

# PIDM's Islamic Protection Systems

## Part 4: PIDM's Sources and Uses of Fund for the Protection of Islamic Deposits

Friday, 6th August 2021

Under the Islamic Deposit Insurance System ("IDIS") in Malaysia, Islamic member banks ("IMBs") pay an annual premium to PIDM. The premium is the fee payable by IMBs to PIDM based on the Shariah concept of "guarantee with fee" (as explained in Part 2 on ['Shariah Arrangement for PIDM's IDIS'](#)).

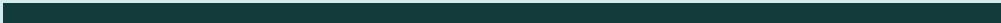
The fee gives rise to PIDM's commitment in protecting Islamic deposits in the unlikely event that a bank fails, or in other words, becomes bankrupt. Depositors of IMBs are the beneficiaries and are not required to make any payment to PIDM for this protection. IMBs are not allowed to impose any fees on their depositors for this protection.

The premium amount payable by each IMB depends on the total amount of its insured deposits and its risk profile as assessed by PIDM.

$$\text{Total premium payable} = \text{Total insured deposits} \times \text{Prescribed premium rate}^*$$

*\*Prescribed premium rate is based on the category of risk profile*

The consideration of an IMB's risk profile in the calculation of the premium payable is aimed at promoting sound risk management. This means that IMBs with higher risk profiles will pay more premium than those who have lower risk profiles. This is designed to motivate IMBs with higher risk profiles to improve their risk management practices to lower their premium costs, while IMBs with lower risk profiles would be motivated to maintain their risk profiles to continue enjoying low premium rates.



Premiums collected by PIDM from IMBs are channelled to its Islamic Deposit Insurance Fund ("IDIF"). The fund is maintained separately from the premiums collected from conventional member banks that are channelled to the Conventional Deposit Insurance Fund. This separation is in compliance with the ruling issued by the Shariah Advisory Council of Bank Negara Malaysia.

In the case where an IMB fails, PIDM will protect insured Islamic deposits by utilising IDIF. Where IDIF is inadequate, PIDM may raise funds externally from the market or the Government.

Other than using the fund to protect Islamic deposits arising from a failed IMB, PIDM uses IDIF to cover its daily operational expenditures. Such expenditures include the development of its human capital and infrastructure that are necessary for the resolution of a failed IMB, as well as to enhance public confidence through awareness programmes. The utilisation of the fund is subject to strong governance under the oversight of our Board of Directors.

Any surplus from the fund will be invested or placed in Shariah-compliant instruments. PIDM adopts a conservative investment philosophy. This is to preserve IDIF and maintain sufficient liquid financial assets to meet its financial obligations as and when they arise. The main source of its investment income and returns is from Shariah-compliant investment securities. Based on the above, PIDM will be able to protect Islamic deposits under IDIS by utilising Shariah-compliant funds, in the unlikely event an IMB fails.

*We will take a look at PIDM's Takaful benefits protection system in the next part (Part 5) of this series.*