

Risks and Material Matters

As part of PIDM's robust corporate planning process, we assess our operating environment, the key stakeholders that we need to manage, the principal risks affecting us, as well as the strategies to address them. Our risk philosophy is fundamentally focused on anticipating and being prepared to minimise risks impacting financial consumers in Malaysia and the stability of the financial system.

PIDM also considers the resources or capital required, which consist of our human capital, social and relationship capital, financial capital, intellectual capital and manufactured capital.¹ Following these assessments, PIDM then articulates the material matters that require our attention.

For PIDM, material matters are issues that can or may have the potential to substantially affect the achievement of the Corporation's mandate and statutory objects. These include issues that can affect our strategies, business model or our resources or our capital, over the short, medium, or long term. Material matters are also matters that arise from our assessment of key risks affecting PIDM and which are discussed at Board level.

Managing Risk in 2024: Advancing Readiness Efforts and Building Operational Resilience and Capacity

In 2024, we continued to advance our readiness efforts towards having collaborative and complementary readiness between PIDM and our key stakeholders, for effective resolution of troubled member institutions. Ensuring effective execution of intervention or resolution actions require not only internal capacity building but also in-depth understanding and readiness among financial safety net players, the industry, key service providers and strategic partners as well as the public at large.

In ensuring these strategic objectives are met and sustained, we have also continued to future proof our operations by commencing the next phase of our digital transformation journey, including further enhancing our data management and analytics capabilities. This digital transformation plan will remain as one of the key focus areas over the next few years.

A summary of our principal risks for the year 2024 is set out in the table below.

Principal risks	Context
Advancing Readiness Efforts to Carry Out Our Mandate – Insurance Risk	Risk towards PIDM's readiness to effectively carry out an intervention and failure resolution and with the necessary resources and arrangements in place on a timely basis. Timely and effective execution of our mandate would be critical in minimising the potential impact of a failed member institution towards financial consumers and financial system stability.
Enhanced Cybersecurity Threats – Operational Risk	Cyberattacks, massive data fraud and theft are expected to become even more sophisticated, stealthier and evasive to traditional defenses as cyber attackers are expected to leverage artificial intelligence (AI) and machine learning technologies to enhance their capabilities and launch more effective cyberattacks.
Operational Resiliency and Adopting Digital Advancements – Operational Risk	Risk towards potential operational disruptions resulting from growing technological and third-party vendor dependencies and also in achieving the desired quality, performance and security levels of PIDM's information technology systems and processes, in our efforts to modernise our digital infrastructure and capabilities, as part of our digital transformation efforts.

¹ Section 2C of the revised International Integrated Reporting <IR> Framework (January 2021) defines "capitals" as resources or "stock of values" that increase, decrease or transform through the activities and outputs of an organisation. For example, an organisation's financial capital is increased when it makes profit or surpluses, and the quality of its human capital is improved when employees become better trained

Principal risks	Context
Modernising the Capabilities and Skillsets of Our Human Capital – People Risk	Risk towards not having our employees adapt to a more digital and data-driven working environment and developing a digital and sustainable mindset to embrace the advances made in new systems and tools implemented as part of our digital transformation journey.
Damage to Image and Reputation – Reputation Risk	Deterioration in the perception of our image or brand value, which could result in damage to credibility, trust and confidence amongst stakeholders. This in turn could impact our effectiveness in carrying out an intervention and failure resolution. Sufficient support from key stakeholders is critical for PIDM to fulfil our corporate initiatives and mandate effectively.

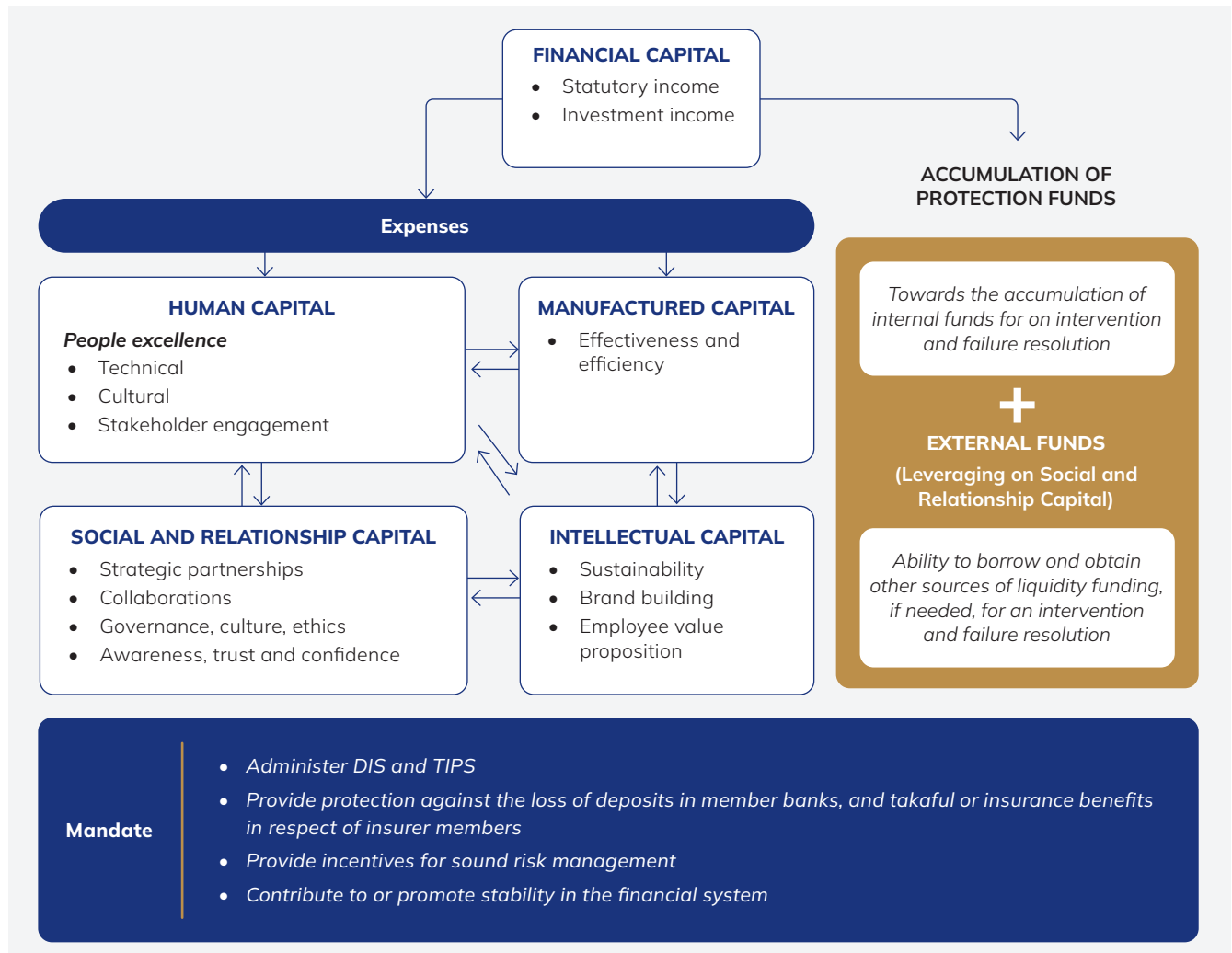
| Determining Materiality

Material matters are considered from the perspectives of significant value drivers, stakeholder interests, external and internal factors, current performance, our principal risks and our capital. We then assess how all these factors impact our ability to create value, i.e. whether they increase or transform the various resources or capitals of PIDM which are used to carry out our role and fulfil our mandate.

| Our Capital and How They are Interlinked and Translated to Achieve Our Mandate

	Financial capital	<ul style="list-style-type: none"> • Statutory income from premiums and levies collected from member institutions, and investment income generated from the Protection Funds • Accessing liquidity funding through both internal and external means to facilitate carrying out our statutory functions
	Human capital	<ul style="list-style-type: none"> • Competencies, capabilities and experience of employees • Capacity and bench strength of human resources, internally or externally sourced • Managing the sustainability of PIDM's workforce for the medium to long term
	Intellectual capital	<ul style="list-style-type: none"> • Knowledge and expertise in the Deposit Insurance System (DIS) and the Takaful and Insurance Benefits Protection System (TIPS) • Knowledge and expertise in intervention and resolution of financial institutions • Knowledge of corporate governance practices in the public sector • Knowledge acquired and captured through knowledge management programmes and activities • Knowledge acquired by PIDM's employees in the course of our day-to-day business and operations
	Manufactured capital	<ul style="list-style-type: none"> • Information technology systems and infrastructure for our day-to-day operations and for intervention and resolution • Cybersecurity, business continuity and disaster recovery systems and infrastructure
	Social and relationship capital	<ul style="list-style-type: none"> • Strong relationship within PIDM and with our external key stakeholders • Reputation and image

How Financial Capital Impacts the other Capitals for Creation of Value for PIDM



Human Capital

A significant portion of PIDM's operational costs relates to human capital. Our 'value' or business model relies heavily on intangible assets (intellectual, and social and relationship capitals). Hence, PIDM's value hinges on our people. Only with the right people are we able to harness the intangible asset value of knowledge and build the social and relationship capital needed to successfully carry out our mandate.

Intellectual Capital

Knowledge – which involves experience, research and learning – is a main capital for PIDM. For knowledge to be a valuable asset, PIDM continues to build on our intellectual capital through research, knowledge sharing, talent development and stakeholder collaboration.

Social and Relationship Capital

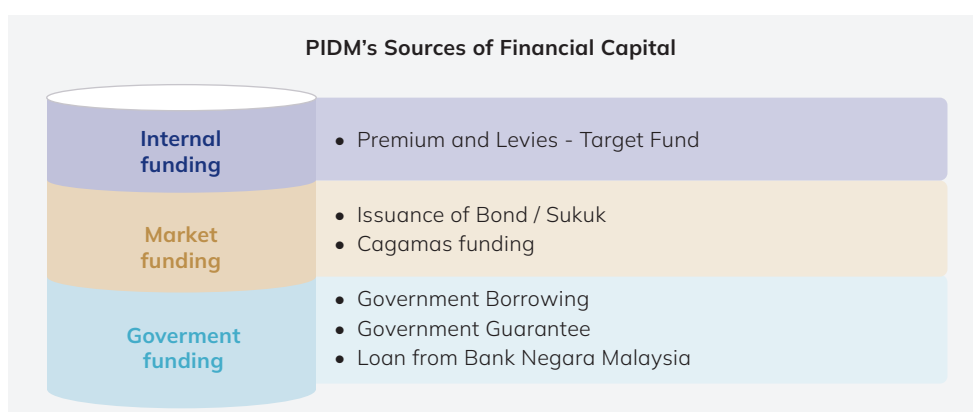
As part of the financial safety net, to successfully manage our financial resources and liquidity needs during an intervention and failure resolution, PIDM also needs to build relevant relationships. Social and relationship capital (reputation and image) is also important if the public is to have trust and confidence in PIDM, and if PIDM is to be able to contribute effectively to the stability of the financial system. Much of this relies on – not only the competence of our people – but our governance structure, internal ethics and behaviour, and the appropriate public communication and relations.

Manufactured Capital

Manufactured capital, such as our information technology infrastructure, is important for effectiveness and efficiency. We have also developed a data governance and management framework to enhance data capabilities and foster operational excellence.

Financial Capital

PIDM's primary source of capital is our internal funds, which mainly consists of the premiums and levies collected ex-ante annually from our member institutions and accumulated as reserves in the Protection Funds. Additionally, PIDM may raise funds externally for liquidity funding, which includes funds sourced from the capital market and the Government, if the need arises. PIDM's funding framework is aimed at easing the burden on the Government and minimising the use of taxpayers' monies to resolve troubled or failed member institutions. The framework is illustrated in the diagram below.





PIDM's internal funding is sourced from the premiums or levies imposed on member institutions, as well as the investment income generated from the funds net of operating expenses. The premium and levy rates are determined by the Minister of Finance on PIDM's recommendations. PIDM also has the power to assess and collect higher premiums or levies with the approval of the Minister of Finance to cover any losses arising from any resolution activities.




The pre-emptive building of the funds collected from the industry (or referred to as "ex-ante funding") is a key feature of a deposit insurance system and is in accordance with Principle 9 of the International Association of Deposit Insurers (IADI) Core Principles for Effective Deposit Insurance Systems – Sources and Uses of Funds. The same ex-ante funding feature is also used for the takaful and insurance benefits protection system. It is not economical nor is it intended for PIDM to cover fully the exposures through an ex-ante collection from the industry. Instead, PIDM sets a target reserve that is adequate to cover net losses, supported by external liquidity funding sources. This target reserve level is referred to as the "Target Fund". For PIDM, the Target Fund aims to accumulate funds to cover the net expected losses arising from any intervention or failure resolution activity.

If the relevant Protection Fund is insufficient to meet our liquidity obligations, PIDM, as a statutory body, has the authority to raise funds as we deem fit, including issuing public debt securities in the capital market (market funding). PIDM also has the power to borrow from the Government or Bank Negara Malaysia (Government funding).

Material Matters / Key Result Areas

PIDM's Corporate Plan 2023 – 2025, themed "Realising Readiness", reflects our strategic intent to intensify our focus on resolution readiness. In alignment with the Corporate Plan, PIDM sets out our material matters, which has been articulated into nine Key Result Areas (KRAs) and organised under three strategic pillars.

Strategic Pillars	Material Matters	Key Result Areas	Capital Affected / Principal Risks / Stakeholders
Realising PIDM's Readiness for Resolution and Crisis Management	Readiness for resolution and crisis management Ensuring effective execution of intervention or resolution actions by: <ul style="list-style-type: none"> (a) continuously enhancing PIDM's internal readiness in relation to intervention and resolution; (b) executing resolution plans effectively and ensuring robust crisis coordination actions among the financial safety net (FSN) players and service providers; (c) ensuring member institutions are clear about PIDM's regulatory expectations to support the implementation of PIDM's resolution strategies; and (d) ensuring robust liquidity management plan that covers management of liquidity crisis before, during and after a Non-Viability Trigger event. 	KRA 1: (PIDM-Ready) – Enabling robust intervention and effective intervention and resolution actions by PIDM	Capital affected  Principal risks <ul style="list-style-type: none"> • Insurance risk • People risk • Reputation risk • Operational risk Stakeholders <ul style="list-style-type: none"> • Government • Bank Negara Malaysia • Public • Strategic partners • Industry • Foreign counterparts • Financial consumers of member institutions • Shareholders and creditors of member institutions • Employees
		KRA 2: (Industry-Ready) – Strengthening the resolvability of member institutions and enhancing readiness of service providers	
		KRA 3: (FSN-Ready) – Developing effective crisis management arrangements with and among FSN players	
Enhancing Confidence in PIDM's Protection Systems and Resolution Mandate	Awareness, trust and confidence, and crisis communication <ul style="list-style-type: none"> (a) Ensuring the confidence of depositors and other financial consumers through comprehensive communication of PIDM's mandate, our role, as well as administering an effective protection system. (b) Having comprehensive plans to communicate effectively before and during crisis situations to avert or mitigate panic behaviours. 	KRA 4: (Public and Media-Ready) – Maintaining strong awareness, understanding and advocacy of PIDM among the public and media	Capital affected  Principal risks <ul style="list-style-type: none"> • Reputation risk • Insurance risk Stakeholders <ul style="list-style-type: none"> • Public • Media
		KRA 5: Enhancing the effectiveness and relevance of PIDM's protection coverage and role as financial consumer protection authority	

Strategic Pillars	Material Matters	Key Result Areas	Capital Affected / Principal Risks / Stakeholders
Enabling PIDM's Readiness through Organisational Effectiveness, Digital Transformation and Strong Governance	Leadership, employee engagement and development Enabling PIDM's readiness to deliver our mandate effectively through: <ul style="list-style-type: none"> (a) effective employee engagement; (b) continuous upskilling for current and future needs; (c) cultivating a digital- and sustainability-focused culture; and (d) succession planning and the sustainability of our workforce for the medium to long term. 	KRA 6: Ensuring strong talent and capabilities and strengthening PIDM's culture	Capital affected  Principal risks <ul style="list-style-type: none"> • People risk • Operational risk Stakeholders <ul style="list-style-type: none"> • Employees
	Resilience of operations Addressing challenges brought by digital advances: <ul style="list-style-type: none"> (a) leveraging the exponential increase in computing power to enhance the efficiency and effectiveness of PIDM's operations; (b) transition from cyber security to cyber resilience; and (c) enhancing collaboration and integration of processes, systems and people. 	KRA 7: Modernising PIDM's information technology infrastructure, processes and security to augment future readiness to deliver our mandate KRA 8: Leveraging applications and data analytics to improve PIDM's resolution readiness	Capital affected  Principal risks <ul style="list-style-type: none"> • Operational risk • Reputation risk • People risk • Strategic risk Stakeholders <ul style="list-style-type: none"> • Employees • Member institutions
	Corporate Governance Commitment to transparency, accountability, integrity and sustainability, and ensuring effective strategic management and sound management practices.	KRA 9: Applying Environmental, Social and Governance (ESG) as the North Star in PIDM's operations	Capital affected  Principal risks <ul style="list-style-type: none"> • Operational risk • Reputation risk Stakeholders <ul style="list-style-type: none"> • Public • Employees