to encourage everyone to prepare, but not panic.

- Michael O. Leavitt, the former Secretary of the US Department of Health and Human Services

Just replace “pandemic” with “crisis” and the words of wisdom above will apply equally to the challenge that we face, as we strive to protect financial consumers in Malaysia.