PIDM GOVERNANCE MANUAL

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CHAPTER 1
GOVERNANCE FRAMEWORK WITHIN PIDM'S ENABLING LEGISLATION

GOVERNANCE FRAMEWORK WITHIN PIDM'S ENABLING LEGISLATION

INTRODUCTION

Definition of Governance

Governance, in the context of a regulator, refers to "… how it is established, directed, controlled, resourced, and held to account".[1]

Broadly speaking, "corporate governance encompasses the arrangements by which the power of those in control of the strategy and direction of an entity is both delegated and limited to enhance prospects for the entity's long-term success, taking into account the risks and the environment in which it is operating".[2]

Statutory bodies established under an Act

Perbadanan Insurans Deposit Malaysia ("PIDM") is a statutory body established under the Malaysia Deposit Insurance Act ("PIDM Act").

The PIDM Act provides the framework for a number of governance and financial management areas, as follows:

(a) the public policy objectives of PIDM and its legislative powers;

(b) relationships (with the Minister of Finance ("Minister"), Parliament and Bank Negara Malaysia);

(c) its governing body;

(d) its Chief Executive Officer ("CEO");

(e) employees;

(f) funding; and

(g) accountability.

This Chapter focuses on the framework for corporate governance within PIDM's legislation, which operates as a form of 'memorandum and articles', for PIDM as a statutory body.

Its legislation defines the functions and powers of PIDM. It also provides for how the Board of Directors ("Board") accounts to Parliament through the Minister, and sets out the statutory responsibilities of its Directors, its CEO, and its employees.

[1] OECD 2014, *Best Practice Principles for Regulatory Policy: The Governance of Regulators.* Available at: https://www.oecd.org/regulatory-policy/governance-regulators.htm

[2] Commonwealth of Australia 2003, *Review of Corporate Governance in Statutory Authorities and Office Holders: The "Uhrig Report".* Available at: https://www.finance.gov.au/sites/default/files/Uhrig-Report.pdf

GOVERNANCE FRAMEWORK WITHIN PIDM'S ENABLING LEGISLATION

CLARITY OF OBJECTS AND ROLES

Role Clarity

"For a regulator to understand and fulfil its role effectively, it is essential that its objectives and functions are clearly specified in its establishing legislation. The regulator should not be assigned objectives that are conflicting or should be provided with management and resolution mechanisms in case of conflicts. The legislation should also provide for clear and appropriate regulatory powers in order to achieve the objectives and regulators should be explicitly empowered to cooperate and coordinate with other relevant bodies in a transparent manner."

OECD 2014, Best Practice Principles for Regulatory Policy: The Governance of Regulators[4]

What is the regulator established to do

The role of the regulator should be made clear, so that it is aware of what it has to do and the public policy objectives it serves. Principle 1 of the International Association of Deposit Insurer ("IADI")'s *Core Principles for Effective Deposit Insurance Systems* ("*IADI Core Principles*") states that:

"The principal public policy objectives for deposit insurance systems are to protect depositors and contribute to financial stability. These objectives should be formally specified and publicly disclosed. The design of the deposit insurance system should reflect the system's public policy objectives."

PIDM's statutory objects are clearly set out under section 4 of the PIDM Act. It is to:

(a) administer a deposit insurance system and a takaful and insurance benefits protection system;

(b) provide insurance against the loss of part or all of deposits for which a deposit-taking member is liable and provide protection against the loss of part or all of takaful or insurance benefits for which an insurer member is liable;

(c) provide incentives for sound risk management in the financial system; and

(d) promote or contribute to the stability of the financial system.

In carrying out its objects under (b) and (d), it is to do so at least cost to the financial system.

This is important, as clear statutory objects provide PIDM's Board with a framework within which it can operate. The PIDM Act clearly specifies what PIDM can do. Where appropriate, it also limits PIDM's role so that the board can understand the parameters within which it is to operate.

Its role in relation to other relevant entities

The Organisation for Economic Co-operation and Development ("OECD") 2014, *Best Practice Principles for Regulatory Policy: The Governance of Regulators* also states that there should be clarity as to the nature of the regulator's relationships with the various parties.

Financial safety nets are critical to the soundness and stability of the financial system. PIDM's role as part of the safety net is clear under section 4 of the PIDM Act, which requires PIDM, among others, "… to promote or contribute to the stability of the financial system."

PIDM is one of the financial safety net players, together with Bank Negara Malaysia and the Ministry.

[4] Available at: http://www.oecd.org/gov/regulatory-policy/Flyer-Governance-of-regulators.pdf

GOVERNANCE FRAMEWORK WITHIN PIDM'S ENABLING LEGISLATION

Relationships with other safety net players

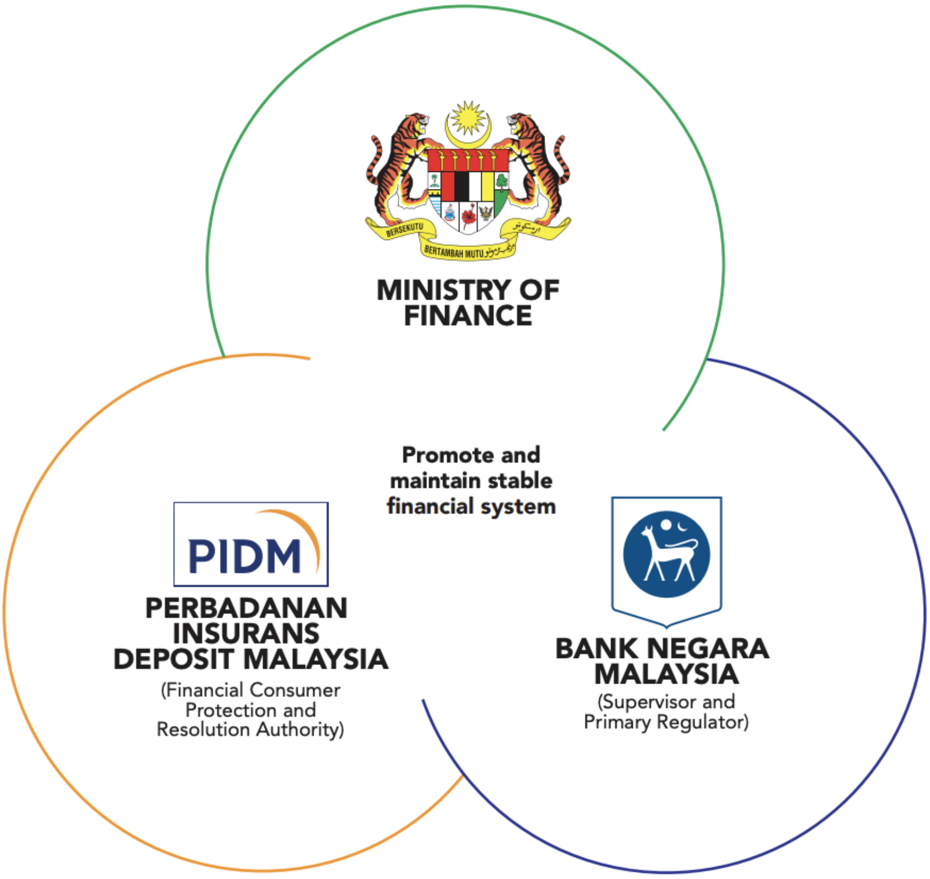


Figure 1 Financial safety net players in Malaysia

"Deposit insurance, like any insurance system, must be designed to mitigate the impact of moral hazard on the behaviour of shareholders, bank management and depositors, while recognising that most depositors are typically less able to differentiate between safe and unsafe banks. Such mitigation is a function of the overall design of the system. Moral hazard is also mitigated by other safety net participants."[5]

The Malaysian deposit insurance system is designed to work with strong prudential supervision, limited insurance coverage (to encourage market discipline), and a wide range of powers for taking prompt action against troubled institutions.Thus, PIDM has key relationships with other financial safety net players, as part of the nation's financial safety net system.

[5] IADI 2014, *Core Principles Part III, Moral Hazard, Operating Environment and Other Considerations.* Available at: https://www.iadi.org/en/assets/File/Core%20Principles/cprevised2014nov.pdf.

GOVERNANCE FRAMEWORK WITHIN PIDM'S ENABLING LEGISLATION

What the regulator can do

The PIDM Act also specifies the powers of PIDM. In particular, the preamble to the PIDM Act recognises that PIDM must have adequate legislative powers to take prompt action in the event of a member institution failure, so as to enable it to carry out its statutory objects, namely, to protect depositors and takaful certificate and insurance policy owners, and contribute to financial stability. PIDM's key powers are set out in sections 25 and 99 of the Act.

The PIDM Act also recognises the importance of relationships among financial safety net players, information exchange, and clarity as to their significant roles. As such:

(a) under the PIDM Act, the Governor of Bank Negara Malaysia is an ex officio member of the Board; as is the Secretary General of the Treasury;[6]

(b) the PIDM Act empowers PIDM to enter into any agreement, including more specifically, a strategic alliance agreement with the central bank;[7]

(c) certain of PIDM's powers apply only after Bank Negara Malaysia has issued a non-viability notification in relation to member institutions;[8] and

(d) the PIDM Act sets out clearly where certain powers of PIDM may be exercised only with the approval of, or in consultation with, the Minister.

In summary, the PIDM Act clearly sets out PIDM's public policy objectives. It also articulates PIDM's role, and sets out the powers that it has in order to perform its role.

[6] Section 11(2)(b)
[7] Section 25(2)(g)
[8] Section 98

GOVERNANCE FRAMEWORK WITHIN PIDM'S ENABLING LEGISLATION

GOVERNING BODY AND STATUTORY RESPONSIBILITIES

Decision Making and Governing Body Structure for Independent Regulators

"Regulators require governance arrangements that ensure their effective functioning, preserve its regulatory integrity and deliver the regulatory objectives of its mandate. The governing body structures of the regulator (e.g. a single head or a board of directors) should be determined by the nature of the regulated activities and their motivation. The membership of the governing body should also protect conflicts of interest or influence from the political process and should ultimately be for the public interest".

OECD 2014, Best Practice Principles for Regulatory Policy: The Governance of Regulators

The governing body

PIDM is directed and controlled by its Board, which is accountable for the conduct of the business and affairs of PIDM.

The PIDM Act makes it clear that PIDM's Board is responsible for the conduct of the business and affairs of PIDM.[9] Each Director has an explicit statutory duty to act honestly and in the best interest of PIDM, and use reasonable diligence in the discharge of the duties of his or her office.[10]

Operational independence

Principle 3 of the IADI Core Principles states that "The deposit insurer should be operationally independent, well-governed, transparent, accountable, and insulated from external interference". By operational independence, IADI means that the deposit insurer is:

"… able to use its powers without interference from external parties to fulfil its mandate. There is no government, central bank, supervisory or industry interference that compromises the operational independence of the deposit insurer".

PIDM is operationally independent and its legislation seeks to preserve this independence by the following:

(a) The PIDM Act provides that the Board should comprise a Chairman who has relevant private sector experience, a minimum of four directors with private sector experience, two public sector directors, one of whom must be from the public sector and the other may be one who has public sector experience, as well as the Governor of Bank Negara Malaysia and the Secretary General of the Treasury[11] who are known as ex officio Directors. The Board, with the exception of the ex officio Directors, are appointed by the Minister. This is usually done on the recommendation of the Board. Neither the Governor of Bank Negara Malaysia nor the Secretary General of the Treasury can be the Chairman of the Board.[12]

(b) The Minister appoints the non-ex officio Directors. However, the PIDM Act sets out individuals who are not eligible to be appointed. These are members of Parliament or a State Legislative assembly, office bearers in political parties, or officers and employees of member institutions. This is intended to eliminate conflict of interest or political bias in the functioning of the Board.[13]

(c) The Minister may only terminate and suspend the appointment of any Director on grounds that are stated in the PIDM Act.[14]

[9] Section 11(1)
[10] Section 17
[11] Section 11(2)
[12] As recommended by international best practice, the ex officio Directors, namely, the Governor and the Secretary General of the Treasury, play very important roles on the Board as they bring critical expertise to the functioning of the deposit insurance system. Their presence on the governing body can facilitate the coordination of interventions into troubled institutions; IADI 2009, *Governance of Deposit Insurance Systems: Guidance Paper.* Available at: https://www.iadi.org/en/assets/File/Papers/Approved%20Guidance%20Papers/Governance%206_May_2009.pdf.
[13] Section 14(1) and (1A)
[14] Section 14(2)

GOVERNANCE FRAMEWORK WITHIN PIDM'S ENABLING LEGISLATION

Where statutory bodies have public servants as directors on the board (including in an ex officio capacity), it is generally understood that they are there to provide knowledge and expertise, and to assist the Board to better appreciate current thinking in government policy. It is not intended that the other directors should defer to the views of the public servant directors, on the assumption that they are direct spokespersons for the entity which they serve. Importantly, they do not serve on boards as a source of direction from the Minister, or the public sector body that they represent.[15] Section 17 of the PIDM Act makes it clear that Directors who are public servants have the same statutory obligation as other Directors to exercise independent judgment in ways that best fulfil their fiduciary responsibility.

Management

The Board directs and controls PIDM, including the oversight of management.

The CEO of PIDM is not a member of the Board. This is so that he or she remains answerable and accountable to the Board.

While the CEO is appointed by the Minister on the recommendation of the Board, the CEO is responsible for the day-to-day administration of the business and affairs of PIDM.[16] He or she is accountable to PIDM's Board for the performance of his or her duties.[17] He or she is also deemed to be an officer or employee of PIDM and is subject to its terms and conditions of service. His or her compensation, benefits and any other remuneration are approved by the Minister, on the recommendation of the Board.[18]

Officers and employees

PIDM may appoint such officers and employees as are necessary to carry out the business and affairs of PIDM, and are subject to such terms and conditions of service as may be determined by the Board.[19]

PIDM's officers or employees are required, at all times, to act in good faith and comply with such requirements, standards, duties and code of conduct as may be provided in the by-laws made by the Board.[20]

Key statutory responsibilities

It is important to note that, aside from the statutory duties described above, Directors, officers and employees are subject to important rules in respect of conflict of interest.

The PIDM Act contemplates that the Board will make by-laws in respect of conflict of interest for serving Directors, officers and employees of the Corporation as well as those who have left the service of PIDM.[21] Breach of such by-laws is specifically an offence,[22] which underlines the importance placed to ensure that the Board, and employees of PIDM, act objectively in the course of carrying out their duties.

In summary:

(a) The PIDM Act underlines the importance of operational independence in order for PIDM to carry out its duties objectively, in line with its statutory objects, and not to be influenced by external agendas that might conflict with its mandate.

(b) All of the Directors, the CEO and employees of PIDM have statutory responsibilities under the PIDM Act.

[15] Crown Corporation and Privatization Sector, Department of Finance and Treasury Board of Canada 2002, *Corporate Governance in Crown Corporations and Other Public Enterprises: Guidelines*
[16] Section 19(2)
[17] Section 19(3)
[18] Section 20
[19] Section 21(1)
[20] Section 21(2)
[21] Section 12(1)(b)
[22] Section 12(3)

GOVERNANCE FRAMEWORK WITHIN PIDM'S ENABLING LEGISLATION

FUNDING

Funding

"The amount and source of funding for a regulator will determine its organisation and operations. It should not influence the regulatory decisions and the regulator should be enabled to be impartial and efficient to achieve its objectives. Funding levels should be adequate and funding processes should be transparent, efficient and simple".

OECD 2014, Best Practice Principles for Regulatory Policy: The Governance of Regulators

The PIDM Act clearly sets out PIDM's sources of funds,[23] investment parameters, and how PIDM can apply the funds.

The PIDM Act sets out how premiums and levies are charged, and how the funds may be used. In particular:

(a) PIDM's funds are raised from the premiums and levies imposed through the PIDM Act on member institutions,[24] and investment income from those funds. The parameters for investments that PIDM may make are set out in the PIDM Act.[25]

(b) The parameters for levying premiums on member banks are set out in the PIDM Act.[26] Similarly the PIDM Act also sets out levies on insurer members.[27] PIDM imposes differential premiums on member banks and differential levies on insurer members, in line with its statutory mandate to provide incentives for sound risk management in the financial system.[28] The criteria for assessing differential premiums and levies on member banks and insurer members respectively, must be set out in the regulations.[29] Setting out the criteria in the regulations promotes transparency and objectivity in the assessments as to which category they fall into and therefore determines the rate that is applicable to the member institution.

(c) Premium or levy rates to be imposed on member institutions are subject to the Minister's approval on the recommendation of PIDM.

(d) PIDM may also borrow or raise funds in such manner as it thinks fit.[30]

The PIDM Act only allows its funds to be used in carrying out its statutory objects[31] including operational expenses.[32] PIDM does not obtain funding from the Government for its operations.

In summary, as designed and set out in its legislation, the source of funding for PIDM does not influence its regulatory decisions. Its funding processes are also transparent, and set out in its legislation.

[23] Section 28; *IADI Core Principles*, Principle 9 provides that "… the deposit insurer should have readily available funds and all funding mechanisms necessary to ensure prompt reimbursement of depositors' claims, including assured liquidity funding arrangements. Responsibility for paying the cost of deposit insurance should be borne by banks".
[24] Section 28
[25] Section 30; *IADI Core Principles* also states the essential criteria for managing funds;
"The deposit insurer has responsibility for the sound investment and management of its funds. The deposit insurer has a defined investment policy for its funds that aims at ensuring (a) the preservation of fund capital and maintenance of liquidity; and (b) that adequate risk management policies and procedures, internal controls, and disclosure and reporting systems are in place".
[26] Part IV, Chapter 2
[27] Part V, Chapter 2
[28] Section 4(1)(c)
[29] Section 49(1)(c); Section 73(1)(a). If the deposit insurer uses differential premium systems, IADI Core Principles, Principle 9 states that the system for calculating premiums should be transparent to all participating banks; the scoring/premium categories should be significantly differentiated.
[30] Section 25(2)(c)
[31] Section 28
[32] Section 28(2) PIDM is empowered to credit all direct operating income to, and charge all expenses, costs and losses against the relevant particular fund or funds, and where such expenses, costs or losses cannot be specifically attributed to a particular fund or funds, such charge shall be allocated among the funds in accordance with a formula prescribed by PIDM.

GOVERNANCE FRAMEWORK WITHIN PIDM'S ENABLING LEGISLATION

ACCOUNTABILITY

Accountability is a critical aspect of governance and the nature of an entity's accountability must be clear. Chapter 2 discusses PIDM's accountability in detail.

Insofar as legislation is concerned, the PIDM Act and its related legislation provide the following:

(a) PIDM reports to Parliament through the Minister of Finance;

(b) the external audit of the annual accounts of PIDM is carried out by the Auditor General.[32] PIDM's annual report and its accounts, certified by the Auditor General, must be submitted to the Minister by the end of March each year. The Minister shall cause them to be laid before Parliament as soon as possible;[33] and

(c) PIDM is also subject to the Statutory Bodies (Accounts and Annual Report) Act 1980. Regular audits may be carried out by the Auditor General, so as to provide independent opinion on matters such as its financial and management control, and management practices.

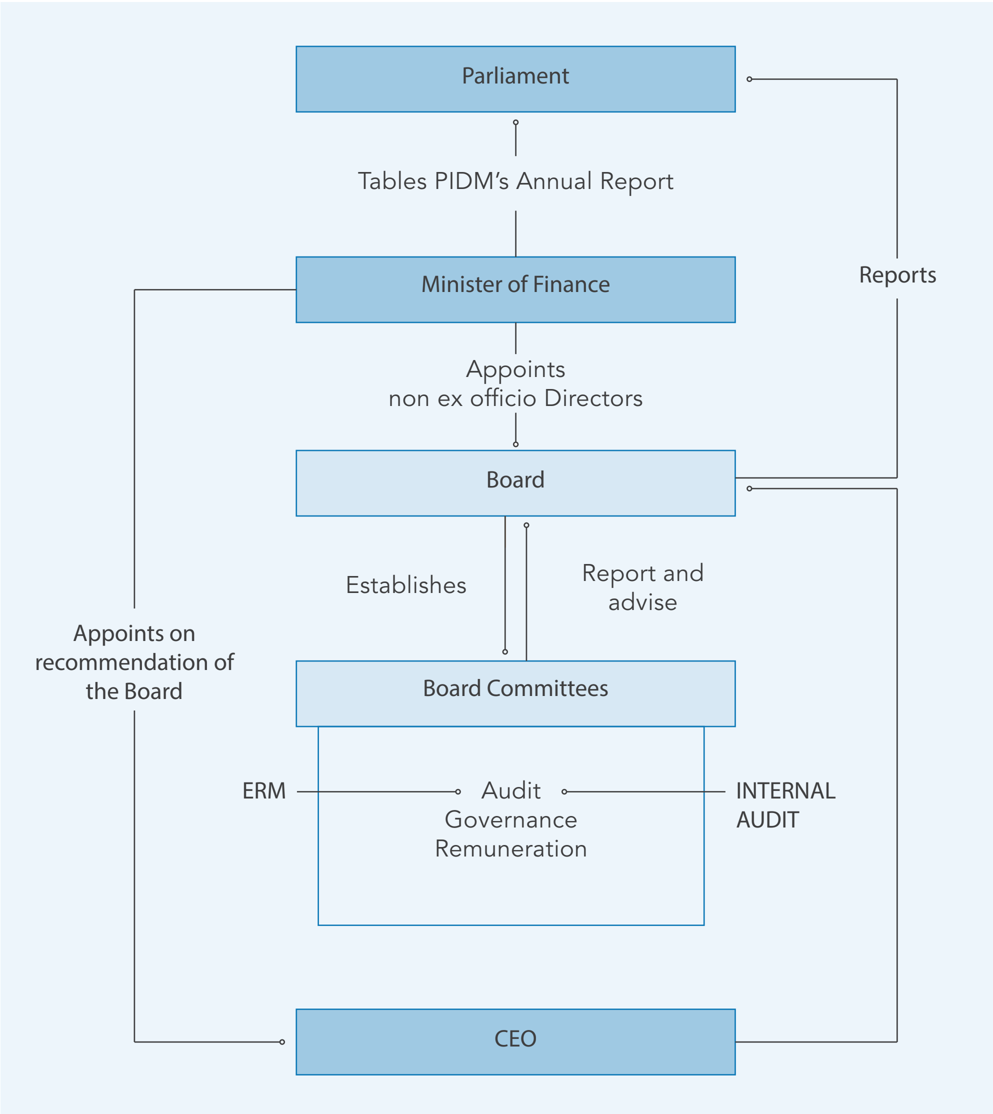


Figure 2 PIDM's governance structure

[32] Section 33
[33] Section 34(1)

GOVERNANCE FRAMEWORK WITHIN PIDM'S ENABLING LEGISLATION

CONCLUSION

This Chapter has focused on the PIDM Act and the framework it provides in relation to a number of governance and financial management issues.

Good governance in a public sector environment includes:

(a) clarifying and understanding the respective powers and responsibilities of the Minister, the governing body, management and employees. Clarity of relationships makes clear who should be held accountable and to whom. This can only build trust in a regulator, and is important for its overall effectiveness;

(b) establishing and maintaining effective and clear accountability processes;

(c) working in collaboration with other relevant entities;

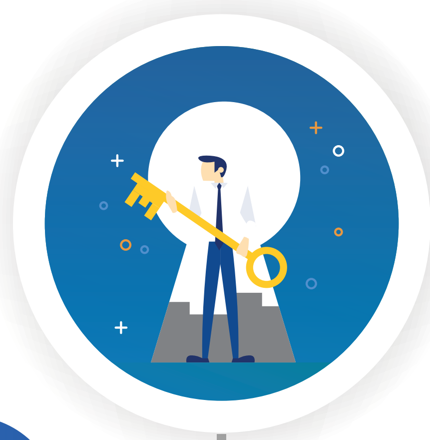
(d) setting the appropriate standards of behaviour and demonstrating commitment to those standards; and

(e) ensuring probity in the management of funds and conflicts of interests.

Proper governance arrangements enhance the effectiveness of regulators and ultimately, the achievement of its public policy objectives.

GOVERNANCE FRAMEWORK WITHIN PIDM'S ENABLING LEGISLATION

The key takeaways from this Chapter are as follows:



Clarity of the role of the public sector body. It is important for the purposes of good governance to have clarity as to the role of the public sector body. The PIDM Act clearly sets out PIDM's public policy objectives and its role.

Clear powers. The powers of PIDM are set out in the law. Where the Minister must be involved in the carrying out of any function or power under legislation, this is clearly stated. PIDM reports, through the Minister, to Parliament.

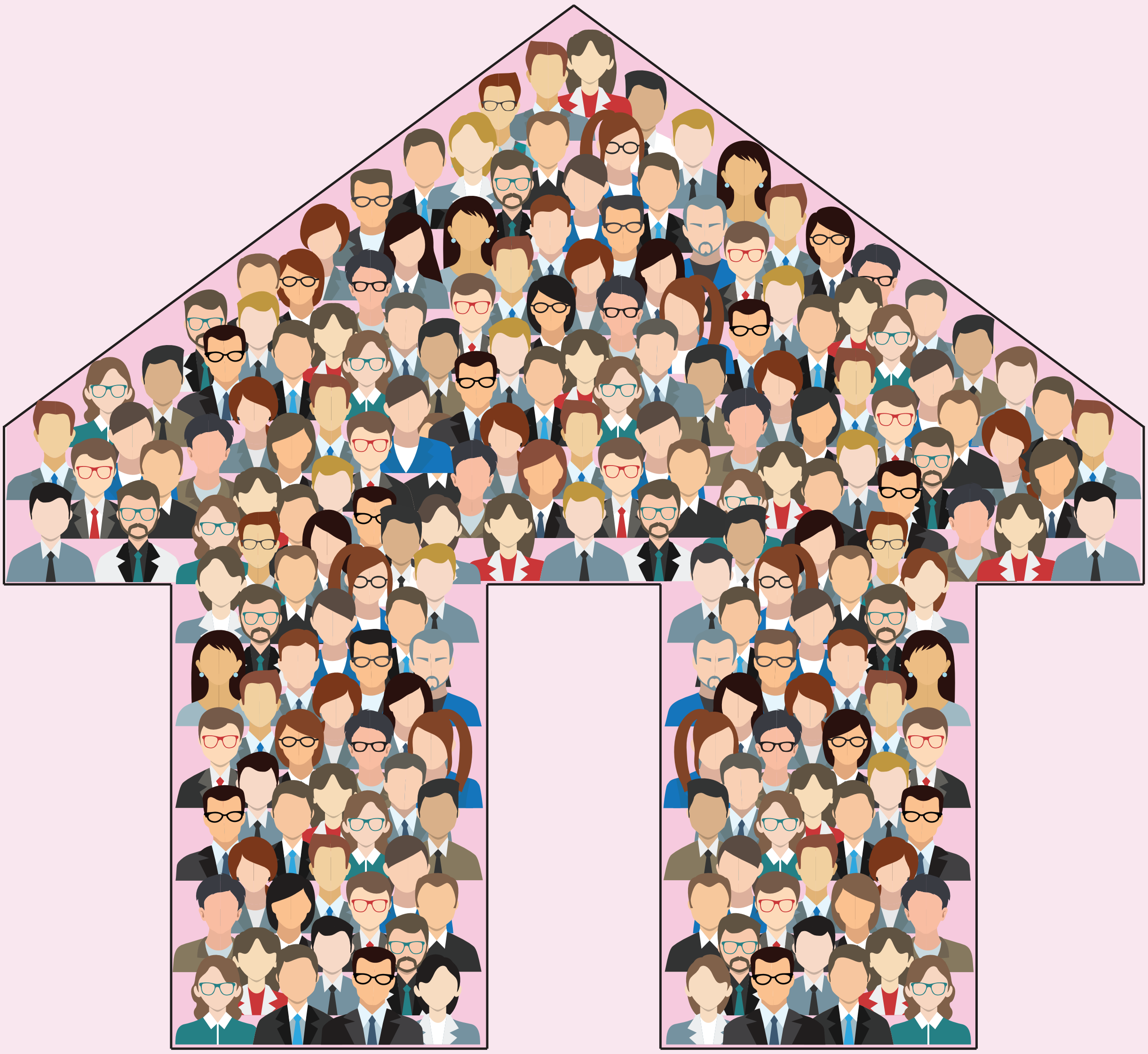
Clear roles and statutory responsibilities. The PIDM Act also allows the governing body to understand the respective powers and responsibilities of the Minister, the governing board, management and employees. All of the Directors, the CEO and employees of PIDM have statutory responsibilities under the PIDM Act.

Operational independence. The PIDM Act underlines the importance of operational independence. This is to enable PIDM to carry out its duties objectively, in line with its statutory objects. It is not to be influenced by external agendas that might conflict with its mandate. Operational independence from external interference is also reflected in enabling legislation. This is achieved through the criteria for the composition of the Board, and a clear statement of the statutory duties of the Directors. All Directors are expected to exercise independent judgement, and the removal of any member of the Board by the Minister is also subject to clear grounds as stated in the PIDM Act.

Sources of funding. As designed and set out in its legislation, the sources of funding for PIDM does not influence its regulatory decisions. Its funding processes are also transparent, and set out in legislation. Sources of funds and how funds are raised and managed must be within the parameters of the enabling legislation.

Accountability. Accountability of the governing body is critical and must be clear. The direction and control of PIDM is assigned to the governing body.

Accurate disclosures for accountability. Disclosures of relevant and accurate information about performance and financial management must be made to ensure accountability. PIDM is required to report on its financial and other performance in its annual report, with annual accounts certified by the Auditor General. Its management and other activities are also subject to audit by the Auditor General under the Statutory Bodies (Audit and Accounts) Act.



CHAPTER 2

FUNDAMENTAL PRINCIPLES OF CORPORATE GOVERNANCE IN THE PUBLIC SECTOR

FUNDAMENTAL PRINCIPLES OF CORPORATE GOVERNANCE IN THE PUBLIC SECTOR

INTRODUCTION

The PIDM Act contemplates that PIDM must operate as a legal entity, with a wide range of powers to enable it to achieve its mandate. Given this flexibility and wide powers, PIDM must operate within a strong framework of effective governance and accountability. Thus it is important to recognise that the dimensions of corporate governance go beyond statutory requirements.

From its inception, PIDM has recognised that sound corporate governance is a key foundation for PIDM and has resolved to adopt 'best practices in corporate governance'. Strong governance supports effective decision-making, continued achievement of PIDM's mandate, accountability, and therefore credibility.

A challenge in demonstrating that an entity has 'best practices in corporate governance' in the context of public sector bodies is that they are different from private sector bodies in the following ways:

(a) they have public policy objectives as set out in their enabling legislation. This differs from entity to entity. Unlike the private sector, profit is not their key priority;

(b) they have multiple and diverse stakeholders. Public sector bodies need to navigate a complex set of relationships. Clarity about these relationships is critical;

(c) they need to deal with funding mechanisms; and

(d) measurements of performance are not necessarily bottom-line driven, and are not readily comparable across statutory bodies with different statutory objectives.

In summary, the objectives and nature of public sector bodies generally differ from one entity to another, and one-size-fits-all corporate governance prescriptions may not be suitable to address some of these unique features.

Best practices in corporate governance

PIDM draws on best practices in corporate governance from both private sector and public sector material. In establishing its governance arrangements, the PIDM Board referred to the International Federation of Accountants' ("IFAC") publication entitled *Corporate Governance in the Public Sector: A Governing Body Perspective* (2001) ("IFAC Study"). This publication was based on the premise that public sector bodies can "… use private sector corporate governance concepts and practices to achieve their objectives more openly and effectively, and in the process, better serve their constituencies".[1] Fundamental principles of good corporate governance can and should be reflected in the governance of public sector bodies.

To check its progress against the IFAC Study recommendations, PIDM's Board used a checklist issued by IFAC to evaluate and track the progress of PIDM's governance arrangements and capabilities. IFAC's checklist comprises a set of diagnostic questions on statutory accountability, accountability for public funds, communication with stakeholders, roles and responsibilities within the governing body, reporting and internal control, and standards of behaviour.[2]

[1] 'IFAC Study Examines Public Sector Corporate Governance', (2000) *Journal of Accountancy.* Available at: https://www.journalofaccountancy.com/issues/2000/oct/ifacstudyexaminespublicsectorcorporategovernance.html

[2] International Federation of Accountants 2001, *Corporate Governance in the Public Sector: A Governing Body Perspective, Appendix 1: Good Governance: A Checklist for Governing Bodies*. Available at: www.ifac.org/publications-resources/study-13-governance-public-sector

FUNDAMENTAL PRINCIPLES OF CORPORATE GOVERNANCE IN THE PUBLIC SECTOR

Dimensions of corporate governance

IFAC takes the view that there are four dimensions of governance in the public sector, which comprise the following:

(a) **Standards of behaviour.** These show how the governing body and management exercise leadership in determining the values and standards in the organisation that also define the culture in the organisation.

(b) **Structures and processes.** These show how top management are appointed and organised, how their responsibilities are defined and how they are held accountable.

(c) **Control.** This refers to the network of various controls established by top management to assist them to achieve the organisation's objectives, the effectiveness and efficiency of operations, the reliability of internal and external reporting and compliance with relevant laws and policies.

(d) **External reporting.** This is how top management of the organisation demonstrates their financial accountability for the stewardship of funds in the organisation.[3]

The following discusses the three fundamental principles that PIDM has adopted for its governance arrangements. It goes on to explain how each principle is addressed, and includes discussions about each principle, carried out through the four dimensions of behaviour, structures and processes, control and external reporting.

[3] International Federation of Accountants 2001, *Corporate Governance in the Public Sector: A Governing Body Perspective, Chapter 4: Recommendations on Governance.* Available at: www.ifac.org/publications-resources/study-13-governance-public-sector

FUNDAMENTAL PRINCIPLES OF CORPORATE GOVERNANCE IN THE PUBLIC SECTOR

FUNDAMENTAL PRINCIPLES OF CORPORATE GOVERNANCE

Openness, Integrity and Accountability

PIDM's Board adopts three fundamental principles of corporate governance (openness, integrity and accountability) as recommended by IFAC and drawn from the Cadbury Report.[4]

The three fundamental principles that guide PIDM's approach to governance are as follows:

Openness

Necessary in order to obtain trust and confidence of stakeholders in the decision-making process and actions of public sector organisations. It requires these organisations to communicate with stakeholders through meaningful consultation and to communicate information clearly and accurately. It also means that the actions of public sector organisations will be able to withstand public scrutiny.

Integrity

Based upon honesty and objectivity, and the standards that an organisation applies in the stewardship of public funds and resources as well as the management of an organisation's affairs. This will depend on whether the control framework in place is effective. It also depends upon the personal and professional standards of individuals within the organisation. This is reflected through the organisation's decision-making processes and the quality of its financial and performance reporting.

Accountability

The process by which public sector organisations and the individuals within them are responsible for their decisions and actions and subject themselves to adequate scrutiny. When power and responsibility are given to an organisation, it has to be accountable for the manner in which it exercises that power and carries out the responsibility.

International Federation of Accountants 2001, Governance in the Public Sector: A Governing Body Perspective

Figure 3 Fundamental principles of corporate governance

[4] Committee on the Financial Aspects of Corporate Governance and Cadbury, A. (1992) *Report of the Committee on Financial Aspects of Corporate Governance*. London: Gee

FUNDAMENTAL PRINCIPLES OF CORPORATE GOVERNANCE IN THE PUBLIC SECTOR

The following sections describe how PIDM applies the fundamental principles of "Accountability, Openness and Integrity."

ACCOUNTABILITY

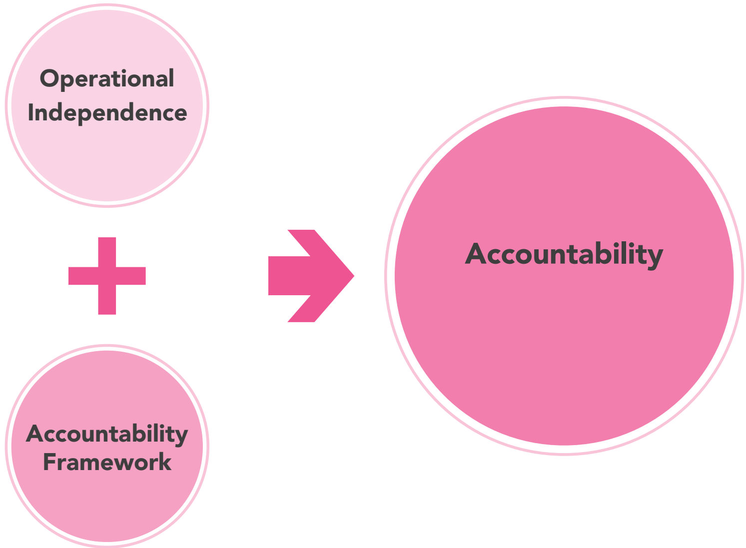


Figure 4 Accountability

Introduction

Accountability is the process by which public sector entities, and the individuals within them, are held responsible for their overall results, decisions and actions and how they are subject to external scrutiny.[5]

As highlighted in Chapter 1, PIDM has a degree of operational independence. Operational independence should correspond with a high level of accountability.[6]

Operational independence

Operational independence is the ability of an organisation to use the powers and means assigned to it to carry out its statutory mandate without undue influence from external parties.[7] An independent regulator's decisions should therefore be shielded from political influence or regulatory capture.

Preventing Undue Influence and Maintaining Trust

"Independence from government and from the industry that is regulated can improve the regulatory outcomes by allowing the regulator to make decisions that are fair and impartial. It is important that regulatory decisions and functions are conducted with utmost integrity to ensure that there is confidence in the regulatory regime. This is even more important for ensuring rule of law, encouraging investment and having an enabling environment for inclusive growth built on trust".

OECD 2014, Best Practice Principles for Regulatory Policy: The Governance of Regulators

[5] Australian National Audit Office 2014, *Public Sector Governance: Strengthening Performance Through Good Governance.* Available at: https://nla.gov.au/nla.obj-494733346/view

[6] PIDM as a statutory body, must ensure that it fulfils its statutory objects. This means ensuring there are appropriate mechanisms to carry out its functions effectively, and that it does not exceed its powers. It should also comply with the obligations imposed on it.

[7] IADI 2009, *Governance of Deposit Insurance Systems: Guidance Paper.* Available at: https://www.iadi.org/en/assets/File/Papers/Approved%20Guidance %20Papers/Goverance%20Final%20Guidance%20Paper%206_May_2009.pdf

FUNDAMENTAL PRINCIPLES OF CORPORATE GOVERNANCE IN THE PUBLIC SECTOR

Operational independence is especially necessary for regulatory bodies that are established with specialised functions that are deemed not appropriate for the government to carry out. The UK *Better Regulation Taskforce* defines an independent regulator as, a body which has been established by an Act of Parliament but operates at arms-length from government and which has one or more of the following powers; inspection, referral, advice to a third party, licensing, accreditation or enforcement.[8]

The PIDM Act has designed PIDM to be operationally independent, as recommended by the *IADI Core Principles.*

The following discussion sets out how PIDM strives to ensure operational independence in the context of the dimensions of structures and processes, standards of behaviour, controls and external reporting, set out in the IFAC Study.

Statute, structures and processes.	The PIDM Act addresses various aspects of operational independence. In particular, the Board is required by statute to exercise independent judgement. Further, the Board reports to Parliament through the Minister for the achievement of PIDM's statutory objects. This was discussed in Chapter 1.
Standards of behaviour	In practice, the level of independence of regulators depends not only on the enabling legislation and corporate governance frameworks within the regulator but also the culture of the regulatory body. Strong leadership is therefore needed to be able to withstand external pressure.[9] The Board guides and sets the culture and tone for employees of PIDM.
Controls, standards and reporting	A *Policy Against External Interference* has been established by PIDM to help employees withstand external pressure.[10] This requires employees to report to the Board any attempt from external parties to interfere in the objectives of PIDM and its proper functioning.

To support employees' ability to withstand pressure or influence, PIDM's *Policy Against External Interference* provides the employees with a mechanism to bring attempts at external interference to light. This policy defines external interference to include:

(a) any request by a person for confidential information or information that is not publicly available, unless disclosure of such information is permitted by law or under PIDM's policies or codes;

(b) any attempts at coercion, intimidation, blackmail or threats by an external party against PIDM's employees in order to obstruct, interfere with, exert pressure on, influence, direct or induce a desired response in respect of PIDM's decision-making process, the manner in which employees carry out PIDM's mandate or outcome of any decision in relation to PIDM's mandate.

Under this policy, employees are to inform the external parties that the subject of their communication or the person's request or statement will be documented and reported to the Board.[11] Employees are also to inform their superior, the CEO and the Chairman of the Board about the encounter, and a report in respect of the external interference must be presented to the Board.

[8] Cited in OECD 2013, Principles for the Governance of Regulators. Available at: http://www.oecd.org/gov/regulatory-policy/Goverance %200f%20 Regulators%20FN%202.docx
[9] Jamison, M.A. (2005). Leadership and the Independent Regulator. Available at: http://documents.worldbank.org/curated/en/ 38837146817666 5881/pdf/wps 3620.pdf
[10] PIDM, *Policy Against External Interference*. Available at: http://www.pidm.gov.my/pidm/corporate-governance/governance-framework/
[11] PIDM, *Policy Against External Interference*, paragraph 3.6

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Accountability framework

As highlighted earlier, operational independence should correspond with a high level of accountability.

The following discussion sets out PIDM's accountability framework, from the dimensions of structures and processes, standards of behaviour, controls and external reporting.

Statute, structures and processes.	PIDM is accountable to Parliament through the Minister for the manner in which it carries out its mandate. Accountability is not however limited to oversight through laws. The public and PIDM's stakeholder groups may also hold it accountable. PIDM's decisions, like those of any other public sector body, are subject to judicial review.
Standards of behaviour	PIDM recognises the importance of reinforcing standards of behaviour. "It is difficult to build effective accountability frameworks…without strong commitment of senior management. Management commitment is essential to cultural acceptance of accountability and transparency throughout the organisation…The effectiveness of these governance arrangements would be weakened if formal requirements are met but lack of managerial and board commitment leads to poor implementation".[12] PIDM demonstrates its board and senior management commitment to accountability for the effective performance of its mandate through upholding the principle of openness (or transparency) and espousing 'integrity' as a corporate value.
Controls, standards and reporting	The controls to ensure accountability from an external perspective are as follows: (a) As a matter of law, PIDM must be independently audited by the Auditor General. PIDM's Annual Report is laid before Parliament for review, and must be submitted to the Minister within the statutory deadline of 31 March of each year. The Annual Report is then tabled in Parliament. (b) The Auditor General may also carry out various types of audit under the Audit Act 1957. These comprise: (i) Financial Statement Audit. An audit conducted annually over the accounts of PIDM. The Auditor General may look into PIDM's internal controls to assess if they are adequate, and audit documents and records to verify transactions and ascertain if they are correct and properly maintained. (ii) Financial Management Audit. This is carried out once every three years and is aimed at assessing whether a structural and effective financial management system and internal control system are in place.

[12] OECD 2016, *Governance of Regulators' Practices: Accountability, Transparency and Co-Ordination.* Available at: https://read.oecd-ilibrary.org/governance/governance-of-regulators-practices_9789264255388-en#

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(iii) Performance Audit. This is to ascertain whether PIDM operates efficiently and effectively with due regard to economy, and to prevent fraud and wastage. This audit is aimed at enhancing public sector accountability and improving governance.

(iv) Special Audit. The Auditor General may conduct a special audit where deemed necessary.

(c) The Parliamentary Accounts Committee ("PAC") may initiate investigations into PIDM's accounts or performance, either on its own volition or due to a referral by the Dewan Rakyat.[13]

As part of its accountability framework, PIDM has additionally adopted controls as follows:

(a) PIDM has documentation to allow monitoring of its progress against performance. PIDM has a three-year rolling Corporate Plan, with the strategic direction set by the Board. Each year, a summary of the Corporate Plan is published. PIDM reports against the performance measures under the Corporate Plan, in its Annual Report.

(b) PIDM has a strategic management process. Management provides regular reports to the Board on the progress of key initiatives. The Board also assesses the performance of the CEO based on key performance indicators that are derived from the Corporate Plan.

(c) PIDM complies with applicable financial reporting standards, as required by law. This is to ensure the reliability and consistency of its financial information. PIDM also provides additional financial information in its Annual Report. This includes information about the fund sizes, and the target sizes for each fund and how the targets are derived. The Audit Committee reviews the financial statements, compliance with accounting standards, compliance reports from management in respect of compliance with the relevant laws, and reports to the Board.

(d) The Board, through the Audit Committee, obtains assurance from PIDM's Chief Internal Auditor. PIDM's financial statements must also be audited by the Auditor General.[14]

PIDM's Board and senior management are committed to a high level of accountability. PIDM voluntarily publishes a Corporate Plan (which includes its financial plan), and also reports its performance in its Annual Report, which is published and widely circulated. PIDM adheres to high standards of disclosure. In the years between 2007 and 2014, PIDM submitted its annual reports for the National Annual Corporate Report Awards, and achieved two certificates of merit and the top award in the non-listed categories for six consecutive years. Each of PIDM's annual reports for 2016 and 2017 also achieved a silver award from the Australasian Reporting Awards.

[13] The Auditor General is authorised to perform duties and exercise his or her powers over public authorities under Article 106(1) of the Federal Constitution. PIDM is considered a 'public authority' under Article 160 of the Federal Constitution and furthermore, section 33 of the PIDM Act states that the accounts of PIDM shall be audited by the Auditor General. The Auditor General is also required under Article 107 of the Federal Constitution to submit his report to the Yang di-Pertuan Agong who shall cause it to be laid before the Dewan Rakyat. This will enable the PAC to scrutinise those accounts. The PAC is also empowered under the Standing Orders to initiate investigations as it deems fit or where a matter has been referred to it by the Dewan Rakyat.

[14] Section 33

FUNDAMENTAL PRINCIPLES OF CORPORATE GOVERNANCE IN THE PUBLIC SECTOR

OPENNESS

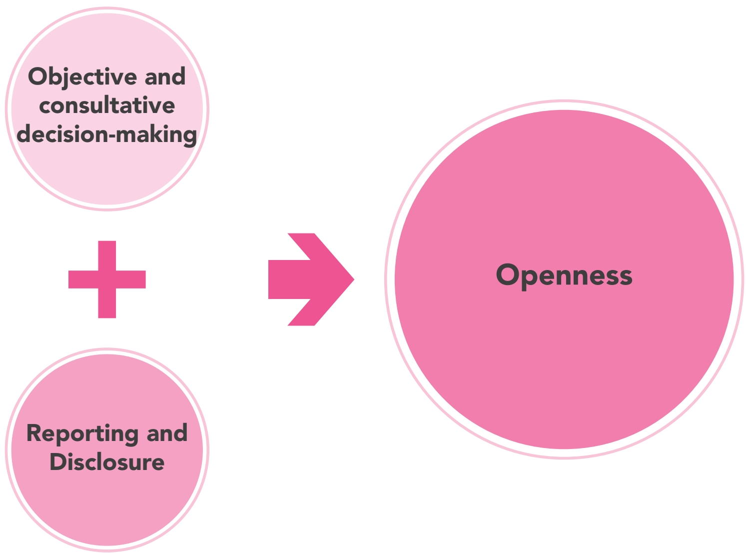


Figure 5 Openness

Introduction

The meaning of 'Openness', as described in the IFAC Study, includes the following elements:

(a) Openness aims to instil trust and confidence in the decision-making process and actions of the public sector body. To instil trust and confidence, "… regulatory decisions are to be made on an objective, impartial, and consistent basis, without conflict of interest, bias or improper influence".[15]

(b) Openness also means communicating with stakeholders through meaningful consultations. Among others, stakeholder engagement in regulatory policy increases the level of transparency, helps find the most effective and efficient way for regulatory delivery, and helps improve regulatory quality.[16]

PIDM also practises transparency, within the constraints of its duty to promote or contribute to the stability of the financial system.

Objective decision-making and meaningful consultations

Where possible, decisions that impact stakeholders are subject to objective and transparent criteria. For example, the PIDM Act specifies that the criteria for imposing differential premiums or levies, must be set out in the regulations. Clear criteria enables the member institution to determine its score against each criteria. The assessment as to which category the institution falls (to determine the rate applicable) is therefore clear and objective.

Where the Board has the power to exercise significant discretion under the PIDM Act, Board policies will have been developed. These will set out the factors that should be considered (i.e., relevant considerations) in making decisions.

PIDM has clear governance processes to ensure that it institutes two-way communications with its stakeholders, in particular when proposing to issue regulations or guidelines. Draft consultation papers for consulting on key policies with the public are approved by the Board prior to being issued. PIDM also publishes responses to the feedback it obtains on public consultations. If necessary, PIDM also holds focus group discussions with its stakeholders.

[15] OECD 2012, *Recommendation of the Council on Regulatory Policy and Governance.* Available at: https://www.oecd.org/governance/regulatory-policy/49990817.pdf

[16] OECD 2016, *Best Practice Principles for Stakeholder Engagement in Regulatory Policy: Draft for Public Consultations.* Available at: www.oecd.org/gov/regulatory-policy/BPPs-for-Public-Consultation.docx

FUNDAMENTAL PRINCIPLES OF CORPORATE GOVERNANCE IN THE PUBLIC SECTOR

On a regular basis, dialogue sessions are organised upon the release of the Annual Report, to allow key stakeholders to give feedback to PIDM, and to balance and respond to stakeholders' needs and concerns, and allow for sound decisions and policies. Various other dialogues or conferences or public outreach activities are often held, as part of PIDM's stakeholder engagement plans.

In summary, as a consequence of objective and impartial decision-making, proper consultation, and clear communication, the actions of the public sector body will be better able to withstand scrutiny.

Accurate reporting and disclosure

Transparency

"Businesses and citizens expect the delivery of regulatory outcomes from government and regulatory agencies and the proper use of public authority and resources to achieve them. Regulators are generally accountable to three groups of stakeholders: i) ministers and the legislature; (ii) regulated entities; (iii) the public. The expectations for the regulator should be published and regulators should regularly report on the fulfilment of their objectives, including through meaningful performance indicators".

OECD 2014, Best Practice Principles for Regulatory Policy: The Governance of Regulators

To communicate clearly and with accurate information means having 'targeted and useful performance information'.[17] As described by the OECD, performance information provided for example, in the annual report, needs to be made in an intelligible and clear way so that it is possible to assess the wider market outcomes, and not merely focus on input and output. Information also needs to be accessible and assessable. The OECD explains that this means not merely uploading information on the website. It means the information must be intelligible, clear and user-friendly for the public, to whom public sector bodies are ultimately accountable. The OECD recommends that consumer guides and websites be complemented with active reaching out and engagement with users.

PIDM's Annual Report is a key tool for reporting to Parliament, through the Minister, on PIDM's performance as well as financial accountability. The Annual Report must provide essential information that Parliament would need, to hold PIDM accountable. PIDM's disclosures are tailored to reporting on matters of relevance in the context of its statutory objects and corporate objectives. As part of its process:

(a) on a yearly basis, PIDM issues a *Summary of the Corporate Plan* detailing its strategic priorities, key outcomes sought and financial plan;

(b) the Annual Report is published each year in Bahasa Malaysia and English. PIDM publishes its Corporate Plan, and as indicated earlier, its performance against this plan is reported in its Annual Report, which is publically available;

(c) PIDM provides a financial overview as well as that of its operating environment and a review of its operations during the year in its Annual Report;

(d) PIDM reports on the Board's adherence to its *Board Governance Policy* in its Statement of Governance; and Board Governance Policy sets standards for the Board to abide by, with regard to corporate governance. It also sets out expectations of the Board from management with regard to each of these standards. The Board Governance Policy was developed by reference to international and domestic principles and standards of best practice in corporate governance. This Policy allows the Board to demonstrate its achievements against these standards, as reported annually in PIDM's Statement on Governance found on its website. PIDM also makes statements about its internal control and risk management in its website.

(e) PIDM's Annual Report is tabled in Parliament and made available on PIDM's website, and is widely circulated among key stakeholders.[18]

[17] OECD 2016, *Governance of Regulators' Practices: Accountability, Transparency and Co-Ordination.* Available at:https://read.oecd-ilibrary.org/governance/governance-of-regulators-practices_9789264255388-en#

[18] PIDM has established a Board Governance Policy specifically in respect of corporate governance, internal controls and risk management. The

FUNDAMENTAL PRINCIPLES OF CORPORATE GOVERNANCE IN THE PUBLIC SECTOR

PIDM also has a public awareness programme, which aims to promote awareness about PIDM, its benefits and limitations. It uses multiple channels to achieve this, including media advertising, roadshows and on-ground activities, as well as regulatory requirements (through member institutions). PIDM has a website, a toll-free number and a call centre, as well as easy-to-understand brochures that must be provided by its member banks to consumers who open accounts with them.

PIDM also makes available many of its significant policies, codes and procedures for public reference.[19] For example:

• Governance Framework • Board Governance Policy • Charter of Governance Committee • Charter of Remuneration Committee • Charter of Audit Committee • Supplier Code of Conduct • Code of Business Conduct and Ethics for Directors • Code of Business Conduct and Ethics for Employees • Conflict Of Interest Code For Directors	• Conflict of Interest Code for Employees • Policy and Procedures on Public Disclosure of Information • Policy Against External Interference • Procurement, Contracting and Outsourcing Policy • PIDM Communications Policy • Corporate By-Law • Enterprise Risk Management Policy • Policy on Workplace Harassment • Policy for Disclosure of Information Concerning Improper Conduct ("Whistleblowing Policy")

It is to be noted that, when making disclosures, PIDM pays attention to whether the type of information disclosed is permitted under the PIDM Act. At times, PIDM may not be able to make disclosures that could have a negative impact on the stability of the financial system as a whole. PIDM has documented the process of disclosure in the *Policy and Procedures on Public Disclosure of Information*.[20] This policy clarifies what type of information can be made readily available to the public, and under what circumstances. It also guides employees on the types of approvals that must be obtained before the disclosure of any sensitive or potentially sensitive information.[21]

INTEGRITY

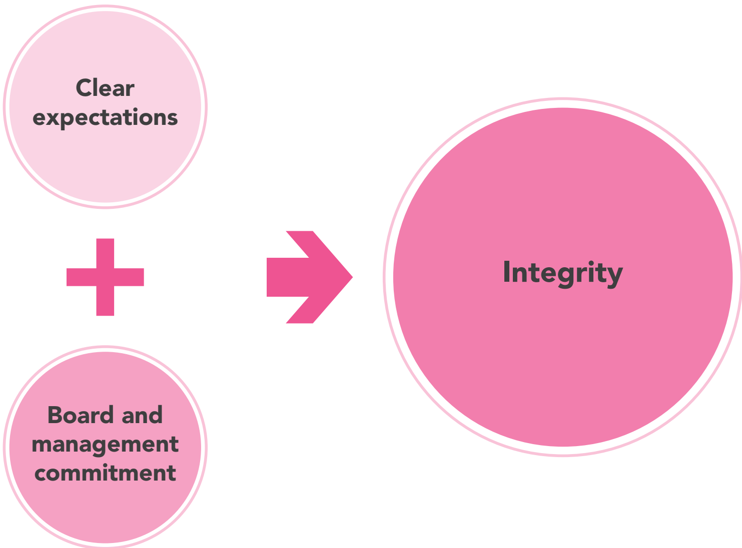


Figure 6 Integrity

[19] Available at: http://www.pidm.gov.my/pidm/corporate-governance/governance-framework/
[20] Available at: http://www.pidm.gov.my/pidm/corporate-governance/governance-framework/
[21] Section 24 of the PIDM Act states that information obtained by any person in the course of carrying out the functions of PIDM about its business and affairs is subject to confidentiality, except where such information is already publicly available, or is required to be disclosed for the purposes of carrying out PIDM's functions, or required to be disclosed by law.

FUNDAMENTAL PRINCIPLES OF CORPORATE GOVERNANCE IN THE PUBLIC SECTOR

Introduction

"Integrity" refers to the application of values, principles and norms in the daily operations of public sector organisations.[22] *IADI Core Principles*[23] states that the board and employees of deposit insurers should be subject to high ethical standards and comprehensive codes of conduct to minimise the potential for real or perceived conflicts of interest.

Clear expectations on standards of behaviour are set out in policies

The following describes PIDM's expectations of the behaviour of its Directors and employees:

Statute, structures and processes.	Standards of behaviour expected from Directors and employees are clearly set out in some of PIDM's key policies, as follows: (a) *Conflict of Interest Code for Employees*[24] and *Conflict of Interest Code for Directors.*[25] Breach of these particular codes is an offence under the PIDM Act;[26] (b) *Code of Business Conduct and Ethics for Employees*[26] and *Code of Business Conduct and Ethics for Directors;*[27] (c) *Procurement Policy* and *Tender Procedures*; and (d) *Disciplinary Procedures*.
Controls, standards and reporting	(a) PIDM has a Corporate Compliance Committee, which supports the Board in fulfilling its corporate governance and oversight responsibilities in relation to PIDM's compliance with laws, regulations, policies and procedures. It also provides annual training and implements a compulsory annual compliance test for employees in respect of key policies relating to ethics and behaviour. The chair of the Corporate Compliance Committee provides a report to the Board on an annual basis, on the implementation of the Board-approved compliance programme. (b) The National Audit Department and the internal audit function will also raise findings of non-compliance to the Board through the Audit Committee. (c) Under the *Conflict of Interest Code for Employees*, employees are to declare their assets and financial obligations to the Designated Person on an annual basis. Directors are also asked to declare their interests, if any, in any of PIDM's contractors. Directors are also required to declare annually if they have any interest in or credit/ financing facilities or deposits above the stipulated limit, with any member institution. (d) PIDM's *Whistleblowing Policy*, enables both employees and external parties to disclose reasonable suspicions of improper conduct. This is publicised throughout PIDM and is also made available to outsiders. (e) Breach of any of these policies subjects employees to disciplinary procedures.[29]

[22] OECD *Public Sector Integrity Reviews.* Available at: http://www.oecd.org
[23] *IADI Core Principles,* Principle 3
[24] Available at:http://www.pidm.gov.my/pidm/corporate-governance/governance-framework/
[25] Available at:http://www.pidm.gov.my/pidm/corporate-governance/governance-framework/
[26] Section 12(1)(b)
[27] Available at:http://www.pidm.gov.my/pidm/corporate-governance/governance-framework/
[28] Available at: http://www.pidm.gov.my/pidm/corporate-governance/governance-framework/
[29] PIDM has received an exemption from the *Statutory Bodies (Discipline and Surcharge) Act 2000* that enables it to apply its own codes and policies relating to discipline of its officers.

Board and management commitment

> "A Code is useless unless the people it covers first, know it exists and what it says; second, understand how it should affect the way they carry out their duties; and third, actively want to be part of the culture it represents".
>
> *Nolan Committee 1995, The Seven Principles of Public Life*

PIDM's senior leadership aims to engrain the standards of behaviour in the day-to-day practices and culture of PIDM. To reinforce the expected standards of behaviour:

(a) PIDM regards integrity as a corporate value. The need to avoid conflicts of interest and to comply with codes on behaviour are emphasised during the induction of new employees, as well as during trainings and in the annual compliance test. Candidates seeking employment with PIDM are advised about PIDM's codes early on, including PIDM's prohibition against employees holding an interest in any member institution. PIDM's employees and Directors have to annually certify that they have complied with the *Conflict of Interest* Codes for Employees and Directors respectively.

(b) The CEO repeatedly makes it clear that PIDM has zero risk tolerance for non-compliance with key policies.

CONCLUSION

PIDM's corporate governance framework is aimed at achieving best practice governance and management. Oversight of PIDM (accountability), stakeholder engagement and transparency (openness), and a culture that supports this (integrity) can only lead to more effective decision-making, credibility, efficient use of resources and better outcomes for PIDM's stakeholders and the achievement of its statutory objects.

FUNDAMENTAL PRINCIPLES OF CORPORATE GOVERNANCE IN THE PUBLIC SECTOR

The key takeaways from this Chapter are as follows:

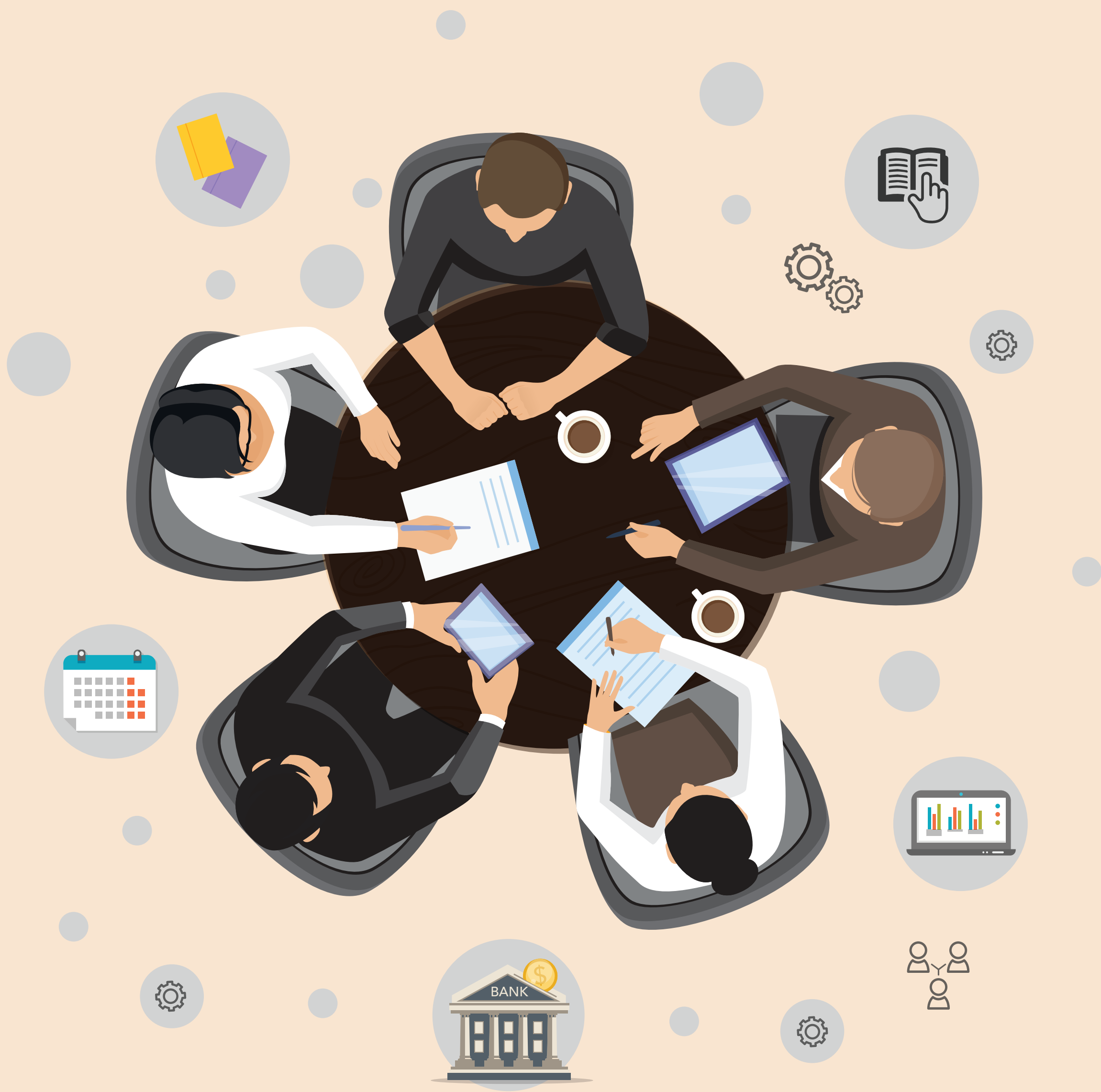
The fundamental principles of corporate governance for PIDM are clear. On its establishment, PIDM's Board adopted the three fundamental principles of corporate governance (openness, integrity and accountability).

PIDM's corporate governance practices address the different dimensions of corporate governance. PIDM addresses corporate governance from perspectives beyond statutory requirements. There is a need for clarity of relationships (external and internal). There is also a need to implement structures, processes, controls, and deal with external reporting, as well as to commit to appropriate standards of behaviour.

PIDM has articulated its accountability framework, so that it is also clear. PIDM is, by statute and international standards, expected to be operationally independent. Operational independence comes with accountability. PIDM is held to account through external audit, and through its reporting to Parliament. Its decisions are also subject to judicial review.

PIDM is committed to openness and transparency within the boundaries of law. Openness and transparency allow PIDM's stakeholders to assess and hold PIDM to account. PIDM also abides by the principle of objectivity in decision-making, and has a process to carry out consultations with key stakeholders when proposing significant matters that impact them.

Governance arrangements will fail if not supported with the appropriate standards of behaviour at the top. Establishing integrity involves establishing clear expectations from directors and employees in regard to standards of behaviour, and imposing consequences for breaches. In PIDM's context, integrity is a corporate value, and efforts at establishing and maintaining integrity as a value are reinforced by Board and management.



CHAPTER 3

BOARD GOVERNANCE POLICY: ROLES AND RESPONSIBILITIES OF THE BOARD

BOARD GOVERNANCE POLICY: ROLES AND RESPONSIBILITIES OF THE BOARD

INTRODUCTION

The PIDM Act sets out the overall responsibility of the Board for the conduct of the business and affairs of PIDM and confers authority on the Board to exercise all powers and do all things necessary for PIDM to operate effectively.[1]

An effective board is one that has clarity about its roles and responsibilities. The Board needs to have clarity about its relationships with others within the accountability framework (e.g. external relationships with the Minister, Parliament, and other safety net players), as well as to be clear about its roles and responsibilities in respect of the conduct of the business and affairs of PIDM (its internal relationships with management).

THE BOARD GOVERNANCE POLICY

PIDM has a Board Governance Policy,[2] which sets out the roles and responsibilities of the Board and management with regard to corporate governance. It serves to articulate expectations from the Board of management, and the Board's role in setting the direction, and control of PIDM.

PIDM's Board Governance Policy is used for the following:

(a) **As a statement of commitment to sound corporate governance and outline of responsibilities.** In the Board Governance Policy, the Board states as a matter of record, its understanding of its roles and responsibilities, and the principles and standards that will guide it. The Board Governance Policy also reflects the Board's responsibilities under the PIDM Act.

(b) **As a document that captures what constitutes 'best practices' in corporate governance, in the context of PIDM's statutory objectives, business and affairs.** The Board Governance Policy was developed by reference to relevant private and public sector material including, among others, the Financial Stability Forum's Report on *Guidance for Developing Effective Deposit Insurance Systems*[3] and the IFAC Study referred to in Chapter 2. Where the PIDM Act assigns specific responsibilities to the Board, this is also highlighted. The Board Governance Policy describes, against each of the standards, the benchmarks for PIDM.

(c) **As a key accountability document for the Board to report against its governance standards.** Adherence to the Board Governance Policy is disclosed in PIDM's Statement on Governance.

The Board Governance Policy and PIDM's approach to corporate governance are reviewed regularly to ensure that they remain current and relevant. In the course of the review, the Board is provided with updates on corporate governance developments around the world.

[1] Section 11(1)
[2] Available at: http://www.pidm.gov.my/pidm/corporate-governance/governance-framework/
[3] Financial Stability Forum, 2001. Available at: http://www.fsb.org/wp-content/uploads/r_0109b.pdf

ROLES AND RESPONSIBILITIES OF THE BOARD

As a general statement, the Board Governance Policy highlights the role of the Board which is to:

"Provide the stewardship and oversight of the management and operation of PIDM. The Board's role is to foster PIDM's short and long-term success consistent with its mandated objectives and accountability to other stakeholders".

It should be noted that the roles and responsibilities of the Board of PIDM are not significantly different from those of a board in a private sector body.

The key areas that differ within the overall governance framework from that of a private sector body are as follows:

(a) PIDM's statutory objects are set out in the PIDM Act;

(b) the Board is primarily accountable and answerable to Parliament;

(c) the Board makes recommendations with regard to the appointment of the CEO and non-ex officio Directors and their remuneration but the final decision lies with the Minister; and

(d) PIDM has multiple stakeholders to engage and manage, and there needs to be clarity about its relationship with these various sets of stakeholders.

STANDARDS IN THE BOARD GOVERNANCE POLICY

The table of contents of the Board Governance Policy addresses the various standards as follows:

The Board	Standards 1-4
Divisions of responsibilities and accountability	Standards 5-8
Standards of Behaviour	Standard 9
Control	Standards 10-12
Strategic planning and management	Standard 13
Communications	Standard 14
Board Governance Policy	Standard 15

BOARD GOVERNANCE POLICY: ROLES AND RESPONSIBILITIES OF THE BOARD

THE BOARD

The Board's role and what it should do to ensure effectiveness is addressed under Standards 1 to 4.

Standard	Expectations from the Board
Standard No. 1 Independence of the Board	The Board will exercise independent judgement.
Standard No. 2 Board effectiveness and governance responsibilities	The Board will obtain and maintain an understanding of PIDM's objects and powers, as well as of its governance responsibilities. To achieve this, the Board will: (a) develop and maintain approaches to fulfilling those responsibilities and will evaluate, objectively, on a regular basis, its effectiveness in doing so; and (b) ensure that PIDM has arrangements for the orientation of new directors and ongoing training appropriate to the Board's governance responsibilities and needs.
Standard No. 3 Roles and Responsibilities of Committees	Where the Board appoints a committee, it will establish the responsibilities and authority of Board committees, as well as accountability requirements for them.
Standard No. 4 Board composition and succession	The board composition should maintain independence, and there should be an appropriate mix of skills and capabilities, given the objectives and strategic direction of PIDM. To achieve this, the Board will, in consultation with the CEO: (a) develop a profile of desirable skills and capabilities that would best enable the Board to fulfil their responsibilities and advise the Minister of the desired mix that should be sought in filling upcoming non-ex officio Board vacancies; and (b) have a board succession plan to recommend to the Minister the orderly turnover of directors.

Board independence and effectiveness - The public sector perspective

The standards to be met by the Board of PIDM do not differ significantly from standards expected of directors in the private sector. The following table discusses some of the key similarities and differences:

(a) Independent judgement relates not only to independence from management but independence from external influence.	
Similarities	**Differences**
Similar to private sector directors, Directors of PIDM are expected to be able to work cooperatively with management and, where necessary, demonstrate objectivity and robust independence of judgement.	For PIDM, as a statutory body, independence also relates to independence from external influence so that it can carry out its statutory mandate objectively. It is stated that, in relation to this standard, "Directors provide invaluable input but do not, however, serve on the Board under the specific direction of the Minister. Directors who are public servants should exercise independent judgement in ways that best fulfil their responsibilities to PIDM."[4] "Directors and in particular, ex officio directors, can assist the Board to better appreciate public policy objectives, and to understand the broad public policy philosophy and the direction that should be pursued by PIDM."[5] Nevertheless while serving on PIDM's Board, these Directors do not represent the institutions from which they originate, but are required under the PIDM Act to act in the best interests of PIDM.[6]

(b) Board effectiveness and governance responsibilities relate to its statutory objects (mandate) and powers, and not profit-making.	
Similarities	**Differences**
PIDM conducts a Board-approved orientation programme for new Board members, and an annual board education programme.	The Board needs to understand the statutory mandate, statutory powers and its responsibilities, including its governance responsibilities. Newly appointed Directors are provided with adequate orientation and training with regard to their responsibilities to PIDM, and, in particular, PIDM's relationship with the Government.[7] Aside from induction about the organisation's business and affairs, orientation is important for PIDM, so that the new Directors properly understands PIDM's: (i) accountability framework; (ii) governance responsibilities; (iii) relationships with other safety net players and stakeholders. The Board orientation programme and ongoing Directors' education is addressed further in Chapter 4.

[4] PIDM, *Board Governance Policy,* Paragraph 1.2(a)
[5] PIDM, *Board Governance Policy,* Paragraph 2.1
[6] Section 17(1)
[7] PIDM, *Board Governance Policy,* Paragraph 2.3

BOARD GOVERNANCE POLICY:
ROLES AND RESPONSIBILITIES OF THE BOARD

(c) Board composition and succession plans are made in order to enable appropriate recommendations to the Minister.	
Similarities	**Differences**
The Board is responsible to ensure its independence, and to achieve a mix of skills and capabilities to enable it to carry out its duties. The Board should also have a board succession plan to ensure orderly succession. This is addressed further in Chapter 4.	The OECD recommends that the procedures and criteria for selection and terms of appointment of the governing body of regulators should be documented and readily available to aid transparency and attract appropriate candidates.[8] Under the PIDM Act, the Minister appoints non-ex officio Directors.[9] In practice, the Minister considers recommendations from PIDM's Board. This is addressed further in Chapter 4.

(d) It is highly important that public sector directors emphasise and manage conflicts of interests and duties	
Similarities	**Differences**
The management of conflicts of interests generally, for example, in relation to transactions in which an employee or director might have an interest (related party transactions).	The challenge for public servants who are also members of the Board (the director 'from the public sector' under the PIDM Act)[10] is that they serve the government of the day. A public servant who is appointed to a board as an individual has all the responsibilities and duties of any other board member. They are on the board for their skills and experience, and their contribution as an individual director. The intention for the public servant's inclusion on PIDM's Board, is for them to provide a public sector perspective.[11] However their obligation, under the PIDM Act is to act in the best interests of PIDM. Generally, if a director's duties conflict with his or her duties as a public servant or a director in another organisation, and he or she is unable to resolve the conflict, then such director should take appropriate steps to abstain from participating in decision-making, in relation to the conflict.[12]

[8] OECD 2014, *Best Practice Principles for Regulatory Policy: The Governance of Regulators*. Available at: https://www.oecd.org/regulatory-policy/governance-regulators.htm
[9] Section 11(2)
[10] Section 11(2)(d)
[11] PIDM 2006, *Compendium of Policies*
[12] Tan C. H. (ed.) (2009). *Walter Woon on Company Law.* 3rd ed. (Singapore, Sweet & Maxwell) page 294.

BOARD COMMITTEES IN A PUBLIC SECTOR BODY

The Board of PIDM has established Board Committees to support it in the performance of its roles and responsibilities. On a permanent basis, it has established an Audit Committee, a Governance Committee and a Remuneration Committee.

Audit Committee

Generally, the roles and responsibilities of PIDM's Audit Committee are similar to those in the private sector. It ensures that the auditing and accounting principles and practices of PIDM are in line with best practices, and has oversight to ensure that PIDM conforms with all legislative requirements.[13]

The Audit Committee's role with regard to oversight of risk management and internal controls of PIDM is to:

(a) ensure that there are sound policies, guidelines and practices in place for the management of PIDM's key corporate risks;

(b) obtain reasonable assurance that PIDM's risk management policies and guidelines are being adhered to;

(c) report to the Board on the significant risk profile, mitigation plans and controls in place to manage these significant risks, and the overall effectiveness of the risk management process;

(d) periodically consider the respective roles of the Auditor General and the internal audit function concerning risk management at PIDM, and request reports from the internal audit function validating management's risk assessments; and

(e) review with management and advise the Board on whether a sound and effective approach has been adhered to in establishing PIDM's business continuity planning arrangements, including whether disaster recovery plans have been tested periodically.

To support the effectiveness of risk management and internal controls, the Chief Internal Auditor and the Chief Risk Officer report to the Board through the Audit Committee.

Governance Committee

The Governance Committee carries out a similar role to that of a nominating committee in the private sector. Its principal duties and responsibilities comprise Board nominations and the evaluation of Board and Board Committee effectiveness.

PIDM's Governance Committee is also responsible to support the Board in ensuring that PIDM adheres to best practices in corporate governance. Generally, it reviews PIDM's key governance codes and policies including the Board Governance Policy and Corporate By-law.

Management regularly presents updates on relevant governance best practices from other local and international organisations to the Governance Committee. The Governance Committee also reviews the draft 'Statement on Governance' and 'Statement of Risk Management and Internal Control' which are subsequently made available on PIDM's website.

[13] PIDM, *Charter of the Audit Committee.* Available at: http://www.pidm.gov.my/pidm/corporate-governance/governance-framework/

BOARD GOVERNANCE POLICY: ROLES AND RESPONSIBILITIES OF THE BOARD

Remuneration Committee

In the private sector, a remuneration committee comprises non-executive directors. It decides on the remuneration of directors, including the CEO. The remuneration committee may at times extend its purview to the remuneration of senior management. This includes bonuses and increments for the CEO and senior employees. PIDM's Remuneration Committee is responsible to support the Board to ensure that PIDM has fair and equitable human resource policies that prioritise hiring and retention of employees with the appropriate expertise and qualifications.

The principal objectives of PIDM's Remuneration Committee are to:

(a) assist the Board in the oversight of human resources and compensation matters, and management succession plans;

(b) review reports with respect to compliance with legal requirements and major corporate policies pertaining to human resource matters on an annual basis. Where required by management, it provides a report to the Audit Committee on breaches or concerns raised about employees' compliance with business conduct and ethics; and

(c) review and make recommendations to the Board on the annual bonus ranges and individual employee bonus awards. This includes reviewing the CEO's performance and achievement of key performance indicators based on the evaluation of the CEO by the Chairman of the Board.

DIVISIONS OF RESPONSIBILITY AND ACCOUNTABILITY

Standards 5-8 of the Board Governancy Policy relate to clarity of the roles and responsibilities of the Chairman and CEO, compensation and succession planning of the CEO and senior officers.

Standard	Expectations from the Board
Standard No. 5 Role and responsibilities of the Chief Executive Officer	The responsibilities and accountability of the Chairman and the CEO should be clearly distinguished and documented. In this connection, the Board will: (a) develop a position description for the CEO; (b) develop a set of corporate objectives at least annually for which the CEO is responsible for achieving, and evaluate the performance of the CEO against those objectives; and (c) establish an accountability relationship for the CEO to the Board.
Standard No. 6 Appointment of senior corporate officers	The Board will appoint the senior corporate officers of PIDM (other than the CEO) and determine their terms of office and compensation.
Standard No. 7 Compensation of officers	The Board will satisfy itself, on a regular basis, that the compensation of PIDM's officers and employees is consistent with the sustainable achievement of PIDM's objects, the prudent management of its affairs and the risks to which it is exposed, and adherence to its policies and procedures. The Board will review the compensation programme for all Directors, and make recommendations to the Minister in that regard.
Standard No. 8 Succession planning	The Board will plan for the succession of the CEO and review succession plans for key senior management.

An in-depth discussion of the clarity of roles and responsibilities between the Board, the Chairman and CEO under standard 5 as well as succession planning under standard 8 are discussed in Chapter 5.

Remuneration

Generally, the role of the Board in relation to remuneration of employees is the same as for any private sector body. In the context of PIDM, however, the following are approved by the Minister, on recommendation of the Board:

(a) appointment and remuneration of the CEO; and
(b) remuneration of Directors.

BOARD GOVERNANCE POLICY: ROLES AND RESPONSIBILITIES OF THE BOARD

Divisions of Responsibilities - The Public Sector Perspective

Practices in a public sector body differ in relation to the CEO as well as board members, as follows:

(a) **The compensation philosophy for Board members forms the basis for recommendations to the Minister.** The IFAC Study states that the levels of remuneration of members of the governing body need to be sufficient to attract and retain them to run the entity successfully. Public sector bodies need to establish a formal and transparent procedure for developing policy for fixing the remuneration packages of individual members of the governing body.[14] In the context of the PIDM's Board members, no member decides his or her remuneration in particular, as the final decision lies with the Minister.[15]

(b) **Succession plans for the CEO are needed to make appropriate recommendations to the Minister.** As the Board makes recommendations to the Minister on the appointment of the CEO, the Board should also have a succession plan for the CEO.

Standards of behaviour

'Integrity' refers to the application of values, principles and norms in the daily operations of public sector organisations.[16]

Standard	Expectations from the Board
Standard No. 9 Standards of behaviour and ethics	The Board will ensure that management develops adequate policies, strategies, processes and controls within PIDM to maintain an organisational climate that fosters ethical behaviour, employee commitment to the operations of PIDM and a high degree of employee satisfaction. To fulfil this responsibility, the Board will: (a) establish standards of conduct and ethical behaviour for Directors, PIDM's officers and other employees, and obtain, on a regular basis, reasonable assurance that PIDM has an ongoing, appropriate and effective process for ensuring adherence to those standards; and (b) ensure that management develops adequate policies, strategies, processes and controls within PIDM to achieve the organisational climate.

Chapter 2 described what PIDM does to articulate standards of behaviour expected of its Directors and employees through policies and codes, training and education as well as through regular reminders and reinforcement. These efforts are made to engrain the culture of integrity within PIDM, and needs to be role-modelled by senior leadership.

[14] PIDM, *Board Governance Policy*, Paragraph 7.5
[15] PIDM, *Board Governance Policy*, Paragraph 7.6
[16] OECD, *Public Sector Integrity Reviews*. Available at: http://www.oecd.org/gov/ethics/public-sector-integrity-reviews.htm

EFFECTIVE GOVERNANCE BY THE BOARD

The Board is to consider the entire network of the various controls established by management to support the achievement of PIDM's objectives as a whole, including the effectiveness, efficiency and operations, the reliability of internal and external reporting, compliance with applicable laws and internal policies. This encompasses matters such as enterprise risk management, internal control as well as governance controls, in respect of which the Board obtains regular assurances from the relevant parties. These are discussed in Chapters 6 and 7 respectively.

Standard	Expectations from the Board
Standard No. 10 Significant risks to PIDM	The Board will: (a) obtain an understanding of the principal risks of PIDM's business; (b) ensure that appropriate and prudent risk management systems to manage these risks have been implemented and review these regularly; (c) obtain reasonable assurance, on a regular basis, that systems are being adhered to and continue to effectively manage the risks affecting PIDM; and (d) ensure that the Chief Risk Officer should regularly attend all scheduled Board meetings.
Standard No. 11 Control environment and internal audit	The Board will ensure that PIDM has a control environment that supports the prudent management of its operations and of the risks to which it is exposed (including risks to the attainment of its objects) and has effective policies and practices to assure the integrity of internal controls and management information systems. In this connection the Board will: (a) allocate resources for, and establish an internal audit group, setting out its mandate; (b) approve its audit plan each year; and (c) seek, from the internal audit group, on a regular basis, reasonable assurance regarding the monitoring of, and the compliance with internal controls, the integrity of the system, and that appropriate action is being taken to address any significant weaknesses or breakdowns identified.
Standard No. 12 In control	The Board will obtain, on a regular basis, reasonable assurance that PIDM is 'in control'. The concept of being 'in control' refers to the state or condition wherein: (a) operations are subject to effective governance by the Board; (b) operations are being managed in accordance with ongoing, appropriate and effective strategic and risk management processes, and are being conducted in an appropriate control environment; and (c) any significant weaknesses or breakdowns related to those matters are being identified, and appropriate and timely action is being taken to address them.

Other than external audits, the Board obtains assurance from the Chief Risk Officer and the Chief Internal Auditor, both of whom report to the Board through the Audit Committee. This is in line with best practices in the private sector.

BOARD GOVERNANCE POLICY: ROLES AND RESPONSIBILITIES OF THE BOARD

The public sector perspective

To ensure that there is a basis for the Board to conclude on the adequacy of control over material risks, the Board additionally obtains regular reports and assurances in the following manner:

(a) **The Board receives a yearly report on compliance with law and ethics.** In respect of compliance with key policies and laws, the Board obtains, through the Audit Committee, a detailed report from the Corporate Secretary, who chairs the Corporate Compliance Committee.

(b) **The Board conducts an annual evaluation for its effectiveness.** The Board has approved a Board evaluation process, and undergoes an evaluation of its effectiveness on a yearly basis. This is conducted through self-evaluation and every three years, an independent third party assessment is obtained. On an annual basis, the Board also evaluates management's support to the Board in providing timely and accurate information.

(c) **The Board obtains regular assurance on the strategic management process.** As regards progress against key corporate initiatives, the Board is involved in setting the strategic direction for PIDM, and the corporate and financial plan is subject to Board approval.[17] The Board receives regular reports on PIDM's financial performance as well as progress against the Corporate Plan.

(d) **The Board receives regular reports on the monitoring of member institutions.** PIDM's statutory objects include providing incentives for sound risk management in the financial system, as well as to protect depositors and takaful certificate and insurance policy owners. This means it must monitor the inherent risks of member institutions, so as to be able to fulfil its statutory objects effectively. PIDM has a dedicated and specialised unit to monitor these risks, and the Board receives regular reports from PIDM's Insurance, Macroeconomic Surveillance Unit on the operating environment as well as on the state of health of member institutions.

[17] *See Standard No. 13, discussed below.*

STRATEGIC PLANNING AND MANAGEMENT

Standard	Expectations from the Board
Standard No. 13 Strategic management process	The Board is responsible for reviewing and overseeing the development of and approving a strategic plan and direction for PIDM, taking into account the opportunities and risks facing PIDM. To fulfil this responsibility, the Board will: (a) periodically assess PIDM's objects to ensure their continuing relevance and, if thought appropriate, propose changes for consideration by the Minister; (b) adopt a strategic planning process; (c) at least annually, approve operating objectives and strategies, an operating budget, capital budget, borrowing plan, corporate plan and premium and levy rates that are appropriate and prudent in light of PIDM's objects, current and anticipated environment, risks, resources and financial position; (d) regularly evaluate PIDM's performance in implementing its approved plans, and budgets; and (e) obtain, on a regular basis, reasonable assurance that PIDM has an effective strategic management process.

Strategic planning at PIDM includes certain elements similar to the approach used in the private sector. This includes identifying the most challenging issues, scanning for political, social, economic, and technological trends, and integrating the budgeting and strategic planning processes. Similarly there is regular evaluation of performance against plans and budget.

Strategic planning and management – The public sector perspective

(a) **PIDM's strategic planning recognises the need to focus on producing public value.** Strategic planning can be more complex for a public sector body, especially in the context of a diverse stakeholder environment with many interests and priorities.[18] Depending on the statutory objects of the entity, the focus of the strategic plan should be about creating collective public value. Important issues facing the public sector include what value it should produce (public value), recognising that the weightage to be given to certain aspects of the environment which it is in, are likely to differ from the private sector.[19]

(b) **The Board must review public policy objectives and mandate.** The governing body is also to examine its public policy objectives, and, periodically, the legislated mandate, to ensure their continuing relevance.[20]

[18] Poister, T.H. (2010), The future of strategic planning in the public sector: Linking strategic management and performance: 70(s1) *Public Administration Review,* pages 246 – 254

[19] Alford, J. and Greve, C. (2017), Strategy in the public and private sectors: Similarities, differences and changes, Vol 7, Iss 35, *Administrative Sciences,* pages 1 - 17

[20] PIDM, Board Governance Policy, Paragraph 13.2; Crown Corporation and Privatization Sector, Department of Finance and Treasury Board of Canada, 2002, *Corporate Governance in Crown Corporations and Other Public Enterprises: Guidelines*

BOARD GOVERNANCE POLICY: ROLES AND RESPONSIBILITIES OF THE BOARD

COMMUNICATIONS

Standard	Expectations from the Board
Standard No. 14 Effective communication	The Board will ensure that PIDM communicates effectively with the public, Bank Negara Malaysia, other statutory bodies or regulators, depositors, member institutions and other relevant parties.

Communications – the public sector perspective

Communications at PIDM are guided by the principle of 'Openness' which was described in detail in Chapter 2. Communications is an aspect of stakeholder engagement, which is highly important to public sector bodies, not only for better regulations, but for improved regulatory outcomes. This is discussed in Chapter 8.

CONCLUSION

Standard No. 15 states that the Board will regularly review the Board Governance Policy to ensure that it remains responsive to the circumstances and needs of PIDM and continues to reflect the PIDM Act.

BOARD GOVERNANCE POLICY: ROLES AND RESPONSIBILITIES OF THE BOARD

The key takeaway from this Chapter are as follows:

- Contains a statement of commitment to sound corporate governance and outline of responsibilities.
- Captures what constitutes 'best practices' in corporate governance, in the context of PIDM's statutory objectives, business and affairs.
- Is a key reference document for the Board on its accountability framework and governance responsibilities.
- Sets out the Board's expectations from management to support sound corporate governance.

CHAPTER 4

BOARD APPOINTMENTS, ORIENTATION AND EDUCATION

BOARD APPOINTMENT, ORIENTATION AND EDUCATION

INTRODUCTION

The appointments of non-ex officio Directors of PIDM are to be made by the Minister. These Directors are to hold office for terms not exceeding three years though they are eligible for reappointment.[1]

APPOINTMENTS OF THE NON-EX OFFICIO DIRECTORS

Effective governance requires having the right board composition comprising directors who have the appropriate combination of skills and experience as well as the right behaviour and attitudes. To ensure there is a good combination of experience, skills, qualifications and personal attributes on the Board, there must be an appropriate recruitment and appointment process.

It is in the interests of PIDM to have a clear process that would help ensure that there is an appropriate mix of experience, skills, qualifications and personal attributes on the Board. This means that PIDM should keep track of impending vacancies on the Board and make recommendations to the Minister in advance of impending retirements of non-ex officio members of the Board.

In practice, the Board, through the Chairman, communicates with the Minister on PIDM's Board succession planning process (discussed below) in advance. This is to achieve buy-in from the Minister, so that when the Minister makes the decision to appoint, he will have the relevant information and recommendation of the Board (i.e., what the Board is trying to achieve with the mix of skills, experience and diversity, for an effective Board).

Disqualification

The PIDM Act disqualifies certain categories of persons from being appointed to PIDM's Board. These comprise members of Parliament, or a state legislative assembly, office bearers in political parties, or officers and employees of member institutions.[2]

[1] Section 13(1)
[2] Section 14(1)

BOARD SUCCESSION PLAN

Standard	Expectations from the Board
Standard No. 4 Board composition and succession	The board composition should maintain independence, and there should be an appropriate mix of skills and capabilities, given the objectives and strategic direction of PIDM. To achieve this, the Board will, in consultation with the CEO: (a) develop a profile of desirable skills and capabilities that would best enable the Board to fulfil their responsibilities and advise the Minister of the desired mix that should be sought in filling upcoming non-ex officio Board vacancies; and (b) have a board succession plan to recommend to the Minister the orderly turnover of directors.

The Board has approved a Board succession planning process that is intended to help identify the collective Board profile and the individual member profiles. In brief, the Board succession planning process is in line with best practices and comprises:

(a) an annual determination of the needs of PIDM in terms of the skills, knowledge and experience needed on the Board, having regard to its stage of development, aspirations and current needs of PIDM, so that there is an updated 'collective Board profile' and an 'individual Board profile';

(b) an annual skills gap analysis, which is carried out to determine whether PIDM has the appropriate mix of skills, knowledge and experience available on the Board (by reference to the Board profiles), and to identify gaps, if any; and

(c) the development and maintenance of an updated list of candidates that would meet the requirements of the Board profile.

Should a vacancy on the Board arise, potential candidates from the list who might fill the skills gaps, can be identified. This approach will form the basis for the Board to recommend a potential candidate for board membership to the Minister.

Policy on retirement, succession and tenure

To ensure continuity on the Board, PIDM's Policy on Tenure, Retirement and Succession for Non-Ex Officio Directors addresses:

(a) the need to "stagger" retirements so that not all Directors retire at the same time; and

(b) the maximum number of terms for which a Director should serve, which is generally two terms, with provision for a longer term under exceptional circumstances, e.g. where specialised skills set is needed.

Under this policy, the Board should generally make a recommendation to the Minister at least six months before the expiry of the current term of any non-ex officio Director.

BOARD APPOINTMENT, ORIENTATION AND EDUCATION

Board Profile

As indicated above, PIDM has a collective Board profile and an individual Board member profile, which are updated on a regular basis. In reviewing the profiles, PIDM's Governance Committee, considers PIDM's stage of development, its strategic direction and priorities in order to determine PIDM's aspirations, as well as any current challenges or issues facing it.

The collective Board profile addresses the mix of skill and experience PIDM desires from the Board collectively. For example:

Desired mix of skills and experience on the board	Relevance to PIDM's mandate, vision and strategic direction
Experience in statutory bodies or relevant public bodies	This is recognised under the Board composition provisions stipulated by the PIDM Act. At least one public sector Director must be appointed to the Board. The Governor of Bank Negara Malaysia and the Secretary General of Treasury are ex officio members of the Board.
Financial expertise, risk and audit	Aside from its importance from the perspective of corporate governance, this expertise is especially important to address financial, risk and audit matters.
Legal expertise/ knowledge and corporate governance	Given that PIDM's mandate and regulatory powers stem from the PIDM Act, it is important to have this expertise to provide strategic input from the perspective of laws and regulations.
Banking and insurance industry and financial services	Subsection 11(2)(e) of the PIDM Act provides that at least one private sector Director must have relevant banking and financial sector experience. Knowledge of the regulatory and supervisory frameworks concerning PIDM's member institutions specifically and the financial sector generally, would enable a Director to better understand member institutions' operations and PIDM's business risks and environment.

The individual board profile sets out the type of attributes, mindset and commitment and general knowledge required of a Director.

BOARD APPOINTMENT, ORIENTATION AND EDUCATION

Skills Gap Analysis

The Policy on Tenure, Retirement and Succession for Non-Ex Officio Directors[3] provides that the Board should review annually, the appropriate mix of skills, experience and strengths on the Board, that meets the needs of PIDM.

PIDM uses a board skills matrix to help determine whether the needs of PIDM on the board (as identified in the updated collective Board profile) are being met, or whether there are any gaps in skills or experience that need to be addressed. The board skills matrix was adopted from Khazanah's "Green Book on Enhancing Board Effectiveness" (2006) and has since then been updated regularly.

This 'skills gap analysis' helps the Board decide whether to recommend the renewal of the tenure of its current directors or to recommend new directors to replace them. An example of the matrix used is illustrated below:

Required Qualifications, Skills, Knowledge and Experience	A	B	C	D	E	F	G	H	I
Previous or current leaders of statutory/public bodies	√	√	√	√	√		√		
Finance and accounting	√				√			√	√
Risk Management	√		√			√		√	√
Economics		√		√		√			
Legal Matters and corporate governance							√		
Regulation of banking, insurance and financial services	√					√			√
Interventions and insolvency	√	√							
Commercial or Islamic banking						√			√
Insurance or takaful industry								√	
Human Resource Management								√	
Consumer issues related to member institutions, communications, and stakeholder management							√		
Knowledge of information technology in financial services	√								

[3] PIDM, *Policy on Tenure, Retirement and Succession for Non-Ex Officio Directors*, paragraph 3.1

BOARD APPOINTMENT, ORIENTATION AND EDUCATION

List of potential candidates

Any changes in the composition of PIDM's Board, whether as a result of a vacancy on retirement or resignation, will take into account the gaps identified through the skills gap analysis. As far as possible, Directors should be from diverse backgrounds so that discussions are well-rounded and the decision-making process considerably enhanced.[4]

At least six months prior to the expiry of a Director's term, the Board will, on recommendation of the Governance Committee, develop a list of candidates that fit the collective and individual Board profiles, to enable it to make a recommendation to the Minister.[5]

PIDM communicates with the Minister in writing, explaining the following:

(a) the legislative requirement in relation to the appointment; and

(b) the process that PIDM adopts, based on its board succession plan and processes, which includes the establishment of the Board profile and the skills gap analysis.

BOARD ORIENTATION

Standard	Expectations from the Board
Standard No. 2 Board effectiveness and governance responsibilities	The Board will obtain and maintain an understanding of PIDM's objects and powers, as well as of its governance responsibilities. To achieve this, the Board will: (a) develop and maintain approaches to fulfilling those responsibilities and will evaluate, objectively, on a regular basis, its effectiveness in doing so; and (b) ensure that PIDM has arrangements for the orientation of new directors and ongoing training appropriate to the Board's governance responsibilities and needs.

The Board Governance Policy states that PIDM must have arrangements in place for the orientation of new directors. PIDM has a Board-approved orientation programme for each new Director who is appointed. The primary objective of PIDM's orientation programme is to quickly integrate the new Director into the Board so that he or she can effectively contribute to the work of the Board.

Directors need critical information about PIDM and its business and affairs, including the key issues that it is facing. The orientation programme addresses the information to be provided to Directors at various stages.

[4] PIDM, *Policy on Tenure, Retirement and Succession of Non-Ex Officio Directors*, Paragraph 3.2
[5] PIDM, *Policy on Tenure, Retirement and Succession of Non-Ex Officio Directors*, Paragraph 6.1

In particular, the information that is provided to new Directors of PIDM includes a Director's Guide. The Director's Guide is tailored for Directors of PIDM, and provides key guidance to the new Director focusing specifically on his or her role as a director of a public sector body, and his or her principal responsibilities. It also provides guidance as to expectations in respect of the financial reporting and standards, as well as standards of behaviour required of Directors.

A compilation of materials is also provided to new Directors in the form of the Director's Handbook. This includes details such as contact numbers of Directors and senior management, and contains other detailed material referred to in the Director's Guide, such as position descriptions for Members of the Board, the Chair and the Chief Executive Officer as well as a description of their relationship, the Corporate By-law, the Board Governance Policy and legislation. The table of contents of the Director's Guide and Director's Handbook is in the Appendix.

BOARD EDUCATION

In line with the Board Governance Policy, Directors are provided with opportunities to keep abreast of matters pertinent to the business and affairs of PIDM, including in areas with possible impact on the operating environment of member institutions and PIDM. This allows for robust and in-depth Board discussions. All new Directors are encouraged to attend the Financial Institutions Directors' Education ("FIDE") Programme, if they have not already done so, when they join PIDM's Board.

Annually, the Board establishes a Board Education Plan that will include:

(a) briefings by management or external speakers on specific topics relating to deposit insurance and financial consumer protection schemes;

(b) opportunities to attend relevant programmes organised by the IADI;

(c) opportunities to attend conferences or talks organised by the FIDE Forum for directors of member institutions; and

(d) a briefing on the economy and the economic outlook.

TERMINATION OF DIRECTORS

The PIDM Act provides the Minister with the power to terminate or suspend the appointment of any director for reasons that have been stated in the Act.[6] This includes the Director becoming incapable of carrying out his or her duties, becoming a bankrupt or suspending payment with his or her creditors, committing a criminal offence or being guilty of serious misconduct in relation to his or her duties under this Act.

CONCLUSION

For a board to be effective, it needs a suitable blend of attributes, skills and experience. Appointments to the board should be on the basis of suitability and experience.

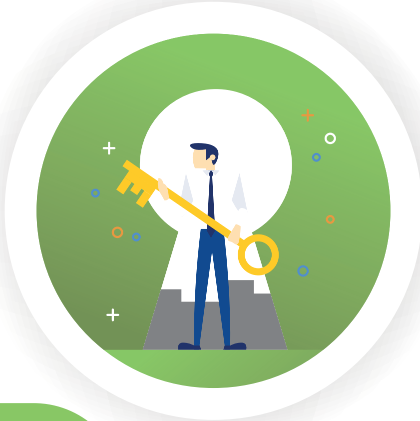
Even where the Minister appoints a Director, the board remains ideally suited to advise on the skills and experience required to maintain a good board balance and competence, within the constraints of the enabling legislation. As such, in practice, PIDM's Board makes recommendations to the Minister as to the needs of PIDM for non-ex officio Members.

Board orientation is also an important part of ensuring that new Directors can contribute quickly. Board education does not end at orientation, as Directors must be equipped with training and education on areas relevant to the business and affairs of the organisation.

[6] Section 14(2)

BOARD APPOINTMENT, ORIENTATION AND EDUCATION

The key takeaways from this Chapter are as follows:



Board succession. PIDM has a Board Succession Plan, which forms the basis for the Board to explain the needs of PIDM in terms of attributes, skills and experience on its Board. Given that Board appointments are by the Minister, PIDM's practice is as follows:

(a) PIDM's Chairman will, if possible, communicate the Board succession plan to the Minister, in order to explain PIDM's proposed approach;

(b) There is a "Policy on Tenure, Retirement, and Succession of Non-Ex Officio Directors", which stipulates the recommended maximum term for each non-ex officio director, and for the 'staggering' of terms so that not all members retire at the same time, in the interests of maintaining board continuity;

(c) Annually, the Board will consider PIDM's current stage of development, aspirations, and current needs. It will develop a collective Board profile, which sets out the mix of skills and experience required on the Board. It also maintains an individual Board profile, which are the attributes it looks for in each Director. The Board will then carry out a 'skills gap analysis', to see if there are any key gaps on the existing Board in terms of skills and experience; and

(d) Should a vacancy arise, the Board will make a recommendation to the Minister, explaining the basis for its recommendations.

Board orientation and education. Board orientation and education are particularly important and aim to achieve the following:

(a) Provide clarity as to accountability of the Board within the framework of the PIDM Act;

(b) Provide an introduction to PIDM and its statutory objects;

(c) Provide a good understanding of the roles, duties and responsibilities of each director;

(d) Highlight the possibilities for external interference in the public sector;

(e) Explain the standards of governance and behaviour expected from the Board; and

(f) Board education ensures that the Board keeps abreast of matters that are relevant to the business and affairs of PIDM.

APPENDIX

Contents of the Director's Guide

Content	
Introduction	• Introduction to the Guide • Structure of the Guide
Principles of Corporate Governance adopted by PIDM	Part 1: Corporate roles and responsibilities • The role of the Board • PIDM's Governance Approach and Standards of Governance • Conduct of Board Business • Corporate Planning and Strategic Management • Communications and Stakeholder Management • The role of the Minister of Finance • Strategic Alliance Agreement with Bank Negara Malaysia • The Board as an employer
Roles, responsibilities and relationships as public sector Directors	Part 2: Individual roles and responsibilities • Role and responsibilities of the Directors • Role and responsibilities of the Chairman • Fundamental principles applicable to the Directors • Personal liability • Appraisal and re-appointment of Directors • Key relationships
Financial Reporting and Internal controls	• Budgeting and Financial Management: Role of the board in budget setting process • Performance measurement and reporting • Annual Report and Accounts • FInancial stewardship • Risk management and internal controls • Internal audit • Audit Committee • External audit
Expected Standards of Conduct	• Qualifications as a member of the Board • Code of Business Conduct and Ethics for Directors • Conflict of Interest Code for Directors

BOARD APPOINTMENT, ORIENTATION AND EDUCATION

Orientation Programme – Material to be provided to new Directors

When	Materials/information to be provided
Recruitment stage	Publicly available corporate information will have been provided to set expectations.
On appointment	Immediately upon appointment, to provide other introductory materials in particular the PIDM "Director's Guide" and the Director's Handbook.
After appointment	As soon as possible after appointment, and before the next Board meeting: • to provide an opportunity to meet with the other Directors and senior management in an informal setting; • to hold a one-to-one meeting with the Chairman immediately upon appointment, to discuss in broad terms what is expected of a Director in the first year and any role he or she is expected to play; • to provide other key materials including minutes of Board and Board Committee meetings;[7] • to hold meetings with members of the executive management committee, who is also the head of his or her respective division within the Corporation; and • to advise the new Director on the administration of Board and Board Committee meetings as well as the Director's access to management and external legal counsel or other advisors.
Before the new Director's first Board meeting	Between two weeks and a month before the next Board meeting (if possible), to brief the new Director on the key issues to be considered at that meeting and to provide other relevant information.
Before the new Director's first Board Committee meeting	After appointment of the new Director onto a Board Committee (which will occur only after the Board meeting), to brief the new Director on the issues to be considered at the next relevant Board Committee meeting, of which he or she is a member. To have senior management available to the new Director to answer any questions respecting the matters before the Board.

[7] *In order for the new Director to gain historical understanding of the work performed by the Board and the individual Committees, the new Director will also be provided with, among other materials, copies of minutes of the past twelve (12) months' Board and Committee meetings as well as a list summarising the issues that were dealt with in that 12-month period*

BOARD APPOINTMENT, ORIENTATION AND EDUCATION

Contents of the Director's Handbook

A. BOARD OF DIRECTORS

General Information

a. Director's Guide

b. Board of Directors: Current Composition and Contact Details

c. Executive Management Committee: Members and Contact Details

d. Governance Framework, Organisational Chart and Overview of PIDM Divisions

e. Schedule Planner and Agenda Planner

f. Board Education Programme for the Year: Topics and Tentative Schedule

g. Board Orientation Programme

h. Board Succession Plan

i. Remuneration of Directors

j. Evaluation of Board and Committees' effectiveness: Process and Questionnaires

Directors' Profile and Position Descriptions

k. Directors' Individual and Collective Board Profile

l. Position Description: Members of the Board of Directors

m. Position Description: Chairperson

n. Position Description: Board Committee Chairperson

o. Position Description: Chief Executive Officer

p. Description: The relationship between the Board, the Chairperson and the Chief Executive Officer

Board Committees

q. Current Composition of Board Committees

r. Audit Committee Charter

s. Governance Committee Charter

t. Remuneration Committee Charter

BOARD APPOINTMENT, ORIENTATION AND EDUCATION

B. KEY CORPORATE DOCUMENTS

a. Board Governance Policy

b. Corporate By-law

c. Conflict of Interest Code for Directors

d. Code of Business Conduct and Ethics for Directors

e. Policy on Tenure, Retirement and Succession for Non-Ex Officio Directors

f. Policy for the Appointment and Rotation of Board Committee Members

g. Policy on Reimbursement of Directors' Expenses by the Corporation

h. Policy and Procedures for the Engagement of Separate Independent Counsel or Other Advisors

i. Procedures for Advances or Funding with regard to Legal Proceedings Involving Directors, Officers, Employees and Agents of the Corporation

j. Policy for Disclosure of Information Concerning Improper Conduct (Whistleblowing Policy)

k. Policy Against External Interference

l. Internal Control Framework

m. Enterprise Risk Management Policy

n. Communications Policy

C. LEGISLATION*

a. Malaysia Deposit Insurance Corporation Act 2011

D. GOVERNANCE PUBLICATIONS

a. Summary of OECD Best Practice Principles for the Governance of Regulators

b. OECD Best Practice Principles for the Governance of Regulators

c. Summary of OECD Creating a Culture of Independence: Practical Guidance Against Undue Influence

d. OECD Creating a Culture of Independence: Practical Guidance Against Undue Influence

* The Corporation also issues various Regulations, Orders and Guidelines. These are accessible on the corporate website at www.pidm.gov.my.

CHAPTER 5

RELATIONSHIP BETWEEN THE BOARD AND THE CEO, AND CEO SUCCESSION PLANNING

RELATIONSHIP BETWEEN THE BOARD AND THE CEO, AND CEO SUCCESSION PLANNING

INTRODUCTION

Standard	Expectations from the Board
Standard No. 5 Role and responsibilities of the Chief Executive Officer	The responsibilities and accountability of the Chairman and the CEO should be clearly distinguished and documented. In this connection, the Board will: (a) develop a position description for the CEO; (b) develop a set of corporate objectives at least annually, which the CEO is responsible for achieving, and evaluate the performance of the CEO against those objectives; and (c) establish an accountability relationship for the CEO to the Board.
Standard No. 8 Succession planning	The Board will plan for the succession of the CEO and review succession plans for key senior management.

PIDM's Board Governance Policy

CLARITY OF ROLES AND RESPONSIBILITIES

The Minister and the Board

The Board maintains a relationship with the Minister through the Chairman. Where appropriate, the Board's practice is to also keep the Minister apprised. For example:

(a) the Chairman briefs and advises the Minister where PIDM has proposals that may have potential implications on wider government policy;

(b) the Chairman advises the Minister of issues that may be questioned or discussed in the media or in public that may require a Ministerial response; and

(c) the Chairman provides PIDM's annual corporate plan to the Minister, highlighting in advance any relevant major initiatives in the plan.

RELATIONSHIP BETWEEN THE BOARD AND THE CEO, AND CEO SUCCESSION PLANNING

The Board and the CEO

The division of responsibilities between the Board and the CEO is reflected in the PIDM Act. The Board is accountable and responsible for the conduct of the business and affairs of PIDM,[1] and the CEO is responsible for the day-to-day administration of its business and affairs.[2] The CEO is not a member of the Board.[3]

For clarity and to promote good working relationships between the CEO, the Chairman and the Board, PIDM has documented how they are to work together. In line with the Board Governance Policy, PIDM has a clear position description for the CEO and a position description for the Chairman. PIDM has also documented the expected relationship between the Board, the CEO and the Chairman.

The Chairman of the Board

For PIDM, the position of the Chairman is separate from that of the CEO, so as to enhance independence in the relationship between the Board and management.

Apart from the usual role of the chairman to lead the board and manage board meetings, the Chairman of PIDM, as chairman of a public sector body, has additional responsibilities. He or she is expected to represent PIDM at meetings with the Minister or other senior Government officials and when invited, to attend meetings before Parliamentary sub-committees.[4]

Delegation of authorities

At PIDM, several policies provide clarity in terms of delegations of authority to management. The key reference documents within this framework of control are as follows:

(a) the Board Governance Policy;

(b) the 'description of the relationship between the Board, Chairman and CEO'; and

(c) the authority matrices, as discussed below.

The Board Governance Policy

The Board's responsibilities for corporate governance are as set out in the Board Governance Policy (as discussed in Chapter 3) and the position descriptions. The Board's expectations from management in respect of good corporate governance are also spelt out in the Board Governance Policy.

Description of relationship between Board, Chairman and CEO

PIDM has a document that describes the relationship between the Board, Chairman and CEO. Generally, the Board:

(a) provides strategic and policy direction;

(b) provides oversight of management and generally ensures that PIDM is run effectively, efficiently and prudently; and

(c) holds management to account for PIDM's performance.

[1] Section 11(1)
[2] Section 19(2)
[3] Section 11(2)
[4] The Chairman's position description is found in Appendix A.

RELATIONSHIP BETWEEN THE BOARD AND THE CEO, AND CEO SUCCESSION PLANNING

The document also addresses the following:

(a) **The relationship between the Chairman and the CEO.** The description requires the Chairman and the CEO to work together and communicate openly. They are expected to have a relationship of trust and cooperation, and consult prior to discussions with the Board and external parties.

(b) **The relationship between the Board and the CEO.** The document also clarifies the relationship between the Board and the CEO. Essentially, the Board is expected to evaluate management's proposals and if necessary, challenge them. However, the Board is also expected to provide strategic advice and give support to the CEO.

(c) **Authority Matrices.** PIDM has two authority matrices, which summarise the responsibilities and authorities of the Board, Board Committees, the CEO and management, addressing authorities during normal operations as well as during an intervention and failure resolution of a member institution. These are:

(i) **The Authority Matrix.** The authority matrix is a consolidated matrix setting out all the relevant authorities based on the PIDM Act, the Corporate By-law and PIDM's policies. This sets out the authorities of the Minister, the Board, Board Committees, the CEO and other parties, in respect of the business and affairs of PIDM, other than during an intervention and failure resolution of a member institution.

(ii) **Intervention and Failure Resolution Authority Matrix.** This authority matrix is based on the PIDM Act and PIDM's various powers and regulatory tools to intervene and resolve a member institution under the PIDM Act. The authority matrix sets out the anticipated actions during an intervention and failure resolution, and addresses the approvals needed, and the persons with authority to give those approvals.

EVALUATION OF THE CEO

Position Description for the CEO

Aside from the normal expectations for a CEO of an entity, PIDM's position description for the CEO[5] articulates the roles the Board expects the CEO to perform within a public sector body, in particular with respect to engaging other stakeholders, and attending Parliamentary meetings.

Stakeholder management is an important aspect of the CEO's role.

Minister and Parliament

With the Chairperson, attend meetings with the Minister or other senior Government officials when necessary to discuss the achievement of the Corporation's objectives, performance and financial results.

When invited, attend meetings before Parliamentary sub-committees.

Other government and international agencies

Develop effective working relationships, coordination and exchanges of information with the management of relevant Government departments and statutory bodies or regulators (Ministry of Finance, Bank Negara Malaysia), Government agencies and counterparts in other jurisdictions.

Excerpt of PIDM's position description for the CEO

[5] Further relevant information on the CEO's position description is found in Appendix B.

RELATIONSHIP BETWEEN THE BOARD AND THE CEO, AND CEO SUCCESSION PLANNING

Board oversight

The Board provides oversight and ensures that the CEO fulfils his key roles and is accountable to the Board for PIDM's performance. To ensure accountability:

(a) following annual strategic planning sessions, the Board approves the Corporate Plan. This sets out the corporate objectives that PIDM aims to achieve for the following year, and the related key initiatives and financial plan;

(b) the CEO is responsible for the execution of key initiatives within the Corporate Plan and financial plan. Based on these key initiatives, the Board will approve the annual key performance indicators for the CEO, on recommendations of its Remuneration Committee. This sets clear performance expectations against which the CEO is evaluated at the end of the year;

(c) progress reports are provided to the Board against key corporate initiatives and the financial plan throughout the year. The CEO also provides progress reports against his or her specific key performance indicators to the Board through the Remuneration Committee; and

(d) at the end of the year, the Remuneration Committee performs the annual evaluation of the CEO against these performance objectives and advises the Board regarding his or her performance.

CEO succession planning

Under the PIDM Act, the power to appoint the CEO lies with the Minister, on the recommendation of the Board.[6]

CEO succession planning is a key responsibility of the Board, including overseeing the programme structure, setting selection criteria, evaluating candidates, and making the final choice of a candidate for the position of CEO. PIDM's Board recognises the importance of succession planning to ensure there is a suitable candidate for the position in anticipation of retirement of the CEO and in case there is an unplanned vacancy in the position of the CEO. As a stop-gap measure, in the absence or incapacity of the CEO, the Board can authorise any officer of PIDM to perform the CEO's duties, functions and responsibilities.[7]

PIDM has the following practice in regard to succession planning for the CEO:

(a) The Board develops the profile for the position of CEO, identifying the skills and the characteristics that are considered essential for the position of CEO, given PIDM's mandate, its stage of development and aspirations, as well as the major issues, risks and challenges facing PIDM.

(b) If the Board considers it necessary, the Board may establish a separate Board Committee to help develop and make recommendations for the CEO succession plan, for example, where a vacancy for the position of the CEO is anticipated. In the past, PIDM's Board established a Succession Planning Committee to support it on this matter, carry out the due diligence for succession planning, and to oversee the detailed practical work.

(c) Both internal and external candidates will be considered, in order to identify the best candidate that suits the needs of PIDM. The Governance Committee will also ensure that, if there are internal candidates, they are provided with training and exposure for a period of time before the CEO retires in order to ensure that the successful candidate is prepared to take on the role of CEO.

(d) Currently, oversight of key senior management succession planning lies with the Governance Committee, which will work with the CEO and the Head of Human Capital, to ensure effective implementation of the succession planning process.

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[6] Section 19(2)
[7] Section 19(4)

RELATIONSHIP BETWEEN THE BOARD AND THE CEO, AND CEO SUCCESSION PLANNING

Terms and conditions and remuneration of the CEO

Standard	Expectations from the Board
Standard No. 7 Compensation of officers	The Board will satisfy itself, on a regular basis, that the compensation of the Corporation's officers and employees is consistent with the sustainable achievement of the Corporation's objects, the prudent management of its affairs and the risks to which it is exposed and adherence to its policies and procedures. The Board will review the compensation programme for all Directors, and make recommendations to the Minister in that regard.

PIDM's Board Governance Policy

Under the PIDM Act, the CEO is deemed to be an officer or employee of PIDM and is subject to terms and conditions of service. He or she will enjoy such remuneration as approved by the Minister on the recommendation of the Board.[8]

The Board thus has a role to play in recommending appropriate remuneration for the CEO and is guided by Standard No. 7 of the Board Governance Policy.

CONCLUSION

PIDM aims to have clear divisions of responsibilities between the Board, the Chairman and the CEO in order to maintain their respective accountabilities. The PIDM Act and position description for Chairman and CEO serves this purpose.

[8] Section 20

The key takeaways from this chapter are as follows:

The Board ensures that PIDM meets its statutory obligations and that its operations and policies reflect public sector standards and values. The Board's statutory obligations include acting in the best interests of PIDM. It is important for the Board to be clear on its role as a public sector Board, to maintain its independence and objectivity both from management and from external influences. Hence there are clear position descriptions and expectations set from the role of the Board in PIDM. The Board must also comply with the Directors' Conflict of Interest Code, and ensure that PIDM maintains relevant policies to deal with conflict of interest for employees.

PIDM reports to Parliament through the Minister of Finance on an annual basis. The Chairman keeps the Minister informed in advance about key strategic matters impacting the Minister, and where necessary, of major risks to PIDM and of the measures in place to address those tasks.

The Chairman and CEO are expected to interact with key stakeholders. This includes the Minister of Finance. The position descriptions make clear their roles in this respect.

The Board recommends the appointment of the CEO to the Minister of Finance. As such, it is in a good position to recommend a candidate with the skills and experience expected of the CEO. The Board must have a CEO succession plan to ensure a smooth transition takes place should a vacancy for the CEO's position arise.

Transparency and accountability is also key to Board effectiveness. The Board reports to Parliament and submits its audited financial statements and performance against its corporate plan through its annual report. This notwithstanding, the Board has established a Board evaluation programme which involves an annual self-assessment, and an independent third party evaluation of its effectiveness every three years.

APPENDIX A

POSITION DESCRIPTION: CHAIRPERSON
Key Responsibilities

Ministers and Parliament

- Represents the Corporation at meetings with the Minister of Finance or other senior Government officials.
- When invited, attends meetings before Parliamentary sub-committees.

CEO, Management and Board of Directors

- Presides at all meetings of the Board and organises the business of the Board and determines procedures at and conduct of Board meetings.
- Provides leadership to achieve overall Board performance.
- Works with the Board and CEO to develop broad policy directions for the Corporation and to advance the objects of the Corporation for Board approval.
- Ensures that management responds satisfactorily to the needs of the Board for information and other requirements.
- Ensures that the responsibilities of the Board, Board Committees and individual Directors, as set out in the Charters or position descriptions, are well understood by the Board and individual Directors and are executed as effectively as possible.
- Leads regular evaluation of the Board, Chairperson, Board Committees and Directors.
- Develops and maintains effective working relationships with management and facilitates effective communication between Directors and management, both inside and outside of Board meetings.
- Has full and free access to the Corporation's management for information and review of ideas and consults with the CEO where operational priorities would be significantly affected.
- Builds and maintains a sound working relationship with the CEO.
- Oversees the performance of management in executing the policies and procedures approved by the Board, and generally ensures that the Corporation is well run in terms of the priorities of the Board, which are efficiency,effectiveness and financial prudence.
- Ensures that the boundaries between the Board and management responsibilities are clearly understood and respected and that relationships between the Board and Management are conducted in a professional and constructive manner.
- With the assistance of the Audit Committee and the Board, manages conflicts of interest should they arise.

Other

- Spokesperson for the Board.

APPENDIX B

Position Description of the CEO

Ministers and Parliament

- With the Chairperson, attend meetings with the Minister of Finance or other senior Government officials when necessary to discuss the achievement of the Corporation's objectives, performance and financial results.
- When invited, attend meetings before Parliamentary sub-committees.[10]

Chairperson and Board of Directors

- Work with the Chairperson and the Board to develop the strategic direction of the organisation and significant policies to advance the objects of the Corporation and recommends such policies to the Board for approval.
- Inform the Chairperson and the Board of any financial and other development that in the CEO's opinion are likely to have a material effect on the performance of the Corporation.
- Review intervention initiatives with the Chairperson and makes recommendations to the Chairperson and the Board concerning such interventions designed to advance the objectives of the Corporation.
- Strive to provide good working relationships, open communication and discussions with the Chairperson and seek guidance from the Chairperson on all significant matters related to the Corporation.
- Attend meetings of the Board of Directors.

Other government and international agencies

- Develop effective working relationships, coordination and exchanges of information with the management of relevant Government departments and statutory bodies or regulators (Ministry of Finance, Bank Negara Malaysia), Government agencies and counterparts in other jurisdictions.
- Promote and advance the Corporation's image and reputation internationally through providing leadership and advice on deposit insurance and insurance compensation scheme matters generally, and participate at international seminars or conferences to keep abreast of developments in the financial sector.
- Assist and advise foreign governments and international agencies on the development and operation of effective deposit insurance regimes, subject to review with the Chairperson and the approval of the Board, where significant corporate resources are required.

[10] E.g. Jawatankuasa Akaun Negara of Dewan Rakyat has the power to summon external parties to address matters raised by Members of Parliament regarding accounts submitted to Parliament.

RELATIONSHIP BETWEEN THE BOARD AND THE CEO, AND CEO SUCCESSION PLANNING

Operations

- Manage the principal risks inherent in the Corporation's business and affairs and ensure that contingency plans and related action plans are developed and implemented to manage risks to the Corporation.
- Ensure corporate by-laws, regulations and guidelines are kept current and relevant.
- Ensure the differential premium system for deposit-taking members remains current and relevant, taking into consideration the changing business and regulatory environment.
- Develop and maintain effective and appropriate differential premiums or levy systems for member institutions.
- Ensure the development of an appropriate methodology to assess the risks inherent in providing deposit insurance and the takaful and insurance protection scheme.
- Plan the organisation of the Corporation and allocation of resources.
- Ensure that the Corporation consistently achieves planned objectives and financial targets.
- Ensure that the services delivered by the Corporation are of consistently high quality.
- Ensure the full knowledge of the organisation is brought to bear on decisions.
- Obtain and allocate resources required by the Corporation to meet its objectives.
- Lead the Executive Management Committee of the Corporation and act as an ex officio member of all other committees established by management.
- Be signing authority for the Corporation within Board-approved limits.
- Ensure that systems, practices and internal controls are developed, maintained and kept current to meet the changing needs of the Corporation.
- Ensure the development of annual corporate plans and budgets reflecting Board-approved strategic directions.
- Ensure that the Corporation adheres to its statutory responsibilities under the Act and by-laws and all other applicable statutes.

Human Capital

- Ensure the development of human resource plans and programmes to permit the Corporation to meet its objects as well as strategic and corporate objectives.
- Enhance human resource management through recruiting, directing, motivating, rewarding or disciplining and developing employee skills and expertise through coaching and training.
- Approve hiring, termination and remuneration (including recommending annual bonuses, where applicable) of employees other than corporate officers.
- Make recommendations to the Board concerning the hiring, termination and remuneration of corporate officers.
- Continuously evaluate the performance of senior management and take appropriate action as warranted.
- Carry out on a regular basis performance review sessions where results are compared to plan, exceptions explained and new proposals presented.

RELATIONSHIP BETWEEN THE BOARD AND THE CEO, AND CEO SUCCESSION PLANNING

- Cultivate a corporate culture that enhances the Corporation's performance and employee satisfaction.
- Motivate and enhance employee morale, competence and skills.
- Develop, recommend and implement appropriate succession plans.
- Maintain a high quality staff complement, through fair and effective human resource management and make recommendations on salary policies that recognise and reward performance.
- Provide an environment where employees are treated fairly and given opportunities and encouragement to develop their maximum potential.

Reporting

- Ensure that the Board is provided with periodic reports on the operations of the Corporation, highlighting any significant issues that have arisen or seem likely to arise including management information to enable the Board to effectively monitor and evaluate corporate performance against stated objectives and within executive limitations. Such information would include:
    - information to enable the monitoring of the performance of the Corporation by the Board in a timely fashion;
    - information on relevant trends, anticipated adverse media coverage, material external or internal changes, and any changes in the assumptions upon which any Board decision or approval has previously been made;
    - a list of significant risk factors and what mechanisms are in place to identify, manage, and mitigate the identified risks; and
    - information, both internal and external, that the Board may require in order to make fully-informed decisions regarding the operation of the business and affairs of the Corporation.
- Deal with the Board as a whole except when: (a) fulfilling individual requests for information; or (b) responding to committees duly charged by the Board.
- Advise the Board if, in the CEO's opinion, the Board is not in compliance with its own policies, or legal and/or regulatory requirements.
- Report in a timely manner an actual or anticipated non-compliance with any Board-approved policy or decision.

Other Responsibilities

- Spokesperson for the Corporation.
- Maintain working relationship with members, industry associations, accountants, lawyers and others.
- Ensure that the Corporation fully complies with linguistic, employment equity and other regulatory provisions.
- Enhance the credibility and image of the Corporation by communicating effectively.
- Clarify and communicate the corporate mission, vision and values.
- Encourage community and society responsibility contributions by the Corporation and its employees.

CHAPTER 6

ENTERPRISE RISK MANAGEMENT

ENTERPRISE RISK MANAGEMENT

INTRODUCTION

Enterprise Risk Management

"… ERM … (is) a discipline that addresses the full spectrum of an organization's risks, including challenges and opportunities, and integrates them into an enterprise-wide, strategically-aligned portfolio view. ERM contributes to improved decision-making and supports the achievement of an organization's mission, goals, and objectives".

(Association for Federal Enterprise Risk Management, US)

" … a process, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk within its risk appetite, to provide reasonable assurance regarding the achievement of the entity's objectives".

(Committee of Sponsoring Organizations of the Treadway Commission)

RATIONALE FOR ENTERPRISE RISK MANAGEMENT

Key reasons for establishing Enterprise Risk Management ("ERM") are as follows:

(a) ERM provides a holistic view of risks across the organisation. ERM enables a consistent, enterprise-wide understanding of current and emerging uncertainties and their interdependencies. Risks arising from one part of the entity that may impact the rest of the entity can be identified and managed on an enterprise-wide basis.

(b) It allows risks to be integrated into strategy formulation. It helps ensure effective operational decision-making and resource allocation. Planning, resource allocation, and decision-making can be carried out based on areas of high risk, thus directing resources for priority areas and reducing costs. Further, with improved ability to identify and manage risks, surprises and related costs can be reduced.

(c) It also provides reasonable assurance to the entity's various stakeholders that the organisation protects and creates value. The use of processes and tools means that the organisation can be more proactive and effective in managing risks.

Over the longer term, ERM can also enhance enterprise resilience - the ability to anticipate and respond to change. It helps organisations identify factors that represent not just risk, but change, and how that change could impact performance and necessitate a shift in strategy.[1]

In a risk management process, an organisation:

(a) proactively identifies, understands, assesses and manages the key strategic risks as effectively as possible;

(b) promotes awareness and understanding of these risks in order to mitigate their likelihood and impact; and

(c) promotes a more systematic and consistent approach to managing strategic risk.

[1] Committee of Sponsoring Organizations of the Treadway Commission 2017, *Enterprise Risk Management: Integrating with Strategy and Performance*. Available at: https://www.coso.org/Documents/2017-COSO-ERM-Integrating-with-Strategy-and-Performance-Executive-Summary.pdf

Differences from the private sector

Risk management in the public sector presents some significant differences from its private sector counterpart. In the private sector, it is generally true that the higher the risk, the higher the reward – usually in the form of profits. But in the public sector this trade off does not necessarily apply.[2]

The evidence shows that enterprise risk management is still an emerging practice across the public sector.[3] The focus for public sector entities in managing risks is to address those risks that might impede the achievement of its mission and strategic objectives.

There is no standard methodology for ERM specifically for the public sector. This notwithstanding, PIDM has adapted established risk management standards and frameworks for its purposes.

PIDM'S ENTERPRISE RISK MANAGEMENT

ERM in the context of PIDM

While there is no legal requirement for PIDM to implement an ERM process, it implements the same as part of good governance practice.

PIDM's ERM framework

PIDM's ERM framework has been benchmarked against best practices, including the following:

(a) Committee of Sponsoring Organizations of the Treadway Commission ("COSO")'s *Enterprise Risk Management-Integrated Framework*; and

(b) International Organization for Standardization's ISO 31000:2018, *Risk Management - Guidelines.*

[2] Williams, J. (2017). Rigorous Risk Management a Must-have for Public Sector Organisations. *Accounting and Business Magazine*. Available at: http://www.accaglobal.com/my/en/member/member/accounting-business/2017/03/insights/risk-management-public-sector.html

[3] PwC 2015, *Enterprise Risk Management in the Public Sector.* Available at: https://www.pwc.se/sv/pdf-reports/enterprise-risk-management-in-the-public-sector.pdf

ENTERPRISE RISK MANAGEMENT

ROLES AND RESPONSIBILITIES FOR ERM

The roles and responsibilities for ERM at PIDM are depicted in Figure 7.

Top Down

Oversight, identification, assessment and mitigation of risk at corporate level

THE BOARD

- Standards 10 to 12 of the Board Governance Policy set out the roles and responsibilities of the Board on risks and internal controls
- Outlines expectations of management in supporting the Board in managing the risks of the Corporation
- Oversight function and ensures that management has an effective and sound system of risk management and internal control to maintain good corporate governance
- Provides direction on risks and internal controls and reinforces the importance of risk management culture

ERM Committee / PERM Working Committee[4]

- Assesses and mitigates corporate-wide risks
- Monitors risk management process and internal controls

Audit Committee

- Supports the Board responsibilities in relation to risk management and internal controls
- Reviews the effectiveness of risk management and internal control systems

ERM Division

- Supports the Audit Committee via independent advice, monitors and maintains the ERM framework
- Secretariat for ERM Committee and PERM Working Committee

Audit and Consulting Services Division

- Supports the Audit Committee via its independent assessment and review of the effectiveness of management and internal control systems

Oversight, identification, assessment and mitigation of risk at functional areas and divisional level

OPERATIONAL LEVEL

- Risk management process and internal controls embedded across functional areas, operations and projects
- Risk identification, assessment and mitigation performed across the divisions
- Risk awareness and internal control culture embedded across the divisions

Bottom Up

Figure 7 Roles and Responsibilities for ERM

The ERM Division facilitates the management of significant risks affecting PIDM. This should be distinguished from PIDM's Risk Assessment and Resolution Division which, together with the International and Macrosurveillance Unit, monitors and assesses risks, if any, posed by member institutions to PIDM and the stability of the financial system.

[4] Strategic Planning and Enterprise Risk Management Working Committee

The responsibilities of Board, management and employees for risks

The Board Governance Policy describes the role of the Board with regard to risks.

Standard	Expectations from the Board
Standard No. 10 Significant Risks to the Corporation	The Board will: (a) obtain an understanding of the significant risks of PIDM's business; (b) ensure that an appropriate and relevant ERM process to manage these risks has been implemented and subsequently review the ERM process regularly; (c) obtain reasonable assurance, on a regular basis, that the ERM process is being adhered to, and continues to effectively manage the risks affecting the Corporation; and (d) ensure that the Chief Risk Officer (or in his absence, the Deputy General Manager from the ERM Division) should regularly attend all scheduled Board meetings.

PIDM's Board Governance Policy provides that the Board has the responsibility to obtain an understanding of the significant risks to PIDM's business, while management is responsible for implementing risk management throughout PIDM. The Board ensures there is an appropriate ERM process, and secures reasonable assurance that it is adhered to through the Chief Risk Officer ("CRO") and the Chief Internal Auditor ("CIA").

The CRO also provides the Board with an annual ERM representation letter that confirms that PIDM's risks are being managed and that the Board Risk Policies and ERM process continue to be appropriate and relevant.[5] The ACS Division also provides representation that they have reviewed the ERM process and that it was implemented in line with the ERM framework and ERM policies and practices.

Chief Risk Officer

The responsibility for facilitating or executing the ERM process lies with the CRO. The CRO's function is separate and independent from other functions within the organisation. This is to assist with unbiased and objective assessments of risks, and systematic measurement and management.

To support independence, the CRO reports directly to the Board through the Audit Committee, and administratively to the CEO. The CRO and the Audit Committee have direct access to each other.

The CRO's role is to:[6]

(a) identify risks to PIDM and assess the significance of the risks to the achievement of PIDM's mandate, objects, strategies, plans and operations;

(b) recommend Board Risk Policies for PIDM's significant risk categories and/or sub-risk categories to the Board, review the Board Risk Policies periodically to ensure that they remain appropriate and relevant, and report to the Board on the results of these reviews;

(c) provide the Board regularly (at least annually) with a corporate-wide Board Risk Report that will enable the Board to understand the management of PIDM's significant risks and enable the Board to be aware of any situation in which those risks are not being managed in accordance with established Board Risk Policies, and assess whether its Board Risk Policies remain appropriate and relevant and are being followed; and

(d) provide the Board with reports that will enable the Board to assess whether PIDM has an appropriate and effective ERM process.

[5] *ERM Policy*, paragraph 3.10. Available at: http://www.pidm.gov.my/pidm/corporate-governance/governance-framework/
[6] *ERM Policy*, paragraph 3.4. Available at: http://www.pidm.gov.my/pidm/corporate-governance/governance-framework/

ENTERPRISE RISK MANAGEMENT

The primary responsibilities of the ERM Division are set out in the ERM Division Charter. They include:

- coordinating PIDM's overall approach to ERM;
- facilitating the identification and assessment of the significance of the risks;
- supporting and being actively involved in processes to ensure that significant risks are identified and appropriate mitigation plans are formulated;
- promoting a strong risk management culture; and
- providing risk advisory services and support for significant and relevant projects and committees within PIDM to ensure that risk issues are addressed at source.[7]

Cross-divisional committees and employees

There are two cross-divisional committees for coordinating the risk management processes. The first is the PERM Working Committee at the working level and the second is the ERM Committee at the senior management level. Risks are managed or owned by the individuals charged with carrying out and overseeing the relevant operations. All employees are expected to manage and report risks.[8]

Audit and Consulting Services Division

As noted above, the ACS Division provides assurance to the Audit Committee and the Board that PIDM has an effective ERM process and Board Risk Policies are being adhered to.[9]

IMPLEMENTATION OF ERM

Under the Board Governance Policy, Management's responsibilities include recommending "risk management policies for the Corporation's significant risks to the Board, review these policies periodically to ensure they remain current and appropriate and report to the Board, the result of these reviews".[10]

PIDM has established the following formal risk management policies at the Board level:

(a) The ERM Policy, which sets out PIDM's commitment to ERM and the respective roles and responsibilities within PIDM with regard to ERM (as described above).

(b) There are also separate policies for different risk categories. These Board Risk Policies deal with specific significant risks of PIDM and clarify the oversight function of the Board in relation to these. They also outline the Board's expectations of management in supporting the Board in managing the risks of the Corporation.

[7] *Charter of the ERM Division,* paragraph 4.7. Available at: http://www.pidm.gov.my/pidm/corporate-governance/governance-framework/
[8] *ERM Policy,* paragraph 3.11. Available at: http://www.pidm.gov.my/pidm/corporate-governance/governance-framework/
[9] *ERM Policy,* paragraph 3.9. Available at: http://www.pidm.gov.my/pidm/corporate-governance/governance-framework/
[10] *Board Governance Policy*, paragraph 10.3

ENTERPRISE RISK MANAGEMENT

Common risk terminology

Common risk terminology is necessary in order that they are understood and applied consistently across an organisation.

'Risk' can be defined as the possibility of an event impeding the deposit insurer in the fulfillment of its mandate.'Enterprise Risk Management' describes a specific framework for organisational risk management. It can be defined as a process, applied on an enterprise-wide basis, to ensure and demonstrate that a deposit insurer's significant risks are being consistently and continuously identified, assessed, managed, monitored, and reported on, in a coordinated manner across the organisation.[11]

Significant risks have been defined and categorised, in a common language across PIDM. Currently, the categories of risks for PIDM are as follows:

Risk category	Definition
Financial Risk	Financial Risk refers to the risk in relation to adverse movements in the value of the Corporation's financial assets and liabilities, both on and off balance sheet and the Corporation's ability to fulfil its operational financial obligations. The Financial Risk category - typically driven by external factors - generally consists of Market Risk (including equity, foreign currency/assets, interest rates that affect prices/values), Liquidity Risk and Credit Risk.
Insurance Risk	Insurance Risk refers to the risk in relation to the assessment, monitoring, intervention and failure resolution of member institutions, and other related risks inherent in providing the deposit insurance system and the Takaful and Insurance Benefits Protection System ("TIPS").
Operational Risk	Operational Risk refers to the risk in relation to the Corporation's day-to-day operations including inadequate or failed internal processes and systems that could affect its ability to carry out its mandate.
Reputation Risk	Reputation Risk refers to the risk in relation to the Corporation's reputation including stakeholders' trust and confidence in the Corporation and its ability and capability to carry out its mandate.
Strategic Risk	Strategic Risk refers to the risk in relation to the Corporation's strategy and governance in achieving its mandate, vision, mission, objectives or initiatives.
People Risk	People Risk refers to the risk to the Corporation in relation to its people and how the Corporation manages or treats its people.

[11] IADI 2007, *Organisational Risk Management for Deposit Insurers.* Available at: https://www.iadi.org/en/assets/File/Papers/Approved%20 Research%20-%Discussion%20Papers/Risk_Management_for_DIS.pdf

ENTERPRISE RISK MANAGEMENT

RISK MANAGEMENT APPROACH AND PROCESSES

Risk strategy

PIDM applies the following approach in its ERM:

(a) a bottom-up approach, whereby the process of identifying and assessing risks is initiated at the divisional and functional level; and

(b) a top-down approach, which entails identifying and assessing enterprise risks directly at the enterprise level.

The bottom-up approach[12] achieves the following:

(a) a comprehensive identification and prioritisation of risks;

(b) encourages a risk culture;

(c) allows risk oversight; and

(d) allows employees to manage risks in their daily operations.

The top-down approach allows PIDM to:

(a) identify the top risks that have a strategic impact;

(b) achieve an enterprise-wide oversight of risks;

(c) make major decisions on the basis of adequate risk insights; and

(d) ensure risk dialogue among senior management.

These implementation approaches share a common output, that is, the organisation ends up with an enterprise-level view of its risks which will enable those risks to be analysed, evaluated, managed, monitored and reported. This approach allows senior management to be involved in managing risks. It also ensures that critical risks are highlighted to senior management and discussed at senior levels.

[12] McKinsey & Company 2010, *McKinsey Working Papers on Risk, No. 22-Topdown ERM: A Pragmatic Approach to Managing ERM from the C Suite*. Available at: https://www.mckinsey.com/~/media/mckinsey/dotcom/client_service/Risk/Working%20papers/22_Topdown_ERM.ashx

THE ERM PROCESS

The COSO Framework indicates that risk assessment is linked to the organisation's objectives. It further defines risk as the possibility that an event will occur and adversely affect the achievement of objectives. The COSO Framework has also categorised objectives into operational, reporting and compliance objectives. Once an organisation has identified its objectives, it has to assess risks that may prevent or affect the achievement of those objectives. The organisation will have to decide on the "acceptable level of variation in performance relative to the achievement of objectives".[13] It will proceed to craft a response to manage that risk, and will put in place control and monitoring activities to manage the risks. The process is depicted in Figure 8.

Figure 8 ERM Process

First, PIDM will establish the objectives it aspires to achieve. Risks are uncertainties that could affect the achievement of these objectives. Without such clear objectives, risks cannot be appropriately identified. The scope for the risk management process is thus determined within the context of these objectives.

In selecting the key objectives of the organisation, PIDM evaluates the external and internal factors that may impact the organisation. This evaluation is intended to help identify the processes that may be subject to increased risks, and thus will benefit the most from a risk assessment.

The following are examples of the factors considered in this evaluation:

External factors – the external environment, within which an organisation seeks to achieve its objectives	**Internal factors – the internal environment within which an organisation functions**
Political environment	Clear statutory obligations
Economy	Accountability, roles and responsibilities
Social	Talent
Technology	Stakeholder management
Regulatory	Systems and processes
Stakeholder expectations	Compliance obligations

[13] Committee of Sponsoring Organizations of the Treadway Commission 2013, *Internal Control – Integrated Framework*

ENTERPRISE RISK MANAGEMENT

Once a context has been set and objectives clarified, it is important to have a common understanding of the relative significance of risks across all divisions and levels. This is achieved through risk awareness and educational initiatives and cross-divisional communication and discussions.

PIDM has a common set of assessment criteria, applicable across divisions and corporate functions. The risk assessment criteria are the metrics against which the significance of a risk will be evaluated. Risks are assessed according to both their impact and likelihood. The following table illustrates the criteria that are applied:

Risk Impact Level	**Insignificant**	Impact that can be managed or absorbed with minimum management effort.
	Minor	Sustained negative impact that would require some planning or action from management
	Major	Sustained serious negative impact that would require significant action from management
	Critical	Impact that could impede the PIDM's objectives or its ability to carry out its mandate.
Likelihood	**Unlikely**	This risk event is conceivable but highly unlikely to occur during the corporate planning period
	Low	This risk event is not expected to occur during the corporate planning period
	Moderate	This risk event could occur within the corporate planning period
	High	There is a high probability that this risk event could occur within the first year of the corporate planning period

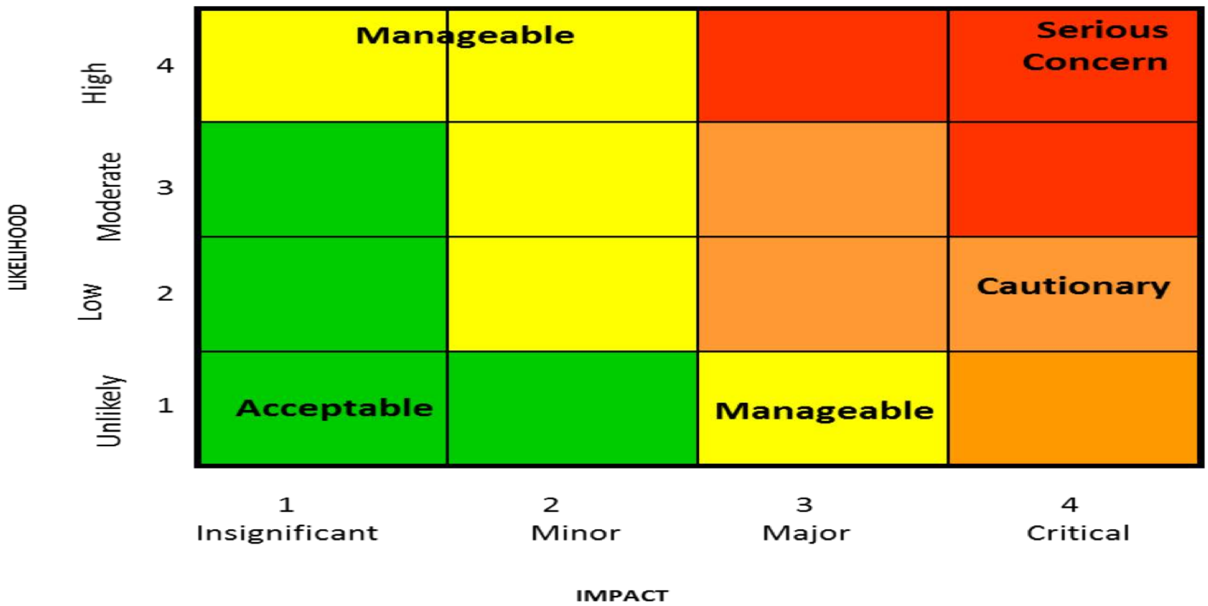

Figure 9 Risk Ratings

ENTERPRISE RISK MANAGEMENT

The level of risk[14] is its magnitude, following the combination of the impact and the likelihood of the event occurring. The gross risk is the risk that exists in the absence of any controls or the inherent risk. The residual risk is the risk that remains after controls are accounted for.

PIDM's ERM Procedures describe the risk identification, assessments and analysis, and risk evaluation process as follows (Figure 10).

RISK IDENTIFICATION

1. Identify the Corporation and Divisional risks and describe the underlying risk events

RISK ASSESSMENT AND ANALYSIS

1. Determine the root causes
2. Determine the consequences
3. Determine the gross likelihood (Unlikely, Low, Moderate, High)
4. Determine the gross impact (Insignificant, Minor, Major, Critical)
5. Determine gross risk rating (Acceptable, Manageable, Cautionary, Serious Concern)

RISK EVALUATION

1. Identify current controls and control types (Preventive, Detective, Corrective)
2. Determine control effectiveness (High, Moderate, Ineffective)
3. Re-evaluate the gross risk rating
4. Determine residual risk rating (Acceptable, Manageable, Cautionary, Serious Concern)
5. Determine residual risk trend (Increasing, Decreasing, Stable)
6. Develop and update Risk Map, Risk Profile and Risk Registers

Figure 10 ERM Procedures

[14] Level of risk - the magnitude of a risk or combination of risks, expressed in terms of the combination of consequences and their likelihood

ENTERPRISE RISK MANAGEMENT

Risk identification, assessments and analysis

Risk identification, risk assessment and analysis take place through the ERM processes involving the PERM Working Committee and ERM Committee, using the two-faceted approach described above.

In practice, divisional risk registers are kept to document risks at the cross-divisional levels. The risk action plans to mitigate these risks are monitored regularly. On an annual basis, these risk registers help the process to determine whether the risk should be escalated to the corporate level as a risk that is strategically significant.

The ERM Committee considers and reviews the corporate risk register, and, unless any significant risks arise that require the immediate attention of the Board, an annual report on PIDM's risks is provided to the Board through the Audit Committee.

Risk evaluation

Following the identification of the risk, risk owners must identify and evaluate the various risk treatment options that may be necessary. Risk action plans are developed, together with the timelines for implementing the plans.

With the risk action plans in place, risk owners then have to consider whether the residual risk levels are acceptable in PIDM's own context.

Follow-up on the implementation of risk action plans

Risk owners must monitor the effectiveness of the chosen risk treatment and continue to track the implementation of risk action plans and residual risk. If at any time the residual risk exceeds levels that were originally envisaged, risk owners must generate additional risk treatments and repeat the process described above.

Risk Management Reporting

Reports on the results of the risk management processes are provided to senior management and the Board. PIDM also reports to its stakeholders on the management of its significant risks in its corporate plans and annual reports.

CONCLUSION

Integration of risk management with strategic and business planning as well as corporate performance management ensures the identification, assessment and analysis of risk across the organisation. The integrated risk management process involves risk identification, risk assessment and monitoring, and risk treatment.

ENTERPRISE RISK MANAGEMENT

The key takeaways from this Chapter are as follows:

Enterprise risk management in the public sector has significant differences from that in the private sector. The key focus for public sector entities in managing risks are to address those risks that might impede the achievement of their mission and strategic objectives.

As yet there are no standard ERM methodologies for the public sector. However various methodologies can be adapted. This notwithstanding, PIDM has adapted established risk management standards and frameworks for its purposes.

The risk appetite in respect of certain types of risk in the public sector is likely to be lower than in the private sector.

For ERM to work well, it is important to have:

A CRO, who provides an independent and objective assessment of risks across the organisation. He or she should also facilitate a clear understanding among employees on how the enterprise risk management process is to be applied to risks faced by the organisation;

A robust risk culture, where all individuals within the organisation understand their responsibilities in respect of risk. Leaders should set the tone in this regard; and

A common language and understanding across the oganisation about risks and the risk management process, so that there is consistency and alignment in how risk is assessed and managed across divisions and levels.

CHAPTER 7

INTERNAL CONTROL

INTERNAL CONTROL

INTRODUCTION

Managing Risks and Performance through Robust Internal Control and Strong Public Financial Management

"The governing bodies of public sector entities need to ensure that the entities they oversee have implemented – and can sustain – an effective performance management system that facilitates effective and efficient delivery of planned services. Risk management and internal control are important and integral parts of a performance management system and crucial to the achievement of outcomes. They consist of an ongoing process designed to identify and address significant risks involved in achieving the entity's outcomes.

A strong system of financial management is essential for the implementation of public sector policies and the achievement of intended outcomes, as it will enforce financial discipline, strategic allocation of resources, efficient service delivery, and accountability".

International Federation of Accountants 2014, International Framework: Good Governance in the Public Sector

Internal control is a process used to structure an organisation so that the board and management have reasonable assurance that the organisation is operating effectively and efficiently, has reliable reporting and complies with applicable laws and regulations. Internal control is not an end in itself but is a tool used so that the organisation is able to achieve its objectives.[1] Effective internal control helps to safeguard assets against loss, ensures that financial and non-financial information is reliable, and that boards and management can have reasonable assurance about the accuracy, timeliness and veracity of the information.

PIDM's internal control framework is aligned with the Committee of Sponsoring Organizations of the Treadway Commission's 2013 Internal Control - Integrated Framework, ("COSO Framework"). The COSO Framework highlights five components of internal control comprising:

(a) the control environment;

(b) risk assessment;

(c) control activities;

(d) information and communication; and

(e) monitoring activities.

Guidelines on internal control standards for a public sector body

The International Organization of Supreme Audit Institutions ("INTOSAI")'s "Guidelines for Internal Control Standards for the Public Sector" (9100)[2] recognises that the COSO Framework can be relied on for the public sector.[3] It also recognises that "internal control in public sector organisations should be understood within the context of the specific characteristics of these organisations, i.e. their focus on meeting social or political objectives; their use of public funds; the importance of the budget cycle; the complexity of their performance (that calls for a balance between traditional values like legality, integrity, transparency and modern managerial values like efficiency and effectiveness); and the correspondingly broad scope of their public accountability".[4]

[1] Committee of Sponsoring Organizations of the Treadway Commission 2013, *Internal Control: Integrated Framework*
[2] This document defines a recommended framework for internal control in the public sector and provides a basis against which internal control can be evaluated.
[3] INTOSAI, *The International Standards of Supreme Audit Institutions*, page 3
[4] INTOSAI, *The International Standards of Supreme Audit Institutions*, pages 4-5

THE CONTROL ENVIRONMENT

The control environment is the foundation on which an effective system of internal control is built and operated. The control environment sets the tone and provides discipline and structure, and involves the following areas:

(a) integrity and ethical values;

(b) commitment to competence;

(c) Board and Audit Committee;

(d) management's philosophy and operating style;

(e) organisational structure;

(f) assignment of authority and responsibility; and

(g) human capital policies and procedures.

The board and management establish the control environment through policies, procedures, processes, standards and structures. The control environment encompasses the culture, ethical values, teamwork, morale and development of employees. The environment is influenced by factors such as management's philosophy and operating style, how accountability is ensured, how management incorporates risk awareness and control activities into the daily work routines and the board's oversight over performance and internal controls.

Public sector body

As a public sector body, two areas are of particular significance to PIDM:

(a) **Ethical Conduct and Conflict of Interest.** Addressing conduct and ethical behaviour and conflict of interest is an important aspect for PIDM. This is to preserve impartiality and objectivity in decision-making, as well as for PIDM's credibility. PIDM has Codes of Conduct and Business Ethics, and Conflict of Interests Codes for its Directors and employees. The importance of these Conflict of Interest Codes is underlined in the PIDM Act, which makes a breach of these codes a statutory offence.[5] These policies are periodically communicated to employees to promote honesty and integrity.

(b) **Ensuring accountability.** From the perspective of those within PIDM, the roles and responsibilities, and accountabilities for internal controls are clear. The roles of the Board, the risk and internal audit functions, and management, with regard to risk and control are clearly set out in the charters of the risk function and the internal audit functions, as well as in policies and procedures.

PIDM is held responsible for its decisions and actions, including its stewardship of funds, objectivity, as well as all aspects of performance. Accountability is achieved through making available reliable and relevant financial and non-financial information on a timely basis to stakeholders. Non-financial information relating to the entity's performance information, as well as internal control and its effectiveness, are also reported in PIDM's annual report and on its website.

[5] Sections 12(1)(b) and 12(3)

INTERNAL CONTROL

RISK ASSESSMENT

Internal controls should also be considered in the context of risks. The COSO Framework states that risk assessment is linked to the organisation's objectives. The objectives in question encapsulate both corporate-wide objectives as well as process-level objectives. As discussed in Chapter 6, PIDM has adopted an enterprise risk management ("ERM") approach to identify risks to the achievement of its strategic objectives. Risks are then analysed in order to determine how they should be managed within risk appetites.

A system of internal controls addresses risks to the objectives of a public sector body that aim to achieve the following:

(a) accountability;

(b) reliable financial reporting;

(c) compliance with laws and regulations;

(d) orderly, ethical and economical operations via continuous optimisation of process and activities efficiency and effectiveness

(e) resources.

In summary, the focus of internal control is on activities aimed at supporting the achievement of reporting, compliance and operational objectives, including the safeguarding of resources. The development and internal control activities is based on the consideration of risks to those objectives.

CONTROL ACTIVITIES

An important strategy for mitigating the risks to achievement of the objectives of the entity is through internal control activities. Internal control provides the mechanisms needed to help understand and manage risks in the context of the entity's objectives.

They involve activities such as the establishment of policies and procedures, ensuring the security of information technology systems, the application of change management, implementing activities for business continuity or backups and outsourcing.

Management is expected to establish internal control activities and to monitor and evaluate them. Thus:

(a) policies are established to set out what is expected in order to maintain the internal control environment;

(b) procedures and processes are also implemented to facilitate the activities within the established policies; and

(c) risks are continually monitored and assessed.

Control activities are usually preventive and detective or both. They might range from requiring authorisations and approvals for certain transactions, to verifications, physical controls, or reconciliations.

INTERNAL CONTROL

Importance of internal controls in a public sector body

As a public sector body, PIDM regards it as highly important to maintain its integrity and reputation. It considers that internal controls, in particular, in the areas of potential wrongdoings, must be adequately dealt with. For example, the potential for fraud is addressed through key controls designed as fraud preventive measures especially in the area of procurement. These controls are embedded in key corporate and operational policies and procedures. In relation to procurement, for example, the Board has approved a Procurement Policy, which incorporates controls and specifies the type of procurement methods depending on the nature of procurement and transaction value. In particular, it requires tenders for transactions of specified types and of higher value in line with established tender procedures. The *Codes on Business Conduct and Ethics*, and *Conflict of Interests Codes*, for both Board members and employees, require among others, declarations of assets and liabilities as well as certifications of compliance on an annual basis.

PIDM has also established a *Whistleblowing Policy* which provides an avenue for individuals (external and internal) to raise concerns at an early stage about serious risks of wrongful activities or to report a wrongdoing. Employees who have been found to have committed wrongdoing are subject to disciplinary action, which includes dismissal. PIDM also has a *Policy Against External Interference*, which was addressed in Chapter 2.

Safeguarding resources and the use of funds in the public interest also require particular attention. PIDM ensures that it has up-to-date records of its funds, and that controls are embedded in all activities related to its management of funds.

In particular:

(a) the collection of premiums or levies from member institutions is mandated under the PIDM Act. How the member institutions are assessed for premiums or levies are set out clearly in regulations;[6]

(b) funds must be kept and used only as specified under the PIDM Act.[7] PIDM's operational expenses can be charged to the funds but are allocated as set out in the relevant order;[8]

(c) funds may only be invested in instruments set out in the PIDM Act,[9] and in line with the Board-approved Investment Policy. Other than operational expenses, funds are largely maintained for the purpose of any intervention and failure resolution in a member institution in line with PIDM's statutory objects; and

(d) PIDM adheres to the approved financial reporting standards in Malaysia and best practices and detailed financial information is provided to stakeholders in its annual report. A statement on risk and internal control is made available on PIDM's website.

The effectiveness of internal controls is supported through the independent internal and external audit functions.

[6] Malaysia Deposit Insurance Corporation (Differential Premium Systems in Respect of Deposit-Taking Members) (Amendment) Regulations 2017; Malaysia Deposit Insurance Corporation (Differential Premium Systems in Respect of Insurer Members) (Amendment) Regulations 2016

[7] Sections 25 and 28

[8] Malaysia Deposit Insurance Corporation (Allocation of Expenses, Costs or Losses) Order 2011

[9] Section 30

INFORMATION AND COMMUNICATION

Information

"Information and communication are essential to the realisation of all the internal control objectives. For example, one of the objectives of internal control is fulfilling public accountability obligations. This can be achieved by developing and maintaining reliable and relevant financial and non-financial information and communicating this information by means of a fair disclosure in timely reports. Information and communication relating to the organisation's performance will create the possibility to evaluate the orderliness, ethicality, economy, efficiency and effectiveness of operations. In many cases, certain information has to be provided or communication has to take place in order to comply with laws and regulations".[10]

Ensuring that there is quality information that is communicated on a timely basis relates to systems or processes that support the identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities to achieve internal control objectives.

As a public sector body with specific mandate and objects, management and communication of key information are an important part of PIDM's operational activities. In doing so, PIDM has instituted relevant processes, policies and procedures, tools and information management systems to facilitate identifying, capturing, managing and communicating relevant and accurate information in a timely manner, for effective decision-making and the management of PIDM's operations overall. This also includes meeting the objective of fulfilling public accountability obligations through a strong reporting and accountability regime.

PIDM's performance against the corporate plan is monitored on an ongoing basis at the operational level and extensively reported in its Annual Report, both with respect to financial and non-financial information.

PIDM's accounting and financial reporting is governed by the requirements of the PIDM Act as well as the Malaysian Financial Reporting Standards. Where relevant, PIDM also makes voluntary additional disclosures to enhance the understanding of its financial performance and position as well as its operations. These include the basis and details of allocation of expenses to each of the protection funds it administers, details about compliance with applicable Shariah requirements, and details about how its funds are managed and invested in line with the requirements of the PIDM Act and the Board-approved Investment Policy.

PIDM continuously benchmarks its corporate reporting to appropriate and relevant best practices, both domestically and internationally. These reporting benchmarks also drive the information requirements and how information is managed and communicated.

Communication

Communication is also inherent in information processing. Communication takes place in a broader sense, dealing with expectations and responsibilities of individuals and groups. Effective communication is expected to take place from top-down and bottom-up across the organisation and also with external stakeholders.

[10] INTOSAI, *Guidelines on Internal Control Standards in the Public Sector,* page 37

Legislative obligations and key policies

Applicable legislative requirements and legislative updates are circulated to heads of divisions who are responsible for ensuring their respective functions' compliance with the same. At the end of each year, the heads provide written confirmations that their functions have complied with applicable laws. The heads are also responsible for raising legal issues or potential legal issues to the Legal Division for advice or resolution.

Communications on policies of significance, such as the Code of Business Conduct and Ethics and Conflict of Interest Code, also take place on an annual basis, through training and compliance tests. Employees are also required to report on their compliance with the Code of Business Conduct and Ethics and the Conflict of Interest Code on a yearly basis. PIDM's Corporate Compliance Committee oversees compliance with key corporate policies and identifies areas of potential deficiencies and also develops and administers the annual compliance test for employees. A report is provided to the Audit Committee on compliance with key policies on an annual basis.

PIDM's Statement of Risk Management and Internal Control

PIDM provides a Statement of Risk Management and Internal Control on its website. The Statement on Risk Management and Internal Control is an important accountability document that describes the effectiveness of risk management and internal control in PIDM.

MONITORING ACTIVITIES

The monitoring of internal controls requires the organisation to evaluate whether internal controls are operating as intended and to communicate in a timely manner any deficiencies to those with authority to take corrective action. The COSO Framework prescribes monitoring activities in the form of separate and ongoing evaluations, or a combination of both. Ongoing evaluations are built into the organisation's business processes.

PIDM institutes both a formal and informal process of evaluating the effectiveness and adequacy of its systems of internal controls. The formal process is carried out through internal audit and ERM activities, and also through internal control and risk management survey questionnaires. The informal process is carried out through the provision of ad-hoc advisory and consulting services by the internal audit function. Discussions on internal control matters are also held at committee and inter-divisional meetings. Management has also established a requirement for approved policies and procedures to be periodically reviewed to ensure they remain current and relevant and that the controls embedded within the processes still meet their intended objectives.

In addition, a key process for validating the effectiveness of the internal controls is through the independent assurance provided through internal audit activities. A systematic methodology has been set out to select the auditable areas based on the risk levels identified through the ERM framework, expectations of the Board and Management, Institute of internal Auditor's recommendation, and internal audit risk assessment.

Management is also required to respond to internal and external auditors' recommendations to strengthen internal controls, if any. Responses are provided to the Audit Committee, and the progress against key management's agreed action items to address internal control shortcomings are monitored and reported to the Audit Committee regularly.

INTERNAL CONTROL

ROLES AND RESPONSIBILITIES

Standard Nos. 11 and 12 of the Board Governance Policy set out the responsibilities of the Board with respect to control.

Standard	Expectations from the Board
Standard No. 11 Control Environment and Internal Audit	The Board will ensure that PIDM has a control environment that supports the prudent management of its operations and of the risks to which it is exposed (including risks to the attainment of its objects) and has effective policies and practices to assure the integrity of internal controls and management information systems. In this connection the Board will: (a) allocate resources for, and establish an internal audit group, setting out its mandate; (b) approve its audit plan each year; and (c) seek, from the internal audit group, on a regular basis, reasonable assurance regarding the monitoring of, and the compliance with internal controls, the integrity of the system, and that appropriate action is being taken to address any significant weaknesses or breakdowns identified.
Standard No. 12 In Control	The Board will obtain, on a regular basis, reasonable assurance that PIDM is "in control".[11] "The concept of being "in control" refers to the state or condition wherein: (a) operations are subject to effective governance by the Board; (b) operations are being managed in accordance with ongoing, appropriate and effective strategic and risk management processes, and are being conducted in an appropriate control environment; and (c) any significant weaknesses or breakdowns related to those matters are being identified, and appropriate and timely action is being taken to address them.

The Board obtains the following assurances on a regular basis:

(a) independent assurance through the CRO and the CIA with regard to risk and internal control (independent of management), supporting the Board's governance responsibilities; and

(b) management's assurance with regard to risk and internal control, including financial management control, hence supporting management accountability.

[11] The meaning of control is broader than internal financial control and includes all planning and strategies established after the corporate objectives have been set.

INTERNAL CONTROL

Internal auditing

> "Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes".
>
> *Institute of Internal Auditors*

Audit objectives include promoting effective control at reasonable cost. It also provides reasonable assurance that the internal control system is appropriately designed and is effective.

The *Supplemental Guidance: The Role of Auditing in Public Sector Governance*[12] provides guidance on the key elements needed to maximise the value the audit activity provided to all levels of the public sector. The key elements include the following:

(a) **Organisational independence.** At PIDM, the CIA is appointed by the Board, and reports functionally to the Board through the Audit Committee. The external auditor is the National Audit Department. The CIA and the Audit Committee have unrestricted access to each other.

(b) **Formal terms of reference.** The role of the CIA is set out in the Charter of the Audit and Consulting Services Division.

(c) **Unrestricted access.** Audits are conducted with complete and unrestricted access to employees, property and records as appropriate for the performance of audit activities.

(d) **Sufficient resources.** The Board ensures that the Audit and Consulting Services Division has sufficient resources relative to the magnitude of its audit responsibilities.

(e) **Competent leadership.** The CIA is allowed to recruit, retain and manage highly skilled employees without undue managerial influence. He or she is required to be knowledgeable in applicable auditing standards and professionally qualified, so that he or she can oversee and manage an audit function.

(f) **Objective employees.** All employees of the Audit and Consulting Services Division must be impartial and avoid any conflict of interest that might impair an individual's ability to perform audit duties and responsibilities objectively.

(g) **Competent employees.** The audit activity needs professional employees who have the necessary qualifications and competence to conduct the full range of audits required.

(h) **Professional audit standards.** Auditors must conduct their work in accordance with recognised standards.

Auditing strengthens governance by providing for accountability and protecting the core values of the public sector entity, and ensuring that managers and officers conduct business transparently, objectively and honestly. The Board supports effective audit activities by establishing the independent audit function as described above. The modern internal audit function not only carries out audits to look into wrongdoing. It has a wider role, which is to evaluate and improve the effectiveness of risk management, control, and governance processes in an organisation, via assurance and advisory activities.

The auditing function provides the Board, through the Audit Committee, the annual audit plan for Board approval, and submits audit reports in line with the plan.

The CIA provides the Board, through the Audit Committee, with evaluation and recommendation for improvement on the effectiveness of controls, risk management, and business and governance processes.

[12] Institute of Internal Auditors. Available at: https://na.theiia.org/standards-guidance/Public%20Documents/Public_Sector_Governance1_1_.pdf

INTERNAL CONTROL

The Audit Committee

The Audit Committee plays an important role in ensuring the objectivity of the CIA. It interviews and selects the CIA, and on resignation of the CIA, conducts an exit interview with him or her. The Audit Committee has independent oversight of the internal audit work plans and results, ensuring the auditors have sufficient resources to carry out the audit plan and such other responsibilities as may be assigned. The Audit Committee also ensures audit results are presented and discussed, and any recommended improvements or corrective actions are addressed or resolved.

The external auditor

PIDM's internal audit function shares significant audit information with its external auditors, the National Audit Department and they work collaboratively to coordinate their work as far as possible.

The National Audit Department is invited to all Audit Committee meetings. As such, they are provided with all the internal audit reports that are made available to the Audit Committee.

Management and employees

Reasonable Assurance: Internal control structures are to provide reasonable assurance that the aforementioned general objectives will be accomplished.

Supportive Attitude: Managers and employees are to maintain and demonstrate a positive and supportive attitude toward internal controls at all times.

Integrity and Competence: Managers and employees are to have personal and professional integrity and are to maintain a level of competence that allows them to understand the importance of developing, implementing, and maintaining good internal controls and to accomplish the general objectives of internal controls.

Control Objectives: Specific control objectives are to be identified or developed for each activity of the organization and are to be appropriate, comprehensive, reasonable, and integrated into the overall organizational objectives.

Monitoring Controls: Managers are to continually monitor their operations and take prompt, responsive action on all findings of irregular, uneconomical, inefficient, and ineffective operations".

INTOSAI, Guidelines for Internal Control Standards in the Public Sector (9100)

Management is directly responsible for the design, implementation and supervision of the internal control system, and maintains as well as documents the system. Internal control is also a part of all employees' responsibilities. They are expected to play a role in effecting control and are responsible for reporting problems of operations, non-compliance with the code of conduct, or violations of policies.

As described above, internal controls are not just about financial controls. As such, heads of divisions have managerial accountability for internal controls in their respective functions. On a yearly basis, the Board obtains management's assurances on financial controls from the Chief Financial Officer and the CEO. It also obtains written assurance from relevant heads of divisions, in relation to each of their areas of responsibility and accountability.

The heads of divisions are also responsible for preparing assurance statements for the CRO to support his or her review of the effectiveness of risk management and internal controls.

CONCLUSION

PIDM's internal control framework is aligned with the COSO Framework. The COSO components discussed above are intended to work together.

The key takeaways from this Chapter are as follows:

Control environment

First, there should be a control environment that establishes the foundation for sound internal control within the organisation through leadership, shared values and a culture that emphasises accountability for control.

Risk management

The risks of the organisation must be identified and assessed routinely at all levels and within all functions.

Control activities

Control activities must be proactively designed to address and mitigate the significant risks.

Information and communication

Information critical to identifying risks and meeting business objectives is communicated through established channels internal and external of the organisation.

Monitoring

The entire system of internal control must be monitored continuously. Problems should be addressed on a timely basis.

PIDM's internal control framework addresses its specific characteristics as a public sector body with a statutory mandate

Controls are particularly important in areas such as reputation and credibility risks - especially in relation to independence and objectivity as well as compliance with laws and ethical behaviour; financial stewardship with regard to the use of funds and accurate transparent reporting; security of sensitive information that may have an impact on financial system stability that needs to be balanced against transparency and public accountability.

Internal control is part of PIDM's ERM

PIDM adopts an ERM approach to continuously identify, assess, evaluate, manage and monitor risks. The identification and evaluation of the effectiveness of internal controls takes place within the evaluation stage of the risk management process.

The internal auditing function is an independent function

Responsibilities of the function are clearly set out in the Audit and Consulting Services Charter. It is led by the CIA, who has the qualifications and experience to lead the team.

To preserve independence and objectivity, the Chief Internal Auditor is a corporate officer appointed by the Board

He or she reports functionally to the Board through the Audit Committee. Candidates for the CIA position are interviewed by the Audit Committee, which also conducts an exit interview upon the CIA's resignation. The CIA has direct access to the Audit Committee and vice versa.

PIDM considers it important to disclose the "Statement on Risk Management and Internal Control" on its website

This serves as an important accountability document that describes the effectiveness of internal controls in PIDM.

CHAPTER 8

STAKEHOLDER ENGAGEMENT

STAKEHOLDER ENGAGEMENT

INTRODUCTION

Engagement

"Good regulators have established mechanisms for engagement with stakeholders as part of achieving their objectives. The knowledge of regulated sectors, businesses and citizens affected by regulatory schemes assists to regulate effectively. Regulators should also regularly and purposefully engage with regulated entities and other stakeholders to enhance public and stakeholder confidence in the regulator and to improve regulatory outcomes".

OECD 2014, *Best Practice Principles for Regulatory Policy: The Governance of Regulators*

AN INDEPENDENT REGULATOR'S ROLE

One of the key challenges for public sector authorities, unlike private sector bodies, is that they operate in an environment where they must balance the interests of a diverse number of stakeholders, keeping in mind their statutory objects.

It is important to highlight that an independent regulator must "… behave and act objectively, impartially, and consistently, without conflict of interest, bias or undue influence".[1] At the same time, as stated by the OECD, regulators should also consider ways of achieving meaningful engagements to enhance public and stakeholder confidence, and improve regulatory outcomes.

IDENTIFICATION OF PIDM'S STAKEHOLDERS

Standard No. 14 of PIDM's Board Governance Policy expects that "(t)he Board will ensure that the Corporation communicates effectively with the public, Bank Negara Malaysia, other statutory bodies or regulators, depositors, member institutions and other relevant parties".

Stakeholders are, essentially, any persons with an interest in PIDM's achievement of its statutory objects, regulations, projects or initiatives, since they are impacted by PIDM's initiatives or otherwise affected by their outcomes. As a public sector body with a statutory mandate, PIDM has a variety of stakeholders; often with different and competing interests. These stakeholders can have significant influence on the eventual success or failure of its work.

[1] OECD 2016, *The Governance of Regulators: Being an Independent Regulator.* Available at: https://read.oecd-ilibrary.org/governance/being-an-independent-regulator/executive-summary_9789264255401-3-en#

STAKEHOLDER ENGAGEMENT

PIDM's key stakeholder map is depicted below:

Key Stakeholder	Stakeholder Interests	Key Engagements
Members of the public, including financial consumers Objective – to instil trust and confidence and to preserve PIDM's reputation.	PIDM needs to maintain the public's trust and confidence in it as misconceptions about PIDM could contribute to instability in the financial system.	**Awareness as well as building trust and confidence campaigns, briefings and exhibitions/roadshows** PIDM transmits a copy of its annual accounts certified by the Auditor General and an annual report to the Minister who lays it before Parliament. PIDM also publishes its governance practices in its annual report and on its website. It carries out awareness campaigns, on-ground and other activities with the public. Awareness is also created as member institutions are required to display information about PIDM at their premises and website. It issues consultation papers on areas of interest to the public.
Member institutions/industry associations Objective – to obtain views in respect of key policies and regulations impacting the industry, and encourage collaboration in relevant areas for the purposes of fulfilling PIDM's mandate and vision.[2]	PIDM needs to maintain an effective relationship with the industry without regulatory capture. As a result, PIDM has to ensure that: (a) policy-making and regulations are made after due consideration of the views of member institutions and industry associations; (b) duplication in terms of submission of information to financial regulators are minimised; (c) decisions are made fairly and objectively; and (d) information is provided on how the Protection Funds are managed.	**Consultation and dialogues** PIDM works with Bank Negara Malaysia to minimise duplication of information submissions and other requirements as far as practicable. PIDM carries out dialogues with member institutions to provide insight into PIDM's work, impending policies, regulations and guidelines. It also conducts focus group discussions on specific topics when needed. Information on PIDM's achievement of its objectives and the management of funds is provided in the annual report.
Safety net players and Government agencies Objective – to establish a smooth working relationship and effective coordination among safety net players and to work collaboratively with other Government agencies in areas of common interest.	PIDM has to liaise with Bank Negara Malaysia and the Ministry of Finance to promote stability in the financial system. PIDM has to leverage on the Financial Education Network of which PIDM is a member, to promote financial literacy for the public. PIDM has to adhere to relevant accounting standards and have effective risk management and internal controls in place as it is audited by the National Audit Department.	**Consultation and information sharing** PIDM conducts regular engagements and consultations with a variety of relevant stakeholders at different levels, such as Bank Negara Malaysia on financial sector policy matters. PIDM liaises with relevant agencies to ensure better communication of all parties' roles and responsibilities during times of stress within the financial system. Relevant agencies are consulted prior to any amendments to the PIDM Act. PIDM is a member of the Financial Education Network and collaborates with it in areas of common interest. PIDM invites the National Audit Department to all its Audit Committee meetings to ensure that the National Audit Department has full access to information for their audits.
Media Objective – to create awareness, educate and build relationships to minimise inaccurate reporting during a crisis which might precipitate concerns about any member institution and impact the stability of the financial system.	The media has to be provided with information about PIDM's role as a financial consumer protection and resolution authority.	**Media coverage and networking** PIDM works with relevant media agencies for dialogue sessions and forums.

[2] PIDM's ability to influence regulatory compliance and outcomes, also requires it to understand the industry and the reasons for any non-compliance or adverse behaviour.

STAKEHOLDER ENGAGEMENT

Key Stakeholder	Stakeholder Interests	Key Engagements
International counterparts Objective – to leverage on international networks for knowledge sharing and learning, to establish cross-border cooperation, to be able to contribute to technical knowledge in areas of PIDM's expertise such as Shariah matters relating to deposit insurance, and to provide input into developments of standards and best practices in Malaysia.	The IADI and the International Forum of Insurance Guarantee Schemes are forums to gather knowledge and expertise. Crisis management groups are established to discuss and oversee the development of recovery and resolution plans for each financial group in accordance with the principles laid out in the Key Attributes of Effective Resolution Regimes for Financial Institutions.[3] The EMEAP[4] Focused Meeting on Resolution is established to support the ongoing work on resolution.	**International events, consultation and knowledge sharing sessions** PIDM participates in IADI's and the International Forum of Insurance Guarantee Schemes' international events. Currently, the CEO of PIDM is an Executive Council member of IADI. PIDM also engages with other international organisations, especially those involved in issues relating to financial markets and promotion of financial growth, stability and integrity as well as foreign authorities in relation to cross-border recovery and resolution planning. PIDM executes memoranda of understanding for knowledge and expertise sharing.
Service providers and other strategic partners Objective – to ensure that service providers work well with PIDM and understand its business and processes.	As a regulator, PIDM is expected to be transparent and fair in its selection process and dealings with its service providers and strategic partners.	**Consultation, training and knowledge sharing sessions** PIDM engages with service providers and strategic partners to familiarise them with relevant matters such as PIDM's legislation, mandate, approaches and processes. PIDM conducts training and knowledge sharing sessions, as part of its simulation exercise, to enhance readiness of its service providers. PIDM's procurement requirements and selection processes and practices are subject to audit by the National Audit Department.
Employees Objective – employee performance, technical expertise, and commitment are critical to PIDM's overall success.	Employees' interests are to: (1) have collaborative and communicative teams; (2) have opportunities for learning and growth; and (3) be in a workplace culture which is premised on strong ethics, and integrity, and to ensure that employee well-being is upheld.	**Interactions and communications** The CEO of PIDM has face-to-face interactions with senior management and team members, and quarterly townhall sessions. PIDM conducts a biennial Employee Voice Survey to gauge the level of employee engagement and an annual Internal Services Satisfaction Survey to gauge internal customer satisfaction of services. PIDM has well-developed policies and procedures to uphold ethics and integrity, which are communicated to employees regularly.

[3] The purpose is to understand the respective jurisdictions' laws and positions with regard to the financial institutions in their country, and to achieve cooperation on cross-border recovery and resolution planning matters within crisis management groups.
[4] EMEAP (Executives' Meeting of East Asia-Pacific Central Banks) is a cooperative organisation of central banks and monetary authorities comprising central banks of 11 economies. These are Reserve Bank of Australia, People's Bank of China, Hong Kong Monetary Authority, Bank Indonesia, Bank of Japan, Bank of Korea, Bank Negara Malaysia, Reserve Bank of New Zealand, Bangko Sentral ng Pilipinas, Monetary Authority of Singapore and Bank of Thailand.

ENGAGING WITH STAKEHOLDERS

In practice, before developing the communication plan, and implementing it, PIDM also examines the circumstances where such engagement is necessary, and what the engagement intends to achieve. In particular, the reasons for engagements may include the following:

(a) Input from its various stakeholders is important to understand their interests and needs and consider them so that such information can help inform PIDM's plans and priorities.

(b) The success of PIDM's key initiatives is also highly influenced by the depth of understanding of the interests and needs of many constituents, and how effectively PIDM addresses them.

Regular consultation and engagement helps PIDM fully understand stakeholders' interests and needs, and to balance the various interests while fulfilling its responsibilities. Inviting feedback on PIDM's initiatives improves and builds support, and may also increase satisfaction with PIDM.

Other than the public, PIDM engages with the heads and senior management of other financial safety net players, regulators, member institutions (in particular through industry associations), strategic partners, foreign authorities and other stakeholders.

RELATIONSHIPS WITH GOVERNMENT AND SAFETY NET PLAYERS

Government

While PIDM is operationally independent,[5] it nevertheless operates within its enabling legislative framework and a framework of accountability. Striking the right balance between the autonomy of PIDM, adherence to its statutory objects and Ministerial oversight is therefore important.

PIDM needs to establish clear and consistent lines of communication with the Minister as a basis for a relationship built on trust. This should not be limited to the submission of PIDM's annual report. Where possible, PIDM briefs the Ministry on its Corporate Plan approach and key priorities, especially where the Ministry might play a role, or significant legislative amendments are needed.

The Chairman of PIDM's Board, together with the CEO, are responsible for communications with the Minister. Other than the above, interaction with the Minister occurs at various levels:

(a) **PIDM Act.** The PIDM Act provides for circumstances where the approval of the Minister is required, such as Board member appointments, among others. PIDM takes cognisance of these boundaries and the allocation of responsibilities. Where appropriate, PIDM makes relevant recommendations.

(b) **Proposed amendments to legislation and subsidiary legislation.** PIDM will from time to time propose legislation or legislative amendments to give effect to its Board-approved policies. Correspondences with the Minister supporting the proposals for legislation or legislative amendments must explain the proposals and satisfy the Minister that the proposed amendments or legislation are in line with PIDM's statutory objects or that they serve public interest. As an independent Board, PIDM's Board has a responsibility to provide objective advice and recommendations in relation to its statutory objects to the Minister. Briefings are also held with the Minister or Deputy Minister who is in charge of proposing amendments to PIDM's legislation in Parliament.

[5] Principle 3, paragraph 8 of IADI's Core Principles provides that "(t)he composition of the governing body minimises the potential for real or perceived conflicts of interest. In order to maintain operational independence, representatives of the other financial safety net organisations that participate in the governing body do not serve as Chair or constitute a majority.

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(c) **Audit of PIDM.** The PIDM Act also requires that its financial statements must be audited by the National Audit Department as the external auditor. These are then submitted through the Minister of Finance to Parliament on an annual basis.

(d) **Financial safety net.** The Secretary General of the Treasury is an ex officio member of the Board, and plays an important role to facilitate the coordination of interventions into troubled institutions. Relationships with financial safety net players are discussed below.

Other safety net players

"In order to protect depositors and contribute to financial stability there should be a formal and comprehensive framework in place for the close coordination of activities and information sharing, on an ongoing basis, between the deposit insurer and other financial safety net participants.

Ongoing information sharing and the coordination of actions is explicit and formalised through legislation, regulation, memoranda of understanding, legal agreements or a combination thereof.

Safety net participants exchange information on an ongoing basis, and in particular when material supervisory actions are being taken in respect of member banks".

IADI 2014, *Core Principles for Effective Deposit Insurance Systems*

Integral to a financial safety net are the instruments used to achieve financial system stability, namely supervision, the lender of last resort and deposit insurance. Where the functions are allocated to different agencies, as in the case of Malaysia, it is important that there is clear allocation of powers and responsibilities, that information is shared and that the coordination across functions are clearly addressed. In particular, clarity in mandates is a must in order to prevent unproductive duplication, as well as confusion about objectives to be achieved and delayed interventions.

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PIDM and Bank Negara Malaysia have a formal Strategic Alliance Agreement, which provides the framework for coordination and information sharing between them including during an intervention or failure resolution. The Strategic Alliance Agreement sets out the respective roles of PIDM and Bank Negara Malaysia. Information sharing is explicitly addressed under the Strategic Alliance Agreement. The Strategic Alliance Agreement addresses, among others, the following areas:

(a) information sharing protocols;

(b) resolution planning, such as working arrangements and clarity of the roles of both agencies during the various stages of the life cycle of a member institution including the planning or the undertaking of any intervention and resolution;

(c) explicit formalisation of triggers and the criteria for early intervention and non-viability;

(d) coordination of communications, including crisis communication and public awareness initiatives;

(e) national crisis management, through inter-agency collaboration in the development of a crisis management framework;

(f) consultation on policy matters, during policy formulation; and

(g) a governance structure for inter-agency relationship to address any emerging issues relating to the partnership as well as to assess the effectiveness of the arrangements.[6]

Further, in order to ensure better coordination and for more effective and efficient working relationships, PIDM's Board composition involves ex officio members of the Board from other safety net participants, namely the Governor of Bank Negara Malaysia and the Secretary General of Treasury. The presence of the ex officio Directors on the Board facilitates the coordination of interventions into troubled institutions.[7]

Other regulators

Statutory bodies have opportunities to learn from each other and would benefit from sharing best practices with each other.

To date, PIDM collaborates with certain other bodies in areas of common interests, such as financial education to the public. Sharing sessions on corporate governance practices including internal audit, risk management, as well as on human capital matters, are regularly held among interested regulatory bodies.

External auditor

As PIDM is subject to external audits by the Auditor General, it also provides briefings to the National Audit Department employees about the business and affairs, and operations of PIDM in order that they may better audit the organisation. They are invited to all Audit Committee meetings. Where relevant conferences are held pertaining to deposit insurance or financial guarantee schemes, representatives from the National Audit Department are also invited.

International counterparts

International relationships that allow for networking with other deposit insurers or counterparts, for example, through IADI, allows PIDM to determine best practices, as well as to learn and share information. PIDM has been actively involved in IADI since its inception and has benefited from these interactions.

With PIDM's "resolution planning initiative", it is also important to engage with key domestic and international stakeholders to encourage information sharing and put in place the coordinating protocols required to facilitate the resolution of member institutions. On the international front, PIDM engages with resolution authorities in those countries in which PIDM's member institutions operate. This enables PIDM to enter into memoranda of understanding with other associations so as to allow for collaboration and information sharing. Such engagements also allow PIDM to provide its input into the plans for the entity operating in their jurisdictions that may also adversely impact a member institution in Malaysia.

[6] PIDM, Annual Report 2013, Section 6. *Effective Financial Safety Net Arrangements*

[7] IADI 2009, *Governance of Deposit Insurance Systems: Guidance Paper.* Available at: https://www.iadi.org/en/assets/File/Papers/Approved%20Guidance%20Papers/Governance%20Final%20Guidance%20Paper%206_May_2009.pdf.

STAKEHOLDER ENGAGEMENT

RELATIONSHIP WITH INDUSTRY

> "There is a very delicate balance in the relationship with industry. On the one hand, the relationship may be framed as co-working, especially when both the regulator and the industry are confronted with new problems that have not previously been explored ... On the other hand, the relationship might be more of a partnership where, jointly with industry or consumers (or both), you are wrestling with a problem which you all have a joint interest in solving. Or, finally, you might be acting as a stern objective regulator. All of these, and many other variations, are valid but it is important that at all times there is clarity in the minds of the regulatory officials and the industry as to what mode of relationship you are in".
>
> *D. Hutton, 'Role of Stakeholder Relationships in Regulatory Excellence'*[8]

Consultations

Consultation during policy development and when issuing regulations also supports greater openness, better informed policy-making, and regulations that are more likely to be complied with. The active involvement and contribution of all stakeholders with an interest will enhance policy-making and ensure that decision-making and regulations are better informed. Consultation allows interested parties to give their views, provide evidence, and help identify alternatives if available. It also contributes to a clear understanding of issues, and allows the regulator to work towards agreed solutions. It can also help identify potentially unintended consequences of proposed policies or legislation. When carried out effectively, consultation also allows for a wider range of voices to be heard, and provides greater objectivity and impartiality.

PIDM has a policy on the types of issues on which it will consult or engage the public and member institutions. PIDM also strives to ensure that it will take into consideration the views and experiences of its key stakeholders.

All public consultation papers are approved by the Board and published on PIDM's website for comments, and also circulated to the stakeholders who are likely to be impacted by the proposals for comments. PIDM will publish its responses to major comments, highlighting where it has taken into consideration the comments and adjusted its proposals, and where it has decided not to adopt suggested amendments, it will provide an explanation. These draft responses are also taken to the Board for approval, if there are any significant changes to the Board-approved policy proposals.

[8] Available at: https://www.theregreview.org/2015/07/27/hutton-regulatory-excellence/

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Dialogues

> "Real accountability is concerned not only with reporting on or discussing actions already completed, but also with engaging with stakeholders to understand and respond to their views as the organisation plans and carries out its activities."
>
> The Independent Commission on Good Governance in Public Services, 2004[9]
> *Good Governance Standards for Public Services*

On the release of the annual report to the public, PIDM's practice in the past, has been to hold "annual dialogues". The C-suite and board of directors of member institutions were invited to participate and ask questions at these sessions. In respect of the Annual Report, the CEO of PIDM led separate dialogue sessions with the respective associations from five different sectors from which PIDM's member institutions has drawn, namely general insurance, life insurance, takaful, conventional banking and Islamic banking.

The key objectives for these engagements are to allow industry to seek clarification from PIDM on any matter, as well as to ensure that members understand PIDM and its business and affairs. The key message conveyed is that PIDM is accountable for how it carries out its functions. These engagements expose PIDM to industry perspectives.

Specific engagements

Effective consultation processes contribute to improve the design of sound regulatory frameworks. Certain proposed key initiatives need stakeholder buy-in and commitment. These are sometimes critical to achieve the implementation of regulations.

The success of its resolution planning efforts requires the cooperation of member institutions, as it entails the development of plans unique to each member institution (setting out a strategy and operational plan that can be implemented if a member institution fails). As such, PIDM works closely with member institutions when preparing and developing resolution plans. PIDM has an engagement plan that allows all member institutions the opportunity to participate in consultations during the regulatory process. The process allows for continuous engagement opportunities by involving stakeholders in the decision-making processes. It entails working with diverse stakeholders including Bank Negara Malaysia, the industry, senior management and board members of member institutions, and international counterparts. Key stakeholders affected by the possible action have the opportunity to participate in consultations during the whole regulatory process. PIDM makes consultation documents accessible for comment.

[9] The Independent Commission on Good Governance in Public Services was established by the Office for Public Management Ltd. and the Chartered Institute of Public Finance and Accountancy. Available at: https://www.jrf.org.uk/sites/default/files/jrf/migrated/files/1898531862.pdf

STAKEHOLDER ENGAGEMENT

ENGAGING WITH THE PUBLIC

Public awareness

PIDM strives to achieve awareness, and the trust and confidence of members of the public, through a comprehensive public awareness programme using various channels. For PIDM, engagement with the public is of great significance for the reasons explained below:

(a) a deposit insurance system plays an important role in maintaining the financial stability by protecting depositors. Principle 10 of *IADI's Core Principles* provides that "In order to protect depositors and contribute to financial stability, it is essential that the public be informed on an ongoing basis about the benefits and limitations of the deposit insurance system";

(b) confidence and trust of the public in the banks in which they deposit monies is particularly critical, since heavy withdrawals by many depositors at the same time can precipitate a bank failure. Stability in a banking system thus strengthens the depositors' confidence that they can access their funds when they need them; and

(c) deposit insurance systems help provide this assurance, provided that the public is aware of such protection. Hence the recommendation of the International Association of Deposit Insurers is for deposit insurance systems to have comprehensive public awareness programmes.

PIDM has a comprehensive public engagement plan, which applies a variety of channels to reach members of the public. PIDM also tracks progress against this plan on a regular basis, so that it has a reasonable gauge of awareness of trust levels on an ongoing basis, and can adjust its plans in line with the results.

The public engagement plan utilises a variety of channels including advertising, ground events, media engagements, CSR programmes including financial literacy initiatives, a scholarship programme and social media initiatives.

Crisis communications preparedness is critical to preserve PIDM's credibility and reputation. PIDM has a crisis communications plan to address concerns during periods of uncertainty about the soundness of any banks.

Media engagement

A media management plan assists the media to be sufficiently educated about PIDM, its objects and business and affairs. PIDM's crisis communications plan also anticipates that, during periods of uncertainty, the media must be properly informed and will be an important source of information for the public. The plan also addresses how to manage misinformation and anxiety especially as misinformation can be channelled very quickly through social media and could influence actions.[10]

[10] Recknagel, C. (2014) 'Kazakh Bank Run Apparently Latest to be Fueled by Social Media', *RadioFreeEurope/Radio Liberty.* Available at: https://www.rferl.org/a/kazakhstan-bank-run-social-media/25268463.html (an anonymous message through social media sparked queues in front of banks in Kazakhstan); Reuters (2011) 'Swedbank Says ATM Queues in Latvia due to False Rumours'. Available at: https://www.reuters.com/article/swedbank-latvia/swedbank-says-atm-queues-in-latvia-due-to-false-rumours-idUSL6E7NB0L920111211 (In Latvia, 10,000 panicked savers withdrew from ATMs from a bank on twitter rumors that the bank was facing liquidity and legal problems in Estonia and Sweden).

Members of Parliament

PIDM is accountable to Parliament. Parliament has to approve amendments to the PIDM Act. When necessary, PIDM briefs Members of Parliament on PIDM's accountability framework, statutory objects, and its business and affairs.

MEASUREMENT

> "The deposit insurer monitors, on an ongoing basis, its public awareness activities and arranges, on a periodic basis, independent evaluations of the effectiveness of its public awareness programme or activities."
>
> *IADI Core Principles for Effective Deposit Insurance Systems 2014, Principle 10*

Public awareness index

In relation to public awareness, PIDM has been conducting annual surveys to track its public awareness index since 2006. It has refined its communications and awareness activities based on the results of this survey. Going forward, PIDM has also initiated the tracking of its trust index.

Stakeholder perception audit

It is important to have confidence and trust in PIDM. In order to evaluate its reputation, it is important for PIDM to gain insight into perceptions by its stakeholders. In 2018, PIDM initiated a perception audit among its key stakeholders to understand and address the critical factors that impact PIDM's reputation and its perceived value.

The benefits of the stakeholder perception audit are as follows. It could:

(a) demonstrate to stakeholders PIDM's openness and willingness to listen;

(b) raise awareness;

(c) identify knowledge gaps and misperceptions about PIDM's strategy and business model;

(d) identify if there are any key issues affecting PIDM's ability to achieve its statutory objects or key initiatives;

(e) allow for message refinement, strategy repositioning, if necessary, and overall stronger internal and external communications;

(f) lead to enhancements in stakeholder engagement strategies; and

(g) uncover threats and value detractors, such as vulnerability to adverse lobbying against key projects.

Importantly, the results of such an audit will allow benchmarking to measure and evaluate actions and performance over time. Future audits will allow a comparison against the results of its previous audit.

STAKEHOLDER ENGAGEMENT

CONCLUSION

The key takeaways in respect of stakeholder engagement at PIDM are as follows:

Stakeholder engagement for public sector authorities is complex, given the diverse stakeholder interests.

It is essential to carry out stakeholder engagements. There are increasing expectations that public authorities will consult constituents, and provide them with an opportunity to provide inputs, including in the strategic direction of the public authority. Stakeholder engagement is also increasingly considered to be an important dimension of accountability.

Stakeholder perception audits can help with feedback and allows tracking of the progress of engagements.

PIDM also believes that benchmarking through surveys or focus group discussions provides data points to allow it to refine its communications and engagement strategies.

In engaging with the industry that PIDM regulates, PIDM must be clear on the nature of the relationship that it is engaged in.

The mechanism or process that is adopted in the engagement depends on whether the engagement is to consult on proposed regulations, to find solutions to issues or to obtain the industry's collaboration on a project that needs their input.

Stakeholder engagements must be carried out impartially.

An independent regulator must "… behave and act objectively, impartially, and consistently, without conflict of interest, bias or undue influence."[12]

[12] *https://read.oecd-ilibrary.org/governance/being-an-independent-regulator/executive-summary_9789264255401-3-en#*

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