Perbadanan Insurans Deposit Malaysia

Protecting Your Insurance And Deposits In Malaysia

CONSULTATION PAPER ON THE REVISED DIFFERENTIAL PREMIUM SYSTEMS FRAMEWORK

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PART 1: INTRODUCTION

1.0 BACKGROUND

1.1 In line with PIDM's mandate to administer the deposit insurance system and promote financial system stability, Perbadanan Insurans Deposit Malaysia ("PIDM" or "the Corporation") implemented the Differential Premium Systems ("DPS") framework in 2008 to replace the flat-rate premium system. The primary objective of the DPS framework ("DPS Framework") was to introduce greater fairness into the premium assessment process and to provide incentives for the deposit-taking members ("DTMs") to enhance their risk management practices and minimise excessive risk-taking.

1.2 PIDM conducts a regular review of the DPS Framework to ensure that it remains effective and relevant. A review of the DPS Framework incorporates an impact assessment of developments in the operating environment, including changes to regulatory requirements and accounting standards.

1.3 This consultation paper is issued as part of the DPS Framework review process to seek the views of the DTMs, industry participants and other key stakeholders on the proposed changes to the current DPS Framework.

2.0 CONSULTATION PROCESS

2.1 PIDM invites written feedback and comments on this consultation paper. A pre-formatted template will be uploaded on PIDM's website as well as emailed to the DTM's liaison officer to facilitate the provision of feedback and comments.

2.2 Responses to this consultation paper shall be submitted to PIDM via email to DPS@pidm.gov.my by 20 September 2021.

2.3 PIDM will collate the comments on this consultation paper and publish its response on PIDM's website. Your comments may be made public by PIDM. If you do not wish any of your comments to be made public, please indicate accordingly in your response.

2.4 PIDM plans to finalise the revised DPS Framework in 2022, for implementation in the assessment year 2023.

2.5 For any queries or clarification on the consultation paper, please contact any of the following officers:

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PART 2: PROPOSED REVISED DPS FRAMEWORK

3.0 OVERVIEW

3.1 The DPS Framework is reviewed and updated from time to time to ensure that it remains effective and relevant.[1] This enhancement is part of the scheduled review, although the impact on the economy and operating landscape caused by the COVID-19 pandemic have also provided a new perspective for consideration. The lessons learnt from this experience call for an approach that is not only holistic and robust in the assessment of a DTM's risk profile, but one that is capable of incentivising safety and soundness as well as additional safeguards, such as the orderly resolution of the member institutions.

3.2 The aspiration is two-fold. First, for the DPS Framework to be more effective in its objective of providing incentives for better overall risk management. Secondly, to provide meaningful incentives towards "resolvability" in line with PIDM's aim to develop an effective resolution regime in Malaysia.[2]

3.3 This consultation paper sets forth several new proposals for industry feedback. The key feature of the proposed revised DPS Framework is to assess DTMs based on two (2) criteria, namely "safety and soundness criteria" and "resolution centric criteria" ("RCC"). The proposal is envisaged to be simple yet dynamic in providing incentives, while at the same time seeking to:

(a) lessen the impact of double counting by limiting the use of duplicative financial or regulatory ratios;

(b) manage the cliff effect by applying interpolation and a simplified scoring model; and

(c) incentivise resolvability by incorporating resolution centric indicators.

[1] The last DPS Framework enhancement was completed in 2017.

[2] In 2016, PIDM has identified the development and implementation of an effective resolution regime for our member institutions as a long-term strategic priority in our corporate plan. As the resolution authority for our member institutions, PIDM acts to resolve non-viable member institutions in an orderly manner so as to minimise costs to the financial system.

3.4 PIDM is proposing the use of Bank Negara Malaysia ("BNM")'s Composite Risk Rating ("CRR") as the basis for determining the "safety and soundness" criteria, given that it is a holistic and robust assessment of a DTM's risk profile. This approach will also address the impact of double counting in the existing DPS Framework. Meanwhile, the RCC is a new assessment area that encompasses three (3) indicators to measure and incentivise DTMs, by emphasising aspects of resolvability.

3.5 Another key proposal is a change from the existing fixed premium rate (by premium category) to a variable premium rate computation. Under the new proposal, each DTM will be assigned a Base Rate ("BR") based on the outcome of its safety and soundness assessment. The final premium rate charged will be the BR less RCC adjustment, which is dependent on the interpolated score of its RCC indicators. Essentially, the premium rate will be set "along-the-curve" vis-à-vis the DTM's risk profile and RCC performance, rather than "boxed" into a fixed premium category as per the existing DPS Framework.

4.0 REVISED DPS FRAMEWORK

4.1 The proposed revised DPS Framework introduces two (2) main areas of assessment as follows:

(a) **Safety and soundness criteria assessment**
The safety and soundness criteria assessment is based on BNM's CRR and is intended to differentiate DTMs by their risk profiles and risk management control functions. A higher base premium rate will apply as the DTM's risk profile deteriorates.

(b) **Resolution centric criteria assessment**
The resolution centric criteria assessment is designed to incentivise DTMs based on a set of RCC indicators which consider balance sheet strength, capacity to absorb loss and funding stability. The chosen RCC indicators serve as proxy for measuring loss in the event of failure. A robust balance sheet profile, higher capacity to absorb losses and a stable funding profile will improve the likelihood of minimising losses in the event of an intervention or failure resolution action on a DTM.

4.2 The diagram below illustrates the broad concept of the proposed revised DPS Framework and the premium rate formula:

Assessment Criteria	Components of the Premium Rate Formula	Description
Safety & Soundness Criteria	**Base Rate ("BR") for each Risk Grade as determined by BNM's CRR.**	The **BR** represents the maximum premium rate payable by each DTM depending on their Risk Grade.
Resolution Centric Criteria ("RCC")	**RCC indicators:** **1.** Free Tangible Asset Cover Ratio **2.** Net Impaired Asset Cover Ratio **3.** Composition of Core Funds **RCC Adjustment = [Total Weighted RCC Score x 50% x BR]**	**RCC Adjustment** is an adjustment factor of a maximum 50% of the BR, computed based on the RCC assessment score, to reflect the importance of incentivising both safety and soundness as well as resolution readiness. **Total Weighted RCC Score** represents the sum of RCC indicators' weighted average score under the RCC assessment.
Premium Rate	**BR less RCC Adjustment; or BR less [Total Weighted RCC Score x 50% x BR]**	**Premium Rate** to be multiplied by the Total Insured Deposits to determine the total premium payable.

Diagram 1: Proposed Revised DPS Framework

4.3 Further details on the assessment criteria, the proposed indicators, including the threshold and the computation of premium rate, are provided in the following sections.

PART 3: DETAILS OF THE REVISED DPS FRAMEWORK

5.0 SAFETY AND SOUNDNESS CRITERIA ASSESSMENT

5.1 PIDM recognises that BNM's supervisory assessment is a holistic representation of the financial condition, safety, soundness and viability of a DTM, taking into consideration its unique risk profile and risk management control functions. The CRR is an existing criterion in the current DPS Framework. It is derived from the supervisor's risk-based assessment on a DTM and is based on an in-depth understanding of its business as well as the industry and environment in which it operates. The CRR is reflective of a DTM's overall risk profile, as compared to relying solely on quantitative indicators at a specific interval.

5.2 PIDM proposes that the assessment of the safety and soundness criteria be anchored on the CRR as a means to differentiate DTMs by their risk profiles, considering the comprehensiveness and robustness of BNM's risk-based supervisory framework.

5.3 The CRR will be mapped to a Risk Grade which represents the safety and soundness criteria assessment. The Risk Grade sets the basis for a corresponding Base Rate which indicates the maximum premium rate that can be applied to a DTM, as follows:

CRR	Risk Grade	Base Rate[3]
Low	1	0.06%
Moderate	2	0.12%
Above Average	3	0.24%
High	4	0.48%

Table 1: Mapping of CRR to Risk Grade and Base Rate

5.4 By adopting the CRR as the anchor for the safety and soundness criteria assessment, the proposed revised DPS Framework is expected to:

3 The Base Rate listed in Table 1 is indicative based on the AY2019 premium rates for the applicable premium categories.

(a) address over reliance on historical financial indicators that are less adept at identifying emerging risk in a rapidly evolving environment;

(b) address the limitations of the "one-size-fits-all" approach in the assessment of safety and soundness;

(c) minimise double-counting for current DPS financial indicators that overlap with those already considered as part of CRR drivers (e.g. asset concentration, asset quality, profitability and regulatory capital buffers); and

(d) continue to position the DPS Framework as an effective tool to incentivise sound risk management practices.

Feedback 1: Safety and Soundness Criteria Assessment
PIDM seeks feedback on the proposed safety and soundness criteria assessment which is anchored on BNM's CRR.

6.0 RESOLUTION CENTRIC CRITERIA ASSESSMENT

6.1 The proposed quantitative indicators under the RCC assessment are intended to provide incentives for balance sheet strength, capacity to absorb loss and funding stability. Collectively, these indicators also serve as the proxy for measuring loss in the event of failure as they represent some of the components influencing losses in resolution. The three (3) indicators are as follows and it is proposed that they be accorded equal weightage in arriving at the total weighted score under the RCC assessment.

RCC Indicators	Maximum Score	Weight
Free Tangible Asset Cover Ratio	100.00%	To be accorded equal weightage
Net Impaired Asset Cover Ratio	100.00%	
Composition of Core Funds	100.00%	

Table 2: RCC Indicators

6.2 In arriving at the RCC indicators and the respective scoring threshold, PIDM has considered the following:

(a) prioritise indicators that are dual-purpose, i.e. that measure strength and stability as well as provide inference to loss exposures in resolution;

(b) formulate indicators that provide a well-rounded assessment of core elements within a DTM's balance sheet;

(c) refrain from direct benchmarking against regulatory ratios to avoid the unintended consequence of setting buffers above prudential requirements; and

(d) leverage on data available from resolution experiences internationally and/or loss experience of past crisis, to the extent possible, when benchmarking thresholds for the RCC indicators.

6.3 For future consideration, the scope of RCC incentives may be expanded to include the findings from Resolution Planning and/or Resolvability Assessment as qualitative measure(s). These will be included as part of future DPS Framework reviews, once the Resolution Planning and Resolvability Assessment Frameworks have been implemented, assessed and adequately back-tested.

Indicator 1: Free Tangible Asset Cover ("FTAC") Ratio

6.4 The FTAC Ratio measures the sufficiency of free tangible assets to meet non-capital related liabilities. The greater the value of a DTM's free tangible assets vis-à-vis its liability, the lower the expected losses to be borne by senior unsecured[4] claimants in resolution.

6.5 The proposed computation and thresholds for this ratio are as follows:

Formula	$$\frac{\text{Total Assets – (Intangible Assets + Loans/ Financing Sold to Cagamas + Assets Pledged for Repurchase Agreement + Assets funded by Investment Accounts ("IA") + Other Pledged Assets)}}{\text{Total Liabilities – (Recourse Obligations to Cagamas + Repurchase Agreement + Investment Accounts + Tier 1 \& Tier 2 Capital Instruments + Other Secured Liabilities)}}$$
Definition	• Intangible assets as reported in financial statements, including goodwill.

[4] Unsecured liabilities excluding capital instruments.

	• Loans/financing sold to Cagamas refers to loans/financing sold to Cagamas with recourse. • Assets pledged for repurchase agreement ("Repo") refers to Repo Securities held-in-custody for Repo transactions as per BNM's Repurchase Agreement Transactions policy document. • Assets funded by Investment Accounts includes: (a) Loans/financing funded by Investment Accounts (b) Financial assets funded by Investment Accounts (c) Other assets funded by Investment Accounts • Other pledged assets refers to all other forms of pledged assets which will not be available to meet liabilities in resolution, for example, assets pledged for other funding and liquidity facilities.[5] • Recourse obligations to Cagamas refers to outstanding obligations arising from loans/financing sold to Cagamas with recourse basis. • Repurchase agreement refers to Repo transactions entered by DTMs as per BNM's Repurchase Agreement Transactions policy document. • Investment accounts refer to on-balance sheet restricted investment account and unrestricted investment account as defined under BNM's policy document on Investment Account. • Tier 1 and Tier 2 capital instruments as defined under BNM's Capital Adequacy Framework (Capital Components) and Capital Adequacy Framework for Islamic Banks (Capital Components). • Other secured liabilities include all other liabilities that will be repaid out of a pool of specific encumbered assets, for example, funding and liquidity facilities[5].
Threshold and Score	• The thresholds give benefit to DTMs that maintain a buffer of more than 1 time. Maximum benefit is accorded to DTMs that maintain more than 1.3 times coverage. The thresholds are benchmarked against historical loss rate by asset classes of Malaysian and other countries' experiences and/or past crises to the extent possible. It reflects the assumption that the fair values of tangible assets

[5] For example, Standing Facilities or Restricted Committed Liquidity Facilities

reflected on the DTM's balance sheet may not be recoverable at par in resolution.

Threshold	Score (%)
FTAC Ratio ≥ 1.3 times	100
1 time < FTAC Ratio < 1.3 times	Interpolated*
FTAC Ratio ≤ 1 time	0

*The detailed explanation of linear interpolation method is provided under Paragraph 7.

Feedback 2: Free Tangible Asset Cover Ratio
PIDM seeks feedback on the proposed indicator, including the components of the formula and threshold.

Indicator 2: Net Impaired Asset Cover ("NIAC") Ratio

6.6 The NIAC Ratio measures a DTM's capital level in excess of Total Capital Ratio of 8% against potential credit losses arising from impaired assets (including loans, financing and investment securities) which reflect the DTM's credit risk profile. The ratio provides incentives for strong capital buffers, while promoting sound credit underwriting standards. A higher NIAC Ratio represents better capacity to absorb losses vis-à-vis a DTM's credit risk profile.

6.7 The proposed computation and corresponding thresholds are as follows:

Formula	$$\frac{\text{Total Capital} - (\text{Total Risk-Weighted Assets x 8\%})}{\text{Adjusted Net Impaired Assets}}$$
Definition	• Total Capital is as defined under BNM's policy document on Capital Adequacy Framework (Capital Components) and Capital Adequacy Framework for Islamic Banks (Capital Components). The Total Capital amount shall be after deducting proposed dividend, if any. • Total Risk-Weighted Assets is as defined under BNM's policy document on Capital Adequacy Framework (Capital Components) and Capital Adequacy Framework for Islamic Banks (Capital Components).

	• Adjusted Net Impaired Assets refers to net impaired assets adjusted for net impaired assets funded by IA, where: (a) Net Impaired Assets comprise on-balance sheet and off-balance sheet impaired assets[6] and are derived as follows:

Impaired Assets	Computation of Net Impaired Assets
• Loans / Financing • Financial investments at amortised cost • Other assets	Gross carrying amount **less** Lifetime Expected Credit Losses ("ECL") credit impaired (Stage 3)
• Financial investments at fair value through other comprehensive income ("FVOCI")	Carrying amount at fair value*
• Loan commitments and financial guarantee contracts	Credit equivalent amount **less** Lifetime ECL credit impaired (Stage 3)

**The ECL do not reduce the carrying amount of financial investments at FVOCI in the statement of financial position which remains at fair value.*

(b) Adjustment for net impaired assets funded by IA refers to:

i. For Islamic DTMs, the net impaired assets amount shall deduct the net impaired assets funded by IA;

ii. Where there is an IA placement made by any DTM to an Islamic DTM, any net impaired assets amount funded by such IA placement shall be added to the net impaired assets of the DTM that provides the IA placement. For example, this adjustment is applicable to a restricted investment account placement by a Conventional DTM to its Islamic DTM subsidiary.

Threshold and Score	• The thresholds give benefit to DTMs that maintain a buffer of more than 1 time. Maximum benefit is accorded to DTMs that maintain more than 3 times coverage. The upper threshold of 3 times is

6 Assets subject to impairment requirements under Malaysian Financial Reporting Standards 9.

benchmarked against the experience during the past financial crisis where we observed a sharp increase in impairments. In this regard, the upper threshold aims to provide adequate cushion for additional losses from accelerated asset quality deterioration during stress period.

Threshold	Score (%)
Net Impaired Asset Cover Ratio ≥ 3 times	100
1 time < Net Impaired Asset Cover Ratio < 3 times	Interpolated*
Net Impaired Asset Cover Ratio ≤ 1 time	0

*The detailed explanation of linear interpolation method is provided under Paragraph 7.

Feedback 3: Net Impaired Asset Cover Ratio
PIDM seeks feedback on the proposed indicator, including the formula and threshold.

Indicator 3: Composition of Core Funds ("CCF")

6.8 The CCF is an existing indicator and has been included with minor changes to the computation under RCC assessment. The ratio seeks to provide incentive for DTMs to maintain a stable funding profile that minimises the likelihood of a bank-run or its impact under stress. The incentive mechanism contributes towards preserving asset value, as a stable funding base reduces the need for a fire sale of assets at depressed values in order to support a flight of deposits.

6.9 The revised CCF computation under the RCC criteria proposes to exclude Additional Tier 1 capital instruments from both the numerator and denominator, given its feature for loss absorption on a going concern basis. Meanwhile, Tier 2 capital instruments reported as financial liabilities in the financial statements with the remaining maturity of more than one (1) year will continue to be included in the computation of CCF. The following is the formula and thresholds for the indicator:

Formula	$\frac{\text{Total Core Funds}}{\text{Total Available Funds}} \times 100\%$
Definition	• Total Core Funds is the sum of the following deposits/borrowings: (a) Retail deposits; (b) Small business customers; (c) Operational deposits; (d) Non-financial corporates, sovereigns, central banks, multilateral development banks ("MDBs") and public sector entities ("PSEs"), with the remaining maturity of more than one (1) year; (e) All debt instruments such as subordinated debts, debts/certificates/sukuk issued, commercial papers, structured notes or products, including Tier 2 capital securities reported as financial liabilities in the financial statements, with the remaining maturity of more than one (1) year; and (f) Other long-term borrowings in the form of term loans or syndicated loans, with the remaining maturity of more than one (1) year. • Total Available Funds: Sum of total deposits from customers, deposits and placements of banks and other financial institutions, all debt instruments and other long-term borrowings.
Threshold and Score	• The proposed thresholds and scores for this indicator are set based on the following two (2) factors: (a) distribution analysis on components of stable funds; and (b) industry trends. • A ratio of 60% and above is accorded full score, reflecting a high proportion of stable funds over total funding base. The score for DTMs with a ratio of between 0% and 60% is determined based on interpolation method.

Threshold	Score (%)
Composition of Core Funds ≥ 60%	100
0% ≤ Composition of Core Funds < 60%	Interpolated*

	*The detailed explanation of linear interpolation method is provided under Paragraph 7.

Feedback 4: Composition of Core Funds

PIDM seeks feedback on the proposed indicator, including the formula and threshold.

Feedback 5: Other RCC Indicators

PIDM seeks feedback on the proposed RCC assessment and suggestions for other RCC indicators to be considered in addition to the three (3) proposed indicators.

7.0 LINEAR INTERPOLATION METHOD FOR RCC INDICATOR SCORE

7.1 The use of linear interpolation method is envisaged to provide better incentive to DTMs as the interpolated scores are more responsive to improvements or deterioration to the indicators as compared to the present scoring approach. The linear interpolation method also minimises cliff effects, i.e. sharp movements in computed DPS scores, as the DTM's position evolves.

7.2 The score for RCC indicator within the applicable threshold is determined via a linear interpolation method based on the upper and lower range of the threshold, based on the DTM's performance for the respective indicators. A DTM with an RCC indicator that meets or exceeds the upper threshold would obtain a score of 100%. Conversely, if the RCC indicator is at or falls below the lower threshold, the DTM would not obtain any score.

7.3 An example of a DTM's score for an RCC indicator based on the linear interpolation method is outlined below:

Illustration 1: Computation of DTM's score for FTAC Ratio based on linear interpolation method

The threshold and the corresponding scores for FTAC Ratio are as follow:

Threshold	Score (%)
FTAC Ratio ≥ 1.3 times	100
1 time < FTAC Ratio < 1.3 times	Interpolated
FTAC Ratio ≤ 1 time	0

The table below sets out the FTAC Ratio and corresponding scores for four (4) hypothetical DTMs. The scores for DTM C is determined based on the linear interpolation method, as the ratio falls within the applicable threshold.

DTM	FTAC Ratio	Score	Remarks
DTM A	0.84	0%	DTM accorded zero score as the ratio falls below the lowest threshold point
DTM B	1.00	0%	DTM accorded zero score as the ratio falls below the lowest threshold point
DTM C	1.22	73.33%	The score is determined based on linear interpolation method
DTM D	1.38	100%	DTM accorded the full score as the ratio exceeds the highest threshold point

The computation of score for DTM C is derived as follow:

DTM	FTAC Ratio (A)	Lowest Threshold (Min)	Highest Threshold (Max)	Interpolation Method^	Score
DTM C	1.22	1.00	1.30	$\frac{1.22 - 1.00}{1.30 - 1.00}$ X 100%	73.33%

^Formula: (A-Min) / (Max-Min) *100%

8.0 SUMMARY OF THE REVISED DPS FRAMEWORK

8.1 The revised DPS Framework simplifies the existing matrix approach to a linear assessment, which includes a safety and soundness criteria assessment to determine the Base Rate as well as a RCC assessment that forms the basis to adjust the assigned Base Rate.

8.2 The safety and soundness criteria assessment is to be anchored on BNM's CRR as it represents the supervisor's holistic and granular assessment of the DTM's unique risk profile. Meanwhile, the RCC comprises three (3) indicators, namely, the FTAC ratio, NIAC ratio and CCF to measure and incentivise aspects of resolvability.

8.3 The scores for RCC indicator within the applicable thresholds are computed based on a linear interpolation method to address the cliff effect of the current DPS Framework and is weighted equally to derive the total weighted RCC score.

Feedback 6: Proposed revised DPS Framework overall approach

PIDM seeks feedback on the proposed revised DPS Framework, including:

(a) the safety and soundness criteria assessment and RCC assessment as an incentive mechanism;

(b) the proposed weights accorded to the respective RCC indicators; and

(c) the linear interpolation method in computing RCC indicator score.

PART 4: CALCULATION OF ANNUAL PREMIUM AND OTHER MATTERS

9.0 ANNUAL PREMIUM RATE COMPUTATION

9.1 The annual premium rate is calculated as below:

Annual Premium Rate = Base Rate – RCC Adjustment

The RCC Adjustment is derived as follows:

RCC Adjustment = Total Weighted RCC Score x 50% x BR

9.2 Below is an illustration of the overall premium rate for a hypothetical DTM A.

Illustration 2: Calculation of premium rate

		Result			*Rate*
A. Safety and Soundness Criteria Assessment					
	BNM Composite Risk Rating	Moderate			
	Risk Grade	**2**			
	Base Rate				**0.1200%**
B. Resolution Centric Criteria Assessment					
		Result	*Score*	*Weighted Score*	
i.	Free Tangible Asset Cover Ratio	1.13	43.33%	14.44%	
ii.	Net Impaired Asset Cover Ratio	7.71	100.00%	33.33%	
iii.	Composition of Core Funds	54.12	90.20%	30.07%	
	Total Weighted RCC Score			**77.84%**	
C. RCC Adjustment (77.84% X 50% X 0.1200%)					**0.0467%**
D. DPS Annual Premium Rate (A – C)					**0.0733%**

10.0 INSUFFICIENT QUANTITATIVE INFORMATION

10.1 Where there is insufficient quantitative information to calculate the score of any of the RCC indicators, a nil score will be assigned to that RCC indicator.

11.0 ANNUAL PREMIUM AMOUNT

11.1 The calculation of the annual premium payable has been maintained as per the current DPS Framework and is calculated as below:

> Total premium payable = Total insured deposits ("TID") x Premium Rate

11.2 Notwithstanding the final premium rate after RCC adjustment, a DTM shall pay the annual premium amount subject to the minimum premium amount assigned to its Risk Grade as set out in Table 3 below.

Risk Grade[7]	Minimum Premium Amount (RM)
1	100,000
2	200,000
3	400,000
4	800,000

Table 3: Mapping of Risk Grade to Minimum Premium Amount

12.0 CONVENTIONAL DTM WITH ISLAMIC BANKING BUSINESS

12.1 A conventional DTM which carries on Islamic banking business is to be assessed separately for its conventional banking business and Islamic banking business. For this purpose, the Risk Grade will be separately assigned based on BNM's CRR for the conventional banking business and Islamic banking business respectively, whilst the RCC score will be computed at the entity level and will be applicable to both the conventional and Islamic businesses.

[7] Refers to the Risk Grade assigned based on BNM's CRR as per Paragraph 5.3. For the avoidance of doubt, a DTM's Risk Grade is not affected by the RCC adjustment.

12.2 The following is a sample setting out the basis for calculating the premium rate for a conventional DTM with Islamic banking business.

Illustration 3: Calculation of overall DPS Premium Rate for conventional DTM that carries on Islamic banking business

Business	Composite Risk Rating	Base Rate	Aggregate RCC Score[8]	RCC Adjustment	DPS Premium Rate
Conventional	**Moderate**	**0.1200%**	**64.50%**	**-0.0387%**	**0.0813%**
Islamic	**Low**	**0.0600%**	**64.50%**	**-0.0194%**	**0.0406%**

12.3 The applicable minimum premium amount will be based on the minimum premium amount of the part of the business with the higher TID, as illustrated below:

Illustration 4: Determination of minimum premium for conventional DTM that carries on Islamic banking business

Business	CRR	TID (RM)	Premium rate	Minimum premium	Premium Payable (TID* premium rate) (RM)
Conventional	Moderate	400,000,000	0.0813%		325,200
Islamic	Low	20,000,000	0.0406%		8,120
Total		**420,000,000**		200,000	**333,320**

12.4 Where the calculated annual premium payable is less than the applicable minimum premium amount, the DTM shall pay the minimum premium amount and apportion such minimum annual premium based on the calculated premium payable for the conventional and Islamic banking business, as illustrated below.

8 RCC indicators are calculated at entity level as per paragraph 12.1.

Illustration 5: Determination of minimum premium for conventional DTM that carries on Islamic banking business

Business	CRR	TID (RM)	Premium rate	Minimum premium	Calculated Premium Payable (TID* premium rate) (RM)
Conventional	Moderate	200,000,000	0.0813%		162,600
Islamic	Low	20,000,000	0.0406%		8,120
Total		**220,000,000**		**200,000**	**170,720**

In Illustration 5, the calculated premium payable is RM170,720, which is lower than the applicable minimum annual premium amount of RM200,000. Therefore, the DTM shall pay the minimum annual premium in respect of its conventional and Islamic banking businesses as follows:

Illustration 6: Premium payable for conventional and Islamic banking businesses

Conventional	$\frac{RM162{,}600}{RM170{,}720}$	x	RM200,000	=	RM190,487
Islamic	$\frac{RM8{,}120}{RM170{,}720}$	x	RM200,000	=	RM9,513

13.0 REPORTING REQUIREMENTS

13.1 Unless otherwise specified, all quantitative information shall be obtained from the DTM's financial statements as at 31 December of the preceding assessment year. The financial statements shall mean the following:

(a) for a DTM with 31 December financial year end: its annual financial statement;

(b) for a DTM with non-31 December financial year end: its interim financial statements; or

(c) for a DTM with non-31 December financial year end and the interim reporting period does not end in December: its management accounts.

13.2 RCC indicators and scores shall be expressed to two (2) decimal points whilst the Base Rate, RCC Adjustment and the annual premium rate are to be expressed to four (4) decimal points.

> **Feedback 7: Proposed revised DPS Framework Premium Computation**
> PIDM seeks feedback on the proposed treatment for insufficient quantitative information and the RCC score computation for conventional DTM with Islamic banking business.

PART 5: SOURCE OF INFORMATION

14.0 PROPOSED SOURCE OF INFORMATION

14.1 The table below sets out the sources of information for the computation of the proposed RCC indicators.

No.	Data Requirement	Source of Information	Remarks
Free Tangible Asset Cover Ratio			
1	Total assets	Annual financial statements/ Interim financial statements/ Management accounts	
2	Intangible Assets	Annual financial statements/ Interim financial statements/ Management accounts	
3	Loans/financing sold to Cagamas	Annual financial statements/ Interim financial statements/ Management accounts	This item shall be sourced from a DTM's internal records if it is not available in the financial statements
4	Assets pledged for repurchase agreement	Annual financial statements/ Interim financial statements/ Management accounts	This item shall be sourced from a DTM's internal records if it is not available in the financial statements
5	Assets funded by IA	Annual financial statements/ Interim financial statements/ Management accounts	This item shall be sourced from a DTM's internal records if it is not available in the financial statements
6	Other pledged assets	Annual financial statements/ Interim financial statements/ Management accounts	This item shall be sourced from a DTM's internal records if it is not available in the financial statements
7	Total liabilities	Annual financial statements/ Interim financial statements/ Management accounts	

No.	Data Requirement	Source of Information	Remarks
8	Recourse obligations to Cagamas	Annual financial statements/ Interim financial statements/ Management accounts	
9	Repurchase agreement	Annual financial statements/ Interim financial statements/ Management accounts	
10	Investment accounts	Annual financial statements/ Interim financial statements/ Management accounts	
11	Tier-1 capital instruments	Annual financial statements/ Interim financial statements/ Management accounts	
12	Tier-2 capital instruments	Annual financial statements/ Interim financial statements/ Management accounts	
13	Other secured liabilities	Annual financial statements/ Interim financial statements/ Management accounts	This item shall be sourced from a DTM's internal records if it is not available in the financial statements
Net Impaired Asset Cover Ratio			
1	Total capital	Annual financial statements/ Interim financial statements/ Management accounts	
2	Total risk-weighted assets	Annual financial statements/ Interim financial statements/ Management accounts	
3	Gross carrying amount: Impaired loans / financing	Annual financial statements/ Interim financial statements/ Management accounts	
4	Gross carrying amount: Impaired financial investments at amortised cost	Annual financial statements/ Interim financial statements/ Management accounts	
5	Gross carrying amount: Other impaired assets	Annual financial statements/ Interim financial statements/ Management accounts	

No.	Data Requirement	Source of Information	Remarks
6	Lifetime ECL credit impaired (Stage 3): Loans / financing	Annual financial statements/ Interim financial statements/ Management accounts	
7	Lifetime ECL credit impaired (Stage 3): Financial investments at amortised cost	Annual financial statements/ Interim financial statements/ Management accounts	
8	Lifetime ECL credit impaired (Stage 3): Other assets	Annual financial statements/ Interim financial statements/ Management accounts	
9	Carrying amount: Impaired financial investments at FVOCI	Annual financial statements/ Interim financial statements/ Management accounts	
10	Credit equivalent amount: Impaired loan commitments and financial guarantee contracts	Annual financial statements/ Interim financial statements/ Management accounts	This item shall be sourced from a DTM's internal records if it is not available in the financial statements
11	Lifetime ECL credit impaired (Stage 3): Loan commitments and financial guarantee contracts	Annual financial statements/ Interim financial statements/ Management accounts	This item shall be sourced from a DTM's internal records if it is not available in the financial statements
12	Net impaired assets funded by IA	Annual financial statements/ Interim financial statements/ Management accounts	This item shall be sourced from a DTM's internal records if it is not available in the financial statements
Composition of Core Funds			
1	Retail deposits	BNM's Liquidity Coverage Ratio ("LCR") - Monitoring Tools (Table 2b: Contractual Maturity Mismatch) – "Total Amount" (Cell K5)	DTMs shall source these items from the LCR submission to BNM, based on entity level reporting requirements. For a DTM with a Labuan banking subsidiary, the amount reported for these items shall exclude
2	Small business customers	BNM's Liquidity Coverage Ratio ("LCR") - Monitoring Tools (Table 2b: Contractual	

No.	Data Requirement	Source of Information	Remarks
		Maturity Mismatch) – "Total Amount" (Cell K9)	the Labuan banking subsidiary's exposure.
3	Operational deposits	BNM's Liquidity Coverage Ratio ("LCR") – Table 1a: LCR Main (Summation of Cell D:117, 118, 120, 121, 123,124, 126 & 127)	
4	Non-financial corporates, sovereigns, central banks, multilateral development banks ("MDBs") and public sector entities ("PSEs"), with the remaining maturity of more than one (1) year	BNM's Liquidity Coverage Ratio ("LCR") - Monitoring Tools (Table 2b: Contractual Maturity Mismatch) – "Total Amount" (Summation of Cell I10 and I11)	
5	All debt instruments such as subordinated debts, debts/certificates/ sukuk issued, commercial papers, structured notes or products, including capital securities reported as financial liabilities in the financial statements, with the remaining maturity of more than one (1) year	Annual financial statements/ Interim financial statements/ Management accounts	This item shall be sourced from a DTM's internal records if it is not available in the financial statements
6	Other long-term borrowings in the form of term loans or syndicated loans, with the remaining maturity of more than one (1) year	Annual financial statements/ Interim financial statements/ Management accounts	This item shall be sourced from a DTM's internal records if it is not available in the financial statements
7	Total deposits from customers	Annual financial statements/ Interim financial statements/ Management accounts	

No.	Data Requirement	Source of Information	Remarks
8	Deposits and placements of banks and other financial institutions	Annual financial statements/ Interim financial statements/ Management accounts	
9	Total debt instruments	Annual financial statements/ Interim financial statements/ Management accounts	
10	Total long-term borrowings	Annual financial statements/ Interim financial statements/ Management accounts	

Feedback 8: Source of Information

PIDM seeks feedback on the proposed source of information for the data required for computation of RCC indicators.

Feedback 9: Other Matters

PIDM seeks feedback on other matters related to the revised DPS Framework.

Perbadanan Insurans Deposit Malaysia
6 August 2021