



Perbadanan Insurans Deposit Malaysia
Protecting Your Insurance And Deposits In Malaysia



SHIFTING GEARS: DRIVING PIDM'S READINESS

ANNUAL REPORT 2020

ABOUT THE REPORT

Perbadanan Insurans Deposit Malaysia (PIDM) has embarked on a journey of integrated reporting. In this Annual Report, we endeavour to provide a comprehensive view about how PIDM and its protection systems create value.

This report is available online at www.pidm.gov.my. [🔗](#)

GOVERNING REGULATIONS AND GUIDELINES

The financial statements as at 31 December 2020 have been prepared in accordance with the Malaysia Deposit Insurance Corporation Act (PIDM Act)¹ and the Malaysian Financial Reporting Standards (MFRS). They also comply with the International Financial Reporting Standards (IFRS).

When developing this Annual Report, we referred to the International Integrated Reporting Framework, published by the International Integrated Reporting Council.

The Board has reviewed and approved the Annual Report and financial statements. It has obtained management representations as well as internal control and risk assurances to ensure that the Annual Report and financial statements accurately represent the performance and the state of affairs of PIDM. The Board has also provided oversight to ensure the identification and evaluation of material matters for value creation by PIDM.

FEEDBACK

Provide your feedback on our Annual Report at info@pidm.gov.my

TABLE OF CONTENTS

From Our Leadership 🔗	02
Organisation Overview and Operating Context 🔗	04
Value Creation 🔗	07
Stakeholders 🔗	11
Governance 🔗	20
Material Matters 🔗	34
Strategy 🔗	42
Performance 🔗 Performance Review Financial Review	50
Overview of Membership 🔗	65
Article 🔗	74
Financial Statements 🔗 Directors' Report Statement by Directors Statutory Declaration Auditor General's Certification Statement of Financial Position Statement of Profit or Loss and Other Comprehensive Income Statement of Changes in Funds and Reserves Statement of Cash Flows Notes to the Financial Statements	78
Glossary of Terms 🔗	154
Technical Reference 🔗	156



This interactive PDF allows you to access information easily, search for a specific item or navigate between pages, sections and links.



Table of Content



Link



Previous Page



Next Page



Search

¹ Amended in 2010 and 2016

FROM OUR LEADERSHIP

From Our Leadership



TAN SRI DR. RAHAMAT BIVI YUSOFF
Chairman



RAFIZ AZUAN ABDULLAH
Chief Executive Officer

At the time of writing, the COVID-19 virus has afflicted some 113.5 million people around the globe by way of health.¹ As lockdowns took place to mitigate its spread, its thorny effects have voyaged widely to the discomfort of many economies and governments, pressuring health care, industries, businesses and the financial wellbeing of the public in general. In Malaysia, the Government, regulators and the financial industry have made considerable effort to help Malaysian enterprises and individuals in need of financial support. As did non-government organisations and individuals, who have rallied to help provide food and other support to those in need.

Indeed, the unpredicted events of 2020 have reinforced PIDM's determination to do our part – to monitor and be ready to respond to the risks that circumstances might pose on the financial system, even whilst the financial system remains resilient but challenged.

LESSONS AND PROGRESS REPORT

Key lessons for us at PIDM in 2020 included the need to focus on agility and underlined the importance of effective cooperation among key stakeholders. The year 2020 also reinforced our resolve to continue, and indeed, intensify, our simulations, so that we can practise for many possible and even seemingly unlikely scenarios.

Agility and Coordination

Like others, the circumstances prevailing in 2020 forced us to take quick action to be able to continue work virtually and, importantly, securely, given the nature of our work and risks of cyberattacks. At the same time, we needed to channel key resources to focus on the immediate and necessary. In view of the operating environment, we intensified our monitoring and carried out stress testing. Additional measures were implemented to help alleviate our regulatory burdens on the industry, including time extensions for submissions of information and the halving of premiums and levies.

In 2020, we pressed on with most of our key focus areas, which revolved around preparedness. Some adaptation was necessary to accommodate the inability to carry out physical events, such as the planned international conferences and a public financial literacy campaign. These areas are covered in more detail in the Performance Section on page 50 of this report.

As planned, we continued discussing and ironing the fine details for coordination with other financial safety net players during an intervention and failure resolution. This is with a view to conducting another simulation exercise, among all players, in 2021.

Contingencies, Internal and External Preparedness

Agile methods derive much of their agility by relying on the tacit knowledge embodied in the team, rather than writing the knowledge down in plans.

- Barry Boehm, American software engineer -

Also, in 2020, we completed two simulation exercises. We carried out a two-day virtual simulation exercise, facilitated by the Toronto Centre (Global Leadership in Financial Supervision), aimed at improving our readiness for an intervention and failure resolution. This also helped us to crystallise potential inter-agency coordination matters for further discussion.

As for external preparedness, given the prevailing environment, we reinforced key messages about the protection systems administered by PIDM in order to help maintain public confidence in the financial system. As planned, we also worked on growing our social media presence on Facebook and introduced our LinkedIn page. We are pleased that our public awareness level is on an upward trend; the online survey results reported that public awareness level was at 72%, above our target of 65%.

CONCLUSION AND GOING FORWARD

To our employees, we express our utmost gratitude for demonstrating their steadfastness in supporting the organisation under worse conditions. Constancy, allegiance, dedication, perseverance – all of these words come to our mind and we are proud of them. We thank the Board for their strategic challenge, views, guidance and support.

We are pleased to share Perbadanan Insurans Deposit Malaysia's 2020 annual report, outlining our overall progress against our key focus areas.

Going forward, our plans are summarised in our Corporate Plan 2021 - 2023, found at www.pidm.gov.my. Themed "Investing in Heightened Responsiveness", it is a manifestation, we hope, of our resolve to be as much as we can be, in order to do what we must do, to meet the expectations of the framers of the Malaysia Deposit Insurance Corporation Act, and to contribute meaningfully to the wellbeing of financial consumers, industry, and Malaysians as a whole in these challenging times and well into the future.

Tan Sri Dr. Rahamat Bivi Yusoff

Rafiz Azuan Abdullah

¹ World Health Organisation (WHO), WHO Coronavirus Disease (COVID-19) Dashboard as at 28 February 2021, <https://covid19.who.int/>

ORGANISATION OVERVIEW AND OPERATING CONTEXT

ORGANISATION OVERVIEW

Who We Are

PIDM is a statutory body established in 2005 under the Malaysia Deposit Insurance Corporation Act¹ (PIDM Act).² Governed by a nine-member Board, PIDM reports to Parliament through the Minister of Finance.

Together with the Ministry of Finance (MOF) and Bank Negara Malaysia (BNM), PIDM forms part of the nation's financial safety net.

MANDATE – the statutory objects (Section 4 of the PIDM Act)	How we carry out our mandate
Administer the Deposit Insurance System and the Takaful and Insurance Benefits Protection System	We are accountable for carrying out our mandate in line with good governance and our corporate values.
Protection against loss of deposits or takaful or insurance benefits in a member institution failure	We monitor the health of member institutions and we remain in a state of readiness for an intervention and failure resolution.
Provide incentives for sound risk management in the financial system	Our differential premium and levy systems provide member institutions with incentives to adopt sound risk management practices. We also support good corporate governance within member institutions.
Promote or contribute to the stability of the financial system	Together with the MOF and BNM, we form the nation's financial safety net. Our stakeholders must have trust and confidence in PIDM.

OUR VISION

To promote confidence by being a best practice financial consumer protection and resolution authority

OUR MISSION

To execute our mandate effectively, with a commitment to make a difference to our community and our employees

Our Standards

In carrying out our functions, we strive to achieve regulatory excellence,³ by adhering to high standards of corporate governance. When developing key policies, we carry out extensive research and benchmarking. As appropriate, we consult widely, adapting where necessary for our industry and operating environment. We continuously learn from others, leveraging on our extensive networks with international counterparts. As an entity in the public sector, we are also committed to effective allocation of resources and ensuring accountability.

¹ The Malaysia Deposit Insurance Corporation Act 2005

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

³ Refer to "Listening, Learning, Leading: A Framework for Regulatory Excellence", Cary Coglianese

Organisation Overview and Operating Context

OPERATING ENVIRONMENT

Membership

As at December 2020, there were 92 member institutions, comprising 42 member banks (conventional and Islamic banks) and 50 insurer members (insurance companies and takaful operators).

Details of the deposits insured and actuarial valuation liabilities⁴ for the assessment year 2020 are as follows:

- **Member banks.** Deposits insured by PIDM amounted to RM588 billion or 30% of total deposits, which represents full protection for 96% of total depositors.
- **Insurer members.** Total actuarial valuation liabilities of life insurance companies and family takaful operators amounted to RM166 billion and total liabilities of general insurance companies and takaful operators amounted to RM20 billion. PIDM fully protects 99% of life policy and family takaful certificate owners, and 96% of general policy and takaful certificate owners.

Overall, PIDM's member institutions continue to deliver healthy financial performance, and have strong capital and other fundamentals to weather potential economic shocks. Nevertheless, in light of the uncertainties in our operating environment and potential challenges, PIDM must maintain its focus on the monitoring of risks to which member institutions might be exposed and the overall risk environment in order to be prepared.

Refer to the Overview of Membership Section for more details. [🔗](#)

Internal Environment

In assessing the risk ratings in 2020, we took note of key environmental risk factors to PIDM, in particular the increasing trend in cybersecurity threats and potential vulnerabilities arising from the external environment. This guided our approach to managing risks and the development of our corporate plan and future action plans for 2021 onwards. Our assessment of material matters also guided how we developed our long-term plans. This was, in particular, to align our human capital with our strategic direction and establish other measures for the sustainability of our future workforce.

Refer to the Material Matters Section for more details. [🔗](#)

Economic Outlook

In 2021, although some factors – the vaccine rollout, less volatile United States-China relations and the still supportive financial conditions – have lifted market expectations of global growth, considerable downside risks remain. Resurging COVID-19 cases and the reimposition of movement restrictions, the new variants of the virus, and the uncertainties over the production and distribution of vaccine timelines still cast a long shadow over the immediate future outlook. The external environment also brings with it other issues such as the increasing cybersecurity threats. In addition, most countries have seen considerable increases in public debt. Should the health crisis continue to persist over a longer term, countries with limited fiscal space to support a recovery may face significant risks of accelerating insolvencies.

Despite current hurdles, Malaysia's economy is expected to recover in the second half of 2021, supported by the improvement in global demand, as vaccine distribution widens. A recovery in private domestic demand, underpinned by continued policy support measures, would also provide some support. However, this outlook remains subject to downside risks. The ongoing uncertainties regarding the various aspects of the vaccines and the pandemic's trajectory may significantly affect the outlook.

As for member institutions, strong fundamentals and ample buffers would allow them to support economic recovery and weather potential challenges. We will continue to assess the potential downside risks and monitor the conditions of member institutions.

In 2021 - 2023, we will continue to enhance our operational readiness to take prompt intervention and failure resolution actions in the unlikely event of a member institution failure, supporting one of our strategic objectives, namely, to heighten our resolution readiness in Malaysia. Refer to the Strategy Section [🔗](#) and the Summary of the Corporate Plan at www.pidm.gov.my [🔗](#) for details on our corporate initiatives.

⁴ As at 31 December 2019

Value Creation



VALUE CREATION

THE VALUE OF PROTECTION SYSTEMS

The intended value of PIDM’s protection systems can be inferred from its mandate and the preamble of the Malaysia Deposit Insurance Corporation Act (PIDM Act).

“Whereas the stability of the financial system is a key determinant of the economic growth and prosperity of Malaysia:

Whereas the purpose of the deposit insurance system and the takaful and insurance benefits protection system is to protect financial consumers... in the event of failure of a member institution and PIDM is to carry out its mandated functions with speed and efficiency; ... and promote sound risk management in the financial system and enhance financial consumer protection”.

(Preamble to the PIDM Act as passed by Parliament)

Promotion of public confidence. Public confidence in the safety of bank deposits, and takaful and insurance benefits promotes the stability of member institutions. This also reduces the likelihood of panic and sudden withdrawal of bank deposits, or the surrender of insurance policies or takaful certificates should concerns arise about the condition of an institution. Thus, PIDM and its protection systems help to enhance stability in the financial system.

Reduction of costs of failure on the financial system. PIDM’s ability to intervene early and act promptly is important for the protection of financial benefits. Early intervention reduces the overall costs of failures and potential adverse effects on the rest of the financial system. PIDM has extensive powers to act quickly to intervene and resolve a member institution in a failure.

Incentivise sound risk management in the financial system. PIDM is also mandated to provide incentives for sound risk management. This is carried out through the differential premium and levy systems that it applies to member institutions, as premium or levy rates differ according to different risk categories.

Value Drivers

PIDM’s value drivers reflect the attributes of regulatory excellence¹ as follows:

- having a clear mandate;
- being accountable, underpinning how it implements corporate governance and account to its stakeholders;
- ensuring a continuous pool of highly competent talents with the right attitudes, culture and values; and
- engaging relevant stakeholders.

‘Value’ addresses not just present needs or the needs of specific stakeholders, but also the longer-term public good. Achieving its statutory objectives calls for trade-offs when deciding how to apply its resources and address competing sources of value, as well as achieve an appropriate balance among internal and external stakeholders over the short, medium and long term. All of these are important to the effective performance of PIDM’s statutory role and functions.

HOW WE CREATE VALUE

Inputs
(Resources and
capabilities and
resource allocation)



Human capital



Social and
relationship
capital



Financial
capital



Intellectual
capital



Manufactured
capital

Refer to page 10

What we do
(‘Value’ or business model)

Ensure the protection of financial consumers against loss in the event of a member institution failure

- Establish and maintain systems, people and processes to ensure a high state of operational readiness for an intervention and failure resolution
- Monitor and risk assess member institutions for readiness
- Carry out a regular review of intervention and failure resolution tools for effectiveness and efficiency
- Carry out resolution planning

Provide incentives for sound risk management

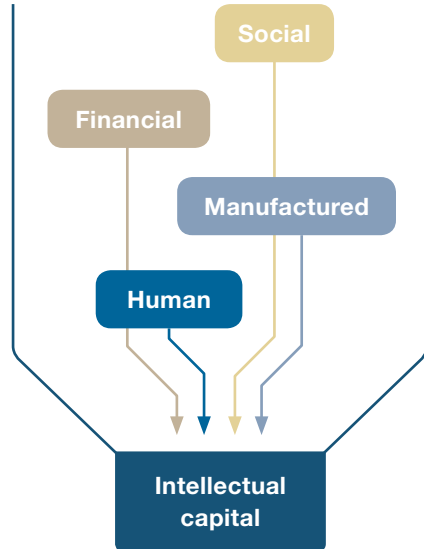
- Administer differential premiums and levy systems
- Provide support for good corporate governance in member institutions through FIDE FORUM
- Promote trust and confidence
- Carry out public awareness and appropriate communications initiatives

Value drivers (Refer to page 8)

- Clear mandate
- Accountability
- Talent
- Stakeholder engagement

Outputs
(Refer to the Performance Section on
page 50)

Financial, human, and social and relationship capitals translate into intellectual capital (including brand and reputation, organisation systems and related procedures). Manufactured capital allows for greater efficiency in performing our functions. Refer to page 10 for the description of how the capitals are translated into achievement of our mandate.



Outcome / Value

Accountability

- Demonstration of good governance and accountability in the public sector
- Sustainability initiatives, such as scholarship and financial literacy

Talent

- Continuous pool of highly capable employees
- Knowledge transfer and expertise development

Stakeholder management

- Effective policies and laws

Value to financial consumers

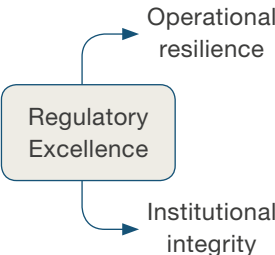
- Ensures depositors, takaful certificate and insurance policy owners have continued access to their savings, takaful and insurance benefits if a member institution fails

Value to the public and industry – overall financial system stability

- Mitigates risks of bank runs and surrenders of insurance policies or takaful certificates
- Promotes confidence in the financial system, its smooth functioning and supports the economy as a whole
- Helps reduce risks of failure (incentivises sound risk management)
- Mitigates costs of member institution failures to the financial system

Value to the economy

- Ensures effective intermediation by ensuring orderly exit of troubled member institutions
- Costs of failure are borne by the industry; financial burden on the Government is reduced



Fulfilment of the
public policy
objectives of the
PIDM Act – preserve
financial system
stability

Return assets to
the economy for
productive use

Reduced financial
burden on
Government

Our key stakeholders



Members of the public



Member institutions and
industry associations



Financial safety net players
and Government agencies



Media



International
counterparts



Strategic service providers
and partners



Employees

*Refer to the Stakeholders Section on
page 11*

Our principal risks

- Human capital** – People risk
- The new normal** – Operational risk
- Heighten readiness to perform its mandate** – Insurance risk
- Damage to image and reputation** – Reputation risk






*Refer to the Material Matters Section on
page 34*

Our conduct is guided by our corporate values: Gratefulness, Reliability, Excellence, Agility and Trustworthiness

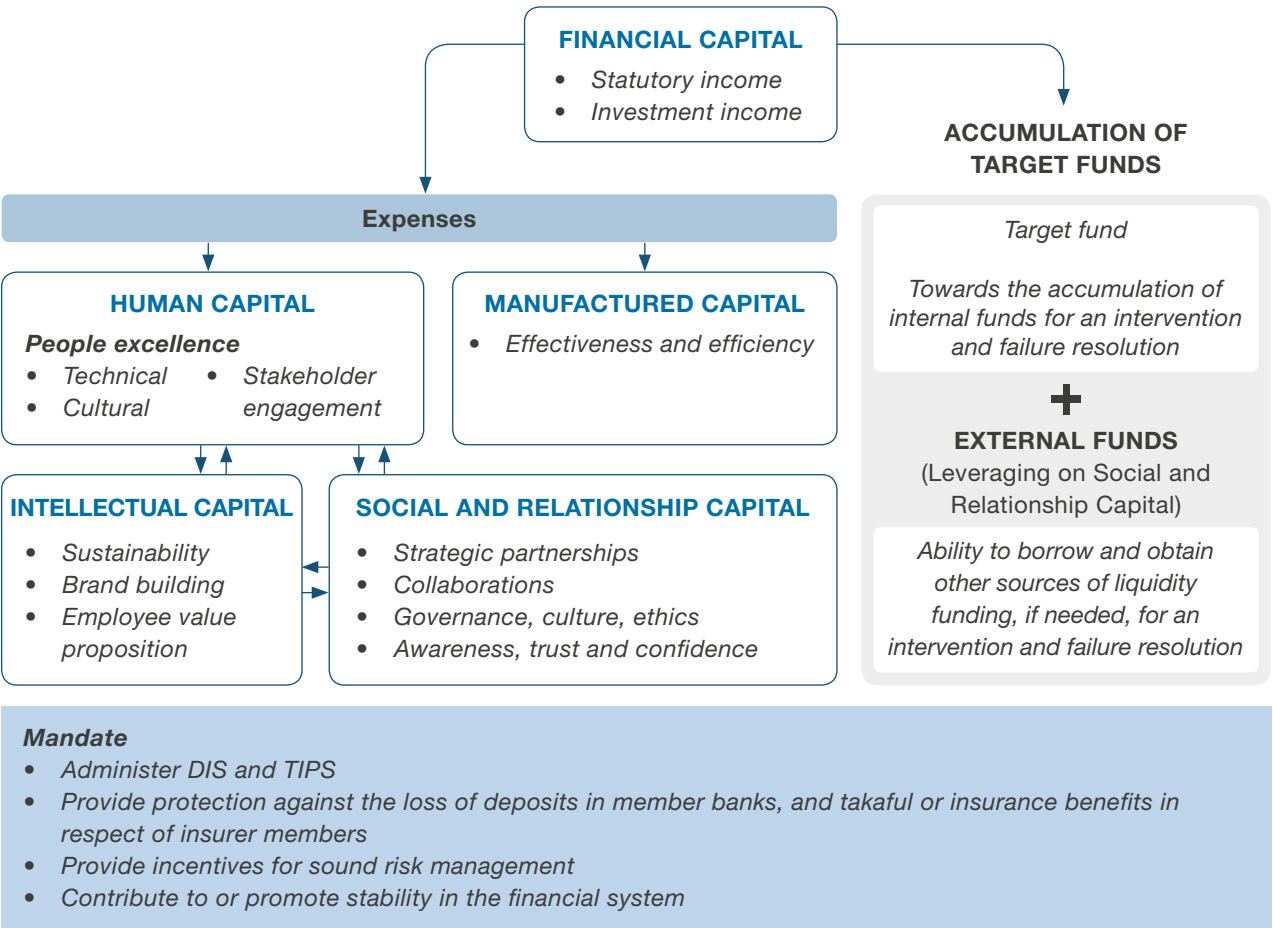
¹ Discussed in “Achieving Regulatory Excellence” edited by Cary Coglianese, Brookings Institution Press, 2016

Value Creation

Capitals

	Human capital <ul style="list-style-type: none">Competencies, capabilities and experience of employees
	Social and relationship capital <ul style="list-style-type: none">Strong relationship within PIDM and with our external stakeholdersReputation and image
	Financial capital <ul style="list-style-type: none">Statutory income from premiums and levies collected from our member institutions and investment income from the protection fundsAbility to borrow to carry out our statutory functions
	Intellectual capital <ul style="list-style-type: none">Knowledge and expertise in Deposit Insurance System (DIS) and Takaful and Insurance Benefits Protection System (TIPS)Knowledge of corporate governance practices in the public sectorKnowledge acquired and captured through our learning organisation initiatives
	Manufactured capital <ul style="list-style-type: none">Systems and infrastructure for our day-to-day operations and for intervention and failure resolutionDisaster recovery centre and information technology security infrastructure

How Our Capitals are Interlinked and Translated to Achieve PIDM's Mandate



Source of Financial Capital

PIDM's primary source of financial capital is the premiums and levies imposed on member institutions, and the investment income from the funds. The premium and levy rates are decided by the Minister of Finance on PIDM's recommendations.

The respective funds are collected before a failure of any member institution (ex-ante). The target fund size is determined by reference to what is considered sufficient to meet PIDM's expected future obligations and to cover PIDM's operational and related costs. The target funds are not intended to cover all of the insured deposits or insurance or takaful liabilities. This is to avoid PIDM holding funds that are not needed and that could be better used by the industry for lending and other business purposes. This means, then, for PIDM to be able to promptly carry out its obligations during an intervention and failure resolution, it must have access to prompt liquidity funding should there be a shortfall in its internal funds.

Financial and Relationship Capitals are Translated into Intellectual, and Other Capitals for Creation of Value

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

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 its intellectual capital.

As part of the financial safety net, to successfully manage its 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 its people, but its governance structure, internal ethics and behaviour, and the appropriate public communications and relations.



Manufactured capital, such as PIDM's information technology infrastructure, is important for effectiveness and efficiency. PIDM's plans going forward include a digital transformation plan to help guide how it manages and uses the data and information it collects (e.g. from member institutions, Bank Negara Malaysia and other resolution authorities), and to carry out more research, in particular on data and information that it and others can analyse and use, with a view to facilitating the creation of value for society.

Stakeholders

STAKEHOLDERS

Stakeholders

Our success is dependent, among others, on our engagement with stakeholders. We aim for transparency and we engage with our stakeholders through various approaches. The following describes our stakeholder engagement initiatives, our feedback mechanisms, our stakeholders' interests and our key engagement approaches. Refer to the Performance Section on page 50 [🔗](#) for more details about our stakeholder engagements in 2020.

Key stakeholder	Feedback mechanisms	What are their interests?	How do we respond?	Future plans
 Members of the public	<ul style="list-style-type: none"> Awareness and trust index survey Surveys or questionnaires Media interest Focus group feedback Stakeholder perception audit (media) 	Mandate fulfilment For PIDM to fulfil its statutory mandate with accountability and transparency.	Our progress against our corporate plan initiatives is reported in our annual report. Financial statements are laid in Parliament through the Minister of Finance each year. All of our corporate plans and annual reports are publicly available on our website.	We will continue our current practices, and comply with the Malaysia Deposit Insurance Corporation Act (PIDM Act).
			We have a consultation process for feedback from our stakeholders on important matters such as draft regulations.	Our consultation papers will continue to be publicly available on our website.
		Financial system stability According to our consumer awareness surveys, those who were aware of deposit insurance felt that PIDM protection was relevant to them.	We carry out public awareness initiatives and programmes about PIDM and its protection systems through multiple channels. We also promote financial literacy to the public as a foundation to greater understanding as well as to provide valuable content.	We will continue to carry out awareness programmes to enhance understanding about PIDM through multiple channels and continue to grow our social media presence. We will also carry out initiatives to promote and support financial resilience among the public.
		Value creation Awareness and trust in PIDM promote confidence in the stability of the financial system. A stable financial system allows member institutions to perform their businesses and their functions within the economy.	The Deposit Insurance System Information Regulations require member banks to display information about PIDM at their premises, websites and provide information to relevant customers.	Similar requirements under the Takaful and Insurance Benefits Protection System will be imposed on insurer members.
 Member institutions and industry associations	<ul style="list-style-type: none"> Stakeholder perception audit Post-event satisfaction surveys Industry engagements One-to-one engagements at senior levels at member institutions and industry associations Consultations 	Key insights from feedback <ul style="list-style-type: none"> The industry wishes to see value from PIDM on a day-to-day basis, given the overall stability of the financial system. Industry associations have requested for more collaboration with PIDM in areas of common interest. Expectations are for PIDM to demonstrate competence, effectiveness and efficiency as a regulator, in particular in its requests for information submission, as well as financial stewardship. 	We consult on proposed policies or frameworks impacting member institutions.	We will continue to engage the industry and consult on policies and frameworks impacting them.
		Value creation By carrying out engagements, PIDM promotes effective policy-making, regulations and regulatory solutions.	We conduct knowledge-sharing sessions with our member institutions' front liners about PIDM and its protection systems.	We will continue to conduct knowledge-sharing sessions with our member institutions as and when requested. We plan to carry out the next stakeholder perception audit in 2021.
			In 2020, PIDM extended the deadlines for compliance with regulatory requirements, in order to reduce regulatory burdens on member institutions. Refer to the Performance Section on page 50. 🔗	
			PIDM publishes its financial statements in line with appropriate reporting standards, so that it may account for its expenditure.	

Stakeholders



Stakeholders

Key stakeholder	Feedback mechanisms	What are their interests?	How do we respond?	Future plans
<p>Financial safety net players and Government agencies</p>	<ul style="list-style-type: none"> Bank Negara Malaysia (BNM) Strategic Alliance Agreement Liaison Committee Ex-officio Board members One-to-one engagements with other agencies, including Agensi Kaunseling dan Pengurusan Kredit Engagements with senior officials in the Government Feedback at working levels 	<p>Financial system stability The Ministry of Finance and BNM share the same public policy objective as PIDM, which is financial system stability.</p>	<p>We have a Strategic Alliance Agreement with BNM. The Governor of BNM and Secretary General of the Treasury are ex-officio Board members of PIDM, to help support coordination among the financial safety net players.</p>	<p>We will continue to work closely with the other financial safety net players.</p>
			<p>We consult relevant agencies prior to any amendments to the PIDM Act.</p> <p>We build relationships through, for example, secondments.</p>	
		<p>Clear regulatory roles and responsibilities There must be effective communications and collaborations to address concerns about stability in the financial system.</p> <p>There should be clarity of roles and responsibilities especially during a crisis.</p> <p>Value creation There is value creation in ensuring collaboration and clarity of roles and responsibilities among financial safety net players.</p>	<p>We participate in inter-agency information-sharing sessions.</p> <p>Our Chief Executive Officer is a member of the Financial Stability Executive Committee established under the Central Bank Act 2009.</p>	<p>We are reviewing crisis management arrangements and protocols among the financial safety net players and we will carry out simulations to test these arrangements.</p>
		<p>Promotion of financial literacy among the public</p> <p>Value creation Financial literacy and better understanding about PIDM and its protection systems and public confidence.</p>	<p>We work on promoting financial resilience, finding opportunities to collaborate with strategic partners and leverage on our Financial Education Network partners.</p>	<p>We will continue to work on financial resilience among the public.</p>
		<p>Adherence to national reporting standards The National Audit Department (NAD) obtains information from PIDM to carry out its statutory audit. Its interest is to ensure that we adhere to the Malaysian Financial Reporting Standards and maintain internal controls and effective risk management.</p>	<p>We collaborate with NAD on its external audits.</p>	<p>We will continue to work closely with NAD on its external audits to ensure adherence to the Malaysian Financial Reporting Standards and we will continue to maintain strong internal controls and risk management.</p>

Stakeholders

Key stakeholder	Feedback mechanisms	What are their interests?	How do we respond?	Future plans
<p>Media</p>	<ul style="list-style-type: none"> Stakeholder perception audit Media engagement sessions' feedback 	<p>Provide clear and accurate information The media plays a significant role in shaping public opinion.</p> <p>The media expects PIDM's communications to be able to provide clear and accurate information to the public.</p> <p>Key insights from feedback Current media interest in PIDM tends to be skewed towards scam-related stories and profiles of leaders, rather than on the specific topic of deposit insurance or insurance guarantee schemes.</p> <p>Value creation A good understanding of PIDM and its work, as well as relationships with PIDM will help support PIDM during a crisis event including an intervention and failure resolution.</p>	<p>We engage with senior management and working levels of the media to establish good relationships. This is to help enable the appropriate profiling for PIDM among the public, and to help maintain its reputation and image.</p>	<p>We will continue to build content for PIDM's public awareness initiatives as well as for intervention and failure resolution including resolution planning.</p>
			<p>We engage with relevant media organisations.</p>	<p>We will continue to engage the media.</p>
<p>International counterparts</p>	<ul style="list-style-type: none"> Requests for knowledge sharing and study visits by other deposit insurers or insurance guarantee schemes Appointments onto executive and other committees of international institutions Invitations to speak at international conferences and to give views Offers for secondments to international organisations or counterpart organisations of members Participation in conferences and crisis management groups 	<p>Knowledge sharing and support network International networks allow for effective knowledge sharing, the development of best practices, data collection, research and thought leadership.</p>	<p>We execute memoranda of understanding for knowledge and expertise sharing. To date, we have signed memoranda of understanding with Central Deposit Insurance Corporation (Taiwan), Federal Deposit Insurance Corporation (USA), Indonesia Deposit Insurance Corporation, Korea Deposit Insurance Corporation and Philippines Deposit Insurance Corporation. We have also established agreements with resolution authorities to facilitate cross-border resolution.</p>	<p>We will continue to maintain good relationships with other deposit insurers and insurance guarantee schemes through the International Association of Deposit Insurers (IADI), International Forum of Insurance Guarantee Schemes (IFIGS) and bilateral engagements.</p>
			<p>We participate actively in IADI and IFIGS events and conferences. Where relevant our senior personnel participate as executive or management committee members, relevant committees or subcommittees members.</p>	<p>We will continue to participate actively in relevant IADI and IFIGS events and workstreams.</p>
		<p>Coordination in respect of resolution plans for member institutions with cross-border presence To deal with cross-border member institution failures, many jurisdictions are working on ensuring robust mechanisms for resolution and cross-border cooperation. This is with the view to achieving orderly resolution of financial groups operating across borders.</p> <p>PIDM has been invited to participate in some of the relevant crisis management groups.</p> <p>Value creation With these engagements, we have been able to contribute to international policy benchmarks and thought leadership in areas such as Islamic deposit insurance and developing standards in this field. We are also able to participate in coordination and planning with foreign resolution authorities on cross-border resolution.</p>	<p>We engage with other international organisations, especially those involved in resolution, financial markets and promotion of financial growth and stability. We also engage with foreign authorities in relation to cross-border recovery and resolution planning.</p>	<p>We will continue to have ongoing discussions with foreign authorities bilaterally, and through platforms such as, the crisis management groups and the Executives' Meeting of East Asia-Pacific Central Banks.</p>

Stakeholders

Key stakeholder	Feedback mechanisms	What are their interests?	How do we respond?	Future plans
 <p>Strategic service providers and partners</p>	<ul style="list-style-type: none"> Stakeholder perception audit. The perception audit will include service providers going forward. 	<p>Transparent and fair selection process and strategic partnerships with service providers</p> <p>Service providers expect PIDM to follow a fair process in selecting service providers. PIDM has Board-approved procurement policies supported by best practice procedures.</p> <p>Understanding of PIDM’s business will also allow them to provide quality and effective services.</p> <p>Value creation</p> <p>Working with external service providers as strategic partners and familiarising them with PIDM’s business and affairs will allow PIDM to leverage on these providers for capacity in the event of an intervention and failure resolution.</p>	<p>We engage them to familiarise them on relevant matters such as our legislation, mandate, approaches and processes.</p> <p>As part of our simulation exercise, we conduct training and knowledge-sharing sessions to enhance the readiness of our service providers.</p>	<p>We will continue to engage with the appointed strategic partners and service providers to facilitate their understanding of PIDM’s roles.</p>
 <p>Employees</p>	<ul style="list-style-type: none"> Senior management-led engagement or division sessions Employee voice survey 360-degree assessment (on leadership) Cross-divisional survey feedback Learning organisation survey feedback Enterprise risk management (ERM) maturity level survey External employee-related service providers Attrition rates ERM workshops Management audits and talent reviews Townhall sessions 	<p>Employee engagement</p> <p>Employees have an interest to:</p> <ul style="list-style-type: none"> understand and align their performance in line with PIDM’s goals; contribute to PIDM’s successes; have learning and growth opportunities; and have a safe and conducive work place. <p>Value creation</p> <p>Engagements with employees are important to build culture, a common vision and clarity of objectives as well as to create a conducive work environment that will help retain talents within PIDM.</p>	<p>We carry out regular engagements with employees, and communicate through, among others, heads of divisions or departments, townhall sessions, celebrations, PIDM’s Kelab Sukan, Rekreasi dan Kebajikan activities and PIDM talks. The health and safety of employees are also priorities for PIDM. A learning culture is actively encouraged and human capital learning and development opportunities are made available.</p>	<p>We will continue to carry out these engagements, conduct internal communication sessions and encourage open communication between employees and management.</p>

Governance

GOVERNANCE

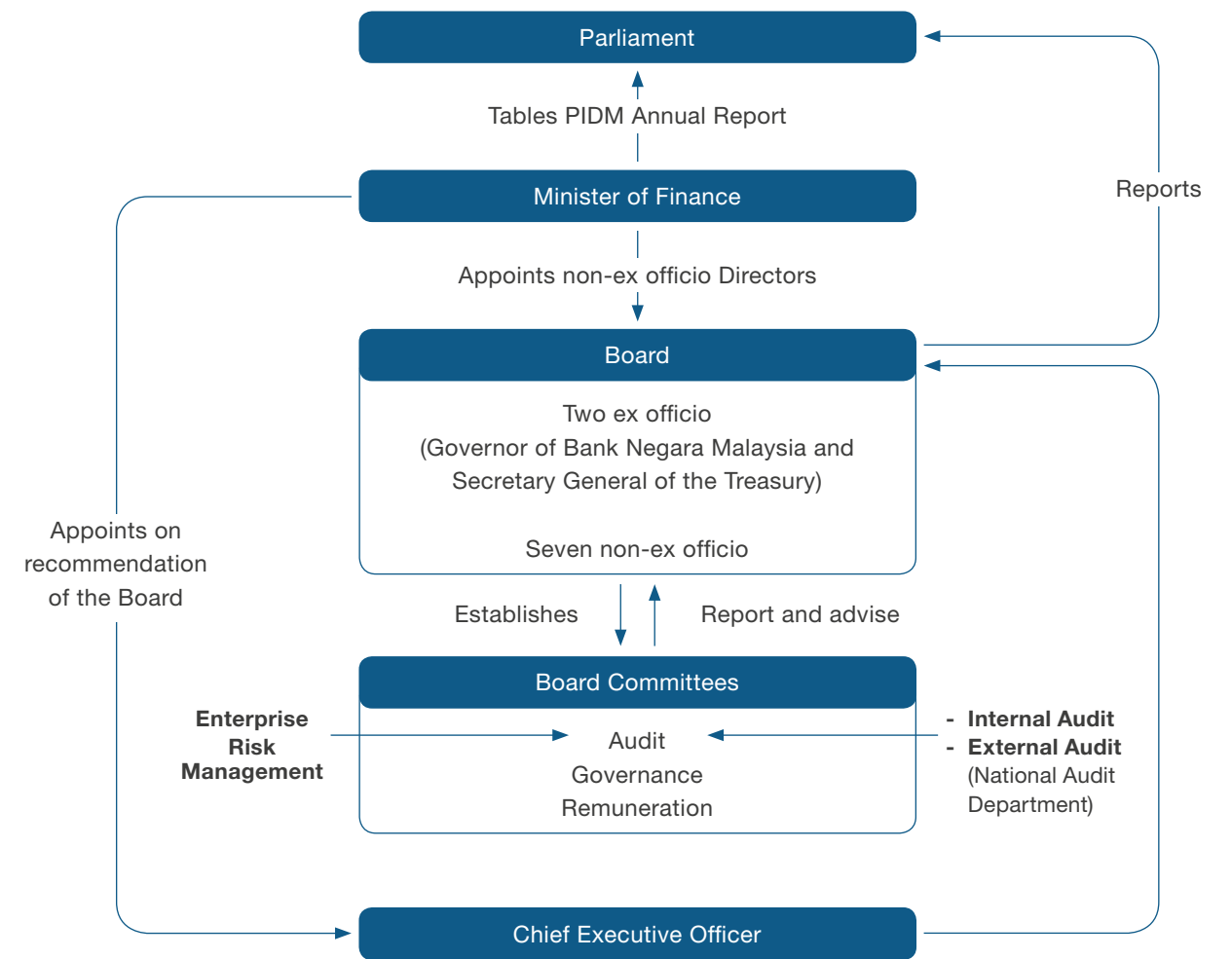
GOVERNANCE OVERVIEW

PIDM's statutory objects are clearly set out in section 4 of the Malaysia Deposit Insurance Corporation Act (PIDM Act).

To administer	To provide	To provide	To promote
a deposit insurance system and a takaful and insurance benefits protection system	protection against the loss of part or all of deposits or the loss of part or all of takaful or insurance benefits	incentives for sound risk management in the financial system	or contribute to the stability of the financial system

Out of PIDM's nine directors, two are ex-officio directors, namely, the Governor of Bank Negara Malaysia (BNM) and the Secretary General of the Treasury. The rest of the Board members, drawn from public and private sectors, are appointed by the Minister of Finance. The Board reports to Parliament through the Minister of Finance.

PIDM's governance structure is shown in the diagram below:



PIDM's Governance Structure

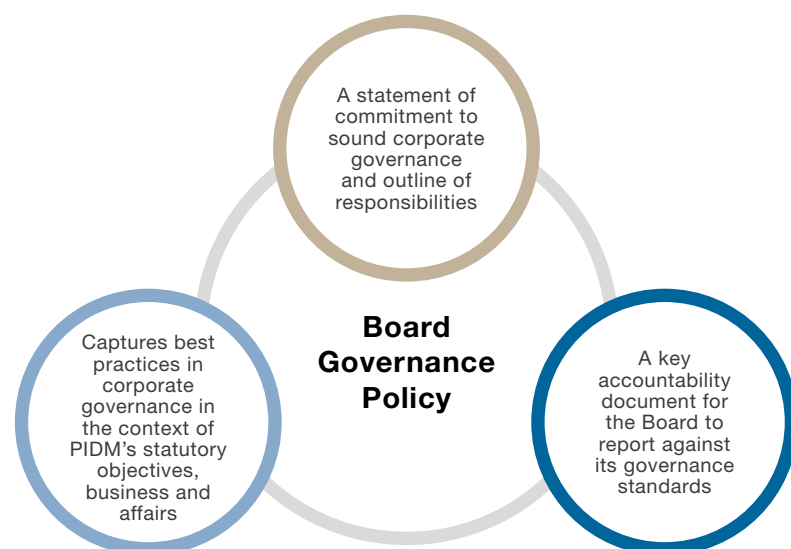
Governance


Governance

Governance Framework

PIDM voluntarily benchmarks its governance practices against best practices such as the International Federation of Accountants' Good Governance in the Public Sector and the International Association of Deposit Insurers' Core Principles for Effective Deposit Insurance Systems.

PIDM reports against its Board Governance Policy, which sets out the roles and responsibilities of the Board and management with regard to corporate governance. The Board Governance Policy is benchmarked against applicable best practices and serves to articulate the Board's expectations of management, and the Board's role in setting the direction and control of PIDM.



The report on the performance against the standards in the Board Governance Policy is made annually and can be found in the Statement on Governance at www.pidm.gov.my. 

The Board and senior management provide ethical leadership within PIDM. All Board members and employees are bound by the Conflict of Interest Code and the Code of Business Conduct and Ethics. They are required to make annual declarations of compliance with the same. The Board through the Audit Committee receives reports on compliance from Management including reports on the results of the compliance test, which is mandatory for all employees. PIDM also has a whistleblowing policy and the Audit Committee receives reports from Management of any whistleblower complaints.







Diversity on the Board

The Board is responsible for the conduct of the business and affairs of PIDM. It is assisted by the Board Committees in its oversight of PIDM's value creation. There is gender diversity on the current Board (55.5% female, 44.5% male). The mix of skills and experience on the Board is diverse, including legal, accounting, economics, corporate finance, mergers and acquisitions, interventions and insolvency, takaful and corporate governance. Board members generally serve for two terms of three years each and retirements of Board members are staggered.

In 2020, the meeting attendances of Board members were as follows:

Member	Meeting attendances			
	Board	Audit Committee	Governance Committee	Remuneration Committee
Tan Sri Dr. Rahamat Bivi Yusoff	7/7	-	3/3	-
Datuk Nor Shamsiah Mohd Yunus	6/7	-	-	-
Tan Sri Ahmad Badri Mohd Zahir ¹	1/2	-	-	-
Dato' Asri Hamidon @ Hamidin ²	1/5	-	-	-
Datuk Dr. Yacob Mustafa	7/7	5/5	-	-
Puan Suhara Husni ³	3/3	-	-	-
Mr. Alex Foong Soo Hah ⁴	3/3	3/3	-	1/1
Dato Dr. Nik Ramlah Mahmood	7/7	-	3/3	2/2
Dato' Dr. Gan Wee Beng	7/7	4/5	-	2/2
Ms. Gloria Goh Ewe Gim	7/7	5/5	3/3	-

The composition of the Board Committees and their activities in 2020 were as follows:

Audit Committee	Governance Committee	Remuneration Committee
5 Meetings  Chair: Ms. Gloria Goh Ewe Gim  Members: Datuk Dr. Yacob Mustafa Dato' Dr. Gan Wee Beng Mr. Alex Foong Soo Hah <i>(until his retirement on 14 August 2020)</i> In 2020, reviewed: <ul style="list-style-type: none"> Financial Statements 2019 and Annual Report 2019 Enterprise Risk Management reports Statement on Risk Management and Internal Control compliance with laws, internal audit plan and reports reports on expenses, investments and cash management updates on the Corporate Plan and Financial Plan, reports on procurements 	3 Meetings  Chair: Dato Dr. Nik Ramlah Mahmood  Members: Tan Sri Dr. Rahamat Bivi Yusoff Ms. Gloria Goh Ewe Gim In 2020, reviewed: <ul style="list-style-type: none"> corporate governance disclosures governance approach Code of Business Conduct and Ethics for Employees governance policies and procedures Board education and Board succession planning 	2 Meetings  Chair: Mr. Alex Foong Soo Hah <i>(until his retirement on 14 August 2020)</i>  Members: Dato' Dr. Gan Wee Beng Dato Dr. Nik Ramlah Mahmood In 2020, reviewed: <ul style="list-style-type: none"> key human capital initiatives, bonus and increments for employees the Chief Executive Officer's key performance indicators compliance with human capital policies and legal requirements succession planning for key senior management report on PIDM's scholarship programme

¹ Tan Sri Ahmad Badri Mohd Zahir – retired on 30 April 2020

² Dato' Asri Hamidon @ Hamidin – appointed on 1 May 2020

³ Puan Suhara Husni – appointed on 1 August 2020

⁴ Mr. Alex Foong Soo Hah – retired on 14 August 2020

Governance

Risk Management and Internal Control

PIDM's internal controls include a code of ethics, requirements for declarations of conflicts of interest and assets, and a whistleblowing policy. Controls are also embedded in all activities related to PIDM's management of the protection systems it administers.

The Board ensures that it obtains an understanding of key risks and ensures that they are appropriately managed. PIDM's risks are identified with both bottom-up and top-down approaches. They are discussed extensively with PIDM's employees in enterprise risk management (ERM) workshops. An annual ERM Board Risk Report that contains a detailed annual assessment of PIDM's risks and action plans is presented to the Board. The Chief Internal Auditor and the Chief Risk Officer report to the Board through the Audit Committee. The independent internal audit function provides reasonable assurance that internal control and risk management systems are effective.

In 2020, due to the COVID-19 pandemic, there were significant movements in risk ratings and trends compared to 2019. The trend for insurance risk has increased as the current economic environment remains uncertain. Cyberattacks are an emerging risk that is trending upward given the need for remote working arrangements. New risk factors were considered across various risk categories and the more significant risks were scrutinised to determine if there was a need to reassess risk ratings. These are discussed in the Material Matters Section on page 34 [and](#) also in the Statement of Risk Management and Internal Control which can be found at www.pidm.gov.my.

External Audit

PIDM's financial statements are audited by the Auditor General in accordance with the Audit Act 1957. The Board approves the release of the unaudited financial statements to the National Audit Department, which examines PIDM's unaudited financial statements in accordance with the Approved Standards on Auditing in Malaysia and the International Standards of Supreme Audit Institutions effective for the financial year ended 31 December of each year. Representatives from the National Audit Department are invited to attend all Audit Committee meetings and receive, as a matter of course, all the relevant documentation prior to the Audit Committee meetings.

Human Capital

The Board ensures that the human capital strategy is aligned with the corporate objectives and supports PIDM's long-term sustainability. The Remuneration Committee supports the Board and has oversight of the state of key human capital strategies as well as monitors the overall health of PIDM's human capital.

Despite the COVID-19 pandemic, safety and health is a priority and trainings continued, where necessary, virtually.

There were regular communications with employees to ensure people engagement and productivity. Corporate values were refreshed. In particular, the new values included "agility" both in the context of being responsive to potential or unanticipated crises, as well as to reinforce the need for the workforce to quickly adapt to prevailing constraints in their work environment.

Social Capital and Stakeholder Engagements for Effective Decision-Making

The Board considers stakeholder engagement highly important to the achievement of PIDM's end objectives. PIDM continued to adopt processes to ensure the appropriate consideration of significant stakeholder views especially in the development of effective regulatory policies. In 2020, in view of the COVID-19 pandemic, the Board also supported the granting of relief measures in respect of PIDM's requirements and reductions in premiums and levies, in order to help support the financial services industry during these times of economic stress.

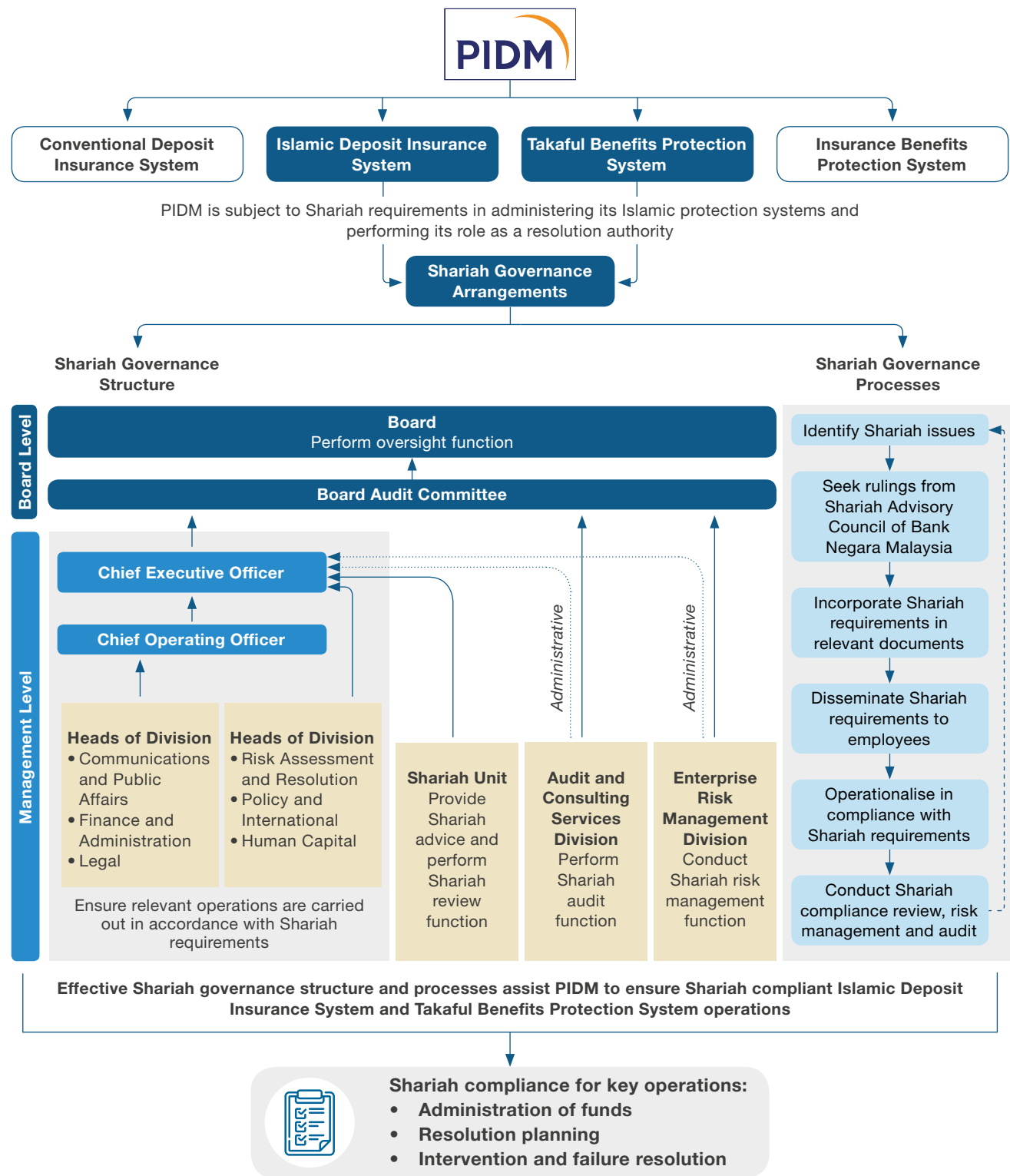
APPROACH TO GOVERNANCE AND ACCOUNTABILITY

Transparency of PIDM's progress against planned initiatives enables key stakeholders to make an informed assessment of PIDM's performance and its ability to meet its statutory obligations. PIDM publishes its corporate plan on an annual basis, and reports its progress against the plan in its annual report. Aside from building important social and intellectual capitals, PIDM's adoption of governance practices is also important to ensure accountability during an intervention and failure resolution.

Governance

SHARIAH GOVERNANCE ARRANGEMENTS

PIDM is subject to Shariah requirements when performing its functions and discharging its duties with respect to the Islamic Deposit Insurance System and the Takaful Benefits Protection System. PIDM is also responsible for the implementation of prompt intervention and failure resolution actions for Islamic member institutions. To ensure compliance with the Shariah requirements when managing and operating these protection systems, PIDM is guided by the rulings of BNM's Shariah Advisory Council (SAC). PIDM's Shariah governance arrangements are depicted in the following diagram:



Governance

BOARD OF DIRECTORS – MEMBERS AND PROFILES



TAN SRI DR. RAHAMAT BIVI YUSOFF

Chairman

Appointed to the Board: January 2012

Appointed as Chairman of the Board: August 2017

Membership of Board Committees

- Chairman of PIDM's Board of Directors
- Member of Governance Committee

Qualifications

- PhD, Australian National University, Australia
- Masters of Economics, Western Michigan University, United States
- Bachelor of Social Sciences (Economics) (Honours), Universiti Sains Malaysia

Area of Expertise

- Economics

Current Appointment

- Chairperson, Board of Governors, Multimedia University, Malaysia
- Member, Board of Trustees, Yayasan Peneraju Pendidikan Bumiputera
- Member, Research Advisory Council, Perbadanan Nasional Berhad

Directorships

- Chairman, Malaysia Nuclear Power Corporation
- Co-Chairperson, Malaysia-Thailand Joint Authority
- Independent Non-Executive Director, Bank Pembangunan Malaysia Berhad
- Independent Non-Executive Director, Ekuiti Nasional Berhad
- Independent Non-Executive Director, IOI Corporation Berhad

Past Experience

- Director General, Economic Planning Unit
- Deputy Secretary General of Treasury, Ministry of Finance, in charge of the Systems and Controls Division



DATUK NOR SHAMSAH MOHD YUNUS

Ex-Officio Director

Appointed to the Board: July 2018

Membership of Board Committees

- Nil

Qualifications

- Bachelor of Arts in Accountancy, University of South Australia, Australia

Professional Membership

- CPA Australia
- Malaysian Institute of Accountants

Area of Expertise

- Accounting and finance, regulation of banking and financial services, crisis management, insurance, human resource management

Current Appointment

- Governor, Bank Negara Malaysia

Directorships

- Chairman, South East Asian Central Banks (SEACEN)
- Chairman, International Centre for Education in Islamic Finance (INCEIF)

Past Experience

- Assistant Director, Monetary and Capital Markets Division, International Monetary Fund
- Deputy Governor, Bank Negara Malaysia

BOARD OF DIRECTORS – MEMBERS AND PROFILES



DATO' ASRI HAMIDON @ HAMIDIN

Ex-Officio Director

Appointed to the Board: May 2020

Membership of Board Committees

- Nil

Qualifications

- Harvard Premier Business Management Program
- Masters in Economics, Hiroshima University, Japan
- Bachelor in Economics (Hons), University of Malaya, Malaysia
- Diploma in Public Administration, the National Institute of Public Administration, Malaysia

Area of Expertise

- Economics

Current Appointment

- Secretary General of Treasury, Ministry of Finance
- Member, Board of Trustees, Pelaburan Hartanah Berhad

Directorships

- Chairman, Retirement Fund (Incorporated)
- Chairman and Director, 1Malaysia Development Berhad
- Senior Independent Director, Bina Darulaman Berhad
- Non-Independent and Non-Executive Director, DanaInfra Nasional Berhad
- Director, Telekom Malaysia Berhad
- Director, Aset Tanah Nasional Berhad
- Director, GovCo Holdings Berhad
- Director, Malaysia Convention & Exhibition Bureau

Past Experience

- Deputy Secretary General (Policy) of Treasury, Ministry of Finance
- Assistant Director, Economic Planning Unit



DATUK DR. YACOB MUSTAFA

Public Sector Director

Appointed to the Board: November 2019

Membership of Board Committees

- Member of Audit Committee

Qualifications

- PhD in Economics, Universiti Kebangsaan Malaysia
- Master of Business Administration, Universiti Kebangsaan Malaysia
- Bachelor of Accounting, University of Malaya, Malaysia

Professional Membership

- CPA Australia
- The Chartered Institute of Public Finance and Accountancy, United Kingdom
- Malaysian Institute of Accountants

Area of Expertise

- Economics, accounting

Current Appointment

- Accountant General of Malaysia

Directorships

- Director, Lembaga Pembiayaan Perumahan Sektor Awam
- Director, DanaInfra Nasional Berhad
- Director, Malaysian Accounting Standards Board
- Director, Inland Revenue Board of Malaysia

Past Experience

- Deputy Accountant General of Malaysia, Accountant General's Department

Governance

Governance

BOARD OF DIRECTORS – MEMBERS AND PROFILES



PUAN SUHARA HUSNI
Public Sector Director

Appointed to the Board: August 2020

Membership of Board Committees

- Nil

Qualifications

- Master of Business Administration, Universiti Kebangsaan Malaysia
- Bachelor of Laws (Honours), International Islamic University of Malaysia
- Bachelor of Laws (Shari'ah) (Honours), International Islamic University of Malaysia

Area of Expertise

- Law

Current Appointment

- Registrar of the Registrar Office of Credit Reporting Agencies, Malaysia
- Member, Board of Governors, National Kidney Foundation of Malaysia

Directorships

- Director, Universiti Sains Islam Malaysia

Past Experience

- Principal Assistant Secretary, Department of Higher Education, Ministry of Higher Education
- Assistant Secretary, Prime Minister's Department



DATO DR. NIK RAMLAH MAHMOOD
Private Sector Director

Appointed to the Board: August 2016

Membership of Board Committees

- Chairman of Governance Committee
- Member of Remuneration Committee

Qualifications

- PhD, University of London, United Kingdom
- Master of Laws, University of London, United Kingdom
- Bachelor of Laws (First Class Honours), University of Malaya, Malaysia

Area of Expertise

- Legal, capital market and financial services regulation, corporate governance

Directorships

- Director, Securities Industry Development Corporation
- Director, Institute Capital Market Research
- Director, International Centre for Education in Islamic Finance (INCEIF)
- Director, Permodalan Nasional Berhad
- Director, Amanah Saham Nasional Berhad
- Independent Non-Executive Director, Axiata Group Berhad
- Independent Non-Executive Director, United Malacca Berhad
- Chairman, edotco Group Sdn Bhd

Past Experience

- Deputy Chief Executive, Securities Commission Malaysia
- Associate Professor, Faculty of Law, University of Malaya, Malaysia

BOARD OF DIRECTORS – MEMBERS AND PROFILES



DATO' DR. GAN WEE BENG
Private Sector Director

Appointed to the Board: August 2016

Membership of Board Committees

- Member of Remuneration Committee
- Member of Audit Committee

Qualifications

- PhD in Economics, Wharton School, University of Pennsylvania, United States
- Master of Economics, University of Malaya, Malaysia
- Bachelor of Economics, University of Malaya, Malaysia

Area of Expertise

- Economics, risk management, commercial banking

Current Appointment

- Member, Bank Negara Monetary Policy Committee

Past Experience

- Advisor, CIMB Group
- Deputy Chief Executive Officer, CIMB Group
- Executive Director, CIMB Bank
- Senior Advisor, Economics Department, Monetary Authority of Singapore
- Consultant to the World Bank, International Labour Organisation and Bank Negara Malaysia
- Chairman, KWEST Sdn Bhd
- Director, Retirement Fund (Incorporated)



MS. GLORIA GOH EWE GIM
Private Sector Director

Appointed to the Board: February 2017

Membership of Board Committees

- Chairman of Audit Committee
- Member of Governance Committee

Qualifications

- Bachelor of Commerce (Honours), University of Melbourne, Australia

Professional Membership

- Fellow, CPA Australia
- Malaysian Institute of Certified Public Accountants
- Malaysian Institute of Accountants

Area of Expertise

- Audit, finance and accounting, risk management, economics, financial services including commercial banking, life and general insurance

Current Appointment

- Member, Advisory Board, Faculty of Business and Economics, University of Melbourne, Australia

Directorships

- Nil

Past Experience

- Partner, Ernst & Young, Malaysia
- Council Member, Malaysian Institute of Accountants
- Council Member, ASEAN Federation of Accountants
- President, Information Systems Audit and Control Association Malaysia Chapter

Governance

Governance

BOARD OF DIRECTORS – MEMBERS AND PROFILES

MR. LEE KONG ENG
Private Sector Director

Appointed to the Board: February 2021

Membership of Board Committees

- Nil (as of February 2021)

Qualifications

- Bachelor of Arts (Honours), University of Lancaster, United Kingdom

Professional Membership

- Associate Member, The Institute of Chartered Accountants in England and Wales
- Malaysian Institute of Accountants

Area of Expertise

- Audit, finance and accounting, corporate restructuring, mergers and acquisitions

Directorships

- Nil

Past Experience

- Partner, Ernst & Young, Malaysia

BOARD OF DIRECTORS – MEMBERS AND PROFILES

TAN SRI AHMAD BADRI MOHD ZAHIR
Ex-Officio Director

Appointed to the Board: September 2018
Retired from the Board: April 2020

Membership of Board Committees

- Nil

Qualifications

- Master in Business Administration, University of Hull, United Kingdom
- Degree in Land and Property Management, Universiti Teknologi MARA, Malaysia
- Diploma in Public Administration, National Institute of Public Administration, Malaysia

Area of Expertise

- Economics, finance

Directorships

- Chairman, Employees Provident Fund
- Chairman, IJN Holdings Sdn Bhd

Past Experience

- Secretary General of Treasury, Ministry of Finance
- Deputy Secretary General (Management) of Treasury, Ministry of Finance
- Director of National Budget Office, Ministry of Finance
- Under Secretary of Strategic Investment Division, Ministry of Finance
- Advisor for Asian Development Bank, Manila, Philippines

MR. ALEX FOONG SOO HAH
Private Sector Director

Appointed to the Board: August 2011
Retired from the Board: August 2020

Membership of Board Committees

- Chairman of Remuneration Committee
- Member of Audit Committee

Qualifications

- Master of Actuarial Science, Northeastern University, United States
- Bachelor of Science (Honours) in Mathematics, University of Malaya, Malaysia

Professional Membership

- Fellow, Society of Actuaries, United States
- Registered Financial Planner, Malaysian Financial Planning Council

Area of Expertise

- Insurance, actuarial science, human resource management, risk management, regulation of banking and financial services, finance and accounting

Directorships

- Independent Non-Executive Director, MRCB Quill Management Sdn Bhd
- Independent Non-Executive Director, Aviva Ltd. Singapore
- Non-Public Interest Director, Private Pension Administrator Malaysia

Past Experience

- Director and Chief Executive Officer, Great Eastern Life Assurance (Malaysia) Berhad
- Chief Executive Officer, British American Life Insurance Berhad (currently known as Manulife Insurance Berhad)
- President, Life Insurance Association Malaysia
- President, Actuarial Society of Malaysia

Governance

Governance

EXECUTIVE MANAGEMENT COMMITTEE

PIDM's Executive Management Committee executes strategies, drives performance and organisational synergies. It also supports the Board in fulfilling its governance responsibilities.



- | | |
|---|---|
| <p>1 RAFIZ AZUAN ABDULLAH
Chief Executive Officer</p> <p>2 LIM YAM POH*
Chief Operating Officer and General Counsel</p> <p>3 LEE YEE MING
Senior General Manager, Risk Assessment and Resolution</p> | <p>4 LIM LEE NA
Corporate Secretary</p> <p>5 WAN AHMAD IKRAM WAN AHMAD LOTFI
Chief Financial Officer</p> <p>6 JAZIMIN IZZAT WAN ZOOLKIFLI
Chief Internal Auditor</p> |
|---|---|



- | | |
|---|---|
| <p>7 ZUFAR SULEIMAN ABU BAKAR
Chief Risk Officer</p> <p>8 AFIZA ABDULLAH
General Manager, Policy and International</p> <p>9 HELENA PREMA JOHN
General Manager, Human Capital</p> | <p>10 LIM KONG KUAN
General Manager, Membership and Reimbursement</p> <p>11 SOH SHEY YIN
General Manager, Legal</p> |
|---|---|



* In the interim appointed as the Acting General Manager, Communications and Public Affairs
Detailed profiles of our Executive Management Committee members can be found at www.pidm.gov.my

MATERIAL MATTERS

PIDM identifies and prioritises material matters. These material matters are those issues that could substantively affect or have the potential to substantively affect its strategy, business model, or one or more of the capitals (i.e. human capital, social and relationship capital, financial capital, intellectual capital, and manufactured capital) over the short, medium or long term. They are also matters that are the subject of continuing discussions at Board level.

MANDATE AND BOUNDARIES

Mandate and Statutory Objects	<ul style="list-style-type: none"> Protect depositors, insurance policy and takaful certificate owners in relation to a member institution failure Administer the Deposit Insurance System and the Takaful and Insurance Benefits Protection System Provide incentives for sound risk management in the financial system Promote or contribute to financial system stability
Preamble to the Malaysia Deposit Insurance Corporation Act (PIDM Act)	<p><i>“Whereas the stability of the financial system is a key determinant of the economic growth and prosperity of Malaysia:</i></p> <p><i>Whereas the purpose of the deposit insurance system and the takaful and insurance benefits protection system is to protect financial consumers... in the event of failure of a member institution and PIDM is to carry out its mandated functions with speed and efficiency; ... and promote sound risk management in the financial system and enhance financial consumer protection”</i></p>
Value Drivers	<ul style="list-style-type: none"> Clear legislative mandate and wide powers Corporate governance (accountability) Talent (competence and agility) Stakeholder engagement
Reporting Boundaries	<p>As permitted under the PIDM Act, and for readiness, PIDM has incorporated subsidiaries that will serve as a bridge institution and an asset management company that will however not be operational unless there is an intervention and failure resolution. Refer to the Financial Statements on our financial reporting practices with regard to these subsidiaries. ↗</p>

Material Matters

Material Matters

DETERMINING MATERIALITY

Material matters are considered from the perspectives of value drivers, stakeholder interests, external and internal factors, current performance, and PIDM’s ability to create value over the short to long term. As highlighted below, these material matters include concerns that may correspond with some of the risks in the following pages. The material matters are discussed in order of priority, taking into account the impact of the matter on PIDM’s ability to perform its statutory functions.



Material Matter	Definition	Stakeholder/Capital Affected	Strategy
Preparedness	Achieving a high-level state of preparedness to enable PIDM to meet its mandate effectively and efficiently, from the perspectives of: <ul style="list-style-type: none"> legislative framework, systems and processes; competence and capability of its people; financial safety net coordination and cooperation; and funding. 	Stakeholders <ul style="list-style-type: none"> Government Bank Negara Malaysia (BNM) Public Strategic partners Capitals	Ensure protocols and arrangements among key financial safety net players and strategic partners, and continue to test various aspects of PIDM's contingency plans.
	Related to preparedness, resolution planning refers to “a plan intended to facilitate the effective use of Resolution Powers by the Resolution Authority, with the aim of making feasible the resolution of any financial institution without severe systemic disruption ... while protecting systemically important functions.” ¹	Stakeholders <ul style="list-style-type: none"> Industry BNM Financial consumers of member institutions Foreign counterparts Employees Shareholders and creditors of member institutions Capitals	Early engagement and buy-in from relevant stakeholders.

Material Matter	Definition	Stakeholder/Capital Affected	Strategy
Awareness, trust and confidence, and crisis communications	<p>Achieving public awareness and understanding, and trust, so that there can be confidence among depositors and other financial consumers in the stability of the financial system, and sufficient credibility to help calm the public during times of uncertainty.</p> <p>Having contingency plans so that PIDM is in a state of readiness to communicate effectively in crisis situations to avert or mitigate risks.</p>	Capitals	Increase visibility among the public as well as targeted stakeholders, to elevate PIDM's reputation, and preparedness for crisis communications, working with strategic partners.
Leadership, employee engagement and development	Commitment to employee engagement, succession planning and skills development for future needs.	Capitals	Ensure that human capital strategy and plans are aligned with PIDM's strategic direction, corporate objectives and needs.
Corporate governance	Commitment to transparency, accountability and integrity, and ensuring strategic and sound management practices.	Capitals	Adopt best practice management Ensure data and knowledge are organised effectively, leveraging on technology whilst ensuring Information Technology (IT) security. Strategy focus Other opportunities for value creation including in partnership with others.

PIDM’s risk philosophy is fundamentally focused on anticipating and being prepared to minimise risks that threaten the protection of Malaysian savings and the stability of the financial system.

¹ International Association of Deposit Insurers' definition at <https://www.iadi.org/en/core-principles-and-research/publications/glossary/resolution-plan/>

Material Matters

COVID-19: THE UNEQUIVOCAL RISK DRIVER FOR 2020

As a result of the movement control orders, the industry and PIDM faced the need to quickly adapt to a changing operating environment. With remote working arrangements, the areas of exposure and vulnerabilities for cyberattacks on PIDM have widened and continue to remain a threat.

As countries grapple with waves of COVID-19 infections, the closure of borders, movement restrictions, lockdowns and decreased economic activity, the public, enterprises and industries have been affected in many ways. These uncertainties required that PIDM reprioritise and ratchet up its monitoring of the environment and focus on its state of readiness, so that it can quickly move into position if it were called upon to deploy its powers. As the uncertain environment continues to prevail, PIDM will continue to monitor the environment and its member institutions.

A summary of our principal risks for the year 2020 is set out in the table below. We have established mitigation actions and identified opportunities that could arise from these risks.

Principal Risks	Context	Mitigation Measures	Impact to Material Matters
THE NEW NORMAL – Operational Risk	<p>COVID-19 pandemic risks include:</p> <ul style="list-style-type: none"> increased potential cyber vulnerabilities from remote working arrangements and access, in an environment which is seeing an increasing number of cyberattacks; adapting operational processes and procedures to a virtual platform; the safeguarding of information security in work from home arrangements; and ensuring a safe working environment and the physical safety of employees. 	<p>Controls to mitigate the potential of cyber breaches.</p> <p>Vigilance for potential threats.</p> <p>Cybersecurity assessments.</p> <p>Compliance with Government-issued health guidelines and standard operating procedures.</p> <p>Identification of situations that might cause transmission of the virus, so as to reduce the likelihood of exposure to employees, to remove the activity or situation, or to control the risk.</p>	Corporate governance – Heightened focus on cybersecurity measures and data analytic capabilities.
HEIGHTENED READINESS TO PERFORM ITS MANDATE – Insurance Risk	COVID-19 pandemic-related risks include uncertainties about the recovery of the global and Malaysian economy and its impact on the public, as well as enterprises and industries if the crisis is prolonged.	<p>Prioritisation of initiatives that focus on monitoring, stress testing, and enhancing operational readiness.</p> <p>Establishment of clear protocols and arrangements with the other financial safety net players including for prompt access to liquidity funding if needed.</p>	<p>Preparedness – Heightened focus on ensuring a high-level state of preparedness, particularly on monitoring PIDM’s operating environment closely and enhancing coordination among financial safety net players.</p> <p>Awareness, trust and confidence, and crisis communications – Heightened focus on awareness campaigns to continue to build public confidence in the stability of the financial system. Enhanced preparedness for crisis communications.</p>

Material Matters

Principal Risks	Context	Mitigation Measures	Impact to Material Matters
HUMAN CAPITAL – People Risk	The COVID-19 pandemic raised risks to the morale and performance of employees, some of whom might have been affected by the need to manage uncertainties or to balance personal and professional commitments while working from home.	Implementation of more frequent engagement and check-ins with employees by using more technological tools to achieve this.	Leadership, employee engagement and development – Continued focus on employee engagement and welfare, as well as work safety and health measures. Leveraging on virtual platforms for more frequent and effective employee engagements.
DAMAGE TO IMAGE AND REPUTATION – Reputation Risk	<p>PIDM’s credibility as a statutory body depends upon the trust and confidence of a diverse group of stakeholders, especially during an intervention and failure resolution. Sufficient support from key stakeholders is also important for PIDM to fulfil its corporate initiatives and mandate effectively.</p> <p>PIDM has also explored alternative platforms to continue its efforts to enhance its relationships with stakeholders, including elevating the importance of online and social media as a means of communicating and engaging with stakeholders.</p>	<p>Implementation of measures to build awareness, trust and confidence through multiple channels.</p> <p>Leveraging on virtual platforms and social media to improve understanding.</p> <p>Enhancement of visibility to gain credibility.</p> <p>Readiness for crisis communications and the conduct of regular simulations.</p>	<p>Leadership, employee engagement and development – Heightened focus on awareness campaigns to continue to build public confidence in the stability of the financial system. Enhanced preparedness for crisis communications.</p> <p>Preparedness – Heightened focus on ensuring a high-level state of preparedness, at the same time monitoring the operating environment closely and enhancing coordination among the financial safety net players.</p>

Material Matters

Looking forward, the principal risks are also mapped to the corporate plan initiatives and capitals affected. We have also defined our key risk indicators and capitals affected as follows:

Risk/Opportunities	Key Risk Indicators	Trends	Corporate Initiatives 2021 - 2023	Capitals Affected
Operational risk Leverage on technology whilst intensifying IT security measures for: <ul style="list-style-type: none"> Remote working if necessary including holding virtual meetings. Connecting with industry, financial consumers and employees including during an intervention and failure resolution. Better use of data and information. 	<ul style="list-style-type: none"> Number of data breaches 		Develop a digital transformation plan for effective and efficient use of data. Enhance secure information security through best practices for risk mitigation including: <ul style="list-style-type: none"> ISO certification, among other IT security controls. IT audits and tools to ensure compliance with information classification and management rules. Continuing employee awareness and education. Monitor, explore and enhance technological systems for more efficient or convenient means to interact with key stakeholders such as: <ul style="list-style-type: none"> a platform for electronic reimbursements for depositors; or the enterprise portal for member institutions to carry out electronic submissions of information. 	
Insurance risk Invest in PIDM's responsiveness to risks under the prevailing environment and refresh critical relationships and key partnerships for concerted responses, as needed.	<ul style="list-style-type: none"> Vulnerabilities in the financial sector and the health of member institutions Results of ongoing stress tests Gaps identified from simulation exercises 		Intensify preparatory work for member institutions, based on targeted risk assessments. Maintain executable intervention or resolution plans commensurate with risks and profiles of member institutions. Work on crisis readiness among the industry and financial safety net players.	

Material Matters

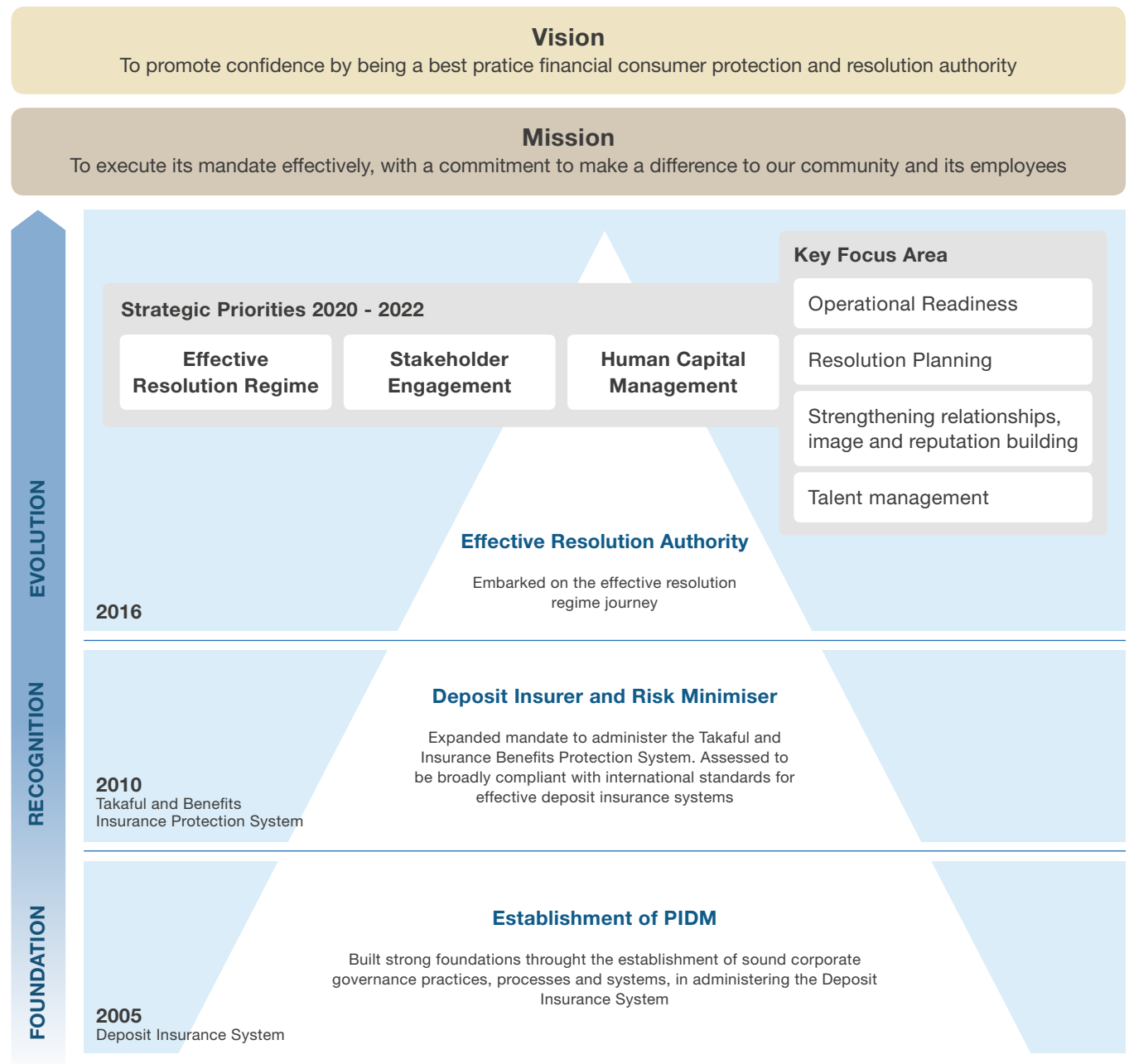
Risk/Opportunities	Key Risk Indicators	Trends	Corporate Initiatives 2021 - 2023	Capitals Affected
People risk Continue to drive people engagement, build leadership and technical strength, with an emphasis on the need for agility.	<ul style="list-style-type: none"> Engagement pulse survey Attrition rate 		Continue implementation of PIDM's corporate values and culture change plan. Drive transformation efforts to align human capital with organisational needs, in particular to achieve leadership and technical bench strength to guide PIDM in managing its risks.	
Reputation risk Continue public awareness initiatives.	<ul style="list-style-type: none"> Negative sentiment from social media monitoring Negative comments in traditional media Negative feedback from stakeholder perception audit Awareness level about PIDM dropping below 65% Misunderstanding about PIDM's role 		Continue to increase public awareness of PIDM and its systems given the economic uncertainty created by the COVID-19 pandemic through multiple channels, leveraging also on social media platforms and financial literacy content.	

Strategy

STRATEGY

We will fulfil our vision and mission through the strategy articulated in our corporate plans. This annual report highlights our achievements this year, based on our Summary of the Corporate Plan 2020 - 2022. [↗](#)


The following depicts the key stages of our development towards our ultimate vision, and our long-term strategic priorities. At the beginning of our journey in 2005, we focused on ensuring that we had strong governance foundations as an organisation. We also worked on ensuring the implementation of the right design for our deposit insurance system by benchmarking against international experiences. Following the exit from the Government Deposit Guarantee in 2010, PIDM's mandate was then expanded by legislation. PIDM was tasked with also providing protection for takaful certificate and insurance policy owners in the event of an insurer member failure. In 2016, together with Bank Negara Malaysia (BNM), we formulated our plan to achieve an effective resolution regime for Malaysia, recognising that this would likely be a long-term journey.



Strategy

Strategy


EFFECTIVE RESOLUTION REGIME


Foundation		Recognition		Evolution		
2005 - 2010		2011 - 2015		2016	2017 - 2018	2019
<p>Developed a comprehensive intervention and failure resolution framework and built the foundation for an effective resolution regime</p> <ul style="list-style-type: none">• The Malaysia Deposit Insurance Corporation (PIDM Act) was enacted by Parliament with extensive resolution powers for PIDM to deal with non-viable member institutions, so as to minimise loss to the financial system. In 2011, the PIDM Act amendments were gazetted and these provided PIDM with bridge institution powers as a resolution tool, and additional powers in respect of insurer members.• Developed a comprehensive intervention and failure resolution framework setting out PIDM’s approaches in applying its resolution tools.• In 2012, was assessed through the Financial Sector Assessment Programme as broadly compliant with the Core Principles of Effective Deposit Insurance Systems.• Developed and implemented a payout system for prompt reimbursements to insured depositors.• Required member institutions to ensure their processes and systems are ready to provide complete, timely, and accurate information to facilitate prompt reimbursements.• Conducted simulations to test PIDM’s resolution approaches and enhance overall readiness of its personnel.				<p>Established the effective resolution regime as a strategic priority</p> <ul style="list-style-type: none">• Established plan to achieve an effective resolution regime for Malaysia, in line with global recommendations.• Engaged with relevant authorities, domestically and internationally, for cooperation, information exchange and coordination in respect of resolution planning.• Together with BNM, developed the draft Recovery and Resolution Planning (RRP) framework.• Developed the draft resolution planning framework, draft resolution planning guidelines and information package for the purposes of planned pilot exercises with selected banks.	<p>Established readiness and continuous engagement with the industry</p> <ul style="list-style-type: none">• Organised a joint industry seminar with BNM on RRP to articulate the importance of RRP and set regulatory expectations. Highlighted the strategic roadmap for implementation in Malaysia, which included pilot exercises and industry consultations.• Commenced a programme and simulation for the end-to-end resolution planning process, to test resolution-related frameworks and guidelines.• Developed internal capabilities for resolution planning through training and development.• Continued collaboration with other relevant authorities in relation to resolution planning, crisis management and resolution actions during crisis.• Commenced work to ensure that external stakeholders are ready for resolution planning guidelines. Specific resolution planning exercises will be rolled out in phases.	<p>Test and consult</p> <ul style="list-style-type: none">• Commenced resolution planning pilot exercises.• Continued engagement with key stakeholders, in particular with financial safety net players and the industry as well as international counterparts.• Continued review and drafting of policies and supporting legislation.
				2020 onwards		
				<p>Enhancing resolution readiness</p> <p>Resolution planning for member banks:</p> <ul style="list-style-type: none">• Complete resolution planning pilot exercises and enhance the draft resolution planning guidelines based on feedback from the pilot banks.• Finalise and roll out resolution planning guidelines and information pack for consultation with the industry.• Carry out a phased industry rollout and work with each member institution on individual resolution plans.• Develop policies and supporting legislation, as needed. <p>Resolution planning for insurer members:</p> <ul style="list-style-type: none">• Continue to monitor global developments on resolution planning for insurance. <p>Reimbursement:</p> <ul style="list-style-type: none">• Modernise the payment infrastructure and capabilities. <p><i>Refer to the Performance Section on pages 55 to 56 for details </i></p>		

Simulations and continuous improvements

Inter-agency simulation

STAKEHOLDER ENGAGEMENT

Foundation	Recognition	Evolution		
2006 - 2010	2011 - 2017	2018	2019 - 2020	2021 onwards
<p>Build public awareness and engagement with key stakeholders</p> <ul style="list-style-type: none">Implemented public awareness programmes including advertising campaigns through multiple channels about PIDM and its systems, carried out corporate outreach programmes to different states outside the Klang Valley, and implemented a school education programme, the PIDM Project MoneySmart. The public awareness index for PIDM increased from 4% in 2006 to 62% as of 2017.Carried out engagements with the industry and international counterparts, including annual dialogues and public consultations, as well as international engagements, knowledge-sharing and networking programmes.		<p>Build foundations towards trust and confidence</p> <ul style="list-style-type: none">Intensified efforts for greater understanding about PIDM and its systems, including engaging in on-ground activities in various states. The public awareness index for PIDM was at 63%.Engaged and familiarised the industry with our key initiatives, in particular, resolution planning, and continued engagements in the international arena.Evaluated engagement effectiveness through a key stakeholder perception audit, and continued testing crisis communications capabilities.	<p>Establishing trust and confidence</p> <ul style="list-style-type: none">Continued awareness initiatives through diversified channels of communication, including in the digital space. The public awareness index for PIDM was 72% as of 2020.Continued stakeholder engagement with the industry including on resolution planning.Intensified crisis communications simulations. <p><i>Refer to the Performance Section on page 57 for details </i></p>	<p>Enhance and sustain trust and confidence</p> <ul style="list-style-type: none">Continue to carry out awareness initiatives through multiple channels, leveraging on relevant content and collaborations with strategic partners.Continue to conduct valuable research and content building and develop publications targeted to increase visibility and reputation, and continue with key stakeholder engagement.Continue to conduct regular crisis communications simulations.

Best practices in corporate governance
Refer to the Corporate Governance Overview Section on page 21 for details 

- **Simulation for crisis communications**
- **Operational self-sufficiency**

Strategy

Strategy

HUMAN CAPITAL MANAGEMENT

Foundation		Recognition				Evolution		
2005 - 2010	2010	2011 - 2015	2016	2017	2018	2019 - 2020	2021 onwards	
Designed and established the human capital model, philosophy and key policies		Employee and leadership development and succession planning	Towards a learning organisation	Realigned human capital in line with strategic priorities	Leadership, communication and culture	Realignment of human capital to meet future demands of PIDM	Further realignment of human capital and digital transformation to meet future demands of PIDM	
Deposit Insurance System	Takaful and Insurance Benefits Protection System (TIPS)	<ul style="list-style-type: none">Built competencies for TIPS.Commenced succession planning for senior leadership positions.Focused on talent management and leadership development.Reviewed the human capital model, philosophy and key policies and developed the Human Capital Strategic Plan for alignment with strategic direction.	<ul style="list-style-type: none">Commenced implementation of the learning organisation framework.	<ul style="list-style-type: none">Restructured selected divisions and units and trained employees in preparation for the rollout of the resolution planning initiative.Implemented Chief Executive Officer succession planning.Determined the unique leadership behavioural competencies for senior management.	<ul style="list-style-type: none">Commenced leadership behavioural competencies training for senior management.Involved senior leadership in active human capital management.Established the Risk Assessment and Resolution Division.Implemented intensive training for the resolution planning initiative.Carried out frequent engagements with all employees and across divisions.Implemented the knowledge management framework (as one of the learning organisation initiatives).	<ul style="list-style-type: none">Completed talent review exercise to maximise the use of our human capital.Continued to develop leadership skills.Developed and implemented plan for leadership and technical bench strength.Refreshed corporate values. <div>Refer to the Performance Section on page 57 for details ⓘ</div>	<ul style="list-style-type: none">Implement multi-year talent management programmes (high potential talent, resolution trainee and secondments) and reinforce corporate values and culture.Implement and achieve Information Security Management System (ISMS) ISO/IEC 27001 certification.Develop and implement the digital transformation plan.	
Conducive work environment								
			Complete establishment of key pillars of a learning organisation					
						Reinforce culture of communication and teamwork		

Performance

Performance Review [🔗](#)

Financial Review [🔗](#)

PERFORMANCE REVIEW

OUR STRATEGIC PRIORITIES AND CORPORATE SCORECARD

The strategic priorities in our Corporate Plan 2020 - 2022 are as follows.

Strategic Priority	Effective Resolution Regime	Stakeholder Engagement	Human Capital Management
	To enable all member institutions to be resolved in an orderly manner, without systemic disruption, and in a manner that minimises loss to the financial system	To engage with key stakeholders and engender trust and confidence in PIDM	To maintain a conducive work environment that promotes excellence, focusing on active human capital management and continuous learning
Key Focus Areas	Operational readiness	Strengthening relationships, image and reputation building	Talent management
	<ul style="list-style-type: none"> Enhance operational readiness to take prompt intervention and failure resolution actions in the event of a member institution's failure Resolution planning <ul style="list-style-type: none"> Resolution planning for member institutions 	<ul style="list-style-type: none"> Promote trust and confidence and strengthen relationships with key stakeholders 	<ul style="list-style-type: none"> Alignment of PIDM's human capital and strategies to support PIDM over the short, medium and long term

Refer to the Strategy Section on page 42 for details. [🔗](#)

In 2020, in spite of the COVID-19 pandemic, we were, by and large, able to carry on with our key initiatives as planned. There was some reprioritisation in respect of initiatives that would have entailed physical interaction, such as conferences and meetings for the International Association of Deposit Insurers' (IADI) Asia-Pacific Regional Committee and International Forum of Insurance Guarantee Schemes (IFIGS), and the savings campaign originally planned for October 2020. Overall our key focus areas remained the same. Four initiatives (as outlined in the Corporate Scorecard) were also deferred as resources were diverted for intensified monitoring and stress testing. We also carried out some additional measures to help alleviate pressures on the industry.



Responding to the impact of COVID-19

The movement control order was implemented by the Government on 18 March 2020. In spite of the prevailing operating environment, PIDM continued its operations uninterrupted. To ease regulatory burdens, we implemented some regulatory relief measures for member institutions. These included (a) an extension of submission deadlines under PIDM's regulations and guidelines; (b) an extension of deadlines for payment of annual premiums and levies; and (c) a 50% reduction of annual premium and levy rates and minimum annual premium and levy amount for assessment years 2020 and 2021.

Since March 2020, PIDM has continued its active monitoring of the economy and financial markets, and considered potential risks to its member institutions including in worst-case scenarios. At the same time, we reviewed and updated our internal crisis management and communications policies and protocols. While we continued with our regular engagements on social media and radio as planned, we also reutilised our awareness and advertising material to refresh public awareness about PIDM and its protection systems.

Performance Review

Performance Review

2020 Corporate Scorecard

Our report against the set targets for 2020 is summarised in the Corporate Scorecard below. All planned initiatives were completed as scheduled within the Board-approved readjusted plan.

- A** Target achieved, initiative completed
- P** Progressing as scheduled; and / or within budget
- N** Target not achieved, slippage - time to completion; and / or below target
- D** Deferred due to reprioritisation

Corporate Objectives	No.	Corporate Initiatives	Target 2020	Results Dec 2019 ¹	Results Dec 2020
Effective Resolution Regime					
Robust risk assessment, monitoring, intervention and resolution capabilities	Funding arrangements				
	1.	Other funding arrangements	<ul style="list-style-type: none"> Finalise proposal for the revised target fund framework Review current alternative funding options 	-	P²
	Operational readiness				
	2.	a. Inter-agency coordination	<ul style="list-style-type: none"> Establish a crisis management framework with Bank Negara Malaysia (BNM) and Ministry of Finance (MOF) and agree on the communications governance protocols 	P	P³
		b. Simulation exercise	<ul style="list-style-type: none"> Conduct simulation exercise on the intervention and resolution lifecycle of an Islamic bank Conduct tabletop review on the resolution of takaful operators Conduct training and simulation on crisis management 	A	A
		c. Reimbursement readiness	<ul style="list-style-type: none"> Integrate the infrastructure for an electronic payment platform 	A	P⁴
		d. Other resolution readiness	<ul style="list-style-type: none"> Develop early warning indicators for the economy and financial markets 	-	D⁵
	Resolution planning				
	3.	a. Resolution planning for member institutions	<ul style="list-style-type: none"> Conduct pilot exercises on resolution planning guidelines and reporting templates with selected banks Prepare and enhance knowledge of member institutions about resolution planning through industry workshops 	P	P⁶
		b. Cross-border resolution arrangements	<ul style="list-style-type: none"> Establish resolution focus group for a Malaysian banking group and maintain relationships with foreign authorities through bilateral engagements and regional fora 	-	D⁷

Corporate Objectives	No.	Corporate Initiatives	Target 2020	Results Dec 2019 ¹	Results Dec 2020
Corporate Governance					
Well-governed and well-managed organisation	4.	a. Best practices in governance adopted and maintained	<ul style="list-style-type: none"> Ensure Compliance 	A	A
		b. Laws and significant corporate policies and practices kept current and relevant, and complied with	<ul style="list-style-type: none"> Ensure compliance and that policies and procedures are updated 	A	A
		c. Quality of management's support to the Board	<ul style="list-style-type: none"> High satisfaction 	A	A
	5.	Internal controls and risk management compliance	<ul style="list-style-type: none"> Strong 	A	A
Sound business and financial practices	6.	Reporting through:			
		a. Annual Report	<ul style="list-style-type: none"> Complete 	A	A
		b. Corporate Plan	<ul style="list-style-type: none"> Complete 	A	A
Stakeholder Engagement					
Educated and informed stakeholders	7.	Public awareness index of PIDM	<ul style="list-style-type: none"> Maintain awareness index at a minimum of 65% 	N (62%)	A
	8.	Image and reputation building	<ul style="list-style-type: none"> Execute public relations campaign to educate the public on financial resilience (savings and insurance) 	-	D⁸
Effective engagement	9.	PIDM's relationship with key stakeholders:			
		a. Financial safety net players, ministries and other Government regulatory agencies	<ul style="list-style-type: none"> Strengthen relationships with MOF, BNM and other agencies through coordination and cooperation including inter-agency coordination and resolution planning 	A	A
		b. Member institutions and their industry associations	<ul style="list-style-type: none"> Carry out continuous engagements through conferences, dialogues and consultations in particular on resolution planning 	A	A
		c. Media	<ul style="list-style-type: none"> Continue media outreach 	A	A
		d. International	<ul style="list-style-type: none"> Maintain relationships with international stakeholders through the IADI, IFIGS and bilateral engagements including hosting of conferences 	-	D⁹

Performance Review

Performance Review

Corporate Objectives	No.	Corporate Initiatives	Target 2020	Results Dec 2019 ¹	Results Dec 2020
Human Capital Management					
Competent and knowledgeable workforce	10.	Strategic human capital plan:			
		a. Talent management	<ul style="list-style-type: none"> Design and implement PIDM's "High Potential Talent Programme" Develop a "Resolution Trainee Programme" Develop a secondment programme 	-	P¹⁰
		b. Leadership development	<ul style="list-style-type: none"> Continue to implement the leadership programme with focus on engagement and communications 	A	A
Conducive corporate environment	11.	c. Learning organisation	<ul style="list-style-type: none"> Continue to implement initiatives in line with the knowledge management framework 	N	A
		Employee engagement	<ul style="list-style-type: none"> Implement employee engagement activities 	-	A

¹ Against 2019 set targets

² The review of alternative funding arrangements including the revised target fund framework is ongoing

³ We will continue to work closely with BNM and MOF on the crisis management and crisis communication frameworks, in preparation for the planned simulation on crisis communications in 2021

⁴ The development and integration of the electronic payment infrastructure is ongoing following the completion of requirement setting for the system integration

⁵ Relevant resources have been reallocated to monitor and assess the potential impact of the COVID-19 pandemic and ongoing developments on the Malaysian economy, financial markets, and on our member institutions, as well as to carry out rigorous stress testing of our member institutions against the current challenging operating environment

⁶ The pilot exercises for the first three pilot banks are ongoing, with some delay in progress due to the COVID-19 pandemic. The relevant feedback sessions following the submission of the required deliverables are expected to be held in 2021

⁷ The establishment of resolution focus groups for two domestic banking groups and bilateral engagements with other international counterparts have been reprioritised to 2021

⁸ The savings campaign has been reprioritised to 2021 as the timing is not right to promote messages relating to savings; and public gatherings are currently not feasible

⁹ The two planned conferences and Annual General Meetings for the IADI Asia-Pacific Regional Committee and IFIGS, have been cancelled due to the COVID-19 pandemic

¹⁰ The design of the High Potential Talent Programme is currently under revision due to new requirements to align with the strategies for the next planning period. The intake of resolution trainees for the Resolution Trainee Programme has been reprioritised to 2021

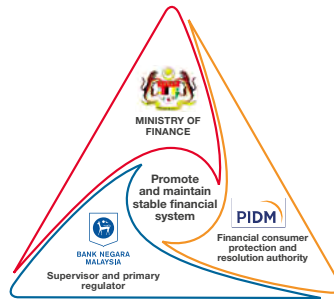
2020 KEY ACHIEVEMENTS AND PLANS MOVING FORWARD

The following reports on our progress in 2020 against our three strategic priorities and key focus areas.

Effective Resolution Regime | Operational readiness

Strengthen inter-agency collaboration on crisis management

Financial safety net players must have coherent contingency plans for an intervention and failure resolution.



In 2020, we engaged the MOF and BNM on several matters including crisis management protocols and crisis communications arrangements. These sessions are important to enhance collaboration among the financial safety net players.

Moving forward

During the planning period, we expect to formalise and enhance the protocols in relation to crisis management, and institute a regular platform for discussions.

Continue to develop internal capacity for intervention and failure resolution readiness

Simulation exercises have enabled us to address identified gaps as well as to provide training for employees in differing situations.



We have completed two out of the three planned simulation exercises.

A tabletop review on the resolution of takaful operators

Following the tabletop review, we identified several Shariah and operational issues, and action plans have been developed to address them.

Crisis preparedness training and simulation

We carried out a two-day virtual simulation exercise facilitated by the Toronto Centre (Global Leadership in Financial Supervision). This was aimed at improving our operational readiness for an intervention and failure resolution, particularly in respect of communications and inter-agency coordination.



The completion of the Islamic bank resolution simulation exercise was reprioritised as resources were diverted for pressing matters as a result of the COVID-19 pandemic.

Moving forward

During the planning period, we will continue with our training and simulation exercises. These will include an inter-agency simulation to test the coordination protocols among financial safety net players. We will also participate in a crisis simulation with other ASEAN countries, and carry out other simulations in respect of an intervention and failure resolution of member institutions.

Performance Review

Performance Review



Effective Resolution Regime | Operational readiness

Leverage on electronic payment platforms for deposit reimbursements

Continuous improvement to the reimbursement process to leverage on technology via electronic deposit reimbursements in the event of a bank liquidation without requiring active involvement of the depositor in the transaction.



We have commenced the development of an electronic payment infrastructure to increase depositor options during a deposit reimbursement. During the year, we also determined the system integration requirements.

Moving forward

We will continue with the development and integration of an electronic payment infrastructure for deposit reimbursements. We will also refine the features in our processes to ensure responsiveness to depositors' requests during a reimbursement.



Effective Resolution Regime | Resolution planning

Resolution planning pilot exercises and engagements

Develop customised resolution plan for each member institution and conduct education sessions to familiarise member banks with how resolution planning works.



We continued with our resolution planning pilot exercises, which will help test the reasonableness of our draft resolution planning requirements. Refinements will be made to these proposed requirements prior to an industry consultation and the industry wide rollout. Due to the COVID-19 pandemic, engagement sessions (workshops, briefings) with these pilot banks were conducted virtually instead. We also continued to work closely with BNM to ensure coordination in the recovery and resolution planning process.

Workshop on Bank Recovery and Resolution Planning in Malaysia

As part of its inaugural collaboration with the Asian Institute of Chartered Bankers, PIDM sponsored its first virtual workshop for the banking industry. In September, the workshop, titled Bank Recovery and Resolution Planning Virtual Learning Session, saw close to 100 participants attending a four-day session about key requirements for the implementation of recovery and resolution planning. The workshop dealt with the tools and techniques for building, reviewing and understanding recovery and resolution plans.



In view of the operational challenges faced by pilot banks during these times, the resolution planning pilot exercises are progressing on a revised timeline.

Moving forward

We target to complete the resolution planning pilot exercises by 2022, followed by an industry consultation on the refined resolution planning requirements. The finalised resolution planning requirements will be rolled out to the industry in phases, commencing in 2023.



Stakeholder Engagement | Strengthening relationships, image and reputation building

Maintaining public awareness levels of PIDM, leveraging on social media

Engaging the public through a savings campaign

Strengthening relationships with key stakeholders



Refer to the Stakeholders Section which sets out the diverse stakeholder interests ☞

In 2020, given the prevailing environment, we reinforced our key messaging about the protection systems administered by PIDM. As planned, we also worked on growing our social media presence. In July 2020, in addition to our existing Facebook page, we introduced our LinkedIn page.

To gauge the level of awareness among the public about PIDM and the consumer protection systems, an annual nationwide public awareness survey is carried out through an independent research agency. In 2020, the survey was conducted online, instead of the face-to-face approach in previous years due to the COVID-19 pandemic. Among the online public respondents, we achieved a public awareness level of 72%, above our target of 65%.



In view of the COVID-19 pandemic, the originally planned savings campaign was reprioritised to 2021. We continued to nevertheless develop and publish content on financial resilience on our social media platform and carried out events in conjunction with the Financial Education Network (FEN)'s Financial Literacy month in October 2020.

Moving forward

We plan to intensify our financial literacy efforts for 2021, building on our 2020 collaborations with strategic partners such as the United Nations Capital Development Fund and other FEN partners, as well as our 2020 survey on the Malaysian financial literacy landscape. We also plan to explore possible behavioural interventions, based on surveys and studies, that could better improve financial literacy among Malaysians.

We will also work at increasing PIDM's visibility and presence through research, content development and publishing, as well as through engagements with strategic partners (domestic and international). We will also continue our dialogues and engagements with the industry, industry associations and counterparts, and others, on topics of mutual interest.



Human Capital Management | Talent management

Programmes for talent management purposes based on the current and future needs of PIDM

Leadership and technical capabilities

Learning culture for agility and long-term sustainability



In 2020, we continued to work on building a culture of continuous learning and improvement. In line with our objective of building a steady and reliable pipeline of leadership and technical talent, we also implemented measures for talent management and development, including a high potential talent management programme, and a secondment policy. Several employees were also sent on secondment to a strategic partner to support and contribute to its work, build networks and gain experience.



Due to the COVID-19 pandemic, the originally planned "Resolution Trainee Programme" for young candidates in PIDM has been postponed to 2021.

Moving forward

We plan to continue to work on talent development for our future, as well as on establishing a clear employee value proposition that will attract, retain, or ensure continuity of the skills and experiences needed for PIDM in the future.

FINANCIAL REVIEW

Financial Review

FINANCIAL PERFORMANCE 2020



Amid the continued uncertainty arising from the COVID-19 pandemic, we adopted a cautious yet prudent approach in managing our operations.

During the year, we provided regulatory relief measures, reprioritised some initiatives and incurred some ad hoc expenses to mitigate the risks arising from the COVID-19 pandemic. Despite the ad hoc COVID-19 pandemic related expenses, our overall expenditure remained well within the approved budget for the financial year.

Summary



Total Income

RM388.8 million

2019: RM606.9 million



Total Expenses

RM95.2 million

2019: RM101.9 million



Total Comprehensive Income

RM293.9 million*

2019: RM504.7 million

* includes remeasurement of Long Term Retirement Plan of RM0.4 million

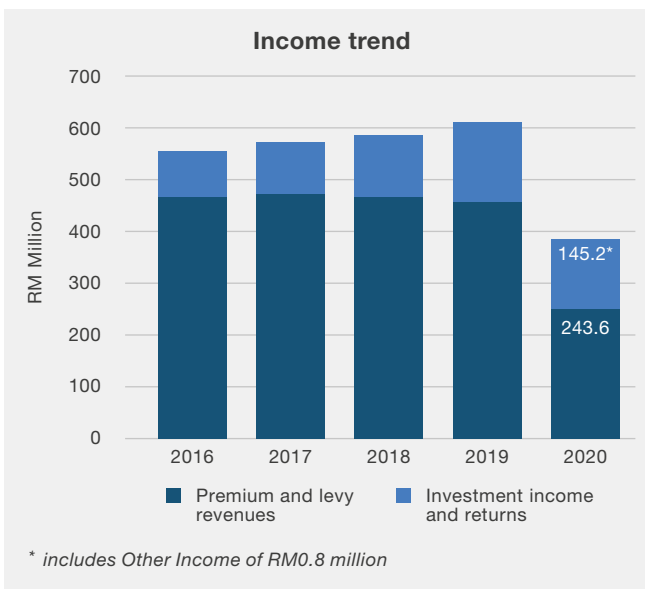
KEY HIGHLIGHTS

Income

Our total income for 2020 of RM388.8 million was lower by 35.9% compared to the previous year. Whilst our operations were not directly affected by the impact of the COVID-19 pandemic, our income was lower due to the reduction of premiums and levies paid by member institutions for the assessment year, as part of the regulatory relief measures.

Our investment income and returns for the year were lower than the previous year. Nevertheless, our investment income and returns continued to cover our operational expenses.

During the year, recognised within other income was the outcome of the arbitration proceeding from the previous year, which was in favour of PIDM.



Our Differential Premium Systems and Differential Levy Systems frameworks provide incentives for member institutions to enhance their risk management practices and minimise excessive risk-taking.

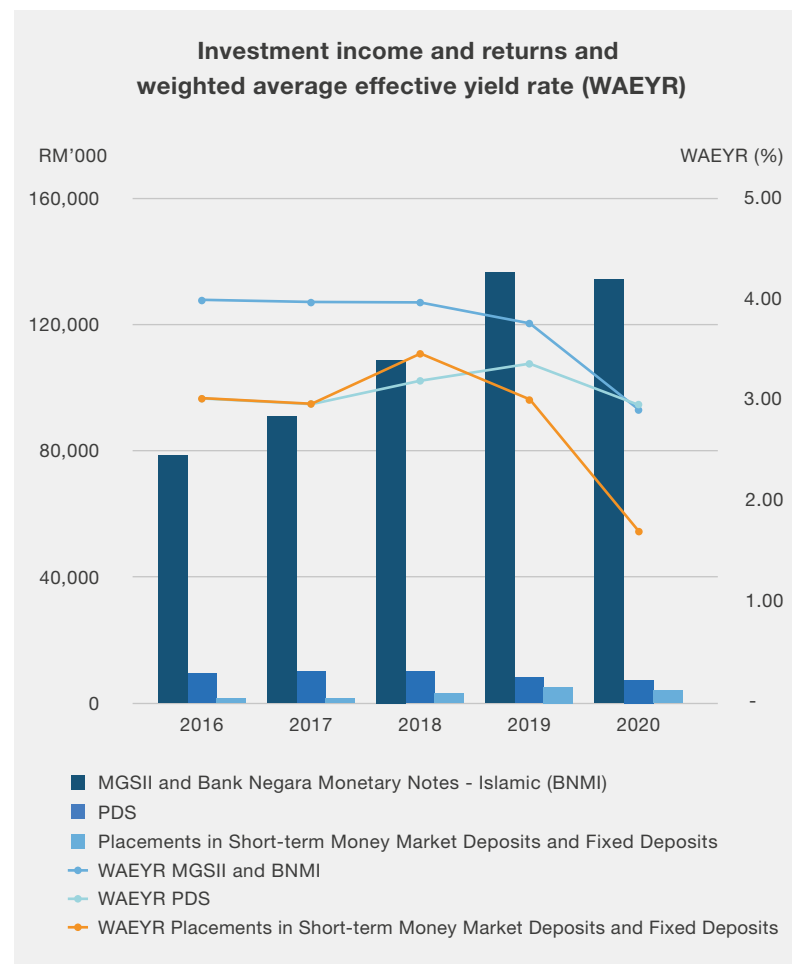
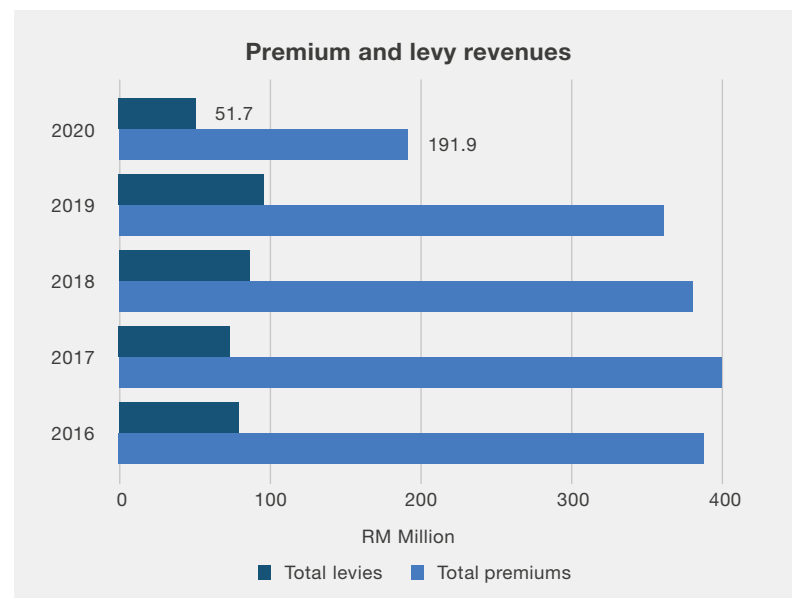
During the year, PIDM had provided regulatory relief measures in response to the COVID-19 pandemic and in line with the Government's responses to address the impact of the pandemic, which among other things led to the lower collection of premiums and levies. Notwithstanding the relief measures provided, the differential premiums and levies systems continued to apply.

Our investment philosophy continues to be conservative, with a view to preserving capital and maintaining sufficient liquid financial assets to meet our financial obligations as and when they arise.

The main source of our investment income and returns is from secured investment securities, namely Malaysian Government Securities and Investment Issues (MGSII) as well as Private Debt Securities (PDS) of AAA rating issued by a Government-related entity.

Our investment income and returns for 2020 of RM144.4 million were RM4.0 million or 2.7% lower than the previous year. The lower investment income was primarily due to the reduction of the overnight policy rate (OPR) to 1.75%, as well as the impact of the lower amounts and deferred collection of premiums and levies for the assessment year 2020, as part of the regulatory relief measures.

We anticipate that the impact of the reduced OPR will continue to lead to reduced investment income in the next financial year. Nevertheless, we expect that our investment income will continue to be sufficient to cover our operating expenses.



Investment composition

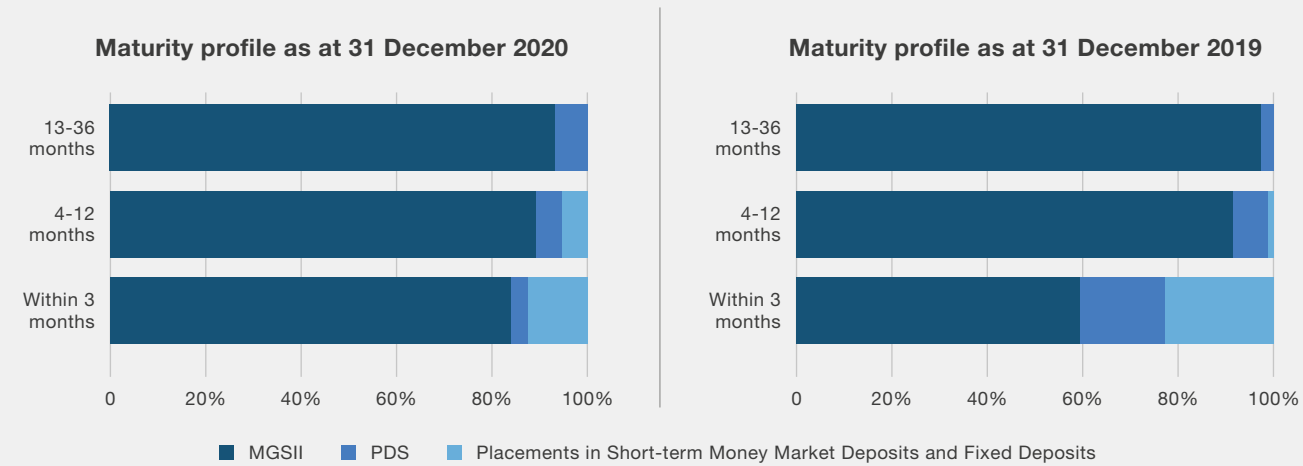
MGSII
93.8% (2019: 94.7%)

PDS
6.2% (2019: 5.3%)

Financial Review

Financial Review

Maturity profiles by investment type

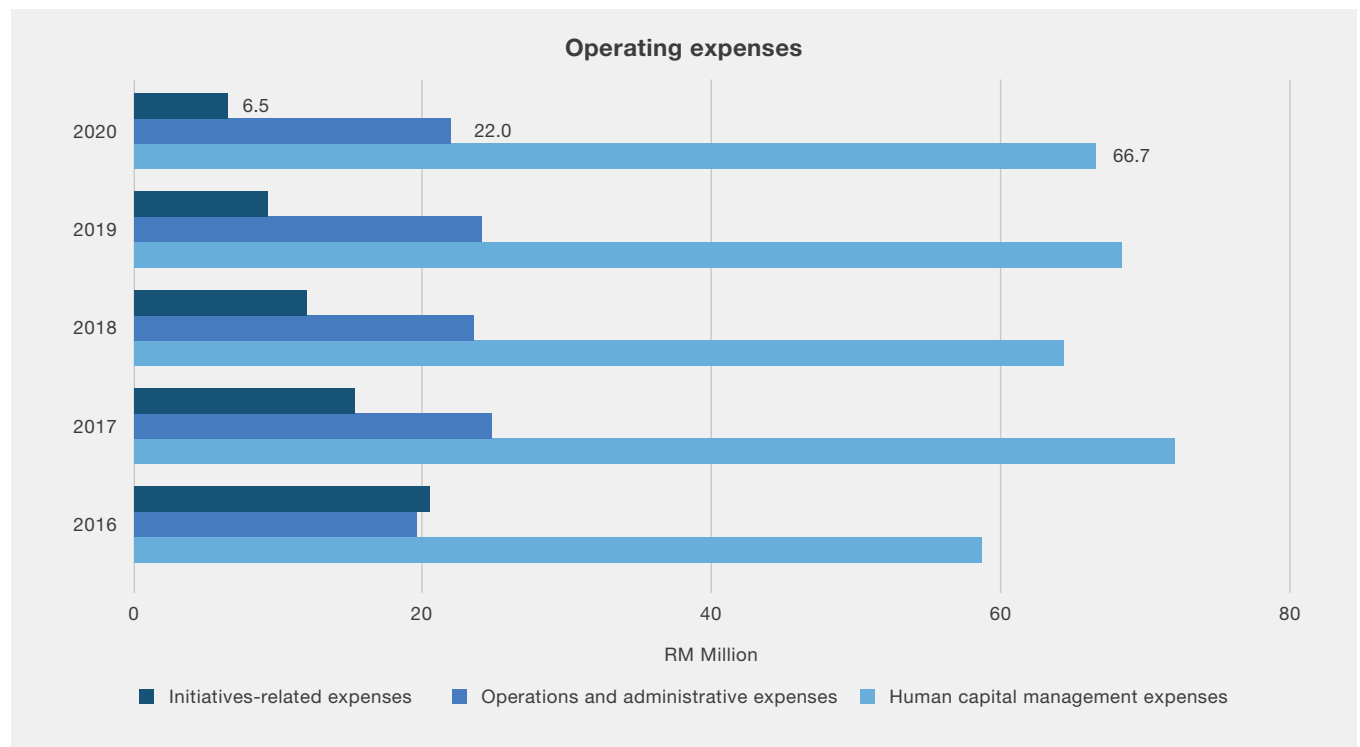


Operating Expenses

Operating expenses for 2020 totalled RM95.2 million, a decrease of RM6.7 million or 6.6% from RM101.9 million in 2019. This is RM10.3 million or 9.8% lower than budget.

Even though not significant, the COVID-19 pandemic impacted some aspects of our operations. Some of our originally planned initiatives were reprioritised or deferred. Ad hoc expenses were also incurred, primarily for employees' health and safety under the circumstances and to enhance our virtual communication platform.

Overall, notwithstanding the COVID-19 pandemic, our operating expenses remained stable year-on-year. For the coming year, we expect continued focus on our key strategic areas, particularly on crisis preparedness, and will continue to practise prudent financial management and optimise our resources.

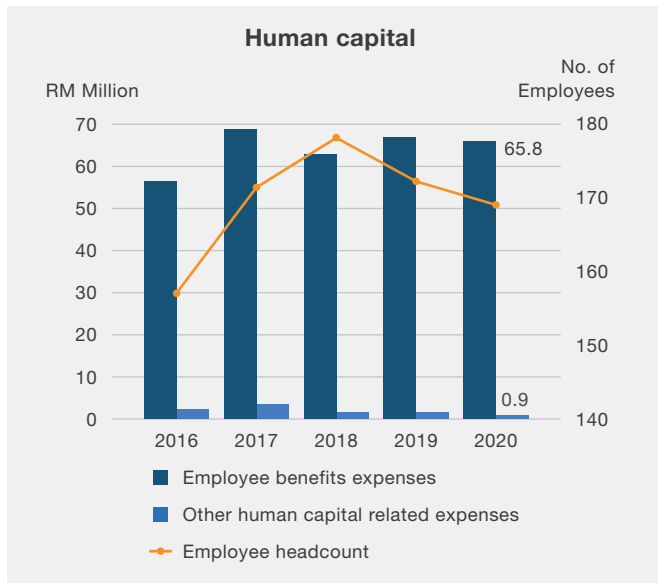


Human capital management expenses

Given our business model, costs relating to human capital continued to be the most significant expense item, representing approximately 70% of our total operating expenses.

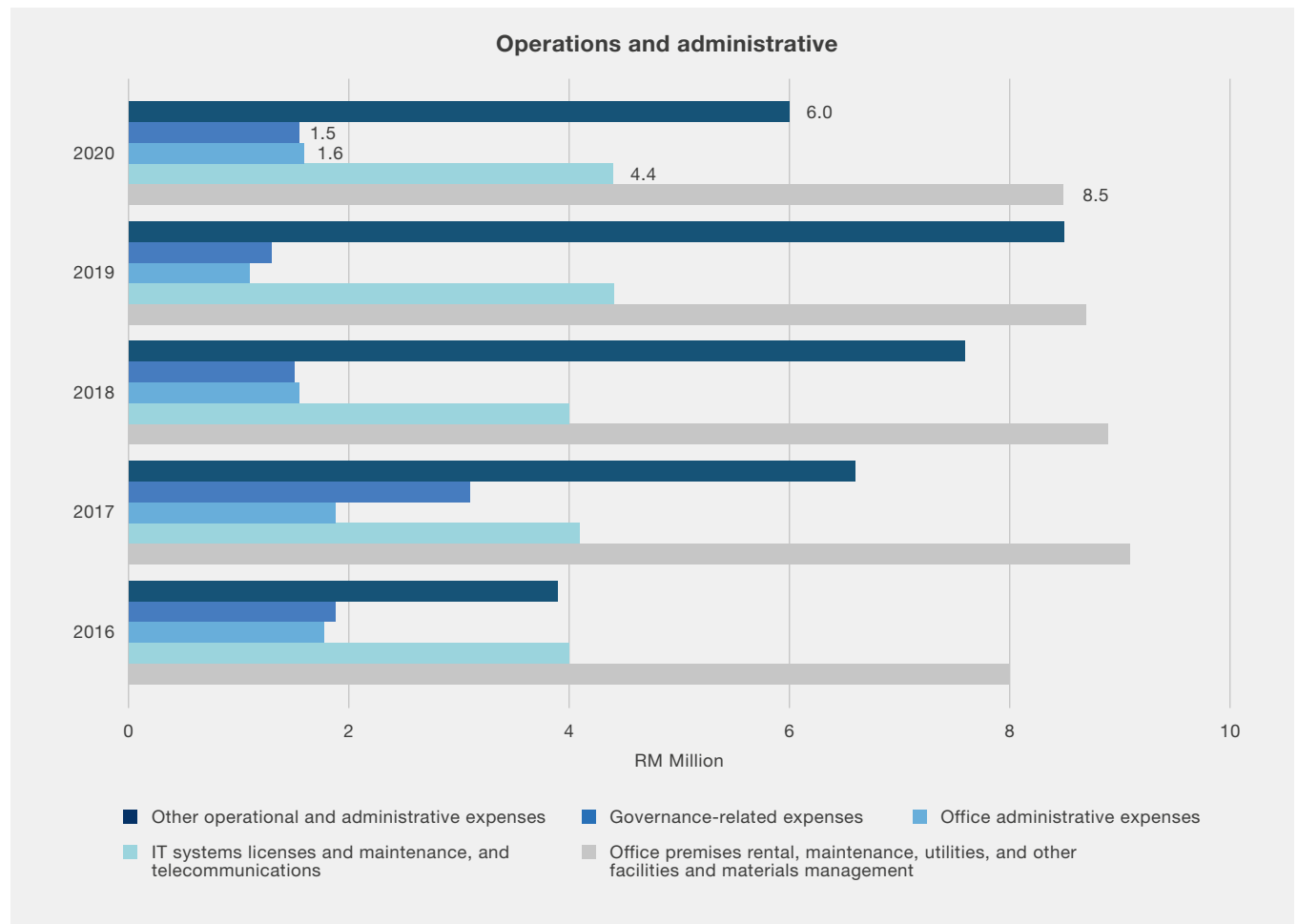
On aggregate, total human capital management expenses were RM1.8 million or 2.6% lower than 2019, mainly attributable to lower employee benefits as well as learning and development expenses.

The lower employee benefits were largely due to fewer insurance and medical claims. Learning and development also shifted into the virtual space, given the constraints for physical attendance. We expect this trend to continue in the coming year.



Operations and administrative expenses

Our operations and administrative expenses, being expenses incurred to support our day-to-day operations, remained stable year-on-year. Overall, the expenses decreased by RM2.1 million or 8.7% compared to the previous year, despite the ad hoc COVID-19 pandemic related expenses.



Financial Review

Against the budget, our operations and administrative expenses were RM2.0 million or 8.3% lower, mainly due to the reprioritisation of some operational activities as a result of the COVID-19 pandemic.

An analysis of operations and administrative expenses against a key cost driver, namely the number of employees, showed that these were still within a stable trend.

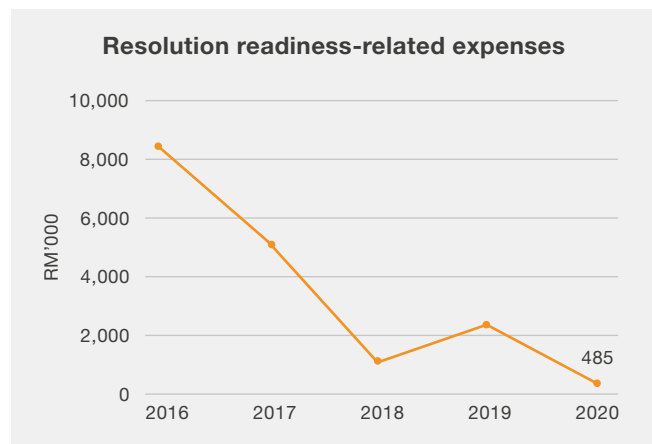
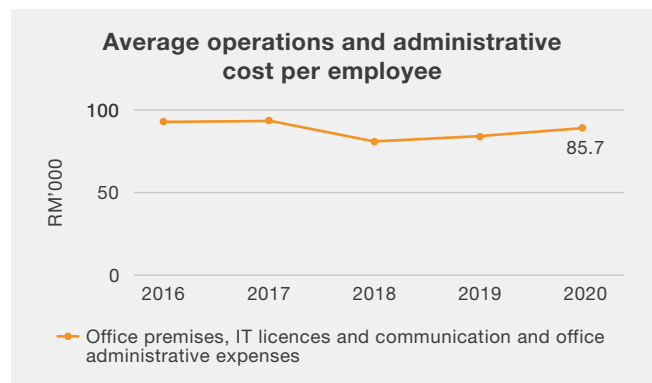
Initiatives-related expenses

Our expenses also support the implementation of corporate initiatives in line with our strategic priorities and objectives. These include specific initiatives to ensure operational readiness, such as simulations, resolution planning and the building of PIDM's reputation and image.

i. Resolution readiness

These are expenses related to resolution planning, intervention and failure resolution operational readiness as well as inter-agency collaboration and funding.

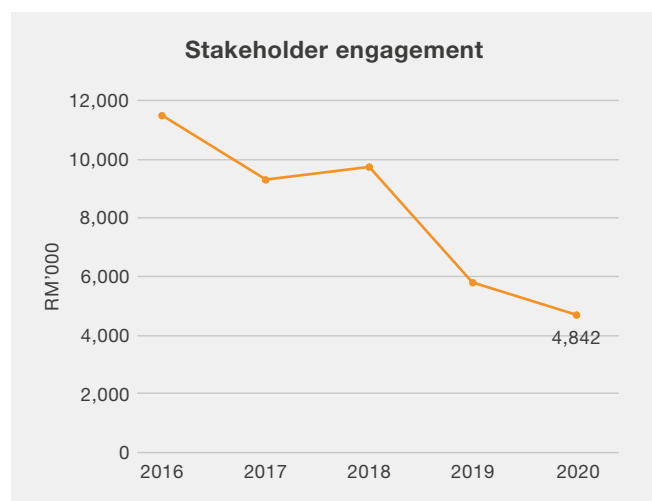
The lower expenses in 2020 compared to 2019 were mainly due to the reprioritisation of certain planned initiatives, attributable to the COVID-19 pandemic and to give way to higher priority work. These include the reprioritisation of certain simulations as well as workshops and education sessions for the resolution planning industry rollout.



ii. Stakeholder engagement

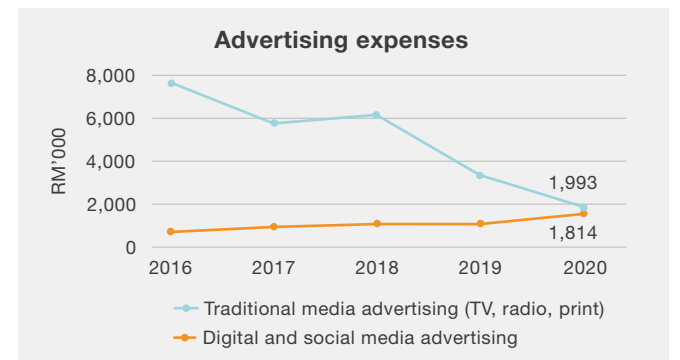
PIDM's statutory objective includes promoting or contributing to the stability of the financial system. In that regard, we continue our efforts on public awareness and building trust. Effective collaboration and coordination with strategic partners, in particular financial safety net players, and the industry, are also key.

On stakeholder engagement, PIDM recorded lower expenses in 2020 by RM1.1 million or 18.9% compared to the previous year. This is mainly due to reprioritisation of the originally planned savings campaign, cancellation of international travel and events, as well as conversion of meetings and events into virtual sessions.



Over the years, we worked on public awareness through a combination of advertising and public relations activities. In recent years, PIDM has commenced leveraging on digital and social media channels whilst reducing the use of traditional media.

As planned, in 2020, there was a significant shift into the digital and social media space, resulting in a significantly lower spend on traditional media.

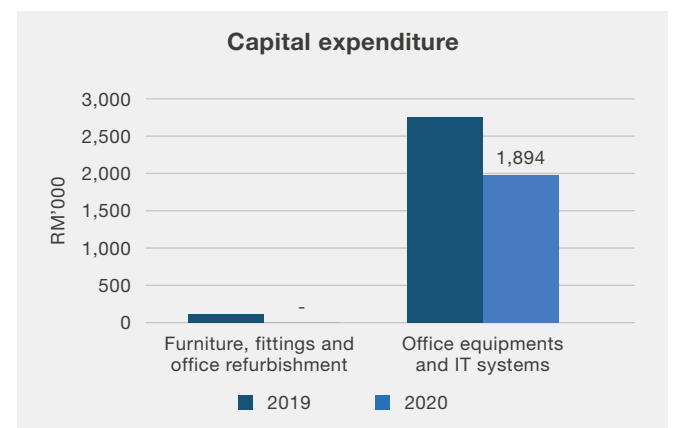


Ratio (Traditional:Digital)				
2016	2017	2018	2019	2020
92:8	86:14	85:15	76:24	52:48

Capital Expenditure

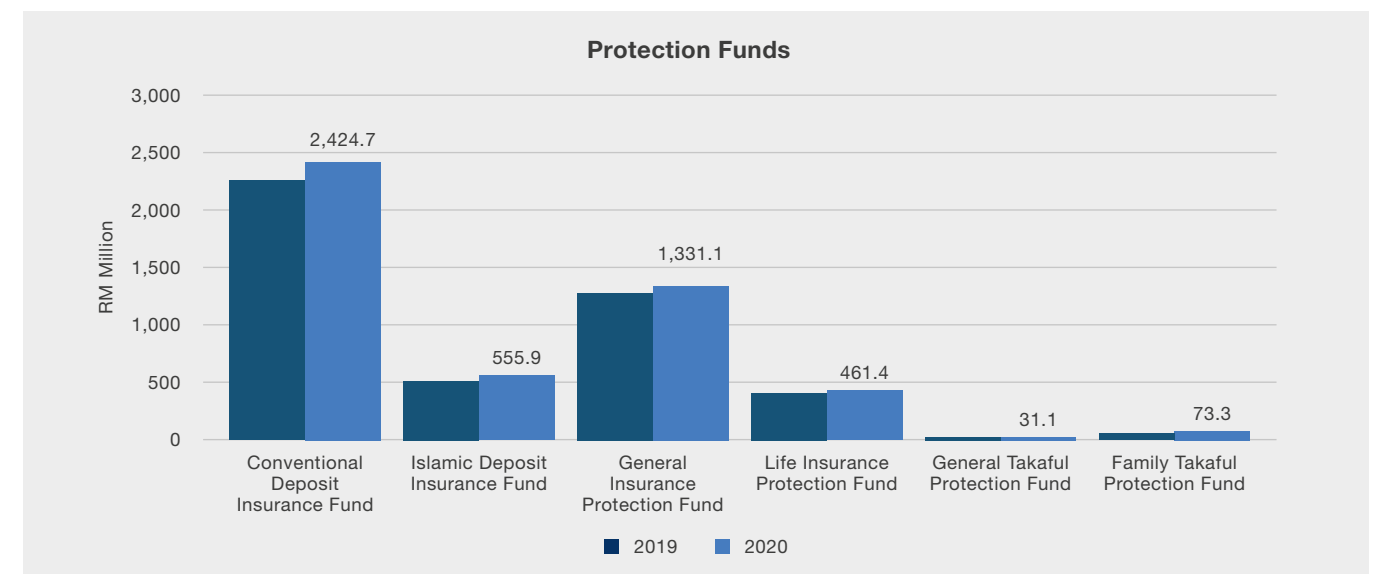
As at 31 December 2020, we contracted RM1.9 million for capital expenditure, representing 34.5% of the capital expenditure budgeted for 2020 of RM5.5 million. Some of our originally planned initiatives were reprioritised or deferred due to the COVID-19 pandemic.

Expenditures were primarily to enhance the effectiveness and security of our operational systems and IT infrastructure.



Statement of Financial Position

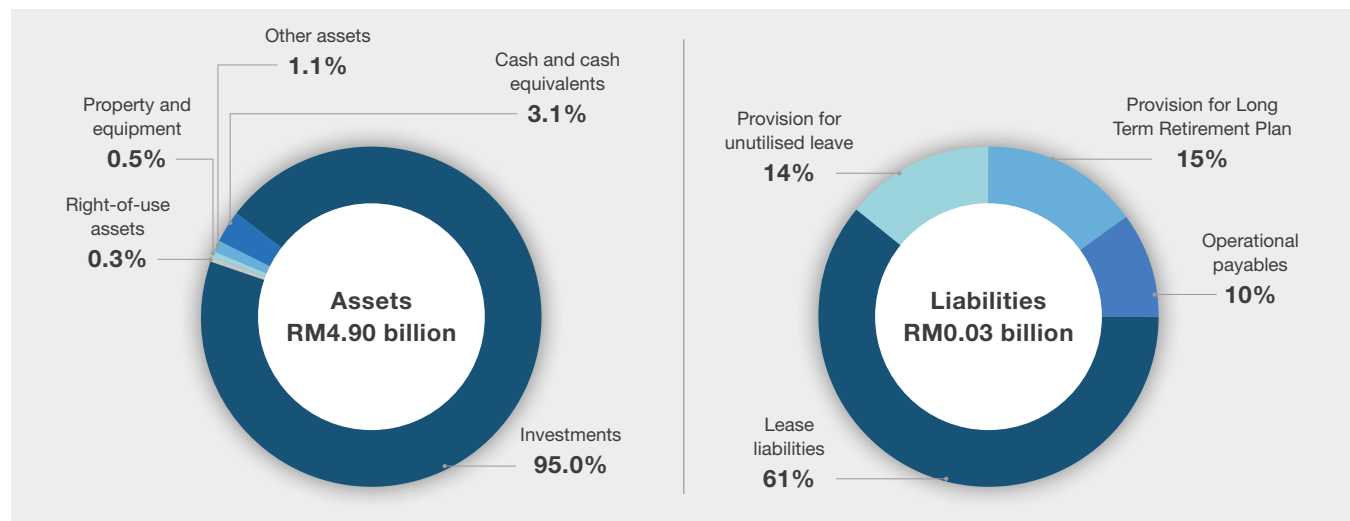
PIDM's Total Protection Funds as at 31 December 2020 amounted to RM4.88 billion, on the back of total assets of RM4.90 billion and net of liabilities of RM0.03 billion.



Financial Review

Our assets remained liquid, with financial assets comprising cash, cash equivalents, investments as well as investment income and returns receivables. These financial assets stood at RM4.86 billion, representing 99.2% of our total assets as at 31 December 2020. The remaining non-financial assets related to property and equipment, which amounted to RM0.03 billion as well as RM0.01 billion of ‘right-of-use assets’ for the lease of our corporate office.

Liabilities, on the other hand, encompassed payables and lease liabilities. Payables were primarily for operations in relation to goods and services acquired by PIDM, as well as to provide for unutilised leave and PIDM’s Long Term Retirement Plan.



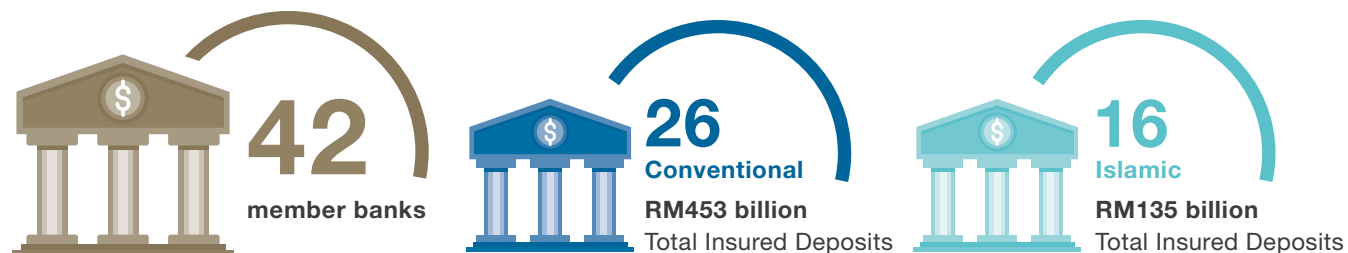
Details of the items within the Statement of Financial Position are in the Notes to the Financial Statements.

Overview of Membership

OVERVIEW OF MEMBERSHIP

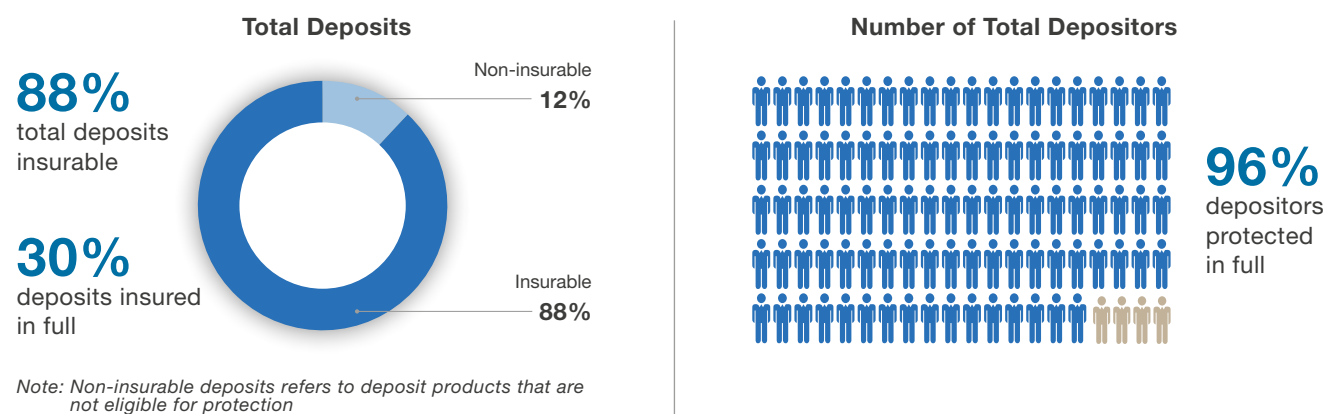
MEMBER BANKS

A. Profile

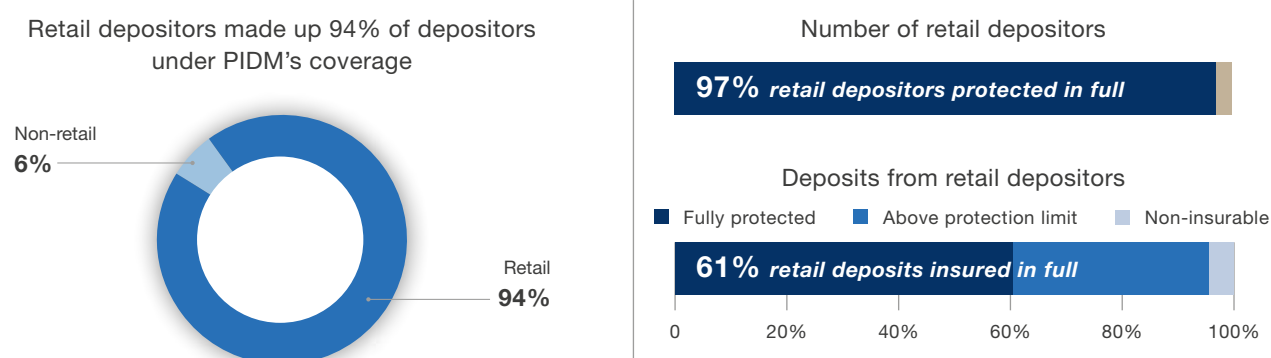


B. Coverage of PIDM's Protection on Deposits

The current scope of deposit coverage remains adequate and is in line with International Association of Deposit Insurers' (IADI) Core Principles for Effective Deposit Insurance Systems.



High Coverage for Retail Depositors



Source: PIDM

Overview of Membership

C. Assessment on Safety and Soundness

Sound fundamentals and ample buffers have enabled member banks to support financial intermediation and act as absorbers to macroeconomic shocks from the COVID-19 pandemic.



Source: PIDM, Bank Negara Malaysia

Overview of Membership

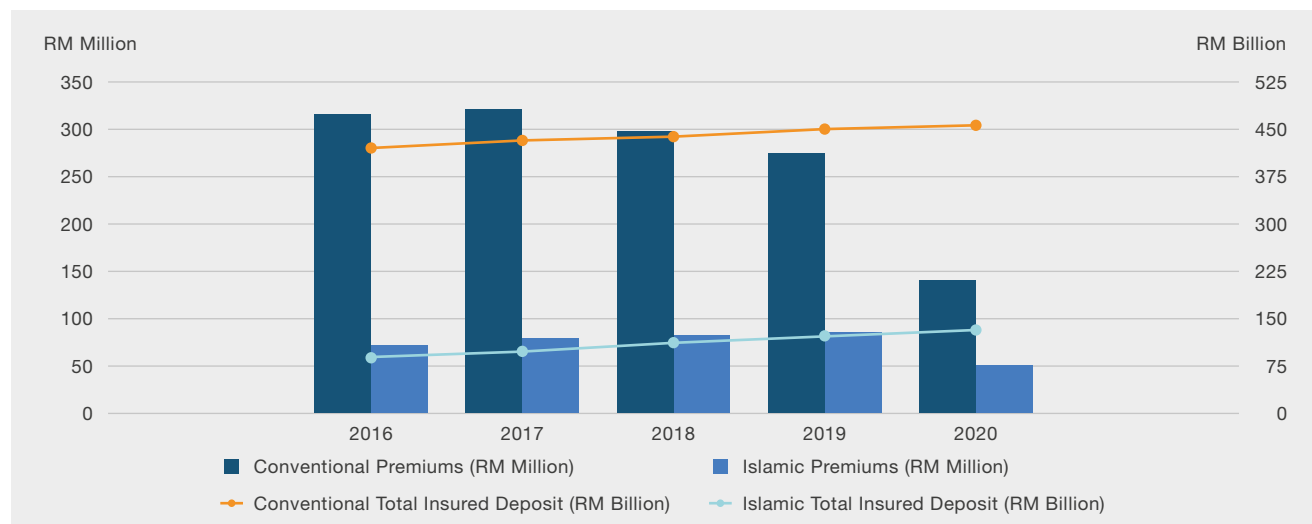
D. Regulatory Relief Measures due to COVID-19 Pandemic

Operational and financial relief measures were introduced to buffer the impact of the COVID-19 pandemic and ease the regulatory burden of member banks, further complementing the broader measures undertaken by various regulatory authorities.

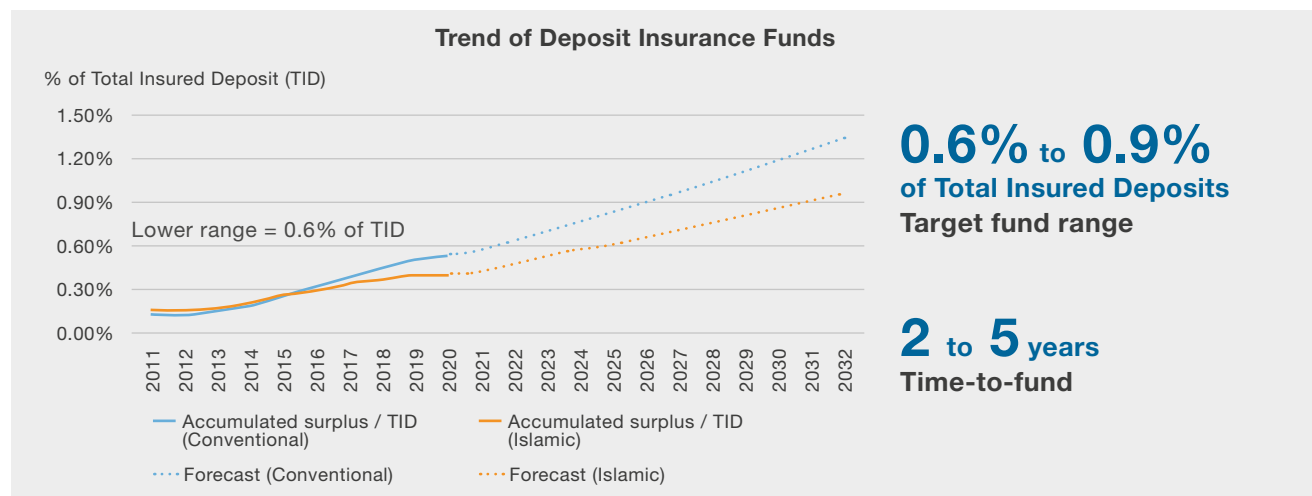
Operational relief measure	Financial relief measures	
Extension of time for submissions in respect of regulatory reporting for Assessment Year (AY) 2020	AY 2020 <ul style="list-style-type: none"> 50% reduction in premium rates and minimum amounts Premium payments deferred to end-October 2020 	AY 2021 <ul style="list-style-type: none"> 50% reduction in premium rates and minimum amounts Premium payments deferred to end-October 2021

E. PIDM's Ex-Ante Funding

Lower premiums for AY 2020 following the reduction in premium rates under PIDM's financial relief measures.



PIDM remains on track to meet the lower range of the current Deposit Insurance Funds' target level, amid the financial relief measures provided to member banks.



Source: PIDM

Refer to the Technical Reference on Target Fund on page 156. [🔗](#)

Overview of Membership

F. Incentives for Sound Risk Management

Periodic enhancements of the Differential Premium Systems (DPS) framework to incentivise sound risk management practices and minimise excessive risk-taking.

2008	2011	2015	2018	2020
Implementation of DPS	Revisions made to Asset Quality and Asset Concentration Criteria and removal of Efficiency Criteria	Adoption of Matrix Approach	Revised DPS framework to reflect enhancement to the Funding Profile Criterion	Commenced review on DPS framework

G. Looking Ahead

With sound buffers and fundamentals, member banks are well positioned to support financial intermediation as the economy recovers, and weather potential risks.

External environment

- Downside risks from the resurgence of COVID-19 infection and the reintroduction of containment measures in early 2021 will be continuously assessed. Asset quality and business growth prospects going forward hinge on the pandemic trajectory, the vaccine rollout and the pace of economic recovery.
- For member banks with regional overseas operations, we will monitor for any materialisation of asset quality risk from regional economies due to the COVID-19 pandemic. Asset quality risk is expected to be higher in certain ASEAN countries that are more vulnerable to the consequences of the pandemic.

Industry developments

- Impairment is expected to inch up, reflecting the lagging impact from the COVID-19 pandemic. Given member banks' strong capital positions, the impact would be gradual and manageable, supported by Bank Negara Malaysia's temporary regulatory flexibilities.
- Higher credit costs would continue to place pressure on profitability, as member banks set aside provisions for newly impaired loans and underperforming loans.
- The COVID-19 pandemic will likely accelerate digital transformation efforts by member banks, as consumers become more accustomed to digital banking services.

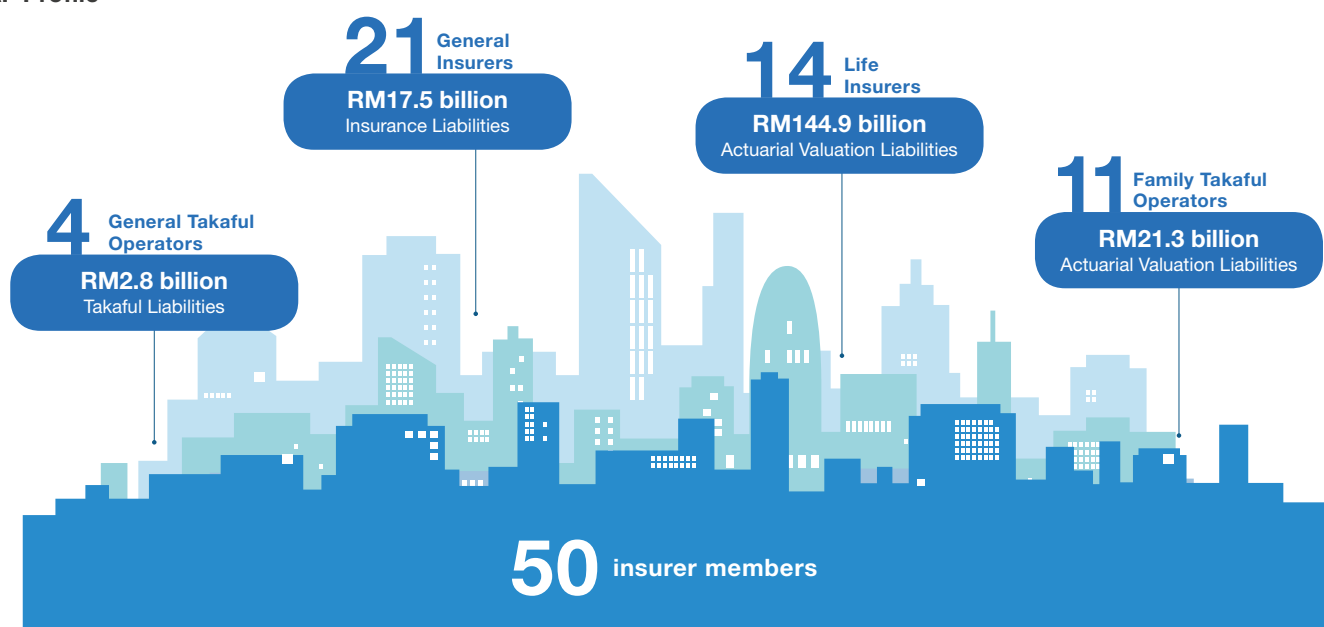
COVID-19 pandemic support measures

- Temporary regulatory flexibilities and relief measures provided by various regulatory authorities that extend into 2021 would continue to incentivise banks to support lending as the economy recovers.
- Targeted loan repayment assistance, as well as measures to maintain jobs and generate employment would help borrowers sustain their debt-servicing capacity.

Overview of Membership

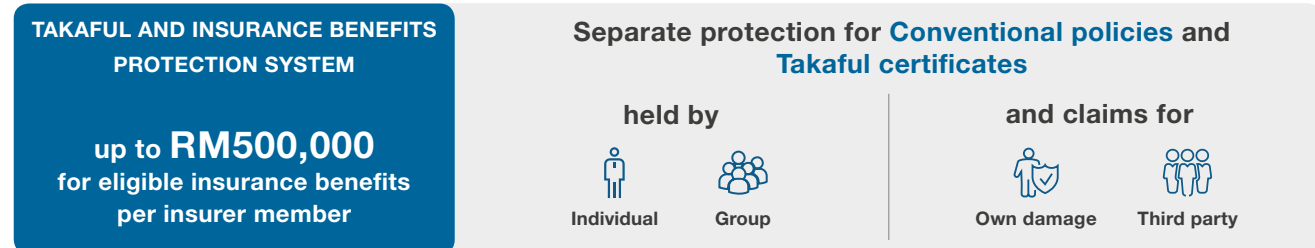
INSURER MEMBERS

A. Profile



B. Coverage of PIDM's Protection on Takaful and Insurance Benefits

The current scope of takaful and insurance coverage is sufficient to cover a large majority of takaful certificates and insurance policy owners in full. With the enhancements to the Takaful and Insurance Benefits Protection System (TIPS) protection with effect from January 2021, PIDM removes most exceptions to the scope and protects almost all benefits under the takaful and insurance products that are currently available in the market.



Life Insurance and Family Takaful



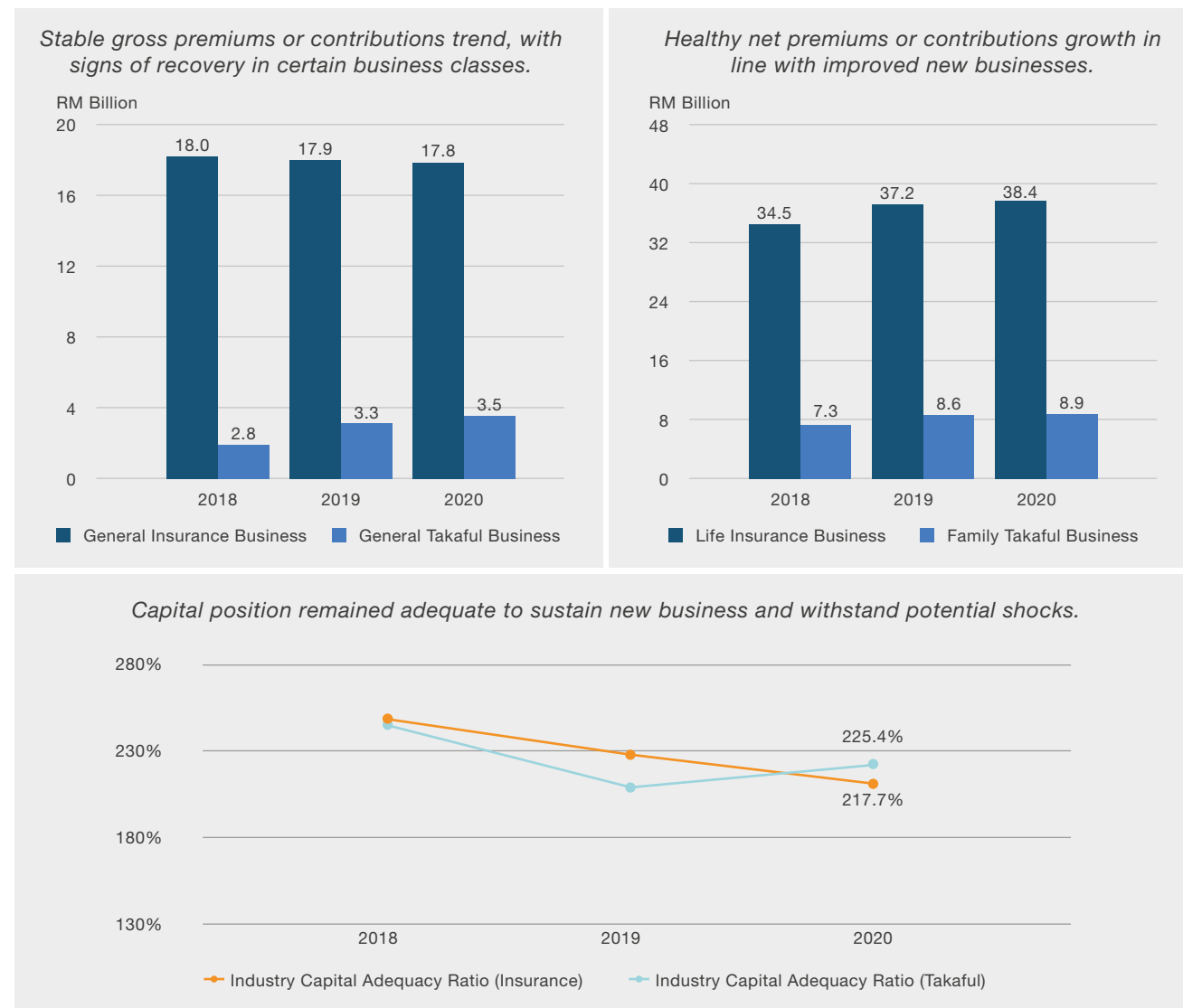
General Insurance and General Takaful



Source: PIDM survey

C. Assessment on Safety and Soundness

Insurer members demonstrated resilience throughout 2020 amid a challenging operating environment due to the COVID-19 pandemic.



Source: PIDM, Bank Negara Malaysia

D. Regulatory Relief Measures due to COVID-19 Pandemic

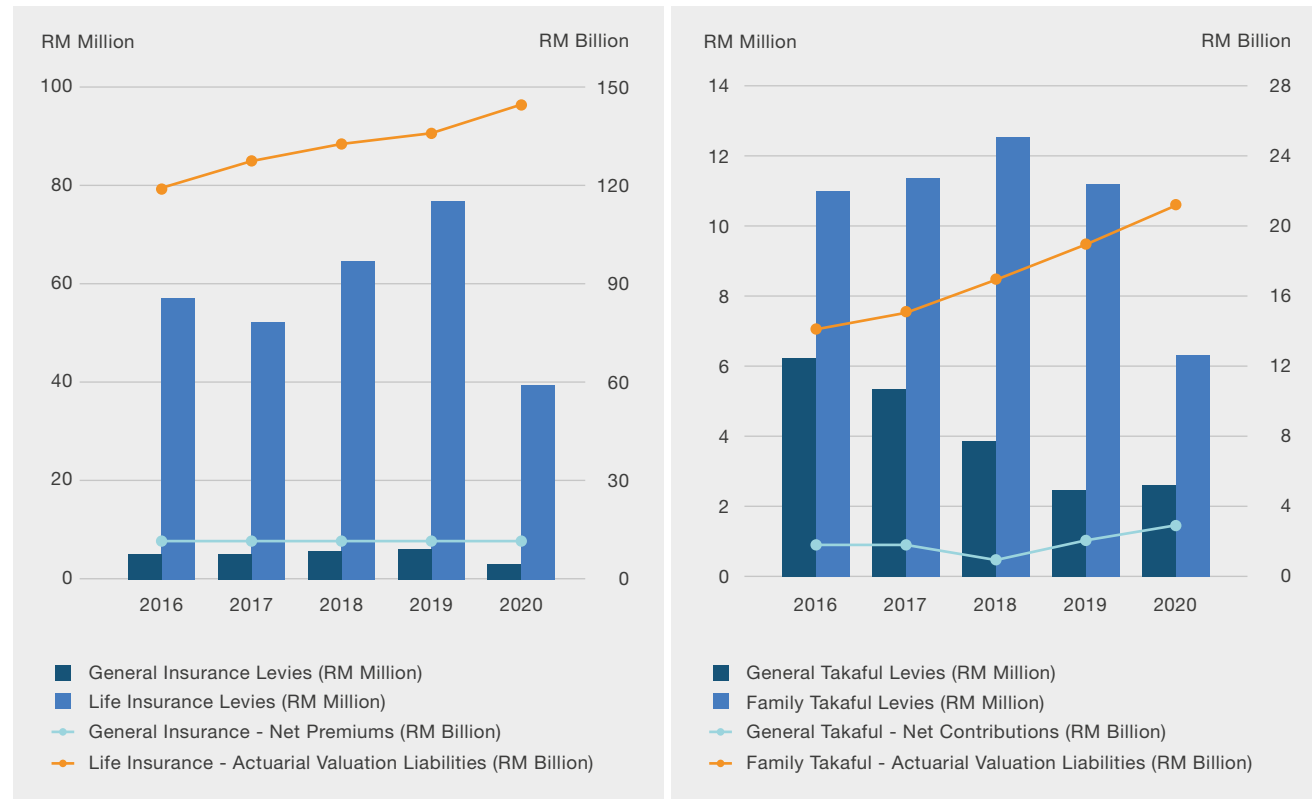
Operational and financial relief measures were introduced to buffer the impact of the COVID-19 pandemic and ease the regulatory burden of insurer members, further complementing the broader measures undertaken by various regulatory authorities.

Operational relief measure	Financial relief measures	
Extension of time for submission in respect of regulatory reporting for AY 2020	AY 2020	AY 2021
	<ul style="list-style-type: none"> 50% reduction in levy rates and minimum amounts Levy payments deferred to end-October 2020 	<ul style="list-style-type: none"> 50% reduction in levy rates and minimum amounts Levy payments deferred to end-October 2021

Overview of Membership

E. PIDM's Ex-Ante Funding

Lower levies for AY 2020 following the reduction in levy rates under PIDM's financial relief measures.



Source: PIDM

Amid the financial relief measures provided to insurer members, PIDM remains on track to meet the lower range of the current target fund level for the Life Insurance Protection Fund and Family Takaful Protection Fund. However, meeting the lower range of the current General Takaful Protection Fund target fund level would take slightly longer.

Takaful and Insurance Protection Funds	Target Fund Level	Current Level	Time-to-Fund
General Insurance Protection Fund	80% - 100% of Total Net Expected Loss	Met	-
Life Insurance Protection Fund	0.4% - 0.6% of Total Actuarial Valuation Liabilities	0.32%	3 - 7 years
General Takaful Protection Fund	2.8% - 3.3% of Total General Takaful Liabilities	1.14%	9 - 11 years
Family Takaful Protection Fund	1.0% - 1.5% of Total Family Takaful Liabilities	0.35%	10 - 14 years

Refer to the Technical Reference on Target Fund on page 156. [↗](#)

F. Incentives for Sound Risk Management

Periodic reviews of the Differential Levy Systems (DLS) framework to incentivise sound risk management practices and minimise excessive risk taking.

2011	2013	2016	2018	2020
Levy based on flat rate	Implementation of DLS framework	Implementation of Differential Levy System framework for Takaful Operators (DLST)	DLS and DLST frameworks review	Introduced new DLS indicator
		Enhancement to DLS framework		Commenced review on DLS and DLST frameworks

G. Looking Ahead

Insurer members to remain resilient, with strong fundamentals and ample buffers to weather potential challenges from evolving operating environment.

Industry developments

- Ongoing digital transformation initiatives will likely accelerate further, in line with the latest COVID-19 pandemic-induced shift in distribution channel among the insurance and takaful players. This transformation would continue to change the industry landscape and will require new partnerships and human capital enhancement.
- The COVID-19 pandemic would likely increase public awareness on the need for insurance and takaful protection.

COVID-19 pandemic support measures

- Targeted relief measures for insurance policy and takaful owners to defer payment of premiums and/or contributions aim to preserve continuity of the existing insurance and takaful coverage. These measures, along with other temporary regulatory flexibilities would minimise financial and operational burden to insurer members in 2021.
- Government initiatives of providing better accessibility to, and affordability of, insurance and takaful coverage, through Perlindungan Tenang and allowing Employees Provident Fund withdrawals for the purchase of insurance and takaful products would likely improve insurance and takaful penetration rate.

OUTLOOK

Our assessment of the outlook is as outlined on page 6 [↗](#) in the Organisation Overview and Operating Environment Section. While there are expectations for economic recovery in the second half of 2021, the outlook is nevertheless subject to downside risks from external and domestic headwinds.

In the planning period 2021 - 2023, we will continue to enhance our operational readiness to take prompt intervention and failure resolution actions in the unlikely event of a member institution failure, supporting the heightening of our resolution readiness in Malaysia. Refer to the Strategy Section [↗](#) and the Summary of the Corporate Plan at www.pidm.gov.my [↗](#) for details on our corporate initiatives.

PIDM CORPORATE SOCIAL RESPONSIBILITY

At PIDM, we regard corporate social responsibility (CSR) as a means to make a positive contribution to society, in alignment with our corporate values and culture. Highlights of our CSR work are as follows:

- **PIDM Scholarship Programme**

Since 2010, a significant aspect of our CSR has been our scholarship programme for undergraduates, which provides support for deserving students with financial needs. Over the 10 years, we believe that we have met some of our key objectives – to support, in a small but hopefully meaningful way, individuals from less privileged backgrounds to achieve tertiary education in fields relevant to the financial services industry. Our Board, management, and the mentors among our employees also encourage scholars to take the opportunity to explore and cement their values, strengthen their character, and contribute back towards the community. For more about some of our scholars, refer to the PIDM Scholars' Spotlight page on our website. [\[2\]](#)

- **Employee involvement**

We also support selected charitable causes and community campaigns initiated by employees through, for example, the matching of employees' personal contributions. Our CSR Policy encourages employees to participate in charitable fundraising and community volunteer activities. Our philosophy at PIDM is that, by providing employees an opportunity to give back to the community, we also help to instill a sense of pride in themselves and in PIDM.

- **Financial literacy for the financially underserved**

In 2020, we carried out some general financial literacy efforts through social media and strategic partnerships. Specifically, we looked for, and identified, opportunities to work with the financially underserved going forward. Our partnerships towards the end of 2020 with the United Nations Capital Development Fund (UNCDF), and with the Malaysian Association for the Blind (MAB),¹ signify the beginnings of work that aim to provide effective delivery of financial education and reach certain pockets of society.

The need to provide better financial literacy support to the financially underserved is a key finding of a landscape survey we commissioned in 2020 to identify key gaps and areas in financial education in Malaysia. The findings are that, while there is a great deal of financial education material targeted at financial consumers, significant issues lie with accessibility to financial education material and how they are delivered to enable an effective change in financial behaviour. Significantly, there is a lack of reach to certain segments of society, such as lower income groups and persons with disabilities. Such communities will find it more difficult to manage their finances and remain vulnerable to financial predators if these challenges are not overcome. We will continue to look for opportunities to contribute towards addressing some of these gaps.

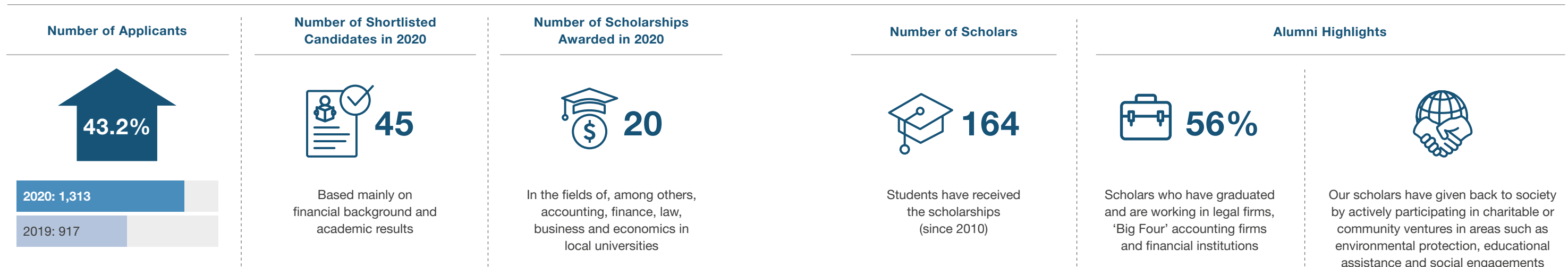
Going forward, PIDM plans to research and explore further collaborations with other interested parties to seek ways to encourage or implement innovative, scalable ventures to reach relevant communities, and make a positive impact on their financial health.

¹ Refer to the article "PIDM contributes stay-safe kits to visually impaired community" at <https://www.pidm.gov.my/en/media/events/pidm-contributes-stay-safe-kits-to-visually-impair/>

PIDM Corporate Social Responsibility

PIDM Corporate Social Responsibility

PIDM SCHOLARSHIP PROGRAMME



EMPLOYEE-INITIATED COMMUNITY CAMPAIGNS



FINANCIAL RESILIENCE EFFORTS



Financial Statements

Directors' Report [↗](#)

Statement by Directors [↗](#)

Statutory Declaration [↗](#)

Auditor General's Certification [↗](#)

Statement of Financial Position [↗](#)

Statement of Profit or Loss and Other Comprehensive Income [↗](#)

Statement of Changes in Funds and Reserves [↗](#)

Statement of Cash Flows [↗](#)

Notes to the Financial Statements [↗](#)

DIRECTORS' REPORT

The Directors hereby submit their report and the audited financial statements of Perbadanan Insurans Deposit Malaysia (PIDM) for the financial year ended 31 December 2020.

PRINCIPAL ACTIVITIES

PIDM is a statutory body established to administer a Deposit Insurance System (DIS) and a Takaful and Insurance Benefits Protection System (TIPS). PIDM is governed by the provisions of the Malaysia Deposit Insurance Corporation Act 2011 (PIDM Act).

DIS provides protection against the loss of part or all of deposits for which a member bank is liable whereas TIPS provides protection against the loss of part or all of takaful or insurance benefits for which an insurer member is liable. In addition, PIDM provides incentives for sound risk management in the financial system as well as promotes and contributes to the stability of the financial system. PIDM is the resolution authority for all member institutions and thus, has wide intervention and failure resolution powers. PIDM also undertakes risk assessment and monitoring of all member institutions and works closely with the supervisory authority to ensure that concerns about the business and affairs of member institutions are addressed promptly.

The PIDM Act provides for separate protection coverage for:

- Islamic and conventional deposits; and
- protected benefits in relation to general insurance, life insurance, general takaful and family takaful.

To ensure proper governance and compliance with Shariah requirements, PIDM maintains and administers two separate Protection Funds for Islamic and conventional deposits known as Deposit Insurance Funds (DIFs) as well as four separate Protection Funds for each business segment within TIPS known as Takaful and Insurance Benefits Protection Funds (TIPFs). There is no commingling of funds between the separate Protection Funds.

FINANCIAL RESULTS

	2020 RM'000	2019 RM'000
Total Comprehensive Income for the financial year:		
Deposit Insurance Funds	209,837	373,803
Takaful and Insurance Benefits Protection Funds	84,109	130,940
	293,946	504,743

There were no material transfers to or from reserves or provisions during the financial year other than as disclosed in the Statement of Changes in Funds and Reserves.

In the opinion of the Directors, the results of the operations of PIDM during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature.

The balances of the Protection Funds as at the end of the financial year were:

	2020 RM'000	2019 RM'000
Deposit Insurance Funds:		
Conventional Deposit Insurance Fund	2,424,703	2,267,355
Islamic Deposit Insurance Fund	555,926	503,437
Total Deposit Insurance Funds	2,980,629	2,770,792

Takaful and Insurance Benefits Protection Funds:

General Insurance Protection Fund	1,331,141	1,294,811
Life Insurance Protection Fund	461,368	422,698
General Takaful Protection Fund	31,111	28,233
Family Takaful Protection Fund	73,273	67,042
Total Takaful and Insurance Benefits Protection Funds	1,896,893	1,812,784

DIRECTORS

The names of the Directors of PIDM in office during the financial year ended 31 December 2020 were:

- Tan Sri Dr. Rahamat Bivi binti Yusoff (Chairman)
- Datuk Nor Shamsiah binti Mohd Yunus
- Dato' Asri bin Hamidon @ Hamidin (appointed on 1 May 2020)
- Dato Dr. Nik Ramlah binti Nik Mahmood
- Dato' Dr. Gan Wee Beng
- Ms. Gloria Goh Ewe Gim
- Datuk Dr. Yacob bin Mustafa
- Puan Suhara binti Husni (appointed on 1 August 2020)
- Tan Sri Dr. Ismail bin Bakar (retired on 19 January 2020)
- Tan Sri Ahmad Badri bin Mohd Zahir (retired on 30 April 2020)
- Mr. Alex Foong Soo Hah (retired on 14 August 2020)

Dato' Asri bin Hamidon @ Hamidin and Datuk Nor Shamsiah binti Mohd Yunus are *ex officio* Directors by virtue of their office, in accordance with subsection 11(2) of the PIDM Act. Members of the Board of Directors of PIDM other than *ex officio* Directors are appointed by the Minister of Finance in accordance with subsection 11(2) of the PIDM Act.

Directors' Report

Directors' Report

DIRECTORS' BENEFITS

Neither at the end of the financial year, nor at any time during the financial year, was there any arrangement to which PIDM was a party, whereby the Directors might acquire benefits by means of the acquisition of shares in or debentures of any other body corporate.

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the Directors as shown in Note 16 to the financial statements) by reason of a contract made by PIDM or a related corporation with any Director or with a firm of which a Director is a member, or with a company in which a Director has a substantial financial interest.

IMPAIRMENT AND VALUATION METHODS

Before the Statement of Profit or Loss and Other Comprehensive Income as well as the Statement of Financial Position of PIDM were completed, the Directors have satisfied themselves that Management had taken proper action to ensure that there is no known significant impairment nor were they aware of any circumstances that would require such action, other than those which have been recognised and disclosed in Note 16 (i) of the financial statements. At the date of this report, the Directors are not aware of any other circumstances which would render the need for any impairment in the financial statements of PIDM.

The Directors have also satisfied themselves that Management had taken reasonable steps to ascertain the values attributed to the assets and liabilities in the financial statements of PIDM. As at the date of this report, the Directors are not aware of any circumstances that have arisen that would render adherence to the methods used in the valuation of assets or liabilities in PIDM's accounts misleading or inappropriate.

CHANGE OF CIRCUMSTANCES

As at the date of this report, the Directors are not aware of any change in circumstances not otherwise dealt with in this report or the financial statements of PIDM which would render any amount stated in the financial statements misleading.

ITEMS OF AN UNUSUAL NATURE

On 11 March 2020, the World Health Organisation declared the outbreak of COVID-19 as a pandemic. In Malaysia, the Movement Control Order ("MCO") was imposed on 18 March 2020 with containment measures to mitigate the impact of the pandemic on the Malaysian public. PIDM has carefully assessed and considered the impact of the COVID-19 pandemic on its operations and financial position, and will continue to monitor developments involving the pandemic.

Whilst the pandemic and the MCO containment measures have significantly impacted the economy and businesses in general, its impact on PIDM's operations has been minimal. PIDM has benefited from its digital transformation, virtual operating platforms as well as robust business continuity plans, which have enabled it to smoothly transition into the "work from home" mode of operation and allowed it to continue to serve its key stakeholders with minimal disruption. Despite several ad-hoc expenses incurred during the year to ensure effective and safe operations during the MCO period, PIDM's overall expenses remained well within its approved budget for the financial year.

During the year, the Minister of Finance, on the recommendation of PIDM, approved the reduction in the premium and levy rates for assessment years 2020 and 2021 as described in Note 13 to the financial statements, as part of PIDM's regulatory relief measures. These reductions in premium and levy rates were also in line with the Government's response to support the economy and address the impact of the pandemic. As a result, there was a significant reduction in the premium and levy revenues for the financial year ended 31 December 2020. PIDM's investment income for the financial year was also affected by the reduction in the Overnight Policy Rate ("OPR"). The impact of the reduced premium and levy revenues as well as lower investment income will continue into the financial year ending 31 December 2021. Nevertheless, PIDM expects to continue to accumulate annual net surpluses in building its Protection Funds.

Also, while there is an expected increase of credit risk of investments arising from uncertainty in the operating environment, PIDM does not expect the impact on its investment portfolio to be significant given the short-term nature of its investments and the conservative investment policy governing its investment strategies.

Apart from the above, there has not arisen in the interval between the end of the financial year and the date of this report, any item, transaction or event of a material and unusual nature, likely to substantially affect the results of the operations of PIDM for the current financial year in respect of which this report is made.

As at the date of this report, there does not exist any charge on the assets of PIDM that has arisen since the end of the financial year that secures the liabilities of any other person.

CONTINGENT LIABILITIES

Exposure to Losses

Under the PIDM Act, PIDM has an inherent exposure to losses resulting from insuring deposits under DIS as well as insurance policies and takaful certificates under TIPS. However, this inherent exposure cannot be accurately ascertained or estimated with any acceptable degree of reliability.

CONTINGENT LIABILITIES (continued)

Exposure to Losses (continued)

As at the date of this report, the COVID-19 pandemic outbreak is ongoing and the Government and its agencies are continuing to address its impact. In this regard, PIDM continues to undertake risk assessment and monitoring of all member institutions. As at the date of this financial statements, there have been no specific events involving PIDM's member institutions that would require PIDM to record a specific provision in its financial statements in accordance with MFRS 137 *Provisions, Contingent Liabilities and Contingent Assets*.

While provisions are not recorded unless a specific event occurs, PIDM continues to build reserves in its Protection Funds through the accumulation of annual net surpluses.

Accumulated surpluses are held in each of the Protection Funds to cover net losses when relevant obligations arise. As discussed in Note 12 to the financial statements, PIDM has established Target Fund frameworks for DIFs and TIFPs to determine the level of funds sufficient to cover the expected net losses from intervention or failure resolution activities.

If the relevant Protection Fund is insufficient to meet obligations, PIDM as a statutory body has the authority to raise funds as it deems fit including borrowing from the Government or issuing public debt securities, as well as assessing and collecting higher premiums or levies with the approval of the Minister of Finance.

Other Contingent Liabilities

Based on the representation made by Management, the Directors are of the opinion that other than the matters discussed above, there does not exist:

- (i) any contingent liability which has arisen since the end of the financial year; and
- (ii) any contingent or other liability that has become enforceable or is likely to become enforceable within the period of 12 months after the end of the financial year which will or may affect the ability of PIDM to meet their obligations when they fall due.

INVESTMENT IN SUBSIDIARIES

PIDM has incorporated five subsidiaries as part of its efforts to ensure operational readiness to carry out any intervention or failure resolution activities. In accordance with section 10 of the PIDM Act, PIDM may establish subsidiaries as it considers necessary for the purposes of carrying out its functions, powers and duties. The subsidiaries are incorporated in advance as part of PIDM's operational readiness in case of a failure of a member institution, and thus will remain dormant until activated to carry out any necessary intervention or

failure resolution activities. The basis of accounting as well as details of the subsidiaries are further described in Note 2.2 (b), Note 3.1 (a) and Note 7 to the financial statements.

RESPONSIBILITY FOR THE PREPARATION OF THE FINANCIAL STATEMENTS

The Directors, in providing the opinion on the financial statements, relied on written representations by Management of their compliance with internal processes and their system of internal controls as well as the internal and external audit functions designed to ensure that:

- (i) the financial statements of PIDM have been prepared in accordance with the PIDM Act and applicable Malaysian Financial Reporting Standards (MFRS) and comply with the International Financial Reporting Standards (IFRS), so as to give a true and fair view of the financial position of PIDM as at 31 December 2020, the results of its operations and its cash flows for the year ended on that date; and
- (ii) the Islamic Deposit Insurance Fund as well as the Takaful Protection Funds are maintained and administered in accordance with Shariah requirements and are in compliance with the PIDM Act.

AUDITORS

In accordance with the PIDM Act, the accounts of PIDM are audited by the Auditor General of Malaysia.

Signed on behalf of the Board in accordance with a resolution approved by the Board of Directors



Tan Sri Dr. Rahamat Bivi binti Yusoff
Chairman of the Board of Directors



Ms. Gloria Goh Ewe Gim
Chairman of the Audit Committee

Kuala Lumpur
12 March 2021

STATEMENT BY DIRECTORS

We, Tan Sri Dr. Rahamat Bivi binti Yusoff and Ms. Gloria Goh Ewe Gim, being two of the Directors of Perbadanan Insurans Deposit Malaysia (PIDM), do hereby state that, in the opinion of the Directors, the financial statements have been prepared and presented in accordance with the Malaysia Deposit Insurance Corporation Act 2011 (PIDM Act) and applicable Malaysian Financial Reporting Standards and comply with the International Financial Reporting Standards, so as to give a true and fair view of the state of affairs of PIDM as at 31 December 2020, the results of its operations and its cash flows for the year ended on that date. The Directors are also of the opinion that the Islamic Deposit Insurance Fund as well as the Takaful Protection Funds are maintained and administered in accordance with Shariah requirements, as set out in the PIDM Act.

Signed on behalf of the Board in accordance with a resolution approved by the Board of Directors



Tan Sri Dr. Rahamat Bivi binti Yusoff
Chairman of the Board of Directors



Ms. Gloria Goh Ewe Gim
Chairman of the Audit Committee

Kuala Lumpur
12 March 2021

STATUTORY DECLARATION BY MANAGEMENT IN RELATION TO THEIR RESPONSIBILITY FOR FINANCIAL REPORTING

The preparation of the financial statements of Perbadanan Insurans Deposit Malaysia (PIDM) and the information relating to the financial statements are the responsibility of Management. The financial statements have been prepared in accordance with the Malaysia Deposit Insurance Corporation Act 2011 (PIDM Act) and applicable Malaysian Financial Reporting Standards and comply with the International Financial Reporting Standards, so as to give a true and fair view of the financial position of PIDM as at 31 December 2020, the results of its operations and its cash flows for the year ended on that date. The Islamic Deposit Insurance Fund as well as the Takaful Protection Funds are maintained and administered in accordance with Shariah requirements, and are in compliance with the PIDM Act.

In discharging its responsibility for the integrity and fairness of the financial statements, Management maintains financial and management control systems and practices. Compliance with control systems and practices are validated by an independent internal audit function designed to provide reasonable assurance that transactions are duly authorised, assets are safeguarded and proper records are maintained in accordance with the PIDM Act as well as the Statutory Bodies (Accounts and Annual Reports) Act 1980.

These financial statements have been duly audited by the Auditor General of Malaysia and the results of the audit have been duly noted by Management. In carrying out the audit, the auditors have access to all documents and records of PIDM. The auditors also have free access to the Audit Committee of the Board, which oversees Management's responsibilities for maintaining adequate control systems and the quality of financial reporting and recommends the financial statements to the Board of Directors.

The financial statements have been considered and approved by the Board of Directors and a resolution was approved on 12 March 2021.

We, Rafiz Azuan bin Abdullah and Wan Ahmad Ikram bin Wan Ahmad Lotfi, being the two officers primarily responsible for the financial management of PIDM, do solemnly and sincerely declare that the financial statements, to the best of our knowledge and belief, are correct, and we make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act 1960.

Subscribed and solemnly declared by the abovenamed at Kuala Lumpur on 12 March 2021



Rafiz Azuan bin Abdullah
Chief Executive Officer



Wan Ahmad Ikram bin Wan Ahmad Lotfi
Chief Financial Officer

Before me,
Commissioner for Oaths



G1-1-2, Ground Floor, Menara 1 Dutamas,
Solaris Dutamas, No. 1, Jalan Dutamas, 1,
50480 KUALA LUMPUR, MALAYSIA.

AUDITOR GENERAL CERTIFICATION

Auditor General Certification



**CERTIFICATE OF THE AUDITOR GENERAL
ON THE FINANCIAL STATEMENTS OF
PERBADANAN INSURANS DEPOSIT MALAYSIA
FOR THE YEAR ENDED 31 DECEMBER 2020**

Certificate on the Audit of the Financial Statements**Opinion**

I have audited the Financial Statements of the Perbadanan Insurans Deposit Malaysia, which comprise the Statement of Financial Position as at 31 December 2020 and the Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Funds and Reserves and Statement of Cash Flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 6 to 93.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Perbadanan Insurans Deposit Malaysia as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with the Malaysian Financial Reporting Standards (MFRS), International Financial Reporting Standards (IFRS) and Malaysia Deposit Insurance Corporation Act 2011 [Act 720].

Basis for Opinion

The audit was conducted in accordance with the Audit Act 1957 and the International Standards of Supreme Audit Institutions. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my certificate. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Independence and Other Ethical Responsibilities

I am independent of the Perbadanan Insurans Deposit Malaysia and I have fulfilled my other ethical responsibilities in accordance with the International Standards of Supreme Audit Institutions.

Information Other than the Financial Statements and Auditor's Certificate Thereon

The Directors of the Perbadanan Insurans Deposit Malaysia are responsible for the other information in the Annual Report. My opinion on the Financial Statements of the Perbadanan does not cover other information than the Financial Statements and Auditor's Certificate thereon and I do not express any form of assurance conclusion thereon.

Responsibilities of the Directors for the Financial Statements

The Directors are responsible for the preparation of Financial Statements of the Perbadanan Insurans Deposit Malaysia that give a true and fair view in accordance with Malaysian Financial Reporting Standards (MFRS), International Financial Reporting Standards (IFRS) and Malaysia Deposit Insurance Corporation Act 2011 [Act 720]. The Directors are also responsible for such internal control as it is necessary to enable the preparation of the Financial Statements of the Perbadanan that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements of the Perbadanan Insurans Deposit Malaysia, the Directors are responsible for assessing the Perbadanan's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the Financial Statements of the Perbadanan Insurans Deposit Malaysia as a whole are free from material misstatement, whether due to fraud or error, and to issue Auditor's Certificate that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the International Standards of Supreme Audit Institutions will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the International Standards of Supreme Audit Institutions, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

Auditor General Certification

- a. Identify and assess the risks of material misstatement of the Financial Statements of the Perbadanan Insurans Deposit Malaysia, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- b. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Perbadanan Insurans Deposit Malaysia's internal control.
- c. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- d. Conclude on the appropriateness the Directors use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on of the Perbadanan Insurans Deposit Malaysia's ability to continue as a going concern. If I conclude that a material uncertainty exists, I have to draw attention in my Auditor's Certificate to the related disclosures in the Financial Statements of the Perbadanan or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of the Auditor's Certificate.
- e. Evaluate the overall presentation of the Financial Statements of the Perbadanan Insurans Deposit Malaysia, including the disclosures, and whether the Financial Statements of the Perbadanan represents the underlying transactions and events in a manner that achieves fair presentation.

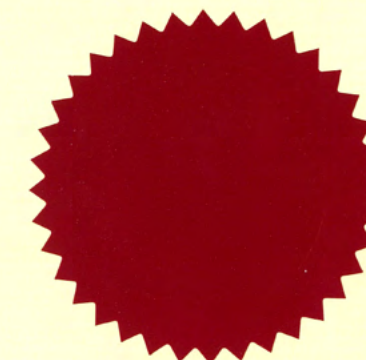
I also provide the Directors with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Other Matters

This certificate is made solely to the Directors of Perbadanan Insurans Deposit Malaysia in accordance with Malaysia Deposit Insurance Corporation Act 2011 [Act 720] and for no other purpose. I do not assume responsibility to any other person for the content of this certificate.

(KARTINA BINTI ZAMHARI)
ON BEHALF OF AUDITOR GENERAL

PUTRAJAYA
24 MARCH 2021



STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER

	Note	2020 RM'000	2019 RM'000
ASSETS			
Cash and cash equivalents	4a	152,245	72,179
Investments	5	4,655,630	4,437,178
Other assets	6	54,732	54,026
Investment in subsidiaries	7	_*	_*
Property and equipment	8	26,686	30,179
Right-of-use assets	9	14,263	19,037
Total Assets		4,903,556	4,612,599
LIABILITIES			
Payables	11	10,073	8,605
Lease liabilities	10	15,961	20,418
Total Liabilities		26,034	29,023
FUNDS AND RESERVES			
Deposit Insurance Funds			
<i>Accumulated surpluses</i>	12a	2,980,629	2,770,792
Takaful and Insurance Benefits Protection Funds			
<i>Accumulated surpluses</i>	12b	1,896,893	1,812,784
Total Funds and Reserves		4,877,522	4,583,576
Total Liabilities, Funds and Reserves		4,903,556	4,612,599

* The amount is significantly below the rounding threshold. Refer to Note 7 for the details.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER

	Note	2020 RM'000	2019 RM'000
Premium and levy revenues	13	243,621	458,443
Investment income and returns from cash equivalents and investment securities	14	144,371	148,394
Other income	8	782	47
Total income		388,774	606,884
Human capital management expenses	15	66,719	68,537
Operations and administrative expenses	16	22,008	24,054
Initiatives related expenses	17	6,488	9,277
Total expenses		95,215	101,868
Net surplus for the year		293,559	505,016
Other comprehensive income			
Remeasurement of Long Term Retirement Plan	11(ii)	387	(273)
Total comprehensive income for the year	21	293,946	504,743

STATEMENT OF CHANGES IN FUNDS AND RESERVES

FOR THE YEAR ENDED 31 DECEMBER

DEPOSIT INSURANCE FUNDS

	Note	Conventional Deposit Insurance Fund RM'000	Islamic Deposit Insurance Fund RM'000	Total Funds and Reserves RM'000
Accumulated Surpluses				
As at 1 January 2019	12a	1,978,991	417,998	2,396,989
Total comprehensive income for the year		288,364	85,439	373,803
As at 31 December 2019	12a	2,267,355	503,437	2,770,792
As at 1 January 2020	12a	2,267,355	503,437	2,770,792
Total comprehensive income for the year		157,348	52,489	209,837
As at 31 December 2020	12a	2,424,703	555,926	2,980,629

TAKAFUL AND INSURANCE BENEFITS PROTECTION FUNDS

	Note	General Insurance Protection Fund RM'000	Life Insurance Protection Fund RM'000	General Takaful Protection Fund RM'000	Family Takaful Protection Fund RM'000	Total Funds and Reserves RM'000
Accumulated Surpluses						
As at 1 January 2019	12b	1,253,455	346,341	25,761	56,287	1,681,844
Total comprehensive income for the year		41,356	76,357	2,472	10,755	130,940
As at 31 December 2019	12b	1,294,811	422,698	28,233	67,042	1,812,784
As at 1 January 2020	12b	1,294,811	422,698	28,233	67,042	1,812,784
Total comprehensive income for the year		36,330	38,670	2,878	6,231	84,109
As at 31 December 2020	12b	1,331,141	461,368	31,111	73,273	1,896,893

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER

	Note	2020 RM'000	2019 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Premiums and levies received from member institutions		243,621	458,443
Payments in the course of operations to suppliers and employees		(80,502)	(87,315)
Receipts of investment income and returns		189,115	175,330
Net cash flows generated from operating activities		352,234	546,458
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from maturity of investment securities		2,060,488	1,450,596
Purchase of investment securities		(2,324,591)	(2,049,966)
Proceeds from disposal of property and equipment		-	47
Purchase of property and equipment		(2,400)	(2,406)
Net cash flows used in investing activities		(266,503)	(601,729)
CASH FLOWS FROM FINANCING ACTIVITIES			
Principal repayment of lease liabilities	9	(4,666)	(4,419)
Lease finance costs		(999)	(1,254)
Net cash flows used in financing activities		(5,665)	(5,673)
Net increase / (decrease) in cash and cash equivalents		80,066	(60,944)
Cash and cash equivalents at beginning of year		72,179	133,123
Cash and cash equivalents at end of year	4a	152,245	72,179

Note 1: The Statement of Cash Flows shows how cash and cash equivalents have changed over the reporting period at PIDM. In accordance with MFRS 107, cash flows are divided into cash flows from operating and investing activities. The cash and cash equivalents shown in the Statement of Cash Flows correspond to the Statement of Financial Position item cash and cash equivalents. The amount of liquid assets available to PIDM is represented by adding investments (as described in Note 5) and investment income and returns receivables (as described in Note 6). Refer to Note 22 (c) for details of PIDM's management of liquidity risk.

Note 2: Statement of Cash Flows prepared using the indirect method is presented in Note 4 (b) to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2020

1. PRINCIPAL ACTIVITIES

Perbadanan Insurans Deposit Malaysia (PIDM) is a statutory body established to administer a Deposit Insurance System (DIS) and a Takaful and Insurance Benefits Protection System (TIPS). PIDM is governed by the provisions of the Malaysia Deposit Insurance Corporation Act 2011 (PIDM Act).

DIS provides protection against the loss of part or all of deposits for which a member bank is liable whereas TIPS provides protection against the loss of part or all of takaful or insurance benefits for which an insurer member is liable. In addition, PIDM provides incentives for sound risk management as well as promotes and contributes to the stability of the financial system. PIDM is the resolution authority for all member institutions and thus has wide intervention and failure resolution powers. PIDM also undertakes risk assessment and monitoring of all member institutions and works closely with the supervisory authority to ensure that concerns about the business and affairs of member institutions are addressed promptly.

The PIDM Act provides separate protection coverage for:

- i. Islamic and conventional deposits; and
- ii. protected benefits in relation to general insurance, life insurance, general takaful and family takaful.

To ensure proper governance and compliance with Shariah requirements, PIDM maintains and administers two separate Protection Funds for Islamic and conventional deposits known as the Deposit Insurance Funds (DIFs) as well as four separate Funds for each business segment within TIPS known as the Takaful and Insurance Benefits Protection Funds (TIPFs). There is no commingling of funds between the separate Protection Funds.

There have been no significant changes in the nature of the principal activities of PIDM during the financial year.

The office address of PIDM is Level 12, Axiata Tower, No. 9, Jalan Stesen Sentral 5, Kuala Lumpur Sentral, 50470 Kuala Lumpur.

The financial statements have been approved by the Board of Directors through a resolution made on 12 March 2021.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements of PIDM have been prepared in accordance with the PIDM Act and applicable Malaysian Financial Reporting Standards (MFRS). The financial statements also comply with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

The measurement bases used, and accounting policies applied in the preparation of the financial statements are described in Note 2.2. The main accounting judgements and estimates are described in Note 3.

The financial statements incorporate those activities relating to the administration of both DIFs and TIPFs of PIDM. The Islamic Protection Funds are maintained and administered in accordance with Shariah requirements and in compliance with the PIDM Act.

PIDM presents its Statement of Financial Position in order of liquidity. Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position only when there is currently a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously. Income and expenses are not offset in the Statement of Profit or Loss and Other Comprehensive Income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of PIDM.

The financial statements are presented in Ringgit Malaysia (RM) and all values are rounded to the nearest thousand (RM'000), except when otherwise indicated.

2.2 Summary of significant accounting policies

(a) Financial instruments

Financial instruments are recognised in the Statement of Financial Position when PIDM becomes a party to the contractual provisions of the instrument.

Measurement methods

Amortised cost and effective interest rate or rate of return

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest rate or rate of return method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

(a) Financial instruments (continued)

Measurement methods (continued)

The effective interest rate or rate of return method is a method of calculating the amortised cost of a debt instrument and of allocating interest income or returns over the relevant period. The effective interest rate or rate of return is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability at initial recognition. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate or rate of return, such as origination fees. For purchased or originated credit-impaired (POCI) financial assets, which are financial assets that are credit-impaired at initial recognition, PIDM calculates the credit-adjusted effective interest rate or rate of return, which is based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of the expected credit losses in the estimated future cash flows.

Interest income or returns earned

Interest income or returns earned is calculated by applying the effective interest rate or rate of return to the gross carrying amount of financial assets, except for:

- POCI financial assets, for which the original credit-adjusted effective interest rate or rate of return is applied to the amortised cost of the financial asset; or
- Financial assets that are not 'POCI' but have subsequently become credit-impaired [or known as 'Stage 3' (refer to Impairment of financial assets)], for which interest income or returns earned is calculated by applying the effective interest rate or rate of return to their amortised cost (i.e. net of the expected credit loss allowance).

Fair value of financial instruments

Fair value is the price that would be received to sell a financial asset or paid to transfer a financial liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the financial asset or transfer the financial liability takes place either:

- in the principal market for the financial asset or financial liability; or

- in the absence of a principal market, in the most advantageous market for the financial asset or financial liability.

The principal or the most advantageous market must be accessible by PIDM.

The fair value of a financial asset or a financial liability is measured using the assumptions that market participants would use when pricing the financial asset or financial liability, assuming that market participants act in their economic best interest.

PIDM uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All financial assets and financial liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — Quoted (unadjusted) market prices in active markets for identical financial assets or financial liabilities.

Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

PIDM provides fair value information on its investments for disclosure purposes.

For financial assets and financial liabilities that are recognised in the financial statements on a recurring basis, PIDM determines whether transfers have occurred between the Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Initial recognition and measurement

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets and financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets and financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Notes to the Financial Statements

31 DECEMBER 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

(a) Financial instruments (continued)

Initial recognition and measurement (continued)

All regular way purchases or sales of financial assets are recognised and derecognised on trade date basis, the date on which PIDM commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Classification and subsequent measurement

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

All recognised financial liabilities are classified and measured subsequently at amortised cost, except when otherwise indicated.

In determining the classification of financial assets, PIDM considers the following conditions:

- PIDM’s business model for managing the financial asset; and
- the cash flow characteristics of the financial asset.

Business model

The business model reflects how PIDM manages its financial assets in order to generate cash flows. That is, whether PIDM’s objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), the financial assets are classified as part of ‘other’ business model and measured at fair value through profit or loss. PIDM’s business model is not assessed on an instrument-by-instrument basis, but at a higher level or aggregated portfolios and is based on observable factors such as:

- how the performance of the business model and the financial assets held within that business model are evaluated and reported to PIDM’s key management personnel; and
- the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed.

The business model assessment is based on reasonably expected scenarios without taking ‘worst case’ or ‘stress case’ scenario into account. If cash flows after initial recognition are realised in a way that is different from the original expectations, PIDM does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the reporting period.

The ‘solely payments of principal and interest or return’ (SPPI) test

As the second step of its classification process, PIDM assesses the contractual terms of the financial assets to identify whether it meets the SPPI test.

‘Principal’ for the purpose of this test is defined as fair value of the financial asset at initial recognition and may change over the life of the financial asset (e.g. if there are repayments of principal or amortisation of the premium or discount).

In making this assessment, PIDM considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest or returns includes only consideration for time value for money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest or returns.

Details of the classification and measurement of PIDM’s financial assets and financial liabilities are described below.

Financial assets

(i) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held on demand and fixed deposits with banks, as well as short-term, highly liquid financial instruments that are readily convertible to known amounts of cash and that are subject to insignificant risk of changes in value. This includes placements in short term money market instruments as well as short-term investments with maturities of less than 90 days from the date of acquisition. Cash and cash equivalents are carried at amortised cost in the Statement of Financial Position.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

(a) Financial instruments (continued)

Financial assets (continued)

(i) Cash and cash equivalents (continued)

The Statement of Cash Flows is prepared using the direct method. A Statement of Cash Flows prepared using the indirect method is also presented in Note 4 (b) to the financial statements.

(ii) Investment securities

Debt instruments that meet the following conditions are measured subsequently at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest or return (i.e. passes the ‘SPPI test’) on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest or return on the principal amount outstanding.

PIDM’s investment securities comprise marketable Malaysian Government Securities and Investment Issues and Private Debt Securities. PIDM invests in short-term and medium-term Ringgit Malaysia denominated securities which are held-to-maturity in order to collect contractual cash flows and are not traded. The contractual cash flows of the investment securities represent solely payments of principal and interest or return on the principal amount outstanding. As such, these investment securities are measured at amortised cost.

(iii) Other receivables

Other receivables comprise financial assets which are held with the objective of collecting contractual cash flows and its contractual cash flows represent solely payments of principal and interest or return on the principal amount outstanding, hence are carried at amortised cost in the Statement of Financial Position.

(iv) Payables

Except when otherwise indicated, PIDM measures its financial liabilities at amortised cost, which is the fair value of consideration to be paid in the future for goods and services rendered.

Derecognition

(i) Financial assets

A financial asset is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- PIDM has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through’ arrangement, and either:
 - o PIDM has transferred substantially all the risks and rewards of the asset; or
 - o PIDM has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When PIDM has transferred its rights to receive cash flows from an asset or has entered into a “pass-through” arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of PIDM’s continuing involvement in the asset. In that case, PIDM also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that PIDM has retained.

On derecognition of a financial asset measured at amortised cost, the difference between the asset’s carrying amount and the sum of the consideration received and receivable is recognised in the profit or loss. In addition, on derecognition of an investment in debt instrument classified as FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Notes to the Financial Statements

31 DECEMBER 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

(a) Financial instruments (continued)

Derecognition (continued)

(ii) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying amount of the original financial liability and the consideration paid is recognised in profit or loss.

Impairment of financial assets

PIDM recognises a loss allowance for expected credit losses (ECL) on its financial assets that are measured at amortised cost (including cash and cash equivalents) or at FVTOCI. The amount of the expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the debt instruments.

For all financial instruments that are subjected to impairment requirements, PIDM recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, PIDM measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Change in credit quality since initial recognition		
Stage 1	Stage 2	Stage 3
(Initial recognition)	(Significant increase in credit risk since initial recognition)	(Credit-impaired assets)
12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses

(i) Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, PIDM compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, PIDM considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. The forward-looking information considered includes those obtained from economic expert reports, financial analysts, governmental bodies as well as consideration of various external sources of actual and forecast economic information.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument’s external credit rating or credit assessment by accredited rating agencies;
- significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. significant increase in the credit spread, the credit default swap prices for the counterparty, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;
- existing or forecast changes in business, financial or economic conditions that are expected to cause significant decrease in the counterparty’s ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the counterparty;
- significant increases in credit risk on other financial instruments of the same counterparty;
- an actual or expected forbearance or restructuring;
- an actual or expected significant adverse change in the regulatory, economic, or operating environment of the counterparty that results in significant decrease in the counterparty’s ability to meet its debt obligations.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

(a) Financial instruments (continued)

Impairment of financial assets (continued)

(i) Significant increase in credit risk (continued)

Irrespective of the outcome of the above assessment, PIDM presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless PIDM has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, PIDM assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at reporting date. A financial instrument is determined to have low credit risk if:

- the financial instrument has a low risk of default;
- the counterparty has strong capacity to meet its contractual cash flow obligations in the near term; and
- adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the counterparty to fulfill its contractual cash flow obligations.

PIDM considers a financial asset to have low credit risk when the asset has external credit rating of ‘investment grade’ in accordance with the globally understood definition or where an external rating is not available, the asset has an internal rating of ‘performing’. Performing means that the counterparty has a strong financial position and there are no past due amounts.

PIDM regularly monitors the effectiveness of the criteria used to identify whether there has been significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

PIDM considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the counterparty; or
- information developed internally or obtained from external sources indicates that the counterparty is unlikely to pay its creditors, including PIDM, in full (without taking into account any collateral held by PIDM).

Irrespective of the above analysis, PIDM considers that default has occurred when a financial asset is more than 90 days past due unless PIDM has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the counterparty;
- a breach of contract, such as a default or significant past due event;
- the lender(s) of the counterparty, for economic or contractual reasons relating to the counterparty’s financial difficulty, having granted to the counterparty a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the counterparty will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Notes to the Financial Statements

31 DECEMBER 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)**2.2 Summary of significant accounting policies (continued)****(a) Financial instruments (continued)*****Impairment of financial assets (continued)*****(iv) Write-offs**

PIDM writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under PIDM's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

(v) Measurement and recognition of expected credit losses

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default, as described below:

- **PD** The *Probability of Default* is an estimate of the likelihood of entity defaulting on its financial obligations/repayments within a stated future horizon (i.e. over 12-months or over the lifetime of the financial instrument).
- **EAD** The *Exposure at Default* is an estimate of the exposure at future default date, taking into account expected changes in the exposure after reporting date, including repayments of principal and interest, whether scheduled contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
- **LGD** The *Loss Given Default* is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from realisation of any collateral or recovery of assets. It is usually expressed as a percentage of EAD.

The assessment of the PD and LGD is based on historical data adjusted by forward-looking information as described above, in particular macroeconomic inputs such as Gross Domestic Product (GDP) growth measure, which has been assessed to have the highest correlation to credit ratings.

When estimating the ECL, in particular debt instruments, PIDM considers several scenarios where each of these scenarios is associated with different PDs being applied in measuring the ECL. The scenarios to be considered for a reporting period and the scenario weightings are determined based on statistical analysis and expert judgement, taking into account the range of possible outcomes each chosen scenario is representative of, as well as the condition of the operating environment at reporting date. At least two scenarios will be considered in estimating the ECL at any point in time.

Arising from the declaration of the outbreak of COVID-19 as a pandemic by the World Health Organisation on 11 March 2020, PIDM had updated its scenarios and key assumptions to reflect the operating environment. The list of scenarios and its key assumptions that were considered by PIDM is as follows:

Financial year ended 31 December 2020¹

Scenario	Description – Domestic Economic Scenario
Mildly Negative	Economic conditions and/or growth are expected to be similar to historical conditions and growth rates. Malaysian GDP growth of between 1% and 4.5%
Negative	Economic conditions and/or growth are expected to be stagnant or negative. Malaysian GDP growth of between -5.0% and 1%
Severe Slump	Economic conditions and/or growth are expected to be significantly weaker than the long-term norm. Malaysian GDP expected to contract by more than -5%

¹ The scenario categories and the relevant GDP growth rates were sourced from Rating Agency Malaysia (RAM) MFRS9 SaaS version 1.8 – 26 October 2020 (2019: RAM MFRS9 SaaS version 1.4 – 21 October 2019)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)**2.2 Summary of significant accounting policies (continued)****(a) Financial instruments (continued)*****Impairment of financial assets (continued)*****(v) Measurement and recognition of expected credit losses (continued)*****Financial year ended 31 December 2019***

Scenario	Description – Domestic Economic Scenario
Baseline	Economic conditions and/or growth are expected to be similar to historical conditions and growth rates. Malaysian GDP growth of between 3% and 8%
Mildly Negative	Economic conditions and/or growth are expected to be weaker than the long-term norm. Malaysian GDP growth of between 0% and 3%
Recession	Economic conditions and/or growth are expected to be stagnant or negative. Malaysian GDP growth between 0% and -6%

If PIDM has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting period date that the conditions for lifetime ECL are no longer met, PIDM measures the loss allowance at an amount equal to 12-month ECL at the current reporting date.

PIDM recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognised in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the Statement of Financial Position.

(b) Investment in subsidiaries

Investment in subsidiaries are measured in PIDM's Statement of Financial Position at cost less any impairment losses, unless the investment is held-for-sale.

Notes to the Financial Statements

31 DECEMBER 2020

In line with section 35 of the PIDM Act, the financial results of PIDM's subsidiaries are not consolidated with the financial statements of PIDM. Consolidating the financial statements of PIDM together with those of its subsidiaries will not provide meaningful information and a true and fair view of the financial position and performance of PIDM, as the financial exposure and impact of any intervention or failure resolution of a member institution only affects the specific Protection Fund to which that member institution relates.

Furthermore, in accordance with the requirements of MFRS 10 *Consolidated Financial Statements*, PIDM does not prepare consolidated financial statements as PIDM does not meet all the criteria required for having 'control' over its subsidiaries, as defined in MFRS 10. This is because PIDM, as an entity, has limited financial exposure or rights to variable returns from its investments in the subsidiaries, as the financial exposure and rights to any variable returns are attributed directly to the relevant Protection Fund(s). This is discussed in further detail in Note 3.1 (a).

(c) Property and equipment, and depreciation

All items of property and equipment are initially recorded at cost. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that the future economic benefits associated with the item will flow to PIDM and the cost of the item can be measured reliably. The carrying amount of parts or components of an asset that are replaced is derecognised. All other repairs and maintenance are charged to the Statement of Profit or Loss during the financial period in which they are incurred.

Subsequent to initial recognition, property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided for on a straight-line basis to reduce the cost of each asset to its residual value over the estimated useful life, at the following annual rates:

Building on freehold land	50 years
Furniture and fittings	20.00%
Motor vehicles	20.00%
Office refurbishments	20.00%
Office equipment and computer systems	33.33%

Freehold land has an unlimited useful life and therefore is not depreciated. PIDM capitalises its land and the amount of land capitalised at initial recognition is the purchase price along with any further costs incurred in bringing the land to its present condition.

Notes to the Financial Statements

31 DECEMBER 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)**2.2 Summary of significant accounting policies (continued)****(c) Property and equipment, and depreciation (continued)**

Property and equipment under construction are not depreciated until the assets are ready for their intended use.

The residual values, useful life and depreciation method are reviewed at each financial year-end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property and equipment. An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any, and the net carrying amount is recognised in the Statement of Profit or Loss.

(d) Impairment of non-financial assets

At each Statement of Financial Position date, PIDM reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated to determine the amount of impairment loss.

For the purpose of impairment testing of these assets, the recoverable amount is determined on an individual asset basis. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

An impairment loss is recognised in the Statement of Profit or Loss in the period in which it arises, unless the asset is carried at a revalued amount in which case the impairment loss is accounted for in the asset revaluation reserve. This is as the revaluation decreases to the extent that the impairment loss does not exceed the amount held in the asset revaluation reserve for the same asset.

An impairment loss for assets is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of an asset other than goodwill is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of impairment loss for an asset other than goodwill is recognised in the Statement of Profit or Loss unless the asset is carried at revalued amount, in which case such reversal is treated as a revaluation increase.

(e) Recognition of income and expenses

All income and expenses pertaining to DIS and TIPS are recognised on an accrual basis. The PIDM Act empowers PIDM to credit all direct operating income to, and charge all expenses against the relevant Protection Fund or Funds.

1. Income

Premium and levy revenues are recognised in a financial year in respect of the premium and levy assessed during that particular financial period.

Investment income and returns including income from placements in short-term money market deposits is recognised on a time proportion basis that reflects the effective yield on the asset.

2. Expenses

Expenses that are directly attributable to a specific Protection Fund or Funds are charged to those relevant Protection Fund or Funds.

Expenses that cannot be charged directly to the relevant Protection Fund or Funds will be allocated based on the requirements of the Malaysia Deposit Insurance Corporation (Allocation of Expenses, Costs or Losses) (Amendment) Order 2017.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)**2.2 Summary of significant accounting policies (continued)****(e) Recognition of income and expenses (continued)****2. Expenses (continued)**

The expenses that cannot be charged directly to a specific Protection Fund or Funds are categorised into either of the following two categories:

- (i) *Expenses that can be attributed to either DIS or TIPS but are common or indirect expenses for the respective systems.* The allocation of this category of expenses are based on the proportion of total income earned for the respective systems in the financial year prior to the year in which such expenses, costs or losses are allocated. For the 2020 financial year, expenses of this category were allocated based on the proportion of total income earned for the respective systems in the financial year ended 31 December 2019. The allocation rates used during the financial year are as follows:

Year	DIS		TIPS			
	Conventional	Islamic	General Insurance	Life Insurance	General Takaful	Family Takaful
2020	77.33%	22.67%	31.68%	57.63%	2.16%	8.53%
	100%		100%			
2019	79.20%	20.80%	32.26%	54.17%	3.33%	10.24%
	100%		100%			

- (ii) *Expenses which are common or indirect costs of administering both DIS and TIPS.* Expenses that cannot be specifically attributed to either DIS or TIPS, are allocated based on the proportion of total income earned for the respective Protection Funds in DIS and TIPS in the financial year prior to the year in which such expenses, costs or losses are allocated. For the 2020 financial year, these expenses were allocated to the respective Protection Funds based on the proportion of total income earned for each of the Protection Funds during the financial year ended 31 December 2019. The apportionment basis used is as follows:

Year	Total	DIS		TIPS			
		Conventional	Islamic	General Insurance	Life Insurance	General Takaful	Family Takaful
2020	100%	57.39%	16.82%	8.17%	14.86%	0.56%	2.20%
2019	100%	60.57%	15.91%	7.59%	12.74%	0.78%	2.41%

(f) Employee benefits**(i) Short-term benefits**

Wages, salaries, bonuses, social security contributions and other benefits such as medical coverage benefits and allowances are recognised as an expense in the year in which the associated services are rendered by employees of PIDM. Short-term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensation. Short-term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

Notes to the Financial Statements

31 DECEMBER 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

(f) Employee benefits (continued)

(ii) Post-employment benefits

1. Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which PIDM pays fixed contributions into a separate entity or fund. PIDM will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee services in the current or preceding financial years. Such contributions are recognised as an expense in the Statement of Profit or Loss as incurred. As required by law, PIDM makes contributions to the statutory national pension scheme, Kumpulan Wang Simpanan Pekerja (also known as the ‘Employee Provident Fund’), as well as Pertubuhan Keselamatan Sosial (also known as the ‘Social Security Organisation’).

2. Defined benefit plan

PIDM operates an unfunded defined benefit plan referred to as Long Term Retirement Plan (LTRP) which was implemented effective 1 January 2016. The LTRP provides benefits to employees in the form of a guaranteed level of a one lump sum retirement payment based on the employee’s final drawn salary. The LTRP payment depends on employee’s length of service and their salary in the final year leading up to retirement.

The provision for LTRP recognised in the Statement of Financial Position is the present value of the LTRP obligation at the end of the reporting period, together with adjustments for actuarial gains / losses and any unrecognised past service cost.

PIDM determines the interest expense on the provision for LTRP for the period by applying the discount rate used to measure the LTRP obligation at the beginning of the annual period to the then provision for LTRP. Interest expense and other expenses relating to the LTRP are recognised in Statement of Profit or Loss.

(g) Currencies

(i) Functional and presentation currency

The financial statements of PIDM are presented in Ringgit Malaysia (RM), which is the currency of the primary economic environment in which PIDM operates (functional currency).

(ii) Foreign currency transactions

In preparing the financial statements of PIDM, transactions in foreign currencies other than PIDM’s functional currency are recorded in the functional currencies using the exchange rates prevailing at the dates of the transactions. At each Statement of Financial Position date, monetary items denominated in foreign currencies are translated at the rates prevailing on the Statement of Financial Position date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated.

Exchange differences arising from the settlement of monetary items, and on the translation of monetary items, are included in the Statement of Profit or Loss for the period. Exchange differences arising from the translation of non-monetary items carried at fair value are included in the Statement of Profit or Loss for the period except for the differences arising from the translation of non-monetary items in respect of which gains and losses are recognised directly in the Funds and Reserves. Exchange differences arising from such non-monetary items are also recognised directly in the Funds and Reserves.

(h) PIDM as lessee

PIDM assesses whether a contract is or contains a lease, at the inception of a contract. PIDM recognises a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, PIDM recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If the rate cannot be readily determined, PIDM uses its incremental borrowing rate.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

(h) PIDM as lessee (continued)

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the Statement of Financial Position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest rate or rate of return method) and by reducing the carrying amount to reflect the lease payments made.

PIDM remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the change in the lease payments is due to a change in a floating interest rate or rate of return, in which case a revised discount rate is used); or

- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

PIDM did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever PIDM incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under MFRS 137 *Provisions, Contingent Liabilities and Contingent Assets*. The costs are included in the related right-of-use asset.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that PIDM expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the Statement of Financial Position.

PIDM applies MFRS 136 *Impairment of Assets* to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in Note 2.2 (d).

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line “operations and administrative expenses” in the Statement of Profit or Loss.

As a practical expedient, MFRS 16 *Leases* permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. PIDM has used this practical expedient.

Notes to the Financial Statements

31 DECEMBER 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Adoption of new and revised MFRS Standards, Interpretations and Amendments

New and revised MFRS Standards, Interpretations and Amendments

The accounting policies adopted are consistent with those of the previous financial year.

The following pronouncements that have been issued by the Malaysian Accounting Standards Board (“MASB”) became effective in the current financial reporting period and have been adopted by PIDM in these financial statements:

MFRS, Interpretations and Amendments effective for annual periods beginning on or after 1 January 2020:

- Conceptual Framework for Financial Reporting*
- Amendments to MFRS 101 *Presentation of Financial Statements (Definition of Material)*
- Amendments to MFRS 108 *Accounting Policies, Changes in Accounting Estimates and Errors (Definition of Material)*
- Amendments to MFRS 9, MFRS 139 and MFRS 7 (*Interest Rate Benchmark Reform*)

The application of these amendments do not have any impact on PIDM’s financial statements.

The following pronouncements that have been issued by the MASB became effective in the current financial reporting period but are currently not applicable to PIDM’s operations:

MFRS, Interpretations and Amendments effective for annual periods beginning on or after 1 January 2020:

- Amendments to MFRS 3 *Definition of a Business*

MFRS, Interpretations and Amendments effective for annual periods beginning on or after 1 June 2020:

- Amendments to MFRS 16 *Leases (Covid-19-Related Rent Concessions)*

Amendments to MFRS 16 Leases (Covid-19-Related Rent Concessions)

As a result of the COVID-19 pandemic, rent concessions may have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of

lease payments. In May 2020, the MASB made an amendment to IFRS 16 Leases, which provides lessees with an option to treat qualifying rent concessions in the same way they would if they were not lease modifications. In many cases, this will result in accounting for the concessions as variable lease payments in the period in which they are granted. Entities applying the practical expedients must disclose this fact, whether the expedient has been applied to all qualifying rent concessions or, if not, information about the nature of the contracts to which it has been applied, as well as the amount recognised in profit or loss arising from the rent concessions.

These amendments do not affect PIDM as no rent concessions were granted on its leases.

New and revised MFRS Standards, Interpretations and Amendments in issue but not yet effective

The following are accounting standards, amendments and interpretations to the MFRS Framework that have been issued by MASB and will become effective in future financial reporting periods. PIDM intends to adopt these standards, annual improvements to standards and IC Interpretation, if applicable, when they become effective:

Description	Effective for annual periods beginning on or after
Amendments to MFRS 9, MFRS 139 and MFRS 7 (<i>Interest Rate Benchmark Reform – Phase 2</i>)	1 January 2021
Reference to the Conceptual Framework – <i>Amendments to MFRS 3</i>	1 January 2022
Property, Plant and Equipment: Proceeds before Intended Use – <i>Amendments to MFRS 16</i>	1 January 2022
Onerous Contracts – Costs of Fulfilling a Contract – <i>Amendments to MFRS 37</i>	1 January 2022
MFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i> – Subsidiary as a first-time adopter	1 January 2022
Annual Improvements to MFRS Standards 2018–2020 (MFRS 9, MFRS 16, MFRS 1, and MFRS 41)	1 January 2022
MFRS 17 <i>Insurance Contracts</i>	1 January 2023
Amendments to MFRS 1: <i>Classification of Liabilities as Current or Non-current</i>	1 January 2023

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of PIDM’s financial statements does not generally require Management to make judgements, estimates and assumptions that affect the reported amounts except for the areas discussed below and the disclosure of contingent liabilities at the reporting date. Where judgements are required, uncertainty about the assumptions and estimates used could result in outcomes that would require a material adjustment to the carrying amount of the affected asset or liability in the future.

3.1 Judgements made in applying accounting policies

In the process of applying PIDM’s accounting policies, Management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

(a) Non-consolidation of investments in subsidiaries

In accordance with MFRS 10 *Consolidated Financial Statements*, consolidation of subsidiaries by a parent is required when the parent has ‘control’ over its subsidiaries. For control to be established, the investor must have the following:

- (i) power over the investee;
- (ii) exposure, or rights, to variable returns from its involvement with the investee; and
- (iii) the ability to use its power over the investee to affect the amount of investor’s return.

PIDM is the resolution authority for all member institutions with wide intervention and failure resolution (IFR) powers. The subsidiaries were incorporated to act as vehicles for PIDM to carry out any IFR activities rather than for investment purposes. Any returns from the subsidiaries are meant for the benefit of the respective Protection Funds, which are to be used for future intervention or failure resolution activities. PIDM, as an entity, has limited financial exposure or rights to variable returns from its investments in the subsidiaries, as the financial exposure and rights to any variable returns are attributed directly to the relevant Protection Fund(s). Although PIDM has rights to use monies in the Protection Funds to cover any expenses incurred in order to run its operations, these expenses are limited and strictly governed by the PIDM Act.

Notes to the Financial Statements

31 DECEMBER 2020

Given the above considerations, the criteria for having ‘control’ as defined in MFRS 10 are not met, and hence consolidated financial statements have not been prepared. Nevertheless, a summary of the financial information of each of the subsidiaries is included in Note 7 to the financial statements.

(b) Classification of financial assets – business model assessment

Classification and measurement of financial assets depends on the results of the business model assessment and the SPPI test (refer Note 2.2 (a)). PIDM determines the business model at a level that reflects how its financial assets are managed to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and measured as well as how the risks associated with those assets are managed. PIDM continuously monitor the appropriateness of the business model applied to these assets and whether there has been a change in business model and thus a prospective change to the classification of those assets. No such changes were required during the reporting period presented.

(c) Lease commitments

PIDM has entered into non-cancellable lease contracts for the use of office space and various office equipment. PIDM has determined, based on an evaluation of the terms and conditions of the arrangements, that the lease terms do not constitute a major part of the economic life of the assets and there is no purchase option clause included in the contract. As such, there is no transfer of significant risks and rewards of ownership of these assets to PIDM. Hence, these contracts are accounted for as a lease.

3.2 Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment losses on financial assets

The measurement of impairment losses under MFRS 9 across all categories of financial assets requires judgement. In particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

Notes to the Financial Statements

31 DECEMBER 2020

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

3.2 Key sources of estimation uncertainty (continued)

Impairment losses on financial assets (continued)

PIDM’s ECL calculations are outputs of complex model with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL model that are considered accounting judgements and estimates include:

- determining criteria for significant increase in credit risk;
- development of the ECL model, including the various formulas and the choice of inputs;
- determination of associations between macroeconomic scenario and economic inputs relevant to the class of financial assets, such as GDP, and the effect on PDs, EADs and LGDs;
- the segmentation of financial assets when their ECL is assessed on collective basis; and
- establishing the number and relative weightings of forward-looking scenarios, to derive the estimation of the ECL.

When measuring ECL, PIDM uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of GDP.

Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that PIDM would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

Note 22 (e) sets out key sensitivities of the ECL to changes in key inputs and assumptions.

Defined benefit plan - LTRP

The LTRP obligation, calculated using the projected unit credit method, is determined by a qualified actuary. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, turnover rate, mortality rate and disability rate. All assumptions are reviewed at each reporting date.

Right-of-use assets and lease liabilities

PIDM’s right-of-use assets and lease liability positions depends on management’s current assessment on the total lease payments on the expected lease term and based on its assumption of the appropriate incremental borrowing rate used as the discount rate.

The uncertainty of these carrying amounts relate principally to the management’s assessment on its reasonable certainty of exercising an extension to its renewable lease contracts. Due to this uncertainty, there is a possibility that, on conclusion of the non-cancellable term of the lease contract at a future date, the final outcome may differ pursuant to actual decision of extension. Management has assessed that they are reasonably certain that the extension for renewal would be exercised and has reflected that assumption in the measurement of the right-of-use assets and lease liability. The assumptions are reviewed at minimal, at each reporting date or when there are indicators which may result in a change of assumption.

3.3 COVID-19 going concern without material uncertainties

PIDM has considered the consequences of the COVID-19 pandemic and other related events and conditions on its financial position and performance. At this juncture, other than those already disclosed in the financial statements, there are no material concerns or specific events that would require a disclosure on any matter that would affect the measurement of assets and liabilities. Pursuant to section 206 of the PIDM Act, there are no uncertainties over PIDM’s ability to continue to operate on a going concern basis as no written law on insolvency or winding-up can apply to PIDM.

4. CASH AND CASH EQUIVALENTS

a. Balances as at the end of the financial year

	2020		
	Total RM’000	DIFs RM’000	TIPFs RM’000
Operational banking accounts	1,058	1,056	2
Placements in short-term money market and fixed deposits	151,187	117,574	33,613
Total cash and cash equivalents	152,245	118,630	33,615

	2019		
	Total RM’000	DIFs RM’000	TIPFs RM’000
Operational banking accounts	1,162	1,091	71
Placements in short-term money market and fixed deposits	71,017	44,790	26,227
Total cash and cash equivalents	72,179	45,881	26,298

Notes to the Financial Statements

31 DECEMBER 2020

4. CASH AND CASH EQUIVALENTS (continued)

b. Statement of Cash Flows (indirect method)

	2020		
	Total RM'000	DIFs RM'000	TIPFs RM'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net surplus for the year	293,946	209,837	84,109
<i>Adjustments for:</i>			
Depreciation of property and equipment	5,850	3,732	2,118
Depreciation of right-of-use assets	4,979	3,942	1,037
Remeasurement of Long Term Retirement Plan	(387)	(287)	(100)
Allowance for expected credit losses	42	32	10
Lease finance costs	999	791	208
Adjusted net surplus before changes in working capital	305,429	218,047	87,382
Change in payables	1,855	1,228	627
Change in other assets	157	221	(64)
Net accretion / amortisation for investment securities	45,693	29,376	16,317
Change in investment income and returns receivables	(900)	(542)	(358)
Net cash flows generated from operating activities	352,234	248,330	103,904
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from maturity of investment securities	2,060,488	1,305,025	755,463
Purchase of investment securities	(2,324,591)	(1,474,484)	(850,107)
Proceeds from disposal of property and equipment	-	-	-
Purchase of property and equipment	(2,400)	(1,637)	(763)
Net cash flows used in investing activities	(266,503)	(171,096)	(95,407)
CASH FLOWS FROM FINANCING ACTIVITIES			
Principal repayment of lease liabilities	(4,666)	(3,694)	(972)
Lease finance costs	(999)	(791)	(208)
Net cash flows used in financing activities	(5,665)	(4,485)	(1,180)
Net increase in cash and cash equivalents	80,066	72,749	7,317
Cash and cash equivalents at beginning of year	72,179	45,881	26,298
Cash and cash equivalents at end of year	152,245	118,630	33,615

Notes to the Financial Statements

31 DECEMBER 2020

4. CASH AND CASH EQUIVALENTS (continued)

b. Statement of Cash Flows (indirect method)

	2019		
	Total RM'000	DIFs RM'000	TIPFs RM'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net surplus for the year	504,743	373,803	130,940
<i>Adjustments for:</i>			
Depreciation of property and equipment	8,019	5,382	2,637
Depreciation of right-of-use assets	4,989	3,950	1,039
Remeasurement of Long Term Retirement Plan	273	209	64
Allowance for expected credit losses	-	-	-
Lease finance costs	1,254	993	261
Adjusted net surplus before changes in working capital	519,278	384,337	134,941
Change in payables	476	121	355
Change in other assets	(472)	(327)	(145)
Net accretion / amortisation for investment securities	36,020	21,270	14,750
Change in investment income and returns receivables	(8,844)	(6,351)	(2,493)
Net cash flows generated from operating activities	546,458	399,050	147,408
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from maturity of investment securities	1,450,596	773,146	677,450
Purchase of investment securities	(2,049,966)	(1,234,251)	(815,715)
Proceeds from disposal of property and equipment	47	47	-
Purchase of property and equipment	(2,406)	(1,815)	(591)
Net cash flows used in investing activities	(601,729)	(462,873)	(138,856)
CASH FLOWS FROM FINANCING ACTIVITIES			
Principal repayment of lease liabilities	(4,419)	(3,499)	(920)
Lease finance costs	(1,254)	(993)	(261)
Net cash flows used in financing activities	(5,673)	(4,492)	(1,181)
Net (decrease)/increase in cash and cash equivalents	(60,944)	(68,315)	7,371
Cash and cash equivalents at beginning of year	133,123	114,196	18,927
Cash and cash equivalents at end of year	72,179	45,881	26,298

Notes to the Financial Statements

31 DECEMBER 2020

5. INVESTMENTS

	Note	2020		
		Total RM'000	DIFs RM'000	TIPFs RM'000
Malaysian Government Securities and Investment Issues		4,395,059	2,651,788	1,743,271
Private Debt Securities		289,717	180,824	108,893
		4,684,776	2,832,612	1,852,164
Add : Accretion of discounts net of amortisation of premiums		(29,141)	(16,871)	(12,270)
Total investments at amortised cost		4,655,635	2,815,741	1,839,894
Less : Allowance for expected credit losses	16(i)	(5)	(3)	(2)
Total net investments		4,655,630	2,815,738	1,839,892

	Note	2019		
		Total RM'000	DIFs RM'000	TIPFs RM'000
Malaysian Government Securities and Investment Issues		4,213,246	2,528,997	1,684,249
Private Debt Securities		235,012	153,962	81,050
		4,448,258	2,682,959	1,765,299
Add : Accretion of discounts net of amortisation of premiums		(11,080)	(7,406)	(3,674)
Total investments at amortised cost		4,437,178	2,675,553	1,761,625
Less : Allowance for expected credit losses	16(i)	-	-	-
Total net investments		4,437,178	2,675,553	1,761,625

Investments are denominated in Ringgit Malaysia and are recognised at amortised cost.

Impairment of investments

There has been no change in the estimation techniques or significant assumptions made during the current reporting period in assessing the loss allowance for these financial assets.

Expected increase in credit risk of investments

As at the date of this financial statements, the COVID-19 pandemic outbreak is ongoing and the Government and its agencies are continuing to address its impact. Nevertheless, we have made subsequent assessment to the credit risk of its financial assets as reflected in Note 22 (e).

Note 16 (i) and Note 22 (e) details the gross carrying amount, loss allowance as well as the measurement basis of expected credit losses for each of these financial assets by credit risk rating grades.

6. OTHER ASSETS

	Note	2020		
		Total RM'000	DIFs RM'000	TIPFs RM'000
a. Financial assets				
Investment income and returns receivables		49,109	30,486	18,623
Deposits		2,727	2,417	310
Other receivables		58	57	1
		51,894	32,960	18,934
Less : Allowance for expected credit losses	16(i)	(37)	(29)	(8)
Subtotal financial assets		51,857	32,931	18,926
b. Non-financial assets				
Prepayment		2,662	1,692	970
Other non-financial assets		213	154	59
Subtotal non-financial assets		2,875	1,846	1,029
Total other assets		54,732	34,777	19,955

	Note	2019		
		Total RM'000	DIFs RM'000	TIPFs RM'000
a. Financial assets				
Investment income and returns receivables		48,209	29,944	18,265
Deposits		2,434	2,242	192
Other receivables		315	247	68
		50,958	32,433	18,525
Less : Allowance for expected credit losses	16(i)	-	-	-
Subtotal financial assets		50,958	32,433	18,525
b. Non-financial assets				
Prepayment		2,855	1,898	957
Other non-financial assets		213	154	59
Subtotal non-financial assets		3,068	2,052	1,016
Total other assets		54,026	34,485	19,541

Included in other receivables are interfund balances of RM0.05 million (2019: RM0.2 million) for day-to-day operational activities.

Impairment of other financial assets

There has been no change in the estimation techniques or significant assumptions made during the current reporting period in assessing the loss allowance for these financial assets.

Expected increase in credit risk of other financial assets

As at the date of this financial statements, the COVID-19 pandemic outbreak is ongoing and the Government and its agencies are continuing to address its impact. Nevertheless, we have made subsequent assessment to the credit risk of its financial assets as reflected in Note 22 (e).

Note 16 (i) and Note 22 (e) details the gross carrying amount, loss allowance as well as the measurement basis of expected credit losses for each of these financial assets by credit risk rating grades.

Notes to the Financial Statements

31 DECEMBER 2020

7. INVESTMENT IN SUBSIDIARIES

	2020		
	Total RM'000	DIFs RM'000	TIPFs RM'000
At cost			
Unquoted shares	-*	-	-
Total investment in subsidiaries	-*	-	-

	2019		
	Total RM'000	DIFs RM'000	TIPFs RM'000
At cost			
Unquoted shares	-*	-	-
Total investment in subsidiaries	-*	-	-

* Total paid-up capital of RM10 (RM2 for each of the five subsidiaries) is significantly below the rounding threshold.

Details of the subsidiaries are as follows:

Name of subsidiary	Country of incorporation	Principal activities	Incorporation Date	Effective ownership interest	Status
The Federal Asset Management Agency of Malaysia Berhad**	Malaysia	Asset management company	8 June 2012	100%	Dormant
The Federal Commercial Bank of Malaysia Berhad**	Malaysia	Bridge institution	22 June 2012	100%	Dormant
The Federal Islamic Bank of Malaysia Berhad**	Malaysia	Bridge institution	22 June 2012	100%	Dormant
The National PIDM Insurance Corporation of Malaysia Berhad **	Malaysia	Bridge institution	20 June 2012	100%	Dormant
The Federal Takaful Corporation of Malaysia Berhad**	Malaysia	Bridge institution	22 June 2012	100%	Dormant

** Audited by an external audit firm, Messrs Khairuddin Hasyudeen & Razi.

The names of all Directors for all the subsidiaries in office during the financial year ended 31 December 2020 were:

- Encik Rafiz Azuan Abdullah, Chief Executive Officer, PIDM
- Ms. Lim Yam Poh, Chief Operating Officer, PIDM

The subsidiaries were incorporated as part of PIDM's efforts to ensure operational readiness to carry out any intervention or failure resolution activities. In accordance with section 10 of the PIDM Act, PIDM may establish subsidiaries as it considers necessary for the purposes of carrying out its functions, powers and duties. The five subsidiaries, being one asset management company (AMC) and four bridge institutions (BIs), have been incorporated under the Companies Act 1965 as public companies limited by shares. The subsidiaries are incorporated in advance in case of any failure of a member institution and hence, will remain dormant until activated to carry out any necessary intervention or failure resolution activities.

7. INVESTMENT IN SUBSIDIARIES (continued)

The specific objective and purpose of these subsidiaries are as follows:

Name of subsidiary	Objects / Purpose
The Federal Asset Management Agency of Malaysia Berhad	The AMC was established to carry on the business of an asset management company and has the authority to acquire, assume control, manage, dispose of, sell, deal with, transact and operate as a going concern or otherwise, the assets, liabilities, business, undertakings and affairs of a member institution as defined in the PIDM Act, whether by way of an arrangement, agreement, instrument or otherwise in accordance with the PIDM Act and any other applicable laws.
Bridge institutions (BIs)	
A BI is a resolution tool under the PIDM Act. This would enable PIDM to transfer the business, assets and liabilities of a troubled or failed member institution to a BI where there is no immediate purchaser or where the resolution action involves a complex member institution. The BI is intended to be a temporary special purpose vehicle that would preserve the business franchise value of the troubled or failed member institution. The BI is to be operated on a conservative basis, and subsequently sold to a private sector purchaser. On activation and designation of a BI under the PIDM Act with the approval of the Minister of Finance, the BI will operate as a fully licensed financial institution.	
The Federal Commercial Bank of Malaysia Berhad	This subsidiary, upon activation, will operate as a licensed bank to carry on and transact all commercial banking business as defined in the Financial Services Act 2013.
The Federal Islamic Bank of Malaysia Berhad	This subsidiary, upon activation, will operate as a licensed Islamic bank to carry on and transact all Islamic banking business as defined in the Islamic Financial Services Act 2013.
The National PIDM Insurance Corporation of Malaysia Berhad	This subsidiary, upon activation, will operate as a licensed insurance company to carry on or transact all insurance, assurance, guarantee and indemnity businesses as defined in the Financial Services Act 2013.
The Federal Takaful Corporation of Malaysia Berhad	This subsidiary, upon activation, will operate as a licensed takaful operator to carry on or transact every kind of takaful and re-takaful businesses under the Islamic Financial Services Act 2013.

In line with section 35 of the PIDM Act, the financial results of the subsidiaries are not consolidated with the financial statements of PIDM. Consolidating the financial statements of PIDM together with those of its subsidiaries will not provide meaningful information and a true and fair view of the financial position and performance of PIDM as the financial exposure and impact of any intervention or failure resolution of a member institution only affects the specific Protection Fund to which that member institution relates.

Further details are represented in Note 3.1 (a).

Whilst these subsidiaries remain dormant, its administrative expenses will be borne directly by PIDM at the corporate level. Details of the administrative expenses of the subsidiaries are as follows:

Expense description	2020 RM	2019 RM
Audit fees	19,610	19,610
Secretarial fees	17,728	14,756
Total subsidiaries expenses	37,338	34,366

The administrative expenses for subsidiaries are included in the operations and administrative expenses disclosed in Note 16 within professional and consultancy fees.

Notes to the Financial Statements

31 DECEMBER 2020

Notes to the Financial Statements

31 DECEMBER 2020

8. PROPERTY AND EQUIPMENT

	2020							
	Land RM'000	Building RM'000	Office equipment and computer systems RM'000	Furniture and fittings RM'000	Motor vehicles RM'000	Office refurbishments RM'000	Assets under construction* RM'000	Total RM'000
Cost								
Balance as at 1 January 2020	4,718	17,281	52,250	4,138	930	10,402	820	90,539
Additions	-	-	13	-	-	-	2,183	2,196
Reclassifications / Adjustments	-	(327)	1,672	-	-	(196)	(988)	161
Disposals	-	-	-	-	-	-	-	-
Retirement	-	-	-	-	-	-	-	-
Write-off	-	-	-	-	-	-	-	-
Balance as at 31 December 2020	4,718	16,954	53,935	4,138	930	10,206	2,015	92,896
Accumulated depreciation								
Balance as at 1 January 2020	-	1,037	45,435	3,532	704	9,652	-	60,360
Charge for the year	-	412	4,931	145	105	426	-	6,019
Reclassifications / Adjustments	-	(50)	77	-	-	(196)	-	(169)
Disposals	-	-	-	-	-	-	-	-
Retirement	-	-	-	-	-	-	-	-
Write-off	-	-	-	-	-	-	-	-
Balance as at 31 December 2020	-	1,399	50,443	3,677	809	9,882	-	66,210
Net carrying amount as at 31 December 2020	4,718	15,555	3,492	461	121	324	2,015	26,686
	2019							
Cost								
Balance as at 1 January 2019	4,718	17,281	49,635	4,138	1,170	10,304	1,435	88,681
Additions	-	-	161	-	-	98	2,116	2,375
Reclassifications / Adjustments	-	-	2,726	-	-	-	(2,731)	(5)
Disposals	-	-	-	-	(240)	-	-	(240)
Retirement	-	-	-	-	-	-	-	-
Write-off	-	-	(272)	-	-	-	-	(272)
Balance as at 31 December 2019	4,718	17,281	52,250	4,138	930	10,402	820	90,539
Accumulated depreciation								
Balance as at 1 January 2019	-	691	38,587	3,380	758	9,165	-	52,581
Charge for the year	-	346	6,848	152	186	487	-	8,019
Reclassifications / Adjustments	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	(240)	-	-	(240)
Retirement	-	-	-	-	-	-	-	-
Write-off	-	-	-	-	-	-	-	-
Balance as at 31 December 2019	-	1,037	45,435	3,532	704	9,652	-	60,360
Net carrying amount as at 31 December 2019	4,718	16,244	6,815	606	226	750	820	30,179

8. PROPERTY AND EQUIPMENT (continued)

During the financial year, the arbitration proceedings involving the Disaster Recovery Centre's (DRC) main contractor were concluded and the result was in favour of PIDM. The arbitration award in favour of PIDM corresponds to the amounts detailed in the Certificate of Termination Cost (CTC). Relevant adjustments have been made to the carrying amount of the DRC asset to the final contractual amount of RM12,699,003 as well as the corresponding balance of the liability after deducting payments already made, as well as other claims and deductions due to the non-performance by the main contractor including liquidated ascertained damages (LAD). These, among others, resulted in RM781,927 being disclosed as other income in the Statement of Profit or Loss and Other Comprehensive Income in relation to the LAD claims. Also arising from the award, PIDM was entitled to recover the legal costs directly attributable to the arbitration proceedings. In this regard, PIDM was able to recover RM150,000 in legal costs, which were offset against the professional and consultancy fees recognised within operations and administrative expenses (Note 16).

* Assets under construction amounting to RM2 million (2019: RM0.8 million) consist of:

	2020 RM'000	2019 RM'000
Risk Assessment System (RAS) version 2	83	80
Industry Portal system	-	58
PMS enhancement	148	-
Integrated Data Warehouse	606	-
PMS fast-track enhancement	140	-
Information classification tool	106	-
Additional network switches	129	-
Additional storage and tape library	235	-
Other Information Technology (IT) systems	568	682
Total	2,015	820

Subsequent to initial recognition, the freehold land is stated at cost. As at 31 December 2020, the fair value of the freehold land is RM10,000,000 based on the professional valuation carried out in November 2020 by a registered independent valuer. The fair value of the freehold land was determined using comparison approach method. The valuation performed by the valuer is based on active market prices, significantly adjusted for marketability restrictions and other relevant conditions applicable to the freehold land. In 2019, the fair value of the freehold land was based on the professional valuation carried out by Jabatan Penilaian dan Perkhidmatan Harta, on the same valuation basis as noted above.

PIDM will assess the value of the freehold land periodically for the purposes of ensuring that its carrying amount in the financial statements remains relevant and that there is no impairment. PIDM will exercise its judgement to ensure that the valuation methods and estimates carried in the first year are reflective of current market conditions.

Significant unobservable valuation input:

	2020 RM	2019 RM
Price of land per square metre	1,500 – 1,800	1,500 – 1,800

Significant increases / (decreases) in estimated price per square metre in isolation would result in a significantly higher / (lower) fair value.

Fair value – Level 3

	2020 RM'000	2019 RM'000
Cost as at 1 January	4,718	4,718
Cost as at 31 December	4,718	4,718
Fair value of land as at 31 December	10,000	9,700

Notes to the Financial Statements

31 DECEMBER 2020

Notes to the Financial Statements

31 DECEMBER 2020

8. PROPERTY AND EQUIPMENT (continued)

a. Deposit Insurance Funds

	2020							
	Land RM'000	Building RM'000	Office equipment and computer systems RM'000	Furniture and fittings RM'000	Motor vehicles RM'000	Office refurbishments RM'000	Assets under construction* RM'000	Total RM'000
Cost								
Balance as at 1 January 2020	3,155	14,046	41,813	3,905	734	9,309	561	73,523
Additions	-	-	9	-	-	-	1,482	1,491
Reclassifications / Adjustments	-	(271)	1,255	-	-	(151)	(788)	45
Disposals	-	-	-	-	-	-	-	-
Retirement	-	-	-	-	-	-	-	-
Write-off	-	-	-	-	-	-	-	-
Balance as at 31 December 2020	3,155	13,775	43,077	3,905	734	9,158	1,255	75,059
Accumulated depreciation								
Balance as at 1 January 2020	-	842	37,538	3,415	553	8,710	-	51,058
Charge for the year	-	335	2,994	117	84	339	-	3,869
Reclassifications / Adjustments	-	(40)	54	-	-	(151)	-	(137)
Disposals	-	-	-	-	-	-	-	-
Retirement	-	-	-	-	-	-	-	-
Write-off	-	-	-	-	-	-	-	-
Balance as at 31 December 2020	-	1,137	40,586	3,532	637	8,898	-	54,790
Net carrying amount as at 31 December 2020	3,155	12,638	2,491	373	97	260	1,255	20,269
Cost								
Balance as at 1 January 2019	3,155	14,046	39,604	3,905	974	9,234	1,282	72,200
Additions	-	-	126	-	-	75	1,574	1,775
Reclassifications / Adjustments	-	-	2,291	-	-	-	(2,295)	(4)
Disposals	-	-	-	-	(240)	-	-	(240)
Retirement	-	-	-	-	-	-	-	-
Write-off	-	-	(208)	-	-	-	-	(208)
Balance as at 31 December 2019	3,155	14,046	41,813	3,905	734	9,309	561	73,523
Accumulated depreciation								
Balance as at 1 January 2019	-	561	33,092	3,293	646	8,324	-	45,916
Charge for the year	-	281	4,446	122	147	386	-	5,382
Reclassifications / Adjustments	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	(240)	-	-	(240)
Retirement	-	-	-	-	-	-	-	-
Write-off	-	-	-	-	-	-	-	-
Balance as at 31 December 2019	-	842	37,538	3,415	553	8,710	-	51,058
Net carrying amount as at 31 December 2019	3,155	13,204	4,275	490	181	599	561	22,465

8. PROPERTY AND EQUIPMENT (continued)

b. Takaful and Insurance Benefits Protection Funds

	2020							
	Land RM'000	Building RM'000	Office equipment and computer systems RM'000	Furniture and fittings RM'000	Motor vehicles RM'000	Office refurbishments RM'000	Assets under construction* RM'000	Total RM'000
Cost								
Balance as at 1 January 2020	1,563	3,235	10,437	233	196	1,093	259	17,016
Additions	-	-	4	-	-	-	701	705
Reclassifications / Adjustments	-	(56)	417	-	-	(45)	(200)	116
Disposals	-	-	-	-	-	-	-	-
Retirement	-	-	-	-	-	-	-	-
Write-off	-	-	-	-	-	-	-	-
Balance as at 31 December 2020	1,563	3,179	10,858	233	196	1,048	760	17,837
Accumulated depreciation								
Balance as at 1 January 2020	-	195	7,897	117	151	942	-	9,302
Charge for the year	-	77	1,937	28	21	87	-	2,150
Reclassifications / Adjustments	-	(10)	23	-	-	(45)	-	(32)
Disposals	-	-	-	-	-	-	-	-
Retirement	-	-	-	-	-	-	-	-
Write-off	-	-	-	-	-	-	-	-
Balance as at 31 December 2020	-	262	9,857	145	172	984	-	11,420
Net carrying amount as at 31 December 2020	1,563	2,917	1,001	88	24	64	760	6,417
	2019							
Cost								
Balance as at 1 January 2019	1,563	3,235	10,031	233	196	1,070	153	16,481
Additions	-	-	35	-	-	23	542	600
Reclassifications / Adjustments	-	-	435	-	-	-	(436)	(1)
Disposals	-	-	-	-	-	-	-	-
Retirement	-	-	-	-	-	-	-	-
Write-off	-	-	(64)	-	-	-	-	(64)
Balance as at 31 December 2019	1,563	3,235	10,437	233	196	1,093	259	17,016
Accumulated depreciation								
Balance as at 1 January 2019	-	130	5,495	87	112	841	-	6,665
Charge for the year	-	65	2,402	30	39	101	-	2,637
Reclassifications / Adjustments	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-	-
Retirement	-	-	-	-	-	-	-	-
Write-off	-	-	-	-	-	-	-	-
Balance as at 31 December 2019	-	195	7,897	117	151	942	-	9,302
Net carrying amount as at 31 December 2019	1,563	3,040	2,540	116	45	151	259	7,714

Notes to the Financial Statements

31 DECEMBER 2020

9. RIGHT-OF-USE ASSETS

PIDM leases several assets including building and office equipment.

PIDM has tenancy contract for the use of office space at Levels 11, 12, 13, 15 and 16, Axiata Tower, Kuala Lumpur Sentral. PIDM has renewed its tenancy agreement commencing on 1 January 2018 and expiring on 31 December 2021 with the option to renew for another 2 years (Third Term) at prevailing market rental rate, subject to maximum increase of 10%. There is no purchase option clause included in the contract. There are also no restrictions placed upon PIDM by entering into this tenancy contract.

PIDM has also entered into leases for various office equipment under non-cancellable lease contracts. These leases have lease terms of up to five years and include either a provision for an automatic renewal if PIDM does not serve termination notice three months before expiration of the primary terms or exclude a provision for an automatic renewal. For both types of lease terms, there are no purchase options or escalation clauses included in the lease contracts.

a. Right-of-use assets

	Note	2020			
		Building RM'000	Parking RM'000	Office Equipment RM'000	Total RM'000
Balance as at 1 January 2020		18,361	400	276	19,037
Additions		-	-	209	209
Adjustments		-	-	(4)	(4)
Depreciation of right-of-use assets	16	(4,590)	(100)	(289)	(4,979)
Net carrying amount		13,771	300	192	14,263

	Note	2019			
		Building RM'000	Parking RM'000	Office Equipment RM'000	Total RM'000
Balance as at 1 January 2019		22,952	500	472	23,924
Additions		-	-	102	102
Adjustments		-	-	-	-
Depreciation of right-of-use assets	16	(4,591)	(100)	(298)	(4,989)
Net carrying amount		18,361	400	276	19,037

b. Lease related expenses charged to Profit or Loss

	Note	2020		
		Total RM'000	DIFs RM'000	TIPFs RM'000
Depreciation of right-of-use assets	16	4,979	3,942	1,037
Lease finance costs	16	999	791	208
Expense relating to leases of low value assets*		-	-	-
Total lease related expenses		5,978	4,733	1,245

9. RIGHT-OF-USE ASSETS (continued)

b. Lease related expenses charged to Profit or Loss (continued)

	Note	2019		
		Total RM'000	DIFs RM'000	TIPFs RM'000
Depreciation of right-of-use assets	16	4,989	3,950	1,039
Lease finance costs	16	1,254	993	261
Expense relating to leases of low value assets*		13	10	3
Total lease related expenses		6,256	4,953	1,303

* Expense relating to leases of low values assets is included in office maintenance as disclosed in Note 16.

The total cash outflow for leases amounted to RM5.7 million (2019: RM5.7 million), comprising payment of lease finance costs of RM1.0 million (2019: RM1.3 million) and principal repayment of lease liabilities of RM4.7 million (2019: RM4.4 million). Refer to the Statement of Cash Flows.

10. LEASE LIABILITIES

	Note	2020		
		Total RM'000	DIFs RM'000	TIPFs RM'000
Balance as at 1 January		20,418	16,169	4,249
Additions		209	156	53
Principal repayment of lease liabilities	9	(4,666)	(3,694)	(972)
Balance as at 31 December		15,961	12,631	3,330

	Note	2019		
		Total RM'000	DIFs RM'000	TIPFs RM'000
Balance as at 1 January		24,735	19,590	5,145
Additions		102	78	24
Principal repayment of lease liabilities	9	(4,419)	(3,499)	(920)
Balance as at 31 December		20,418	16,169	4,249

	2020 RM'000	2019 RM'000
Maturity analysis		
Not later than 1 year	4,795	4,649
Later than 1 year and not later than 5 years	11,166	15,769
	15,961	20,418

PIDM does not face a significant liquidity risk with regard to its lease liabilities. PIDM had put in place a set of internal control procedures and contingency plans to manage liquidity risk arising from its lease liabilities.

Notes to the Financial Statements

31 DECEMBER 2020

11. PAYABLES

	Note	2020		
		Total RM'000	DIFs RM'000	TIPFs RM'000
a. Financial liabilities				
Operational payable		2,646	1,843	803
Other payables		58	18	40
Subtotal financial liabilities		2,704	1,861	843
b. Non-financial liabilities				
Provision for unutilised leave	i	3,484	2,590	894
Provision for Long Term Retirement Plan	ii	3,885	2,989	896
Subtotal non-financial liabilities		7,369	5,579	1,790
Total payables		10,073	7,440	2,633

	Note	2019		
		Total RM'000	DIFs RM'000	TIPFs RM'000
a. Financial liabilities				
Operational payable		3,492	2,648	844
Other payables		204	53	151
Subtotal financial liabilities		3,696	2,701	995
b. Non-financial liabilities				
Provision for unutilised leave	i	2,060	1,578	482
Provision for Long Term Retirement Plan	ii	2,849	2,220	629
Subtotal non-financial liabilities		4,909	3,798	1,111
Total payables		8,605	6,499	2,106

Included in other payables are interfund balances of RM0.05 million (2019: RM0.2 million) for day-to-day operational activities.

i. Provision for unutilised leave

	2020		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Balance as at 1 January	2,060	1,578	482
Addition for the year	1,524	1,086	438
Payment	(100)	(74)	(26)
Balance as at 31 December	3,484	2,590	894

11. PAYABLES (continued)

i. Provision for unutilised leave (continued)

	2019		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Balance as at 1 January	2,023	1,605	418
Addition for the year	139	53	86
Payment	(102)	(80)	(22)
Balance as at 31 December	2,060	1,578	482

Provision for unutilised leave relates to the amount payable to employees on the annual leave carried forward from the preceding year that are not utilised before the current year's entitlement, calculated based on the employee's basic salary that was earned at the time the leave was accrued.

ii. Provision for Long Term Retirement Plan

	2020		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Total provision for Long Term Retirement Plan	3,885	2,989	896

	2019		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Total provision for Long Term Retirement Plan	2,849	2,220	629

PIDM operates an unfunded defined benefit plan referred to as LTRP which was implemented effective 1 January 2016. The LTRP provides benefits to employees in the form of a guaranteed level of a one lump sum retirement payment based on the employee's final drawn salary. The LTRP payment depends on employee's length of service and their salary in the final year leading up to retirement. As at reporting date, the balance of the provision for LTRP represents accrued but not vested benefits.

Notes to the Financial Statements

31 DECEMBER 2020

11. PAYABLES (continued)

ii. Provision for Long Term Retirement Plan (continued)

The following table shows a reconciliation from the opening balance to the closing balance for the provision for LTRP and its components:

	Total		DIFs		TIPFs	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Balance as at 1 January	2,849	1,615	2,220	1,276	629	339
Included in profit or loss						
Current service cost	1,295	874	961	668	334	206
Interest / Financing cost	128	87	95	67	33	20
Included in other comprehensive income						
*Remeasurements	(387)	273	(287)	209	(100)	64
Balance as at 31 December	3,885	2,849	2,989	2,220	896	629

* Remeasurements of LTRP arises from the changes in the financial assumptions and adjustments for experience of the LTRP during the inter-valuation period as assessed by the qualified actuary. Principal actuarial assumptions at the end of the reporting period (expressed as weighted averages) include the discount rate, future salary increases, turnover rate, mortality rate and disability rate. The mortality rate is based on the latest published Malaysian Ordinary Life Table (M1115) that is used in the insurance industry. The disability rate used is 10% of the mortality rate.

The net liability disclosed above relates to unfunded plan as follows:

	2020 RM'000	2019 RM'000
Fair value of plan assets		
Present value of unfunded obligations	3,885	2,849

12. FUNDS AND RESERVES

a. Deposit Insurance Funds

Accumulated surpluses

	2020		
	Total RM'000	Conventional Deposit Insurance RM'000	Islamic Deposit Insurance RM'000
Balance as at 1 January	2,770,792	2,267,355	503,437
Net surplus	209,837	157,348	52,489
Balance as at 31 December	2,980,629	2,424,703	555,926

	2019		
	Total RM'000	Conventional Deposit Insurance RM'000	Islamic Deposit Insurance RM'000
Balance as at 1 January	2,396,989	1,978,991	417,998
Net surplus	373,803	288,364	85,439
Balance as at 31 December	2,770,792	2,267,355	503,437

The DIFs are the accumulated reserves (ex-ante funds) to cover the net expected losses arising from providing deposit insurance protection to depositors. In accordance with the PIDM Act, PIDM maintains separate DIFs for both Conventional and Islamic DIS. DIFs are accumulated from annual net surpluses, which are the premium revenue and investment income and returns earned net of total expenses incurred allocated based on the proportion of total income earned for each Protection Fund in a particular year.

In 2011, PIDM had established a framework to determine the levels of DIFs that PIDM aims to build as reserves over the long-run to meet its objectives and fulfil its mandate. This level (known as the Target Fund) represents the level of funds that would be sufficient to cover the net expected losses from intervention or failure resolution activities. The Target Fund is usually described as a percentage of Total Insured Deposits (TID), and for PIDM, is specified as a range of target levels (lower and upper ranges).

The Target Fund range is between 0.6% and 0.9% of TID for both the Conventional and Islamic DIF. Based on the level of TID as at 31 December 2019, the range in RM absolute terms is between RM2.7 billion and RM4.1 billion for the Conventional DIF and between RM0.8 billion and RM1.2 billion for the Islamic DIF. The Target Fund modelling was reviewed during the year as part of the annual review process, and the conclusion was that the existing Target Fund level is still current and relevant.

Notes to the Financial Statements

31 DECEMBER 2020

12. FUNDS AND RESERVES (continued)

a. Deposit Insurance Funds (continued)

Accumulated surpluses (continued)

The current balance of DIFs as at 31 December 2020 as a percentage of TID compared to the Target Fund range are described in the following table:

	Target Fund			
	2020 Actual RM Million/%	2019 Actual RM Million/%	Lower Range RM Million/%	Upper Range RM Million/%
Deposit Insurance Funds				
Conventional Deposit Insurance Fund				
Balance	2,425	2,267	2,716	4,074
Percentage of Total Insured Deposits	0.56%	0.51%	0.60%	0.90%
Islamic Deposit Insurance Fund				
Balance	556	503	810	1,215
Percentage of Total Insured Deposits	0.46%	0.41%	0.60%	0.90%

In order to achieve the Target Fund levels at the range of 0.6% to 0.9% of TID within a reasonable time frame, the premium rates to be assessed on member banks are described in Note 13 (a).

Based on the current level of accumulated surpluses and premium rates, the lower range of the Target Fund (0.6% of TID) is expected to be achieved within the next 2 to 5 years.

b. Takaful and Insurance Benefits Protection Funds

Accumulated surpluses

	2020				
	Total RM'000	General Insurance RM'000	Life Insurance RM'000	General Takaful RM'000	Family Takaful RM'000
Balance as at 1 January	1,812,784	1,294,811	422,698	28,233	67,042
Net surplus	84,109	36,330	38,670	2,878	6,231
Balance as at 31 December	1,896,893	1,331,141	461,368	31,111	73,273

	2019				
	Total RM'000	General Insurance RM'000	Life Insurance RM'000	General Takaful RM'000	Family Takaful RM'000
Balance as at 1 January	1,681,844	1,253,455	346,341	25,761	56,287
Net surplus	130,940	41,356	76,357	2,472	10,755
Balance as at 31 December	1,812,784	1,294,811	422,698	28,233	67,042

12. FUNDS AND RESERVES (continued)

b. Takaful and Insurance Benefits Protection Funds (continued)

Accumulated surpluses (continued)

The TIPFs are the accumulated reserves (ex-ante funds) to cover the net expected losses arising from guaranteeing protected benefits to insurance and takaful policy owners. In accordance with the PIDM Act, PIDM maintains four separate Protection Funds for each business segment within TIPS. TIPFs are accumulated from annual net surpluses, which are the levy revenue and investment income and returns earned net of total expenses incurred allocated based on the proportion of total income earned for each Protection Fund in a particular year.

The Target Fund framework for General Insurance Protection Fund (GIPF) has adopted the Target Fund levels at the range of 80% to 100% of the maximum expected loss level. As at 31 December 2020, the Target Fund range in RM million are as follows:

	Target Fund			
	2020 Actual RM Million	2019 Actual RM Million	Lower Range RM Million	Upper Range RM Million
General Insurance Protection Fund				
Balance	1,331	1,295	195	244

Based on the above GIPF balance as at 31 December 2020, the current fund position has exceeded the upper range of the Target Fund. In this regard, PIDM has established the Fund Administration Framework, which incorporates the revision of levy rates or rebate of levy. In assessment year 2016, PIDM has revised the levy rates to be assessed on general insurer members for the assessment year 2016 onwards. Refer to Note 13 (b)(i) for the details on the levy rates payable by insurer members.

PIDM implemented the Target Fund framework for the Life Insurance Protection Fund (LIPF) in 2016, which adopted the Target Fund levels at the range of 0.4% to 0.6% of the total Actuarial Valuation Liabilities (AVL) of the life insurer members. The Target Fund range as at 31 December 2020 in RM million are as follows:

	Target Fund			
	2020 Actual RM Million	2019 Actual RM Million	Lower Range RM Million	Upper Range RM Million
Life Insurance Protection Fund				
Balance	461	423	579	869

Based on the current level of accumulated surpluses and taking into consideration the operating environment and impact to the insurance industry, the lower range of the Target Fund is expected to be achieved within the next 3 to 7 years.

In 2018, PIDM implemented the Target Fund framework for General Takaful Protection Fund (GTPF) and Family Takaful Protection Fund (FTPF). The Target Fund framework for GTPF has adopted the target fund levels at the range of 2.8% to 3.3% of the total general takaful liabilities². The Target Fund range as at 31 December 2020 in RM million are as follows:

	Target Fund			
	2020 Actual RM Million	2019 Actual RM Million	Lower Range RM Million	Upper Range RM Million
General Takaful Protection Fund				
Balance	31	28	78	91

Based on the current level of accumulated surpluses and taking into consideration the operating environment and impact to the takaful industry, the lower range of the Target Fund is expected to be achieved within the next 9 to 11 years.

² General takaful liabilities consist of claims liabilities and contribution liabilities of the general takaful fund.

Notes to the Financial Statements

31 DECEMBER 2020

12. FUNDS AND RESERVES (continued)

b. Takaful and Insurance Benefits Protection Funds (continued)

Accumulated surpluses (continued)

The target fund framework for FTPF has adopted the Target Fund levels at the range of 1.0% to 1.5% of the total family takaful liabilities³. The Target Fund range as at 31 December 2020 in RM million are as follows:

	Target Fund			
	2020 Actual RM Million	2019 Actual RM Million	Lower Range RM Million	Upper Range RM Million
Family Takaful Protection Fund				
Balance	73	67	250	374

Based on the current level of accumulated surpluses and taking into consideration the operating environment and impact to the takaful industry, the lower range of the Target Fund is expected to be achieved within the next 10 to 14 years.

13. PREMIUM AND LEVY REVENUES

In response to the COVID-19 pandemic, the Minister of Finance, on the recommendation of PIDM, had approved for the premium and levy rates to be reduced for assessment years 2020 and 2021. These reductions in premium and levy rates are part of PIDM's regulatory financial relief, which is in line with the Government's responses to support the economy and address the impact of the pandemic.

a. Premium revenues from member banks

	2020		
	Total RM'000	Conventional Deposit Insurance RM'000	Islamic Deposit Insurance RM'000
Annual premiums	191,874	140,795	51,079
Total premium revenues from member banks	191,874	140,795	51,079

	2019		
	Total RM'000	Conventional Deposit Insurance RM'000	Islamic Deposit Insurance RM'000
Annual premiums	361,758	275,801	85,957
Total premium revenues from member banks	361,758	275,801	85,957

³ Family takaful liabilities consist of actuarial valuation liabilities of the participants' risk fund and the net asset value of participants' investment fund, excluding investment-linked funds' net asset value.

13. PREMIUM AND LEVY REVENUES (continued)

a. Premium revenues from member banks (continued)

The premium rates applicable to the member banks are stated in the Malaysia Deposit Insurance Corporation (Annual Premium and First Premium in respect of Deposit-Taking Members) Order 2011⁴ (Premium Order – Member Banks).

i. Rates for annual premium under the Differential Premium Systems

PREMIUM CATEGORY	PREMIUM RATE	MINIMUM ANNUAL PREMIUM AMOUNT (RM)
	ASSESSMENT YEARS 2020 AND 2021	
1	0.03%	50,000
2	0.06%	100,000
3	0.12%	200,000
4	0.24%	400,000

Where a member bank is classified in different premium categories with respect to its Islamic insured deposits and its conventional insured deposits, the respective premium rates will be applied to the Islamic insured deposits and the conventional insured deposits.

PREMIUM CATEGORY	PREMIUM RATE	MINIMUM ANNUAL PREMIUM AMOUNT (RM)
	ASSESSMENT YEARS 2019	
1	0.06%	100,000
2	0.12%	200,000
3	0.24%	400,000
4	0.48%	800,000

ii. Rates for first premium

In respect of a new member bank [as defined in the Malaysia Deposit Insurance Corporation (Differential Premium Systems in respect of Deposit-Taking Members) Regulations 2011]⁴ holding Islamic insured deposits or conventional insured deposits, the rate for the first premium for such new member bank will be the same as the premium rate for premium category 1, subject to a minimum first premium of RM250,000.

b. Levy revenues from insurer members

	2020				
	Total RM'000	General Insurance RM'000	Life Insurance RM'000	General Takaful RM'000	Family Takaful RM'000
First levies	-	-	-	-	-
Annual levies	51,747	3,294	39,533	2,624	6,296
Total levy revenues from insurer members	51,747	3,294	39,533	2,624	6,296

⁴ As amended by the Malaysia Deposit Insurance Corporation (Annual Premium and First Premium in respect of Deposit-Taking Members) (Amendment) Order 2020.

Notes to the Financial Statements

31 DECEMBER 2020

13. PREMIUM AND LEVY REVENUES (continued)

b. Levy revenues from insurer members (continued)

	2019				
	Total RM'000	General Insurance RM'000	Life Insurance RM'000	General Takaful RM'000	Family Takaful RM'000
First levies	250	-	-	250	-
Annual levies	96,435	6,110	76,938	2,209	11,178
Total levy revenues from insurer members	96,685	6,110	76,938	2,459	11,178

i. Levy rates under the Differential Levy Systems for insurer members for 2020 and 2021

The levy rates applicable to an insurer member is determined in accordance with the Malaysia Deposit Insurance Corporation (First Premium and Annual Premium in respect of Insurer Members) Order 2016⁵ (Premium Order – Insurer Members) based on the levy category for which that insurer member is classified. The levy rates assessed on the insurer members, as specified in the Premium Order – Insurer Members, are as follows:

LEVY CATEGORY	ASSESSMENT YEARS 2020 AND 2021			
	INSURANCE		TAKAFUL	
	GENERAL	LIFE	GENERAL	FAMILY
1	0.0125%	0.0125%	0.05%	0.0125%
2	0.025%	0.025%	0.1%	0.025%
3	0.05%	0.05%	0.2%	0.05%
4	0.1%	0.1%	0.4%	0.1%

LEVY CATEGORY	ASSESSMENT YEARS 2019			
	INSURANCE		TAKAFUL	
	GENERAL	LIFE	GENERAL	FAMILY
1	0.025%	0.025%	0.1%	0.025%
2	0.05%	0.05%	0.2%	0.05%
3	0.1%	0.1%	0.4%	0.1%
4	0.2%	0.2%	0.8%	0.2%

ii. Minimum annual levy under the Differential Levy Systems for insurer members

The annual levies payable for 2020 were subject to minimum levies based on their levy category as follows:

LEVY CATEGORY	ASSESSMENT YEARS 2020 AND 2021			
	MINIMUM ANNUAL LEVY AMOUNT (RM)			
	INSURANCE		TAKAFUL	
	GENERAL	LIFE	GENERAL	FAMILY
1	12,500		37,500	
2			75,000	
3			150,000	
4			300,000	

13. PREMIUM AND LEVY REVENUES (continued)

b. Levy revenues from insurer members (continued)

ii. Minimum annual levy under the Differential Levy Systems for insurer members (continued)

LEVY CATEGORY	ASSESSMENT YEARS 2019			
	MINIMUM ANNUAL LEVY AMOUNT (RM)			
	INSURANCE		TAKAFUL	
	GENERAL	LIFE	GENERAL	FAMILY
1	25,000		75,000	
2			150,000	
3			300,000	
4			600,000	

iii. Rates for first levy payable

Levy payable by an insurer member for the assessment year in which it becomes a member institution will be based on the higher of RM250,000 or levy rate for category 1.

14. INVESTMENT INCOME AND RETURNS FROM CASH EQUIVALENTS AND INVESTMENT SECURITIES

a. Investment income according to asset class

	2020		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Malaysian Government Securities and Investment Issues	134,269	79,736	54,533
Private Debt Securities	7,643	5,178	2,465
Subtotal of investment income from investment securities	141,912	84,914	56,998
Placements in short-term money market and fixed deposits	2,459	1,638	821
Total investment income and returns from cash equivalents and investment securities	144,371	86,552	57,819

	2019		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Malaysian Government Securities and Investment Issues	136,301	80,635	55,666
Private Debt Securities	7,760	4,566	3,194
Subtotal of investment income from investment securities	144,061	85,201	58,860
Placements in short-term money market and fixed deposits	4,333	3,405	928
Total investment income and returns from cash equivalents and investment securities	148,394	88,606	59,788

⁵ As amended by the Malaysia Deposit Insurance Corporation (First Premium and Annual Premium In Respect of Insurer Members) (Amendment) Order 2020.

Notes to the Financial Statements

31 DECEMBER 2020

14. INVESTMENT INCOME AND RETURNS FROM CASH EQUIVALENTS AND INVESTMENT SECURITIES (continued)**b. Investment income and returns according to nature of income**

	2020		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Coupon and profit from investment securities	167,951	100,960	66,991
Returns from accretion of discounts from investment securities (net of amortisation of premiums)	(26,039)	(16,046)	(9,993)
Subtotal of investment income from investment securities	141,912	84,914	56,998
Returns from placements in short-term money market and fixed deposits	2,459	1,638	821
Total investment income and returns from cash equivalents and investment securities	144,371	86,552	57,819

	2019		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Coupon and profit from investment securities	157,842	93,951	63,891
Returns from accretion of discounts from investment securities (net of amortisation of premiums)	(13,781)	(8,750)	(5,031)
Subtotal of investment income from investment securities	144,061	85,201	58,860
Returns from placements in short-term money market and fixed deposits	4,333	3,405	928
Total investment income and returns from cash equivalents and investment securities	148,394	88,606	59,788

14. INVESTMENT INCOME AND RETURNS FROM CASH EQUIVALENTS AND INVESTMENT SECURITIES (continued)**c. Weighted Average Effective Yield Rates (WAEYR)**

The WAEYR in relation to investment income and returns that were effective during the financial year are as follows:

Year	Type of Portfolio	DIFs		TIPFs			
		Conventional	Islamic	General Insurance	Life Insurance	General Takaful	Family Takaful
2020	Investments securities						
	MGSII	2.89%	3.21%	3.02%	3.10%	3.15%	3.17%
	Private Debt Securities	2.99%	2.75%	2.91%	3.35%	2.65%	2.83%
	Subtotal	2.93%			3.04%		
	Placements in short-term money market and fixed deposits	1.72%	1.63%	1.68%	1.71%	1.86%	1.84%
	Subtotal	1.67%			1.72%		
	Overall	2.67%			2.89%		
2019	Investments securities						
	MGSII	3.37%	3.41%	3.34%	3.36%	3.39%	3.42%
	Private Debt Securities	3.74%	3.88%	3.77%	3.90%	3.95%	3.95%
	Subtotal	3.40%			3.37%		
	Placements in short-term money market and fixed deposits	2.97%	3.04%	2.96%	2.93%	2.94%	3.00%
	Subtotal	2.98%			2.95%		
	Overall	3.30%			3.32%		

The WAEYR presented above are based on the weighted average yield for each portfolio for the whole of the financial year 2020 and 2019.

Notes to the Financial Statements

31 DECEMBER 2020

15. HUMAN CAPITAL MANAGEMENT EXPENSES

	2020		
	Total RM'000	DIFs RM'000	TIPFs RM'000
a. Employee benefits			
Wages and salaries	51,022	37,842	13,180
Contributions to defined contribution plan	8,432	6,255	2,177
Provision for unutilised leave	1,524	1,085	439
Provision for LTRP	1,295	961	334
Interest / financing cost of the LTRP	128	95	33
Other benefits	3,454	2,551	903
Subtotal employee benefits	65,855	48,789	17,066
b. Other human capital related expenses			
Learning and development	470	375	95
Miscellaneous human capital related expenses	394	293	101
Subtotal other human capital related expenses	864	668	196
Total human capital management expenses	66,719	49,457	17,262

	2019		
	Total RM'000	DIFs RM'000	TIPFs RM'000
a. Employee benefits			
Wages and salaries	52,756	40,242	12,514
Contributions to defined contribution plan	8,651	6,601	2,050
Provision for unutilised leave	139	53	86
Provision for LTRP	874	668	206
Interest / financing cost of the LTRP	87	67	20
Other benefits	4,294	3,286	1,008
Subtotal employee benefits	66,801	50,917	15,884
b. Other human capital related expenses			
Learning and development	1,516	1,215	301
Miscellaneous human capital related expenses	220	168	52
Subtotal other human capital related expenses	1,736	1,383	353
Total human capital management expenses	68,537	52,300	16,237

The number of employees at the end of the financial year was 169 (2019: 172).

Notes to the Financial Statements

31 DECEMBER 2020

16. OPERATIONS AND ADMINISTRATIVE EXPENSES

	Note	2020		
		Total RM'000	DIFs RM'000	TIPFs RM'000
Depreciation of property and equipment		5,850	3,732	2,118
Depreciation of right-of-use assets		4,979	3,942	1,037
Telecommunication and computer systems		4,377	3,002	1,375
Utilities, office and vehicle maintenance and general insurance		1,995	1,480	515
Directors' fees and remuneration*		1,095	812	283
Lease finance costs		999	791	208
Subscriptions and memberships		852	676	176
Professional and consultancy fees**		736	567	169
Parking space rental		499	370	129
Publications and corporate collaterals		295	219	76
Audit fees		131	97	34
Postage, printing and stationery		67	50	17
Property and equipment written-off		59	45	14
Credit loss expenses	16(i)	42	32	10
Miscellaneous		32	21	11
Total operations and administrative expenses		22,008	15,836	6,172

	Note	2019		
		Total RM'000	DIFs RM'000	TIPFs RM'000
Depreciation of property and equipment		8,019	5,382	2,637
Depreciation of right-of-use assets		4,989	3,950	1,039
Telecommunication and computer systems		4,360	3,098	1,262
Utilities, office and vehicle maintenance and general insurance		1,891	1,448	443
Directors' fees and remuneration*		910	721	189
Lease finance costs		1,254	993	261
Subscriptions and memberships		726	598	128
Professional and consultancy fees		300	224	76
Parking space rental		582	445	137
Publications and corporate collaterals		519	398	121
Audit fees		45	33	12
Postage, printing and stationery		147	112	35
Property and equipment written-off		272	208	64
Credit loss expenses	16(i)	-	-	-
Miscellaneous		40	30	10
Total operations and administrative expenses		24,054	17,640	6,414

* Directors are paid on a fee and allowance structure as approved by the Minister of Finance.

** Included in professional and consultancy fees for financial year ended 31 December 2020 is the recovery of legal costs arising from the favourable award on the DRC arbitration proceedings. Refer to Note 8.

Notes to the Financial Statements

31 DECEMBER 2020

16. OPERATIONS AND ADMINISTRATIVE EXPENSES (continued)

i) Credit loss expenses

	Note	2020			
		Stage 1 (Individual) RM'000	Stage 2 (Individual) RM'000	Stage 3 RM'000	Total RM'000
Cash and cash equivalents	4a	-	-	-	-
Investments	5	5	-	-	-
Other assets:					
Investment income and returns receivables	6a	-*	-	-	-
Deposit and other receivables		-	-	37	-

	Note	2019			
		Stage 1 (Individual) RM'000	Stage 2 (Individual) RM'000	Stage 3 RM'000	Total RM'000
Cash and cash equivalents	4a	-	-	-	-
Investments	5	-*	-	-	-
Other assets:					
Investment income and returns receivables	6a	-*	-	-	-
Deposit and other receivables		-	-	-	-

* The amount is below the rounding threshold.

The expected credit losses for investments measured at amortised cost as well as investment income and returns receivables are treated under Stage 1, as the credit risk has not increased significantly since its initial recognition. As for the other assets, PIDM also recognised expected credit losses under Stage 1 except for a deposit which is treated under Stage 3. This deposit related to the rental of parking spaces and arose from a legal action faced by the former parking operator during the year. There was concern over the recoverability of the deposit.

Notes to the Financial Statements

31 DECEMBER 2020

17. INITIATIVES RELATED EXPENSES

	2020		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Resolution readiness			
Operational readiness for intervention and failure resolution	92	72	20
Resolution planning	150	150	-
Inter-agency and funding	243	180	63
Subtotal resolution readiness	485	402	83
Stakeholder engagement and corporate social responsibilities			
Advertising	3,807	2,171	1,636
Public relations	60	49	11
Scholarship programme	877	651	226
Others	1,033	777	256
Subtotal stakeholder engagement and corporate social responsibilities	5,777	3,648	2,129
Other initiatives related expenses	226	168	58
Total initiatives related expenses	6,488	4,218	2,270

	2019		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Resolution readiness			
Operational readiness for intervention and failure resolution	2,076	1,354	722
Resolution planning	66	66	-
Inter-agency and funding	78	60	18
Subtotal resolution readiness	2,220	1,480	740
Stakeholder engagement and corporate social responsibilities			
Advertising	4,389	3,001	1,388
Public relations	391	175	216
Scholarship programme	994	760	234
Others	1,283	1,043	240
Subtotal stakeholder engagement and corporate social responsibilities	7,057	4,979	2,078
Other initiatives related expenses	-	-	-
Total initiatives related expenses	9,277	6,459	2,818

The above initiative related expenses are expenses directly attributable to specific initiatives, but excluding human capital management expenses which are disclosed in Note 15.

As part of its key initiative, PIDM also supports the operations of FIDE FORUM⁶, through the secondment of employees as well as office space and other office administrative services. Total expenses attributable to FIDE FORUM in 2020 is RM2,202,392 (2019: RM2,445,787).

⁶ FIDE FORUM is a non-profit association that was set up to promote corporate governance excellence among the board of directors of financial institutions.

Notes to the Financial Statements

31 DECEMBER 2020

18. TAXATION

PIDM is exempted from income tax.

19. CAPITAL COMMITMENTS

	2020 RM'000	2019 RM'000
Approved and contracted for:		
Office equipment and computer systems	251	1,225
Total capital commitments	251	1,225

The capital commitment balance for office equipment and computer systems mainly includes the development of key IT systems, enhancement of IT infrastructures, security facilities and systems.

20. RELATED PARTY DISCLOSURES

a. Transactions with related parties

PIDM is a statutory body governed by the PIDM Act. As such, PIDM is related by way of common interest with all Government Departments, agencies and other statutory bodies. During the financial year, PIDM has transacted with some of these related parties for various provision of services as well as investments. All these transactions were transacted at commercial arm’s length basis. The significant related party transactions transacted during the year were as follows:

- PIDM makes contributions to the statutory national pension scheme, the Kumpulan Wang Simpanan Pekerja (also known as the ‘Employee Provident Fund’) and the Pertubuhan Keselamatan Sosial (also known as the ‘Social Security Organisation’) as disclosed in Note 15.
- In accordance with the PIDM Act and PIDM’s investment policy, PIDM invests only in short-term and medium-term Ringgit Malaysia denominated Government and Bank Negara Malaysia investment securities, and securities of high investment grade issued by Government related entities, which are government guaranteed or with a minimum of rating of AAA. Details of the investment assets as at year-end and the investment income receivables are described in Notes 5 and 6 respectively, whilst details of the investment income are described in Note 14. PIDM’s financial risk management policy and relevant disclosures are described in Note 22.
- PIDM supports FIDE FORUM’s operational and administrative expenses as part of the engagement and commitment to ensure that they are able to enhance and promote high standards of boardroom governance and develop directors for financial institutions in Malaysia. Details of the expenses are disclosed in Note 17.
- One of the Corporate Officers (“the Officer”) of PIDM is a Council Member of the Malaysian Institute of Accountants (“MIA”). MIA provides various learning and development programmes to its member and non-members, including employees of PIDM. All transactions for these programmes were transacted at commercial arm’s length basis. The Officer did not obtain any gain or benefits from these transactions.

20. RELATED PARTY DISCLOSURES (continued)

b. Remuneration of key management personnel

	2020 RM'000	2019 RM'000
Short-term benefits	8,951	9,589
Post-employment benefits:		
Contributions to defined contribution plan	1,544	1,642
Total remuneration of key management personnel	10,495	11,231

The remuneration of key management personnel includes the remuneration of the Chief Executive Officer and all members of the Executive Management Committee. The amount above does not include the remuneration of Directors, which is disclosed separately in Note 16. Remuneration of key management personnel is also included in the employee benefits disclosure in Note 15.

21. SEGMENT INFORMATION

The PIDM Act provides separate coverage for each of the following Funds:

- Conventional Deposit Insurance Fund;
- Islamic Deposit Insurance Fund;
- General Insurance Protection Fund;
- Life Insurance Protection Fund;
- General Takaful Protection Fund; and
- Family Takaful Protection Fund.

Hence, PIDM has reportable segments based on the above Protection Funds’ categories. No operating segments have been aggregated to form the above reportable operating segments.

Notes to the Financial Statements

31 DECEMBER 2020

Notes to the Financial Statements

31 DECEMBER 2020

21. SEGMENT INFORMATION (continued)

Fund reporting

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

	Note	Total RM'000	Conventional Deposit Insurance RM'000	Islamic Deposit Insurance RM'000	General Insurance RM'000	Life Insurance RM'000	General Takaful RM'000	Family Takaful RM'000
ASSETS								
Cash and cash equivalents	4a	152,245	62,286	56,344	11,043	16,982	2,304	3,286
Investments	5	4,655,630	2,323,729	492,009	1,306,098	436,603	28,317	68,874
Other assets	6	54,732	29,146	5,631	13,544	5,318	308	785
Investment in subsidiaries	7	-*	-*	-*	-*	-*	-*	-*
Property and equipment	8	26,686	16,449	3,820	1,408	4,135	273	601
Right-of-use assets	9	14,263	9,098	2,188	1,040	1,480	146	311
Total Assets		4,903,556	2,440,708	559,992	1,333,133	464,518	31,348	73,857
LIABILITIES								
Payables	11	10,073	5,822	1,618	828	1,495	74	236
Lease liabilities	10	15,961	10,183	2,448	1,164	1,655	163	348
Total Liabilities		26,034	16,005	4,066	1,992	3,150	237	584
FUNDS AND RESERVES								
Accumulated surpluses	12	4,877,522	2,424,703	555,926	1,331,141	461,368	31,111	73,273
Total Funds and Reserves		4,877,522	2,424,703	555,926	1,331,141	461,368	31,111	73,273
Total Liabilities, Funds and Reserves		4,903,556	2,440,708	559,992	1,333,133	464,518	31,348	73,857

* The amount is significantly below the rounding threshold.

21. SEGMENT INFORMATION (continued)

Fund reporting (continued)

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

	Note	Total RM'000	Conventional Deposit Insurance RM'000	Islamic Deposit Insurance RM'000	General Insurance RM'000	Life Insurance RM'000	General Takaful RM'000	Family Takaful RM'000
ASSETS								
Cash and cash equivalents	4a	72,179	30,311	15,570	8,854	13,801	1,474	2,169
Investments	5	4,437,178	2,195,648	479,905	1,270,974	400,750	26,211	63,690
Other assets	6	54,026	29,050	5,435	13,857	4,736	276	672
Investment in subsidiaries	7	-*	-*	-*	-*	-*	-*	-*
Property and equipment	8	30,179	18,284	4,181	1,814	4,796	363	741
Right-of-use assets	9	19,037	12,159	2,917	1,386	1,964	196	415
Total Assets		4,612,599	2,285,452	508,008	1,296,885	426,047	28,520	67,687
LIABILITIES								
Payables	11	8,605	5,056	1,443	587	1,242	77	200
Lease liabilities	10	20,418	13,041	3,128	1,487	2,107	210	445
Total Liabilities		29,023	18,097	4,571	2,074	3,349	287	645
FUNDS AND RESERVES								
Accumulated surpluses	12	4,583,576	2,267,355	503,437	1,294,811	422,698	28,233	67,042
Total Funds and Reserves		4,583,576	2,267,355	503,437	1,294,811	422,698	28,233	67,042
Total Liabilities, Funds and Reserves		4,612,599	2,285,452	508,008	1,296,885	426,047	28,520	67,687

* The amount is significantly below the rounding threshold.

Notes to the Financial Statements

31 DECEMBER 2020

Notes to the Financial Statements

31 DECEMBER 2020

21. SEGMENT INFORMATION (continued)

Fund reporting (continued)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	Total RM'000	Conventional Deposit Insurance RM'000	Islamic Deposit Insurance RM'000	General Insurance RM'000	Life Insurance RM'000	General Takaful RM'000	Family Takaful RM'000
Premium and levy revenues	13	243,621	140,795	51,079	3,294	39,533	2,624	6,296
Investment income and returns from cash equivalents and investment securities	14	144,371	70,047	16,505	41,166	13,554	908	2,191
Other income	8	782	516	119	23	103	7	14
Total income		388,774	211,358	67,703	44,483	53,190	3,539	8,501
Human capital management expenses	15	66,719	38,444	11,013	5,483	9,985	361	1,433
Operations and administrative expenses	16	22,008	12,502	3,334	2,002	3,322	242	606
Initiatives related expenses	17	6,488	3,286	932	698	1,272	60	240
Total expenses		95,215	54,232	15,279	8,183	14,579	663	2,279
Net surplus for the year		293,559	157,126	52,424	36,300	38,611	2,876	6,222
Other comprehensive income								
Remeasurements of Long Term Retirement Plan	11 (ii)	387	222	65	30	59	2	9
Total comprehensive income for the year		293,946	157,348	52,489	36,330	38,670	2,878	6,231

21. SEGMENT INFORMATION (continued)

Fund reporting (continued)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	Total RM'000	Conventional Deposit Insurance RM'000	Islamic Deposit Insurance RM'000	General Insurance RM'000	Life Insurance RM'000	General Takaful RM'000	Family Takaful RM'000
Premium and levy revenues	13	458,443	275,801	85,957	6,110	76,938	2,459	11,178
Investment income and returns from cash equivalents and investment securities	14	148,394	72,480	16,126	43,467	13,235	925	2,161
Other income	8	47	43	4	-	-	-	-
Total income		606,884	348,324	102,087	49,577	90,173	3,384	13,339
Human capital management expenses	15	68,537	41,666	10,634	5,259	8,837	518	1,623
Operations and administrative expenses	16	24,054	14,118	3,522	2,037	3,425	294	658
Initiatives related expenses	17	9,277	4,010	2,449	905	1,519	97	297
Total expenses		101,868	59,794	16,605	8,201	13,781	909	2,578
Net surplus for the year		505,016	288,530	85,482	41,376	76,392	2,475	10,761
Other comprehensive income								
Remeasurements of Long Term Retirement Plan	11 (ii)	(273)	(166)	(43)	(20)	(35)	(3)	(6)
Total comprehensive income for the year		504,743	288,364	85,439	41,356	76,357	2,472	10,755

Notes to the Financial Statements

31 DECEMBER 2020

Notes to the Financial Statements

31 DECEMBER 2020

21. SEGMENT INFORMATION (continued)

Fund reporting (continued)

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	Total RM'000	Conventional Deposit Insurance RM'000	Islamic Deposit Insurance RM'000	General Insurance RM'000	Life Insurance RM'000	General Takaful RM'000	Family Takaful RM'000
CASH FLOWS FROM OPERATING ACTIVITIES								
Premiums and levies received from member institutions		243,621	140,795	51,079	3,294	39,533	2,624	6,296
Payments in the course of operations to suppliers and employees		(80,502)	(45,504)	(13,320)	(6,820)	(12,528)	(473)	(1,857)
Receipts of investment income and returns		189,115	95,935	19,345	54,041	16,199	1,080	2,515
Net cash flows generated from operating activities		352,234	191,226	57,104	50,515	43,204	3,231	6,954
CASH FLOWS FROM INVESTING ACTIVITIES								
Proceeds from maturity of investment securities		2,060,488	1,193,835	111,190	607,840	125,053	7,220	15,350
Purchase of investment securities		(2,324,591)	(1,348,193)	(126,291)	(655,511)	(164,057)	(9,544)	(20,995)
Proceeds from disposal of property and equipment		-	-	-	-	-	-	-
Purchase of property and equipment		(2,400)	(1,277)	(360)	(242)	(434)	(19)	(68)
Net cash flows used in investing activities		(266,503)	(155,635)	(15,461)	(47,913)	(39,438)	(2,343)	(5,713)
CASH FLOWS FROM FINANCING ACTIVITIES								
Principal repayment of lease liabilities		(4,666)	(2,979)	(715)	(339)	(483)	(48)	(102)
Lease finance costs		(999)	(637)	(154)	(74)	(102)	(10)	(22)
Net cash flow used in financing activities		(5,665)	(3,616)	(869)	(413)	(585)	(58)	(124)
Net increase in cash and cash equivalents		80,066	31,975	40,774	2,189	3,181	830	1,117
Cash and cash equivalents at beginning of year		72,179	30,311	15,570	8,854	13,801	1,474	2,169
Cash and cash equivalents at end of year	4a	152,245	62,286	56,344	11,043	16,982	2,304	3,286

21. SEGMENT INFORMATION (continued)

Fund reporting (continued)

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	Total RM'000	Conventional Deposit Insurance RM'000	Islamic Deposit Insurance RM'000	General Insurance RM'000	Life Insurance RM'000	General Takaful RM'000	Family Takaful RM'000
CASH FLOWS FROM OPERATING ACTIVITIES								
Premiums and levies received from member institutions		458,443	275,801	85,957	6,110	76,938	2,459	11,178
Payments in the course of operations to suppliers and employees		(87,315)	(51,549)	(14,497)	(6,949)	(11,438)	(711)	(2,171)
Receipts of investment income and returns		175,330	85,075	18,263	52,177	16,297	1,097	2,421
Net cash flows generated from operating activities		546,458	309,327	89,723	51,338	81,797	2,845	11,428
CASH FLOWS FROM INVESTING ACTIVITIES								
Proceeds from maturity of investment securities		1,450,596	608,229	164,917	486,799	163,250	10,438	16,963
Purchase of investment securities		(2,049,966)	(985,749)	(248,502)	(535,719)	(236,270)	(14,088)	(29,638)
Proceeds from disposal of property and equipment		47	43	4	-	-	-	-
Purchase of property and equipment		(2,406)	(1,450)	(365)	(197)	(311)	(23)	(60)
Net cash flows used in investing activities		(601,729)	(378,927)	(83,946)	(49,117)	(73,331)	(3,673)	(12,735)
CASH FLOWS FROM FINANCING ACTIVITIES								
Principal repayment of lease liabilities		(4,419)	(2,822)	(677)	(322)	(456)	(46)	(96)
Lease finance costs		(1,254)	(801)	(192)	(91)	(130)	(13)	(27)
Net cash flow used in financing activities		(5,673)	(3,623)	(869)	(413)	(586)	(59)	(123)
Net (decrease)/increase in cash and cash equivalents		(60,944)	(73,223)	4,908	1,808	7,880	(887)	(1,430)
Cash and cash equivalents at beginning of year		133,123	103,534	10,662	7,046	5,921	2,361	3,599
Cash and cash equivalents at end of year	4a	72,179	30,311	15,570	8,854	13,801	1,474	2,169

Notes to the Financial Statements

31 DECEMBER 2020

22. FINANCIAL RISK

PIDM's financial risk management policy seeks to ensure that adequate financial resources are available for PIDM's activities whilst managing PIDM's currency, interest rate and rate of return, liquidity, market and credit risks. PIDM operates within guidelines that are approved by the Board of Directors and PIDM's Investment Policy is to only invest in short-term and medium-term Ringgit Malaysia denominated Government and Bank Negara Malaysia securities, and securities of high investment grade issued by Government-related entities, which are government guaranteed or with a minimum rating of AAA, of varying maturities. In relation to the day-to-day operational cash management, PIDM may place excess funds in money market or overnight placements with its banker(s). No investments are made with member banks since PIDM is the insurer of deposits.

Part of the former Insurance Guarantee Scheme Funds (IGSF) investment portfolio previously administered by Bank Negara Malaysia, that was transferred to PIDM in 2011 comprises investment securities that are not in line with PIDM's approved Investment Policy. In 2011, a specific approval from the Board of Directors has been obtained in order to exempt these investment securities from complying with the Investment Policy. The investment securities that are not in compliance with the Investment Policy consist of Government securities with long-term tenures and Private Debt Securities (PDS) and will be held until its maturities.

a. Foreign currency risk

PIDM is currently not materially exposed to any currency risk as most of the transactions were transacted in Ringgit Malaysia denominated currency.

b. Interest rate risk and rate of return risk

PIDM's interest rate and rate of return risks will arise principally from differences in maturities of its financial assets and liabilities.

The financial assets are primarily made up of investment assets held in Malaysian Government Securities and Investment Issues. The interest rate risk in this respect arises from fluctuations in market interest rate that may affect the market values and reinvestment decisions of these financial assets. The rate of return risk is the potential impact of market factors affecting the return on assets which, may consequently affect the market values and reinvestment decisions of these financial assets. To mitigate these risks, PIDM currently only invests in short-term and medium-term securities that minimise the impact of any fluctuations in market interest rate or profit rate on the market value of these securities.

There has been no change to PIDM's exposure to interest rate risk and rate of return risk or the manner in which these risks are managed and measured.

PIDM currently does not carry any liabilities that are exposed to interest rate and rate of return risk.

22. FINANCIAL RISKS (continued)

b. Interest rate risk and rate of return risk (continued)

The following tables set out the carrying amounts, the Weighted Average Effective Yield Rates (WAEYR) of financial instruments as at the Statement of Financial Position date and its remaining maturities that are exposed to interest rate risk and rate of return risk.

	Note	WAEYR %	Within 3 months RM'000	4 - 12 months RM'000	13 - 36 months RM'000	Total RM'000
Conventional Deposit Insurance Fund						
31 December 2020						
Fixed rate						
Cash and cash equivalents	4a	1.95	12,986	49,300	-	62,286
Investments	5	2.65	210,152	572,580	1,540,997	2,323,729
31 December 2019						
Fixed rate						
Cash and cash equivalents	4a	3.35	25,511	4,800	-	30,311
Investments	5	3.42	78,018	1,037,115	1,080,515	2,195,648

Islamic Deposit Insurance Fund						
31 December 2020						
Fixed rate						
Cash and cash equivalents	4a	1.84	44,144	12,200	-	56,344
Investments	5	3.11	109,860	77,325	304,824	492,009
31 December 2019						
Fixed rate						
Cash and cash equivalents	4a	3.08	15,570	-	-	15,570
Investments	5	3.48	-	106,512	373,393	479,905

	Note	WAEYR %	Within 3 months RM'000	4 - 12 months RM'000	13 - 36 months RM'000	Total RM'000
General Insurance Protection Fund						
31 December 2020						
Fixed rate						
Cash and cash equivalents	4a	1.80	4,743	6,300	-	11,043
Investments	5	2.82	95,190	527,180	683,728	1,306,098
31 December 2019						
Fixed rate						
Cash and cash equivalents	4a	3.45	3,554	5,300	-	8,854
Investments	5	3.45	78,750	501,393	690,831	1,270,974

Life Insurance Protection Fund						
31 December 2020						
Fixed rate						
Cash and cash equivalents	4a	1.95	8,882	8,100	-	16,982
Investments	5	3.01	72,187	175,728	188,688	436,603
31 December 2019						
Fixed rate						
Cash and cash equivalents	4a	3.48	5,101	8,700	-	13,801
Investments	5	3.45	13,556	108,872	278,322	400,750

Notes to the Financial Statements

31 DECEMBER 2020

22. FINANCIAL RISKS (continued)

b. Interest rate risk and rate of return risk (continued)

	Note	WAEYR %	Within 3 months RM'000	4 - 12 months RM'000	13 - 36 months RM'000	Total RM'000
General Takaful Protection Fund						
31 December 2020						
Fixed rate						
Cash and cash equivalents	4a	1.58	1,814	490	-	2,304
Investments	5	2.99	5,134	5,930	17,253	28,317
31 December 2019						
Fixed rate						
Cash and cash equivalents	4a	3.46	774	700	-	1,474
Investments	5	3.48	-	7,220	18,991	26,211
Family Takaful Protection Fund						
31 December 2020						
Fixed rate						
Cash and cash equivalents	4a	1.90	2,206	1,080	-	3,286
Investments	5	3.04	15,155	10,497	43,222	68,874
31 December 2019						
Fixed rate						
Cash and cash equivalents	4a	3.44	369	1,800	-	2,169
Investments	5	3.49	-	15,352	48,338	63,690

Based on PIDM's investment portfolio as at 31 December 2020, the following table shows how net surplus would have been affected by a 50 basis points increase or decrease in WAEYR.

	Net Surplus						
	Total RM'000	Conventional Deposit Insurance RM'000	Islamic Deposit Insurance RM'000	General Insurance RM'000	Life Insurance RM'000	General Takaful RM'000	Family Takaful RM'000
50 basis points increase							
- 31 December 2020	24,550	12,208	2,725	6,878	2,229	152	358
- 31 December 2019	21,957	10,715	2,358	6,473	1,954	138	319
50 basis points decrease							
- 31 December 2020	(24,550)	(12,208)	(2,725)	(6,878)	(2,229)	(152)	(358)
- 31 December 2019	(21,957)	(10,715)	(2,358)	(6,473)	(1,954)	(138)	(319)

22. FINANCIAL RISKS (continued)

c. Liquidity risk

PIDM's liquidity risk relates to the capability of PIDM to meet its obligations as they become due, without incurring unacceptable losses. This may be caused by the inability to liquidate assets to obtain required funding to meet its liquidity needs. A significant amount of funds available for investment were invested in short-term Government securities, which are highly liquid marketable assets. PIDM also continuously endeavours to manage the maturity profiles of these securities in order to ensure that sufficient funds are available at all times to meet the day-to-day working capital requirements or to bring any financial risk exposures within the approved exposure limits. The following table sets the values of these investments by the maturity profiles.

	Note	2020					
		Less Than 30 Days	31 – 60 Days	60 – 90 Days	90 Days But Less Than 36 Months	More Than 36 Months*	Total
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash and cash equivalents	4a	30,025	15,600	23,450	83,170	-	152,245
Investments	5	-	268,544	239,136	4,147,950	-	4,655,630
Other assets	6a	11,850	9,264	21,167	9,576	-	51,857
Payables	11a	(2,025)	(121)	(558)	-	-	(2,704)
Net short-term assets		39,850	293,287	283,195	4,240,696	-	4,857,028

	Note	2019					
		Less Than 30 Days	31 – 60 Days	60 – 90 Days	90 Days But Less Than 36 Months	More Than 36 Months*	Total
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash and cash equivalents	4a	27,752	8,500	14,627	21,300	-	72,179
Investments	5	-	-	39,989	4,397,189	-	4,437,178
Other assets	6a	11,167	16,330	4,706	16,321	2,434	50,958
Payables	11a	(1,089)	(888)	-	(1,719)	-	(3,696)
Net short-term assets		37,830	23,942	59,322	4,433,091	2,434	4,556,619

* Investment securities with investment tenure exceeding 36 months represent investment securities from the former IGSF portfolio

PIDM also has a funding framework to deal with funding requirements relating to intervention and failure resolution activities. The main objective of the framework is to ensure that PIDM has adequate financial resources required for the proper operations of a robust and sound DIS as well as TIPS. The funding framework takes into consideration PIDM's role in the financial safety net and its legislative powers relating to sources of funding as well as clear objectives for its internal and external sources of funding.

- Internal funding** is developed through the accumulation of net surpluses after expenses. The annual net surplus is credited into the respective Protection Funds as reserves and is accumulated to meet future obligations that may arise from providing the financial consumer protection programmes.
- External funding** may be raised through either borrowing from the Government, from capital markets or other sources as deemed necessary and appropriate. The PIDM Act empowers PIDM to borrow or raise funds to meet its obligations. PIDM may borrow from the Government with the approval of the Minister of Finance on such terms and conditions as the Minister determines.

There has been no change to PIDM's exposure to liquidity risks or the manner in which these risks are managed and measured.

Notes to the Financial Statements

31 DECEMBER 2020

22. FINANCIAL RISKS (continued)

d. Market risk

PIDM’s market risk relates to the risk of loss resulting from adverse changes in the value of its asset holdings arising from movements in market rates or prices. Market risk in PIDM includes investment-related risks. The market risk exposure of PIDM may vary during normal operations or as a result of intervention or failure resolution activities. Under normal operations, PIDM invests in short-term and medium-term securities which are intended to be held-to-maturity. As such, PIDM’s current exposure to market risk in the context of these investments is minimal.

There has been no change to PIDM’s exposure to market risks or the manner in which these risks are managed and measured.

e. Credit risk

PIDM invests primarily in Malaysian Government Securities and Investment Issues, which are generally considered as low risk assets. PIDM does not expect the counterparties to default and as such, considers the credit risk on these investment assets to be minimal.

Besides the Government investment securities, PIDM holds investments in PDS, which were part of the former IGSF investment portfolio previously administered by Bank Negara Malaysia. The investments were transferred to PIDM in 2011 and comprised investment securities issued by Government-linked Companies.

	FORMER IGSF	
2020		
Investment in PDS		
- Principal value (RM’000)	-	5,000
2019		
Investment in PDS		
- Principal value (RM’000)	-	10,000
PDS rating	AAA	Non-rated

Apart from the IGSF portfolio, PIDM also holds other PDS issued by government-related entities in accordance with its Investment Policy. As at 31 December 2020, the principal value of these PDS amounted to RM289.7 million.

PIDM continuously monitors the credit standing of the issuers of the PDS for any potential downgrade in the credit ratings.

In determining the expected credit losses for these assets, PIDM have taken into account the historical default experience, the financial position of the counterparties, as well as the future prospects of the industries in which the issuers of the securities and notes operate. This information was obtained from economic expert reports, financial analyst reports and considering various external sources of actual and forecast economic information, as appropriate, in estimating the probability of default of each of these financial assets occurring within their respective loss assessment time horizon, as well as the loss upon default in each case.

The credit rating information is supplied by independent rating agencies where available and, if not available, PIDM uses other publicly available financial information and PIDM’s own records to rate its major counterparties.

Notes to the Financial Statements

31 DECEMBER 2020

22. FINANCIAL RISKS (continued)

e. Credit risk (continued)

PIDM’s current credit risk grading framework comprises the following categories:

Category	Description	Basis for recognising expected credit losses
Performing	The counterparty has a low risk of default and does not have any past-due amounts	12-month ECL
Doubtful	Amount is >30 days past due or there has been a significant increase in credit risk since initial recognition	Lifetime ECL – not credit-impaired
In default	Amount is >90 days past due or there is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and PIDM has no realistic prospect of recovery	Amount is written off

The tables below detail the credit quality of PIDM’s financial assets as well as PIDM’s maximum exposure to credit risk by credit risk rating grades for the financial year ended 31 December 2020 and 31 December 2019.

	Note	External Credit Rating	Internal Credit Rating	12-Month Or Lifetime Ecl
Malaysian Government Securities And Investment Issues	5	Sovereign	Performing	12-Month ECL
Private Debt Securities	5	AAA	Performing	12-Month ECL
Investment Income And Returns Receivables	6	Sovereign & AAA	Performing	12-Month ECL
Other Assets And Receivables	6	Non Applicable	Performing	12-Month ECL

Sensitivity analysis

The basis and general description of the key inputs and assumptions in determining and measuring ECL are described in Notes 2.2 (a) (i) to (v) under Impairment of financial assets. As highlighted in Note 3.2 on key sources of estimation uncertainties, the ECL calculations are the output of complex model with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies, and therefore is sensitive to changes in these key assumptions and variable inputs.

Given that PIDM’s financial assets are primarily made up of investment related assets including investment income and returns receivables, the most significant assumptions affecting the ECL allowance are those affecting the PD and LGD of these assets.

PIDM’s investment assets are primarily low risk assets comprising Malaysian Government Securities and Investment Issues. The only category of investments assets which may be more exposed to the credit risk related impairments are on PDS held by PIDM which are of minimum AAA rated. As such, for the purpose of carrying out the sensitivity analysis, the only scenario assumed is a one-level downgrade in credit rating, i.e. from AAA to AA1, of which affects the corresponding PD. However, the one-level downgrade does not constitute significant credit impairment which require lifetime ECL allowance.

In respect of LGD, for the purpose of carrying out the sensitivity analysis, two scenarios are assumed which are the increase and decrease of LGD by 20% (2019: 10%) respectively.

Notes to the Financial Statements

31 DECEMBER 2020

22. FINANCIAL RISKS (continued)

e. Credit risk (continued)

Impact on PIDM's profit or loss arising from the assumed movements in PD and LGD as noted above are as follows:

PD assumption – on the basis of credit rating movement from AAA to AA1, but remains in Stage 1 (12-months ECL).

	Note	LGD increased 20% RM'000	LGD decreased 20% RM'000
31 December 2020			
Malaysian Government Securities and Investment Issues	5	-	-
Private Debt Securities	5	(56)	(47)
Investment income and returns receivables	6	(1)	-**
Other assets and receivables	6	-	-
(Decrease) in net surplus		(57)	(47)

	Note	LGD increased 10% RM'000	LGD decreased 10% RM'000
31 December 2019			
Malaysian Government Securities and Investment Issues	5	-	-
Private Debt Securities	5	(47)	(9)
Investment income and returns receivables	6	(1)	-**
Other assets and receivables	6	-*	-*
(Decrease) in net surplus		(48)	(9)

* Impact of the movements in PD and LGD on the calculation for ECL for these financial assets class remains insignificant.

** The amount is significantly below the rounding threshold.

23. FAIR VALUES

PIDM has an appropriate framework and policies that provide guidance concerning the practical considerations, principles and analytical approaches for the establishment of prudent valuation for financial instruments measured at fair value.

The fair value of a financial instrument is the amount at which the instrument can be exchanged or settled between knowledgeable and willing parties in an arm's length transaction, other than in a forced or liquidation sale. The valuations of financial instruments are determined by reference to quoted prices in active markets or by using valuation techniques based on observable inputs or unobservable inputs. Management judgement is exercised in the selection and application of appropriate parameters, assumptions and modelling techniques where some or all of the parameter inputs are not observable in deriving fair value.

In addition, PIDM continuously enhances its design and validation methodologies and processes used to produce valuations. The valuation models are validated both internally and externally, with periodic reviews to ensure that the model remains suitable for its intended use.

23. FAIR VALUES (continued)

Determination of fair value

i. Level 1: Quoted prices

This refers to financial instruments that are regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, pricing service or regulatory agency and those prices that represent actual and regularly occurring market transactions on an arm's length basis. Such financial instruments include actively traded government securities.

ii. Level 2: Valuation techniques using observable inputs

This refers to inputs other than quoted price included within Level 1 that are observable for the asset or liability, either directly (i.e., prices) or indirectly (i.e., derived from prices). Examples of Level 2 financial instruments include corporate and other government bonds.

iii. Level 3: Valuation techniques using significant unobservable inputs

This refers to financial instruments where the fair value is measured using significant unobservable market inputs. The valuation technique is consistent with Level 2. The chosen valuation technique incorporates PIDM's own assumptions and data. Examples of Level 3 instruments include corporate bonds in illiquid markets.

Classes and categories of financial instruments and their fair values

The following table combines information about:

- classes of financial instruments based on their nature and characteristics;
- the carrying amounts of financial instruments; and
- fair value hierarchy levels of financial assets and financial liabilities for which fair value was disclosed.

31 December 2020

	Carrying value	Fair value		
		Level		
		1	2	3
	RM'000	RM'000	RM'000	RM'000

Financial assets - amortised cost

Investments (Note 5)	4,655,630	-	4,689,813	-
Cash and cash equivalents (Note 4)	152,245	The fair values approximates the carrying amounts due to the short-term maturities of these instruments		
Other financial assets (Note 6a)	51,857	-	-	-
Total financial assets	4,859,732			

Financial liabilities - amortised cost

Other financial liabilities (Note 11a)	2,704	The fair values approximates the carrying amounts due to the short-term maturities of these instruments		
Lease liabilities (Note 10)	15,961	-	-	-
Total financial liabilities	18,665			

Notes to the Financial Statements

31 DECEMBER 2020

23. FAIR VALUES (continued)

Classes and categories of financial instruments and their fair values (continued)

31 December 2019

	Carrying value	Fair value		
		Level		
		1	2	3
	RM'000	RM'000	RM'000	RM'000
Financial assets - amortised cost				
Investments (Note 5)	4,437,178	-	4,458,160	-
Cash and cash equivalents (Note 4)	72,179	The fair values approximates the carrying amounts due to the short-term maturities of these instruments		
Other financial assets (Note 6a)	50,958	-	-	-
Total financial assets	4,560,315			
Financial liabilities - amortised cost				
Other financial liabilities (Note 11a)	3,696	The fair values approximates the carrying amounts due to the short-term maturities of these instruments		
Lease liabilities (Note 10)	20,418	-	-	-
Total financial liabilities	24,114			

The fair value of investments is slightly higher than their carrying amount due to the sensitivity of the price of these securities arising from the interest rate and rate of return movements. As these investments are held to maturity, the risk exposure arising from interest rate and rate of return movements does not have material impact to the financial statements. Refer to Note 22 (b) on the disclosure of the management of interest rate risk and rate of return risk.

Fair value of financial assets and financial liabilities that are not measured at fair value (but fair value disclosures are required)

The fair values of financial instruments classified as Level 2 above were determined using observable inputs. In particular, for investments at amortised cost, the fair values disclosed are indicate of their market values as at the end of the financial year and were determined by reference to indicative market prices obtained from a bond pricing agency.

24. CONTINGENT LIABILITIES

Exposure to losses

Under the PIDM Act, PIDM has an inherent exposure to losses resulting from insuring deposits under DIS as well as insurance policies and takaful certificates under TIPS. However, this inherent exposure cannot be accurately ascertained or estimated with any acceptable degree of reliability.

At this juncture, the COVID-19 pandemic outbreak is ongoing and the Government and its agencies are continuing to address its impact. In this regard, PIDM continues to undertake risk assessment and monitoring of all member institutions. As at the date of this financial statements, there have been no specific events involving PIDM's member institutions that would require PIDM to record a specific provision in its financial statements in accordance with MFRS 137 *Provisions, Contingent Liabilities and Contingent Assets*.

While provisions are not recorded unless a specific event occurs, PIDM continues to build reserves in its Protection Funds through the accumulation of annual net surpluses.

Accumulated surpluses are held in each Fund to cover net losses when respective obligations arise. As discussed in Note 12 to the financial statements, PIDM has established Target Fund frameworks to determine the level of funds sufficient to cover the net expected losses from intervention or failure resolution activities.

If the relevant Protection Fund was to be insufficient to meet obligations, PIDM, as a statutory body, has the authority to raise funds as it deems fit including borrowing from the Government or issue public debt securities to raise funds, as well as to assess and collect higher premiums or levies in relation to the relevant Protection Fund with the approval of the Minister of Finance.

25. IMPACT OF COVID-19 ON THE CORPORATION

On 11 March 2020, the World Health Organisation declared the outbreak of COVID-19 as a pandemic. In Malaysia, the Movement Control Order (MCO) was imposed on 18 March 2020 with containment measures to curb the impact of the pandemic. PIDM has carefully assessed and considered the impact of the COVID-19 pandemic on its operations and financial position, and will continue to monitor developments involving the pandemic. Whilst the pandemic and the MCO containment measures have significantly impacted the economy and businesses in general, its impact on PIDM's operations has been minimal. PIDM has benefited from its digital transformation, virtual operating platforms as well as robust business continuity plans, which have enabled it to smoothly transition into the "work from home" mode of operation and allowed it to continue to serve its key stakeholders with minimal disruption. Despite several ad-hoc expenses incurred during the year to ensure effective and safe operations during the MCO period, PIDM's overall expenses remained well within its approved budget for the financial year.

As noted in Note 13, the Minister of Finance, on the recommendation of PIDM, approved the reduction in the premium and levy rates for assessment years 2020 and 2021 as described in Note 13 to the financial statements, as part of PIDM's regulatory relief measures. These reductions in premium and levy rates are also in line with the Government's responses to support the economy and address the impact of the pandemic. As a result, there is a significant reduction in the premium and levy revenues for the financial year ended 31 December 2020. PIDM's investment income for the financial year was also affected by the reduction in the Overnight Policy Rate. The impact of the reduced premium and levy revenues as well as lower investment income will continue into the financial year ending 31 December 2021. Nevertheless, PIDM expects to continue to accumulate annual net surpluses in building its Protection Funds.

Also, while there is an expected increase of credit risk of investments arising from the uncertainty in the operating environment, PIDM does not expect the impact on its investment portfolio to be significant given the short-term nature of its investments and the conservative investment policy governing its investment strategies.

GLOSSARY OF TERMS

Glossary of Terms

Common Equity Tier 1 (CET-1) Capital Ratio

The Common Equity Tier 1 Capital Ratio is computed as a percentage of a member bank's CET-1 capital to its risk-weighted assets in accordance to Bank Negara Malaysia's Capital Adequacy Framework. CET-1 capital is the highest quality of capital for a member bank, whereas risk-weighted assets are calculated based on the aggregation of the bank's assets weighted by factors relating to its riskiness. The minimum regulatory requirement for CET-1 Capital Ratio is 4.5%.

Conventional Deposit Insurance Fund

All premiums received by PIDM from member banks providing conventional banking services and interest earned minus the cost of operating the conventional Deposit Insurance System.

Deposit Insurance Funds

Refers to the Conventional Deposit Insurance Fund and Islamic Deposit Insurance Fund.

Deposit Insurance System

A system established by PIDM to protect depositors against the loss of their insured deposits placed with member banks and to resolve member banks, in the unlikely event of a member bank failure.

Differential Levy Systems

A system where insurer members are charged levies at differential rates, based on their risk profiles.

Differential Levy Systems for Takaful Operators

A system where takaful operators are charged levies at differential rates, based on their risk profiles.

Differential Premium Systems

A system where member banks are charged premiums at differential rates, based on their risk profiles.

Enterprise risk management

The framework applied on an organisation-wide basis to ensure and demonstrate that an entity's significant risks are being consistently and continuously identified, assessed, managed, monitored and reported on.

Family Takaful Protection Fund

All levies received by PIDM from insurer members conducting family takaful business and returns made minus the costs of operating the Takaful and Insurance Benefits Protection System.

Financial safety net

Usually comprises the deposit insurance function, prudential regulation and supervision, and the lender of last resort function.

Foreign currency

Any currency other than Ringgit Malaysia, the Malaysian currency.

General Insurance Protection Fund

All levies received by PIDM from insurer members conducting general insurance business and interest earned minus the costs of operating the Takaful and Insurance Benefits Protection System.

General Takaful Protection Fund

All levies received by PIDM from insurer members conducting general takaful business and returns made minus the costs of operating the Takaful and Insurance Benefits Protection System.

Impairment

Refers to loss allowance for expected credit losses (ECL) on loan or financing assets in accordance to Malaysian Financial Reporting Standards (MFRS) 9. Prior to 1 January 2018, impairment for loan or financing assets is measured in accordance to MFRS 139.

Insurance benefits

The amounts paid under the coverage of a policy for which an insurance company is liable to any person in the usual course of the insurance business of the insurance company.

Intervention and failure resolution

Intervention refers to actions taken on a member institution by PIDM in order to address certain concerns with the member institution. These actions are usually taken prior to any failure resolution option being taken against the member institution.

Failure resolution refers to actions in dealing with a failed member institution that has been determined by Bank Negara Malaysia as non-viable.

Islamic Deposit Insurance Fund

All premiums received by PIDM from Islamic member banks or commercial member banks providing Islamic banking services and returns made minus the costs of operating the Islamic Deposit Insurance System.

Islamic Protection Funds

Refers to the Islamic Deposit Insurance Fund, General Takaful Protection Fund, and Family Takaful Protection Fund.

Life Insurance Protection Fund

All levies received by PIDM from insurer members conducting life insurance business and interest earned minus the costs of operating the Takaful and Insurance Benefits Protection System.

Member institutions

Members of PIDM comprising member banks and insurer members.

Insurer members

All insurance companies licensed under the Financial Services Act 2013 to conduct life or general insurance business in Malaysia, as well as takaful operators licensed under the Islamic Financial Services Act 2013 to conduct family or general takaful business in Malaysia. Membership is compulsory under the PIDM Act. A full list of insurer members is available on PIDM's website.

Member banks

All commercial banks licensed under the Financial Services Act 2013, and all Islamic banks licensed under the Islamic Financial Services Act 2013. Membership is compulsory under the PIDM Act. A full list of member banks is available on PIDM's website.

Policy owner

The person who has the legal title to an insurance policy and includes the assignee, the personal representative of a deceased policy owner and the annuitant.

Protection Funds

Refers to the Conventional Deposit Insurance Fund, Islamic Deposit Insurance Fund, General Insurance Protection Fund, Life Insurance Protection Fund, General Takaful Protection Fund, and Family Takaful Protection Fund.

Reimbursement

A process undertaken by PIDM to reimburse insured deposits to eligible depositors, or protected benefits to eligible takaful beneficiaries or insured persons of a non-viable member institution in accordance with sections 56 and 57, and sections 80 and 81 of the PIDM Act.

Risk Assessment System

An internal PIDM system used to evaluate the member institutions' risk levels and controls and provides both a current (aggregate risk) and a prospective (direction of risk) view of the member institutions' risk. This is so that emerging risks can be identified and action is taken in a timely manner, before such risks materialise.

Shariah

The law of Islam, based upon the Quran, Sunnah (sayings and deeds of the Prophet Muhammad s.a.w.), Ijma' (consensus among Islamic scholars) and Qiyas (analogy).

Takaful and Insurance Benefits Protection System

A system established by PIDM to protect owners of takaful certificates and insurance policies from the loss of their eligible takaful or insurance benefits and to resolve insurer members, in the unlikely event of an insurer member failure.

Takaful benefits

The amount paid under the coverage of a takaful certificate for which a takaful operator is liable to any person in the usual course of business of the takaful operator.

Takaful certificate owner

The person who has the legal title to a takaful certificate and includes the assignee, the personal representative of a deceased certificate owner and the annuitant.

Takaful Protection Funds

Refers to General Takaful Protection Fund, and Family Takaful Protection Fund.

Target fund

A target fund, in general, is the level of accumulated funds required to adequately cover expected losses arising from intervention and failure resolution activities.

Total Insured Deposits

The sum of deposits insured by PIDM.

TECHNICAL REFERENCE

Technical Reference

SOURCES OF FUND AND FINANCIAL ABILITIES

Funding Framework

As a statutory body, sources of funding and the ability to meet liabilities and commitments as they arise are established in the PIDM Act. It is imperative for us to have adequate financial resources in order to effectively administer and operate a robust and sound Deposit Insurance System (DIS) as well as Takaful and Insurance Benefits Protection System (TIPS). The availability of financial resources is critical to ensure that we are able to meet our obligations with a high degree of confidence as and when the need arises. As a financial consumer protection authority, we have an inherent exposure to losses resulting from protecting deposits held by member banks as well as takaful and insurance benefits provided by insurer members. During the financial year, there have been no events that require us to record a specific provision in our financial statements in accordance with Malaysian Financial Reporting Standards (MFRS) 137 *Provisions, Contingent Liabilities and Contingent Assets*.

Our funding framework explicitly highlights the need for adequate financial resources to effectively carry out our mandate as well as to address the risks to which we are exposed. The main objectives of our funding framework are to:

- (a) ensure the availability of sufficient financial resources to enable us to fund our day-to-day operations; and
- (b) accumulate reserves to ensure our ability to meet future obligations to depositors as well as takaful certificate and insurance policy owners. The funding framework, which takes into consideration our role as one of the financial safety net players as well as our legislative powers relating to sources of funding, also provide clear objectives for internal and external sources of funding.

Internal Funding

Our internal funds are built through the accumulation of net surpluses from its operations. Annual net surplus is credited into and accumulated in the respective Funds as reserves to meet future obligations that may arise from providing the financial consumer protection systems. As noted earlier, expenses are credited against the respective Funds on the costs allocation basis as described in Note 2.2(f)(2) to the financial statements and there is no commingling between the Funds.

Target Fund Objectives and Guiding Principles

The term target fund or target reserve ratio generally refers to the level of internal funds we aim to accumulate over the long run to meet its objectives and fulfil its mandate. The target funds are established to cover the expected net losses arising from any intervention and failure resolution activities. The objectives of developing a target fund framework are to:

- (a) provide a basis in assessing the adequacy of the current levels of the Funds; and
- (b) identify a systematic approach to specify the target levels for the respective Funds.

The target fund frameworks for the Deposit Insurance Funds (DIFs), the General Insurance Protection Fund (GIPF) and the Life Insurance Protection Fund (LIPF) were established in 2011, 2015 and 2016 respectively. The target fund frameworks for the Takaful Protection Funds, for both the General Takaful Protection Fund (GTPF) and the Family Takaful Protection Fund (FTPF) were completed and implemented in 2018.

The development of the target fund frameworks for the DIFs, GIPF, LIPF, GTPF and the FTPF was based on the same set guiding principles, as follows:

- (a) **First Principle:** The target fund should be established to address idiosyncratic failures and not systemic failures.
- (b) **Second Principle:** The target fund should be sufficient to cover the expected net losses that we might incur arising from intervention and failure resolution activities.
- (c) **Third Principle:** Optimally, the determination of the target fund level should be balanced against the impact on stakeholders, both in terms of the target fund size and time frame for achieving the set target.
- (d) **Fourth Principle:** The target fund level should be specified as a “range” rather than an absolute amount.

Target Fund Modelling Approach

In developing the target funds, we have adopted both the statistical modelling as well as a discretionary approach in determining the range of its target fund:

(a) Statistical modelling approach

We have adopted the Value-at-Risk (VaR) statistical model in developing the target fund framework. Under this statistical modelling approach, VaR is determined to assess our exposure to net losses based on estimates of the member institution’s default probability, exposure at default, correlations of default and the possible recoveries in any given intervention and failure resolution action on a non-viable member institution. To determine the sufficient level of funds to cover the net losses, given a specified confidence level, we leveraged on the Monte Carlo simulation used in the VaR statistical model. Simulations using a significant number of loss scenarios to build up a statistical loss distribution were run from the model to ascertain the target fund level that will be able to cover losses or to meet the costs of insolvency in a specified time horizon with a specified confidence level.

(b) Discretionary approach

In determining the target fund range, we also took into consideration other qualitative factors such as our mandate and legislative powers, the banking and insurance industry’s landscape and operating environment as well as the financial system’s regulatory and supervisory regime in Malaysia. These qualitative factors are either directly reflected within the statistical model or used in the determination of the target fund range.

Risks and Sensitivity of the Target Fund Modelling

The process of estimating the target fund level is subject to uncertainty as the inputs to the model are based on sets of assumptions. Hence, the model is predicated upon, and is sensitive to several key factors as follows:

Table 1: Key Sensitive Factors of the Target Fund Modelling

Operating environment

The model is based on the assumption that the environment in which member institutions operate does not deviate significantly in the foreseeable future. This includes economic conditions and the risk profile of individual member institutions, the financial industry’s landscape as well as the regulatory and supervisory regime. Significant or drastic changes to these characteristics or other similar characteristics may result in a different target fund level within certain ranges than previously required. Nevertheless, the operating environment will be reviewed and validated against the model annually.

Mandate and powers

The mandate and powers are set out in the PIDM Act, which, among others, enable us to intervene and resolve a troubled member institution promptly to minimise losses to the financial system. The target fund modelling and estimation were made based on the current mandate and powers set out in the PIDM Act. Any significant changes to our mandate and powers may affect the modelling assumptions and therefore the estimation of the target fund level. However, no significant changes to its mandate and powers in the near future are expected.

The target fund is not static and is reviewed and validated annually to ensure its relevance and to reflect any changes in the assumptions or inputs used.

Technical Reference

Key Input Variables for the Statistical Model

The statistical model determines the expected loss using the following key input variables:

Table 2: Key Input Variables and Assumptions for the Target Fund Modelling

Key Input Variables	Funds				
	DIFs	GIPF	LIPF	GTPF	FTPF
Probability of Default (PD)	<p>We use average failure rates as reported by External Credit Assessment Institutions in their annual default study.</p> <p>The average failure rates are then benchmarked against the most conservative risk rating between the member institutions' supervisory risk ratings and our internal rating assessments.</p>				
Loss Given Default (LGD)	<p>Considers the potential recoveries on the assumption of liquidation of a member institution after taking into account exposures on relevant risks, in particular credit and market risks during the recoveries of assets.</p>				
Exposure At Default (EAD)	<p>We consider the two broad approaches to intervention namely, a liquidation or a going-concern resolution approach. The Total Insured Deposits (TID) (at the limit of RM250,000 per depositor per member bank) and the potential re-capitalisation of member banks are applied as proxies for the EAD.</p>	<p>We consider several components of exposures as the proxy for the EAD, to reflect the total financial exposure to us in the event of any general insurer member's failure.</p> <p>The EAD reflects a general insurer member's claims and premium liabilities exposures as adopted in the Risk-Based Capital Framework for Insurers, together with operational risk exposures and potential costs involved in the event of liquidation of a general insurer member.</p>	<p>We consider the Actuarial Valuation Liability (AVL) of the life insurer members as the proxy in determining the EAD, regardless of the insurance benefits protected by PIDM.</p> <p>The EAD reflects the life insurer members' risk of any underestimation of the insurance liabilities and adverse claims experience, over and above the amount of reserves already provided.</p>	<p>We consider several components of exposures as the proxy for the EAD, to reflect the total financial exposures to PIDM in the event of any takaful member's failure.</p> <p>The proxy for EAD aims to minimise takaful members' risk of any underestimation of the takaful liabilities and adverse claims experience, over and above the amount of reserves already provided.</p> <p>The EAD also considers the operational risks exposures and potential cost involved in the event of liquidation of a takaful member.</p>	

Technical Reference

Key Input Variables	Funds				
	DIFs	GIPF	LIPF	GTPF	FTPF
Exposure At Default (EAD)				<p>The EAD considers the sum of liabilities of the participants' general takaful fund and operator's fund expense liabilities.</p> <p>With regard to the general takaful fund liabilities, this include claim liabilities and contribution liabilities of the Participant Risk Fund (PRF) as adopted in the Risk-Based Capital Framework for Takaful Operators.</p>	<p>We consider the sum of the liabilities of the participants' family takaful fund and operator's fund expense liabilities as the proxy in determining the EAD, regardless of the insurance benefits protected by us.</p> <p>The exposures calculated with regard to the participants' family takaful fund comprise AVL of the PRF and accumulated value in the Participant Investment Fund (PIF) (for certificates other than investment linked).</p>

Management of Funds upon Reaching Target Fund Level

Upon reaching the upper target fund level, we may consider a reduction in the premium or levy rates or a rebate of the premiums or levies, based on among others, an assessment of the economic environment and industry conditions. In the management of the accumulation of the Funds, it is important for us to ensure that the Differential Premium Systems framework for member banks or the Differential Levy Systems framework for insurer members, continue to incentivise member institutions to improve their risk profiles and that the new entrants will pay premiums or levies on the deposits or benefits that are protected by us.

External Funding

We may raise external funds through either borrowing from the Government, capital markets or such other sources as deemed necessary and appropriate. The PIDM Act empowers the Minister of Finance to provide loans to us to meet our obligations. Such borrowings would be based on such terms and conditions as the Minister of Finance will determine. Funding from the capital markets, namely through the issuance of debt securities by us, is also an option when the environment or market is conducive to do so.

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