

MALAYSIA DEPOSIT INSURANCE CORPORATION 2005

MALAYSIA DEPOSIT INSURANCE CORPORATION (DIFFERENTIAL PREMIUM SYSTEMS) REGULATIONS 2008

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MALAYSIA DEPOSIT INSURANCE CORPORATION ACT 2005

MALAYSIA DEPOSIT INSURANCE CORPORATION (DIFFERENTIAL PREMIUM SYSTEMS) REGULATIONS 2008

In exercise of the powers conferred by section 48 of the Malaysia Deposit Insurance Corporation Act 2005 [Act 642], the Corporation makes the following regulations:

Citation and commencement

1. (1) These regulations may be cited as the **Malaysia Deposit Insurance Corporation (Differential Premium Systems) Regulations 2008**.

(2) These Regulations shall have effect for the assessment year of 2008 and subsequent assessment years.

Interpretation

2. In these Regulations, unless the context otherwise requires—

“new member institution” means a financial institution which is deemed to be a member institution by virtue of subsection 37(2) of the Act for a period of 12 months or less, such period ending on 31 December of its first assessment year but does not include --

(a) an Islamic bank licensed under the Islamic Banking Act 1983 [Act 276] that originated from a financial institution carrying on Islamic banking business or Islamic financial business under section 124 of the Banking and Financial Institutions Act 1989 [Act 372];

(b) an amalgamated member institution as described in subparagraph 14(2) of the Schedule; and

(c) an amalgamating member institution as described in subparagraph 14(3) of the Schedule;

“supervisory rating” means a rating or an assessment of a member institution by Bank Negara Malaysia pursuant to paragraph 67(b) of the Act.

Submission of quantitative information to the Corporation

3. (1) A member institution, other than a new member institution in its first and second assessment years, shall submit to the Corporation by 30 April of each assessment year, such quantitative information as may be required by the Corporation for the purpose of computing the ratios of such member institution in accordance with the provisions of the Schedule.

(2) Where a member institution is carrying on Islamic banking business or Islamic financial business, in addition to its licensed business, such member institution shall submit separate quantitative information for the Islamic banking business or Islamic financial business, and licensed business of such member institution.

(3) The quantitative information required under this regulation shall be submitted in such manner as may be determined by the Corporation.

Assessment for and determination of scoring, premium category and premium rate

4. (1) For each assessment year, upon receipt of the quantitative information required under regulation 3, the Corporation--

- (a) shall assess and determine the scoring of a member institution for that assessment year in accordance with the scoring set out in the Schedule;
- (b) shall determine the premium category in which the member institution is classified for that assessment year based on the quantitative criteria, qualitative criteria and scoring as set out in the Schedule; and
- (c) shall determine the premium rate applicable to the member institution for that assessment year in accordance with the Malaysia Deposit Insurance Corporation (Annual Premium and First Premium) Order 2008.

(2) Where a member institution is carrying on Islamic banking business or Islamic financial business in addition to its licensed business--

- (a) the Corporation shall assess and determine the scoring for the Islamic banking business or Islamic financial business, and the licensed business of such member institution separately; and
- (b) the Corporation may classify such member institution either in the same premium category or different premium categories with respect to the Islamic deposits and the conventional deposits placed with such member institution.

(3) Unless an application for review is made by a member institution pursuant to regulation 8, any decision of the Corporation with respect to any scoring, or premium category classification or premium rate of such member institution shall be final.

Failure to submit quantitative information

5. Where a member institution fails to submit to the Corporation any quantitative information required under regulation 3 by 30 April of an assessment year, the Corporation shall make such assessment and determination of scoring, premium category and premium rate of such member institution for that assessment year pursuant to regulation 4 by using any relevant information available to the Corporation.

Notification of scoring, premium category and premium rate by the Corporation

6. The Corporation shall notify a member institution of its scoring, premium category and premium rate for an assessment year by 15 May of each assessment year.

Payment of premium

7. (1) The annual premium payable by a member institution for each assessment year shall be paid to the Corporation by 31 May of that assessment year.

(2) Notwithstanding any other provisions in these Regulations, the amount of the first premium or the annual premium payable by a member institution for any assessment year shall not be lower than two hundred and fifty thousand ringgit.

Application for review to the Corporation

8. (1) Subject to subregulation (2), a member institution aggrieved by any decision of the Corporation notified under regulation 6 may apply for a review, in writing, after 31 May but before 1 September of that assessment year.

(2) An application for review under subregulation (1) may only be made on the following grounds:

- (a) there is an error in the quantitative information submitted by the member institution to the Corporation under regulation 3;
- (b) there is an error in the computation by the Corporation of any ratio of the member institution; or
- (c) there is an error in the assessment by the Corporation of qualitative criteria, other than the supervisory rating, under paragraph 7 of the Schedule.

Review by the Corporation

9. (1) Upon review, the Corporation may reclassify the premium category of a member institution for an assessment year and in such case, the premium rate applicable to the member institution shall be reviewed accordingly.

(2) Where the Corporation determines that there is a difference in the amount of any premium payable by a member institution, the member institution shall pay to the Corporation, or the Corporation shall refund or otherwise credit to the account of the member institution, such difference in amount, as the case maybe.

(3) Any decision made by the Corporation on a review in respect of a member institution shall be final.

Notification of decision of review

10. The Corporation shall notify its decision on the application for review made by a member institution, by 30 September of that assessment year or on any other date as may be convenient to the Corporation.

Premium category for new member institution

11. (1) Notwithstanding any other provisions in these Regulations, a new member institution shall be classified in premium category 1 for its first assessment year and shall pay its first premium to the Corporation in accordance with subsection 42(3) of the Act.

(2) A new member institution shall be classified in premium category 1 for its second assessment year and shall pay the annual premium to the Corporation by 31 May of that assessment year.

Transition into differential premium systems

12. For the assessment year beginning on 1 January 2008 and ending on 31 December 2008 only—

- (a) for the purpose of subregulation 3(1) and regulation 5, the date for the submission of any quantitative information to the Corporation shall be by 30 April 2008;
- (b) for the purpose of regulation 6, the date for the notification by the Corporation to the member institution shall be by 15 May 2008;
- (c) for the purpose of regulation 7, the date for the payment of the annual premium shall be by 31 May 2008;

- (d) for the purpose of regulation 8, the date for an application for review shall be after 31 May 2008 but before 1 September 2008;
- (e) for the purpose of regulation 10, the date for the notification of the decision of the review by the Corporation shall be by 30 September 2008;
- (f) the total score for the quantitative criteria in respect of a member institution, other than a new member institution, shall be adjusted upwards by twenty per centum of such total score but shall not in any case exceed sixty; and
- (g) the premium rate applicable to premium category 3 determined pursuant to paragraph 4(1)(c) shall also apply to premium category 4.

SCHEDULE

[Regulations 2, 3, 4 and 8]

Interpretation

1. In this Schedule—

“total assets” in relation to a risk-weighted assets to total assets ratio or a total asset growth ratio, means the sum of the on balance sheet assets and the credit equivalent value of the off balance sheet items of a member institution;

“profit” means the profit or loss before tax and *zakat* of a member institution;

“loan” in relation to a member institution giving any conventional credit facility means such conventional credit facility, and in relation to a member institution giving any Islamic financing facility, means such Islamic financing facility.

Quantitative criteria

2. The quantitative criteria for a member institution shall take into account factors relating to the capital, profitability, efficiency and asset quality, concentration and growth of the member institution as measured by the following ratios:

- (a) risk-weighted capital ratio;
- (b) core capital ratio;
- (c) return on risk-weighted assets;
- (d) mean adjusted return volatility;
- (e) efficiency ratio;

- (f) net non-performing loans to capital base ratio;
- (g) gross non-performing loans and loans in arrears to gross loans ratio;
- (h) aggregate sector asset concentration ratio;
- (i) residential property asset concentration ratio;
- (j) risk-weighted assets to total assets ratio; and
- (k) total asset growth ratio.

Information for computation of ratio

3. For every assessment year, the computation of each ratio shall be based on the financial information of a member institution as at 31 December of the preceding assessment year.

Computation and scoring of ratio

4. The ratio specified in column (1) for a member institution shall be computed in accordance with the formula specified in column (2), and where such ratio falls within the range of results specified in column (3), the scoring assigned to such ratio shall be the corresponding score specified in column (4), as follows:

<i>Ratio</i> (1)	<i>Formula</i> (2)	<i>Range of results</i> (3)	<i>Score</i> (4)
Risk-weighted capital ratio	$\frac{A}{B} \times 100\%$ <p>where, in relation to a member institution, A is the capital base, and B is the total risk-weighted assets</p>	$\geq 12\%$ $\geq 10\%$ but $< 12\%$ $\geq 8\%$ but $< 10\%$ $< 8\%$	10 6 3 0
Core capital ratio	$\frac{A}{B} \times 100\%$ <p>where, in relation to a member institution, A is the core capital, and B is the total risk-weighted assets</p>	$\geq 8\%$ $\geq 6\%$ but $< 8\%$ $\geq 4\%$ but $< 6\%$ $< 4\%$	10 6 3 0
Return on risk-weighted assets	$\frac{A}{B} \times 100\%$ <p>where, in relation to a member institution, A is the profit, and B is the average risk-weighted assets</p>	$\geq 3.25\%$ $\geq 2.5\%$ but $< 3.25\%$ $\geq 1.75\%$ but $< 2.5\%$ $\geq 1\%$ but $< 1.75\%$ $< 1\%$	8 6 4 2 0

Mean adjusted return volatility	$\frac{A}{B}$ <p>where, in relation to a member institution, A is the semi-standard deviation of profit over a period of three years, and B is the mean profit over the same period</p>	≥ 0 but ≤ 0.3 > 0.3 but ≤ 0.7 > 0.7 ≤ 0	7 4 0 0
Efficiency ratio	$\frac{A}{B} \times 100\%$ <p>where, in relation to a member institution, A is the overhead expenses, and B is the total income</p>	$\leq 35\%$ $> 35\%$ but $\leq 45\%$ $> 45\%$	5 3 0
Net non-performing loans to capital base ratio	$\frac{A}{B} \times 100\%$ <p>where, in relation to a member institution, A is the net non-performing loans, and B is the capital base</p>	$\leq 20\%$ $> 20\%$ but $\leq 40\%$ $> 40\%$ but $\leq 60\%$ $> 60\%$	5 3 1 0
Gross non-performing loans and loans in arrears to gross loans ratio	$\frac{A + B}{C} \times 100\%$ <p>where, in relation to a member institution, A is the average gross non-performing loans, B is the average loans in arrears over a period of 60 to 89 days, and C is the average gross loans</p>	$\leq 6\%$ $> 6\%$ but $\leq 12\%$ $> 12\%$	5 3 1
Aggregate sector asset concentration ratio	$\frac{A}{B} \times 100\%$ <p>where, in relation to a member institution, A is the sum of all loan exposures to sectors specified by Bank Negara Malaysia or the Corporation, each loan exposure exceeding 40% of the capital base, and B is the capital base</p>	(Refer to paragraph 5)	(Refer to paragraph 5)
Residential property asset concentration ratio	$\frac{A}{B} \times 100\%$ <p>where, in relation to a member institution, A is the loan exposure to purchases of residential properties, and B is the capital base</p>	(Refer to paragraph 5)	(Refer to paragraph 5)

Risk-weighted assets to total assets ratio	$\frac{A}{B} \times 100\%$ <p>where, in relation to a member institution, A is the risk-weighted assets, and B is the total assets</p>	(Refer to paragraph 6)	(Refer to paragraph 6)
Total asset growth ratio	$\frac{A}{B} \times 100\%$ <p>where, in relation to a member institution, A is the average of total assets for three years preceding the assessment year, and B is the average of total assets for three years preceding the year before the assessment year</p>	(Refer to paragraph 6)	(Refer to paragraph 6)

Range of results and scoring for aggregate sector asset concentration ratio and residential property asset concentration ratio

5. Where the aggregate sector asset concentration ratio of a member institution computed under paragraph 4 falls within the range of results specified in column (1), and the residential property asset concentration ratio computed under paragraph 4 falls within the range of results specified in column (2), the combined score assigned to both ratios shall be the corresponding score specified in column (3), as follows:

<i>Range of results for aggregate sector asset concentration ratio</i>	<i>Range of results for residential property asset concentration ratio</i>	<i>Score</i>
(1)	(2)	(3)
< 150%	< 240%	5
< 150%	≥ 240%	4
≥ 150% but < 300%	< 240%	3
≥ 150% but < 300%	≥ 240%	2
≥ 300%	< 240%	1
≥ 300%	≥ 240%	0

Range of results and scoring for risk-weighted assets to total assets ratio and total asset growth ratio

6. Where the risk-weighted assets to total assets ratio of a member institution computed under paragraph 4 falls within the range of results specified in column (1), and the total asset growth ratio calculated under paragraph 4 falls within the range of results specified in column (2), the combined score assigned to both ratios shall be the corresponding score specified in column (3), as follows:

<i>Range of results for risk-weighted assets to total assets ratio</i>	<i>Range of results for total asset growth ratio</i>	<i>Score</i>
(1)	(2)	(3)
< 70%	< 20%	5
< 70%	≥ 20%	3
≥ 70%	< 20%	1
≥ 70%	≥ 20%	0

Qualitative criteria

7. The qualitative criteria for a member institution shall take into account the following factors:
- (a) the supervisory rating of the member institution;
 - (b) any action taken by any regulatory or other authority against a member institution or any corporation related to the member institution including but not limited to any notice, order or instruction relating to any deficiency or non-compliance in respect of the member institution or such corporation, a letter of warning, or any requirement or instruction for issuance of a letter of undertaking or commitment or a resolution of the board of directors;
 - (c) any correction or action plan of the member institution or such corporation to address the action taken by such authority under subparagraph (b) including but not limited to the progress report on the implementation by the member institution of the terms of the letter of undertaking or commitment or the resolution of the board of directors;
 - (d) any rating or assessment of a member institution by any rating agency whether relating to the credit standing of the member institution or its financial condition or otherwise;
 - (e) whether a member institution has received or is receiving any form of assistance from Bank Negara Malaysia or the Corporation, such assistance being financial or otherwise; and
 - (f) any other information provided to the Corporation or that comes to the attention of the Corporation about a member institution or any corporation related to the member institution which may threaten or affect the financial condition, safety, soundness or viability of the member institution.

Information for assessing qualitative criteria

8. For every assessment year, the Corporation shall assess and determine the scoring of a member institution with respect to the qualitative criteria, based on the relevant information available to the Corporation up to—
- (a) 31 December of the preceding assessment year; or
 - (b) any other period as may be deemed necessary or expedient by the Corporation.

Scoring for supervisory rating

9. Where the supervisory rating of a member institution is as specified in column (1), the scoring assigned to such supervisory rating shall be the corresponding scoring specified in column (2), as follows:

<i>Supervisory rating</i> (1)	<i>Score</i> (2)
Rating of 1 or low or equivalent	35
Rating of 2 or moderate or equivalent	28
Rating of 3 or above average or equivalent	14
Rating of 4 or high or equivalent	0

Scoring for qualitative factors other than supervisory rating

10. The Corporation shall assess the relevant information of a member institution under paragraph 7, other than the supervisory rating of the member institution, to make an assessment of such information as specified in column (1), and the scoring assigned to such assessment shall be the corresponding scoring specified in column (2), as follows:

<i>Assessment of information</i> (1)	<i>Score</i> (2)
As at 30 April of an assessment year, no information has come to the attention of the Corporation about any circumstances that represent a threat to or materially affect the financial condition, safety, soundness or viability of a member institution	5
As at 30 April of an assessment year, information has come to the attention of the Corporation about circumstances that represent a threat to or may materially affect the financial condition, safety, soundness or viability of a member institution	3
As at 30 April of an assessment year, information has come to the attention of the Corporation about circumstances that materially affect the financial condition, safety, soundness or viability of a member institution	0

Maximum scoring under differential premium systems

11. (1) The maximum scoring for the quantitative criteria, qualitative criteria and respective factors shall be as set out in column (1), as follows:

	<i>Maximum score</i>	
	(1)	
Quantitative criteria	–	60
Capital:	–	20
Risk-weighted capital ratio	10	–
Core capital ratio	10	–
Profitability:	–	15
Return on risk-weighted assets	8	–
Mean adjusted return volatility	7	–
Efficiency:	–	5
Efficiency ratio	5	–
Asset quality:	–	10
Net non-performing loans to capital base ratio	5	–
Gross non-performing loans and loans in arrears to gross loans ratio	5	–
Asset concentration:	–	5
Aggregate sector asset concentration ratio and residential property asset concentration ratio	5	–
Asset growth:	–	5
Risk-weighted assets to total assets ratio and total asset growth ratio	5	–
Qualitative criteria	–	40
Supervisory rating	–	35
Other qualitative factors under paragraph 7	–	5
Total criteria scoring	–	100

(2) The total criteria scoring of a member institution for an assessment year shall be the sum of the scoring of the quantitative criteria pursuant to paragraphs 4, 5 and 6 and the scoring of the qualitative criteria pursuant to paragraphs 9 and 10 in respect of the member institution for that assessment year.

Premium category

12. Where the total criteria scoring of a member institution for an assessment year falls within the range specified in column (1), the premium category in which the member institution is classified for that assessment year shall be the corresponding premium category specified in column (2), as follows:

<i>Total criteria scoring</i>	<i>Premium category</i>
(1)	(2)
≥ 85	1
≥ 65 but < 85	2
≥ 50 but < 65	3
< 50	4

Insufficient quantitative information

13. In respect of a member institution with insufficient quantitative information for the purpose of computing one or more ratios for an assessment year, the scoring for such a ratio or the combined score for all such ratios in that assessment year shall be determined in accordance with the following formula:

$$\frac{A}{(60 - B)} \times B$$

where A is the sum of the scoring for all ratios with available quantitative information for that assessment year; and

B is the maximum scoring for such a ratio or the sum of the maximum scoring for all such ratios without available quantitative information for that assessment year.

Amalgamated member institution and amalgamating member institution

14. (1) For the purpose of paragraphs 15 and 16, a reference to an assessment year is a reference to only the one assessment year immediately following the formation of an amalgamated member institution.

(2) For the purpose of paragraphs 15 and 16, “amalgamated member institution” means a member institution formed from the acquisition of one member institution by another member institution or the merger of two or more member institutions at anytime from 1 June of the preceding assessment year to 31 May of an assessment year.

(3) For the purpose of paragraph 16, “amalgamating member institution” means any one of the following member institutions involved in an amalgamation or a merger:

- (a) a member institution which acquired another member institution;
- (b) a member institution acquired by another member institution; or
- (c) a member institution involved in the merger of two or more member institutions;

and which member institution has the highest total scoring for the assessment year referred to in subparagraph (1).

15. In respect of an assessment year where an amalgamated member institution is formed on or before 31 December of the preceding assessment year—

- (a) the computation of each ratio shall be based on the financial information of the amalgamated member institution as at 31 December of the preceding assessment year; and
- (b) the scoring of the amalgamated member institution for the qualitative criteria shall be based on the supervisory rating and other relevant information of the amalgamated member institution pursuant to paragraph 7, as at 31 December of the preceding assessment year or any other period as may be deemed necessary or expedient by the Corporation.

16. In respect of an assessment year where an amalgamated member institution is formed after 31 December of the preceding assessment year–

- (a) the computation of each ratio shall be based on the financial information of the amalgamating member institution as at 31 December of the preceding assessment year; and
- (b) the scoring of the amalgamated member institution for the qualitative criteria shall be based on the supervisory rating and other relevant information of the amalgamating member institution pursuant to paragraph 7, as at 31 December of the preceding assessment year or any other period as may be deemed necessary or expedient by the Corporation.

Made 30 April 2008

TAN SRI DATO' ABDUL AZIZ BIN HAJI TAHA
Chairman
Malaysia Deposit Insurance Corporation