MATERIAL MATTERS

For PIDM, material matters are issues that can or may have the potential to substantially affect the achievement of the Corporation's mandate and statutory objects. These include issues that can affect our strategies, business model or our resources or capitals,[1] over the short, medium, or long term. Material matters are also matters that arise from our assessment of key risks affecting PIDM and which are discussed at Board level.

MANDATE AND BOUNDARIES

Preamble to the Malaysia Deposit Insurance Corporation Act (PIDM Act)	*"Whereas the stability of the financial system is a key determinant of the economic growth and prosperity of Malaysia:* *Whereas the purpose of the deposit insurance system and the takaful and insurance benefits protection system is to protect financial consumers in the event of failure of a member institution and PIDM is to carry out its mandated functions with speed and efficiency; ... and promote sound risk management in the financial system and enhance financial consumer protection"*
Mandate and Statutory Objects	• Protect depositors, takaful certificate and insurance policy owners in relation to a member institution failure • Administer the Deposit Insurance System (DIS) and the Takaful and Insurance Benefits Protection System (TIPS) • Provide incentives for sound risk management in the financial system • Promote or contribute to financial system stability
Reporting Boundaries	As permitted under the PIDM Act, and for readiness, PIDM has incorporated subsidiaries that will serve as a bridge institution and an asset management company that will however not be operational unless there is an intervention and failure resolution. Refer to the Financial Statements on financial reporting practices with regard to these subsidiaries.

MANAGING RISK IN 2023: INTENSIFYING OUR FOCUS ON READINESS IN AN ERA OF DIGITAL AND DYNAMIC CHANGE

Whilst the threat and impact of COVID-19 have now abated, we are also being confronted with increasing uncertainties and rapid changes in the economic, financial and geopolitical landscape globally. Hence, PIDM's key focus, as described in our Corporate Plan 2023 – 2025, reflects our strategic intent to deepen and intensify our focus on resolution readiness. Realising readiness requires PIDM and our key stakeholders to have collaborative and complementary readiness to effectively resolve troubled member institutions.

Ensuring effective execution of intervention or resolution actions require not only internal capacity building but also in-depth understanding and readiness of FSN players, the industry, other key stakeholders and the public at large.

In ensuring these strategic objectives are met and sustained, PIDM also seeks to future-proof our operations by commencing the next phase of our digital transformation journey, including further enhancing our data management and analytics capabilities. This digital transformation plan will remain as one of the key focus areas over the next few years.

[1] *Section 2C of the revised International Integrated Reporting <IR> Framework (January 2021) defines capitals as resources or "stock of values" that increase, decrease or transform through the activities and outputs of an organisation. For example, an organisation's financial capital is increased when it makes profit or surpluses, and the quality of its human capital is improved when employees become better trained*

MATERIAL MATTERS

A summary of our principal risks for the year 2023 is set out in the table below.

Principal risks	Context
Realising Readiness To Carry Out Our Mandate – Insurance Risk	Downside risk and challenges in the global economic environment remain, including high interest rates and tight liquidity globally, and heightened geopolitical tensions exposing supply chains and key commodities to shocks. Malaysia remains highly subject to risks emanating from the weaker-than-expected external sentiments which could dampen Malaysia's economic outlook.
Growing Cybersecurity Threats – Operational Risk	Cyberattacks, including attempts to exfiltrate data via network infiltration, are expected to continue to intensify. Cybercriminals are predicted to leverage off artificial intelligence and machine learning to automate and enhance their capabilities, making their attack methods more sophisticated and adaptive.
Future Ready And Adapting To The Changing Digital And Working Landscape – Operational Risk	Risk in achieving the desired quality, performance and security levels of PIDM's information technology systems and processes, in our efforts to modernise our digital infrastructure and capabilities, as part of our digital transformation efforts.
Future-Proofing Our Human Capital – People Risk	Risk of having employees not being fully equipped with the necessary skills to adapt and having the mindset to embrace the advances made in new systems and tools implemented as part of our digital transformation journey.
Damage To Image And Reputation – Reputation Risk	Deterioration in the perception of our image or brand value, which could result in damage to credibility, trust and confidence amongst stakeholders. This in turn could impact our effectiveness in carrying out an intervention and failure resolution. Sufficient support from key stakeholders is critical for PIDM to fulfil our corporate initiatives and mandate effectively.

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

DETERMINING MATERIALITY

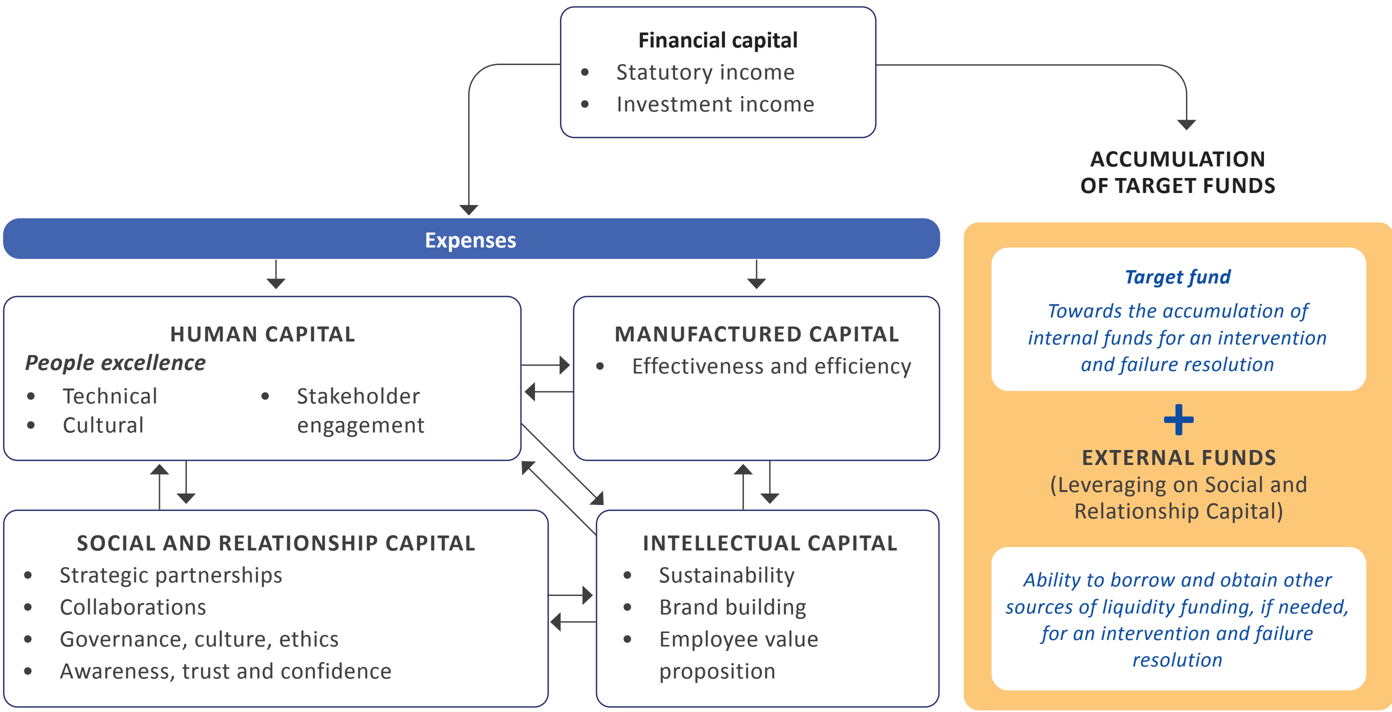
Material matters are considered from the perspectives of significant value drivers, stakeholder interests, external and internal factors, current performance, our principal risks and our capitals. We then assess how all these factors impact our ability to create value, i.e. whether they increase or transform the various resources or capitals of PIDM which are used to carry out our role and fulfil our mandate.

MATERIAL MATTERS

OUR CAPITALS AND HOW THEY ARE INTERLINKED AND TRANSLATED TO ACHIEVE OUR MANDATE

Financial capital	• Statutory income from premiums and levies collected from member institutions, and investment income generated from the Protection Funds • Liquidity funding from external sources to carry out our statutory functions
Human capital	• Competencies, capabilities and experience of employees • Capacity and bench strength of human resources, internally or externally sourced
Intellectual capital	• Knowledge and expertise in DIS and TIPS • Knowledge and expertise in intervention and resolution of financial institutions • Knowledge of corporate governance practices in the public sector • Knowledge acquired and captured through knowledge management programmes and activities • Knowledge acquired by PIDM's employees in the course of our day-to-day business and operations
Manufactured capital	• Information technology systems and infrastructure for our day-to-day operations and for intervention and resolution • Cybersecurity, business continuity and disaster recovery systems and infrastructure
Social and relationship capital	• Strong relationship within PIDM and with our external key stakeholders • Reputation and image

How Financial Capital Impacts the Other Capitals for Creation of Value for PIDM



Mandate
- *Administer DIS and TIPS*
- *Provide protection against the loss of deposits in member banks, and takaful or insurance benefits in respect of insurer members*
- *Provide incentives for sound risk management*
- *Contribute to or promote stability in the financial system*

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

Knowledge – which involves experience, research and learning – is a main capital for PIDM. For knowledge to be a valuable asset, PIDM continues to build on our intellectual capital.

As part of the financial safety net, to successfully manage our financial resources and liquidity needs during an intervention and failure resolution, PIDM also needs to build relevant relationships. Social and relationship capital (reputation and image) is also important if the public is to have trust and confidence in PIDM, and if PIDM is to be able to contribute effectively to the stability of the financial system. Much of this relies on not only the competence of our people but our governance structure, internal ethics and behaviour, and the appropriate public communication and relations.

Manufactured capital, such as our IT infrastructure, is important for effectiveness and efficiency. We have also started to put into place a digital transformation plan that will help guide how we manage and use the data and information we collect (e.g. from member institutions, BNM and other resolution authorities), and to carry out more research, in particular on data and information that PIDM and others can analyse and use, with a view to facilitating the creation of value for society.

Source of financial capital

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

The pre-emptive building of the funds collected from the industry (or referred to as ex-ante funding) is a key feature of a deposit insurance system and in accordance with Principle 9 of the International Association of Deposit Insurers (IADI) Core Principles for Effective Deposit Insurance Systems – Sources and Uses of Funds. The same ex-ante funding feature is also used for the Takaful and Insurance Benefits Protection System. It is not economical nor is it intended for PIDM to cover fully the exposures through an ex-ante collection from the industry. Instead, PIDM sets a target reserve that is adequate to cover net insurance losses, supported by external liquidity funding sources. This target reserve is referred to as the Target Fund.

For PIDM, the Target Fund aims to accumulate funds to cover the net expected losses arising from any intervention or failure resolution activity. PIDM applies a combination of statistical and discretionary approaches in determining the Target Fund levels and ranges.

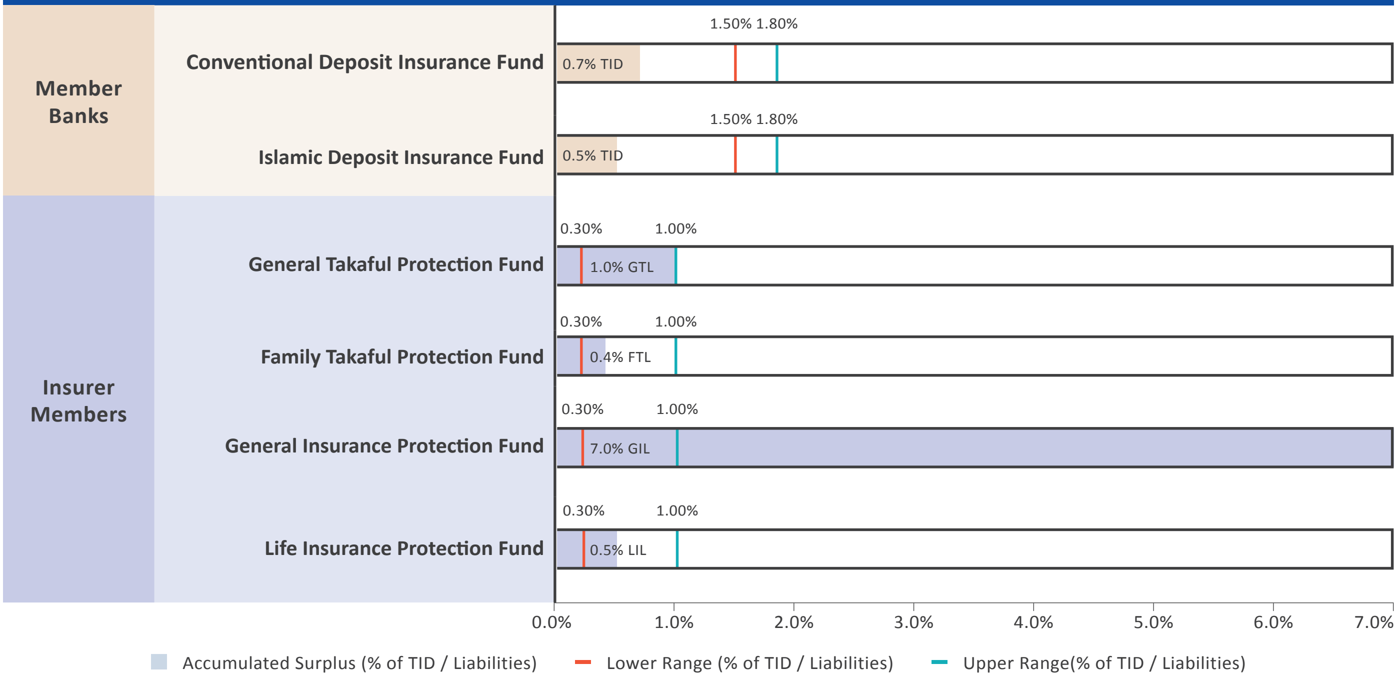
Following the comprehensive review undertaken in 2022, the revised Target Fund range for the Deposit Insurance Funds (DIFs) is 1.5% and 1.8% of the Total Insured Deposits (TID). PIDM has also revised the Target Fund range for the Takaful and Insurance Benefits Protection Funds (TIPFs) by aggregating the net losses of all the individual protection funds to arrive at a consolidated range of 0.3% and 1.0% of the total insurance or takaful liabilities. The following diagram depicts the current levels of the respective accumulated DIFs and TIPFs in comparison to the Target Fund range, and against the exposure of the TID[2] and the total insurance and takaful liabilities,[3] respectively.

[2] *The TID depicted is the total industry TID as at 31 December 2022, in accordance with the annual submission of the Return on TID*

[3] *The total insurance and takaful liabilities are the total industry aggregates as at 31 December 2022, in accordance with BNM's Risk-Based Capital Framework for Insurers and Risk-Based Capital Framework for Takaful Operators reporting forms*

MATERIAL MATTERS

ACCUMULATED SURPLUS AND TARGET FUND LEVEL



Notes:
TID: Total Insured Deposits
GTL: General Takaful Liabilities
LIL: Life Insurance Liabilities
FTL: Family Takaful Liabilities
GIL: General Insurance Liabilities

Source: PIDM

The Target Fund frameworks and levels for DIFs and TIPFs are reviewed annually to ensure the model and assumptions used remain relevant.

IN REVIEW: COMPONENTS IN ADMINISTRATING DIS AND TIPS

PIDM periodically reviews the components in administering DIS and TIPS to ensure that they remain effective in maintaining public confidence and financial system stability. A summary of key outcomes of our recent reviews and what to expect going forward are described below.

Target fund frameworks. In 2022, PIDM completed a comprehensive review on the target fund frameworks with the aim to ensure sufficiency of ex-ante funding that is reflective of the current operating environment.[1] Based on the review, a recalibration of the target fund range is required for both the DIFs and the TIPFs – higher target range for DIFs and change in target fund approach for TIPFs to a consolidated range. Our next step is to review the premium and levy rates to enable PIDM to (i) achieve the higher DIFs target range within a reasonable time-to-fund, and (ii) lay out the strategic considerations for TIPFs as the consolidated target range for TIPFs is met. PIDM will adopt a measured approach for any adjustments to the premium or levy rate.

Target Fund Frameworks Review

	Deposit Insurance Funds (DIFs)	Takaful and Insurance Protection Funds (TIPFs)	Notes
Previous Target Range	**0.6% to 0.9%** of Total Insured Deposit	GTPF: 2.8% to 3.3% of GTL FTPF: 1% to 1.5% FTL LIPF: 0.4% to 0.6% AVL	Notes: • The General Insurance Protection Fund had met its target level of 80% - 100% of Total Net Expected Loss • FTL: Family Takaful Liabilities • GTL: General Takaful Liabilities • AVL: Actuarial Valution Liabilities • GTPF: General Takaful Protection Fund • FTPF: Family Takaful Protection Fund • LIPF: Life Insurance Protection Fund
Revised Target Range	**1.5% to 1.8% of Total Insured Deposit**	**Consolidated range at 0.3% to 1% of total insurance or takaful liabilities**	Notes: The TIPFs met the consolidated target range

Differential premium and levy frameworks. The accumulation of PIDM's ex-ante funding to achieve the target fund levels are based on the premium and levy collection under the Differential Premium System framework for member banks (DPS), the Differential Levy System framework for insurance companies (DLS) and the Differential Levy System framework for takaful operators (DLST). PIDM's most recent review focuses on incorporating resolvability elements in our differential premium and levy frameworks. In 2025, PIDM will implement the enhanced DPS framework which incorporates resolvability criteria to incentivise member banks to be more resolvable in addition to our effort in promoting sound risk management. The DLS and DLST frameworks for insurer members are currently being reviewed to incorporate changes in regulatory and financial reporting developments, as well as resolvability elements.

Differential Premium and Levy Frameworks Review

	Safety and soundness criteria	Resolution-centric criteria	Our focus going foward
Differential Premium System (DPS)	In Effect	Effective Assessment Year 2025	*Monitor performance of member banks under resolution-centric criteria to inform resolvability*
Differential Levy System for Insurance Companies (DLS)	In Effect		*Review frameworks to incorporate changes in accounting standards and consider resolution-centric criteria for insurer members*
Differential Levy System for Takaful Operators (DLST)	In Effect		

Protection scope and coverage limit. The 2022 target fund frameworks review aligns the target fund with PIDM's exposure and considers the various resolution approaches for member institutions. In 2021, PIDM enhanced our protection to takaful certificate and insurance policy owners following the completion of a TIPS coverage review. We now protect almost all types of benefits under eligible certificates and policies (subject to conditions and limits specified in the respective policy and takaful contracts).[2] As for DIS, PIDM's current deposit coverage level remains above the recommended coverage level by IADI. With the Spring 2023 Bank Failures,[3] PIDM is closely following the discussions amongst international standard-setting bodies and deposit insurers globally on this front.

[1] *Details in Target Fund – In Review, PIDM Annual Report 2022*
[2] *Takaful and insurance benefits not eligible for protection include benefits under takaful certificates and insurance policies denominated in foreign currencies. Refer to www.pidm.gov.my for more details*
[3] *Refer to the "Key Reflections From Spring 2023 Bank Failures" article in Part I*

MATERIAL MATTERS

As highlighted below, material matters include concerns that correspond with some of the risks in the earlier section. The material matters are discussed in order of priority, taking into account the impact of the matter on PIDM's ability to perform our statutory functions, and the strategies are aligned to the action plans as described in PIDM's Corporate Plan for 2023.

READINESS FOR RESOLUTION AND CRISIS MANAGEMENT

Definition

Ensuring effective execution of intervention or resolution actions:

(a) Continuously enhancing PIDM's internal readiness in relation to intervention and resolution;

(b) Executing resolution plans effectively and ensuring robust crisis coordination actions among the FSN players and service providers;

(c) Ensuring member institutions are clear about PIDM's regulatory expectations to support the implementation of PIDM's resolution strategies; and

(d) Ensuring robust liquidity management plan that covers management of liquidity crisis before, during and after a Non-Viability Trigger (NVT) event.

Capitals

Principal risks

- Insurance risk
- People risk
- Reputation risk
- Operational risk

Strategy

KRA 1 - Continuously enhancing PIDM's internal readiness to ensure robust intervention and execution of resolution actions.

KRA 2 - Developing resolution plans for member institutions and having service providers ready to immediately step in and support PIDM to effectively resolve troubled member institutions.

KRA 3 - Strengthening FSN players' readiness through effective crisis management arrangements with and among key stakeholders.

AWARENESS, TRUST AND CONFIDENCE, AND CRISIS COMMUNICATION

Definition

Ensuring the confidence of depositors and other financial consumers through comprehensive communication of PIDM's mandate, our role, as well as administering an effective protection system.

Having comprehensive plans to communicate effectively before and during crisis situations to avert or mitigate panic behaviours.

Capitals

Principal risks

- Reputation risk
- Insurance risk

Strategy

KRA 4 - Ensuring public and media readiness by maintaining strong awareness, understanding and advocacy of PIDM among the public and media.

KRA 5 - Enhancing the effectiveness and relevance of PIDM's protection coverage and role as financial consumer protection authority.

LEADERSHIP, EMPLOYEE ENGAGEMENT AND DEVELOPMENT

Definition

Enabling PIDM's readiness to deliver our mandate effectively through:

(a) Effective employee engagement;

(b) Continuous upskilling for current and future needs;

(c) Cultivating a digital and sustainability-focused culture; and

(d) Succession planning.

Capitals

Principal risks

- People risk
- Operational risk

Strategy

KRA 6 - Ensuring strong talent capabilities and strengthening PIDM's culture to meet our strategic direction, as well as alignment to the overall changing operating environment.

FUTURE-READY OPERATIONS

Definition

Addressing challenges brought by digital advances:

(a) Leveraging the exponential increase in computing power to enhance the efficiency and effectiveness of PIDM's operations;

(b) Transition from cybersecurity to cyber resilience; and

(c) Enhancing collaboration and integration of processes, systems and people.

Capitals

Principal risks

- Operational risk
- Reputation risk
- People risk
- Strategic risk

Strategy

KRA 7 - Modernising PIDM's IT infrastructure, processes, and cybersecurity to augment future readiness to effectively deliver PIDM's mandate.

KRA 8 - Leveraging applications and data analytics to improve PIDM's resolution readiness and operational effectiveness.

CORPORATE GOVERNANCE

Definition

Commitment to transparency, accountability, integrity and sustainability, and ensuring effective strategic management and sound management practices.

Capitals

Principal risks

- Operational risk
- Reputation risk

Strategy

KRA 9 - Applying relevant Environmental, Social and Governance (ESG) elements as the guiding principle across PIDM's operations.