



Perbadanan Insurans Deposit Malaysia
Protecting Your Insurance And Deposits In Malaysia

**CONSULTATION PAPER ON THE
PROPOSED AMENDMENTS TO THE
MALAYSIA DEPOSIT INSURANCE CORPORATION
ACT 2011**

ISSUE DATE : 9 JANUARY 2019
CLOSING DATE : 4 FEBRUARY 2019



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1.0 INTRODUCTION

- 1.1 Perbadanan Insurans Deposit Malaysia (“PIDM”) is a statutory body having power under the Malaysia Deposit Insurance Corporation Act 2011 (“PIDM Act”) to administer the financial consumer protection systems, namely the deposit insurance system (“DIS”) and the takaful and insurance benefits protection system (“TIPS”) in Malaysia.
- 1.2 PIDM is the resolution authority for its member institutions (“MIs”), and has at its disposal a range of legislative powers to intervene and resolve its MIs. PIDM also provides incentives for its MIs to practise sound risk management.
- 1.3 PIDM regularly reviews the PIDM Act to ensure that it is current and relevant.
- 1.4 PIDM is issuing, for consultation, proposals to amend certain provisions in the PIDM Act.
- 1.5 The proposed amendments are set out in the following sections of the consultation paper:
 - (a) Section 3: Proposed amendments to enhance the policy design and operational efficacy for DIS – Scope of Coverage;
 - (b) Section 4: Proposed amendments to enhance the policy design and operational efficacy for DIS and TIPS – Premium and Levy Assessment; and
 - (c) Section 5: Proposed amendments to enhance the resolution regime for Malaysia.
- 1.6 A summary of the proposals to amend the PIDM Act is set out in Appendix 1 for ease of reference.



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2.0 THE CONSULTATION PROCESS

- 2.1 PIDM welcomes written comments from interested parties on any aspect of this consultation paper. Comments should be sent no later than **4 February 2019**, to:

Ms. Hoh Li Yun / Ms. Afiza Abdullah
Policy and International Division
Perbadanan Insurans Deposit Malaysia
Level 12, Axiata Tower
No. 9, Jalan Stesen Sentral 5
Kuala Lumpur Sentral
50470 Kuala Lumpur

Enquiries: 03 2173 7561 / 2173 7548
Fax: 03 2173 7533
Email: policyenquiry@pidm.gov.my

- 2.2 PIDM will collate the comments on this consultation paper. PIDM's response to the comments may be made public. If you do not wish for any of your comments to be made public, please indicate accordingly in your submission.

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3.0 PROPOSED AMENDMENTS TO ENHANCE THE POLICY DESIGN AND OPERATIONAL EFFICACY FOR DIS – SCOPE OF COVERAGE

Limit of Coverage for DIS

- 3.1 Currently, the deposit insurance limit is prescribed as RM250,000. The current deposit insurance still provides sufficient coverage for savings of Malaysians. The current limit is extensive, covering 97% of depositors holding eligible deposits in full and 30% of total deposits balance (i.e. total insured deposits (“TID”) over total deposits).¹
- 3.2 The coverage level is in line with international best practices of an “80/20” rule² and is comparable with the level of coverage provided by deposit insurers in other jurisdictions.³

Definition of “Deposit” and Scope of Coverage

- 3.3 PIDM proposes to align the definitions of “conventional deposit” and “Islamic deposit” in the PIDM Act with the definitions in the Financial Services Act 2013 (“FSA”) and Islamic Financial Services Act 2013 (“IFSA”).
- 3.4 The proposed amendments will make it explicit that “conventional deposit” and “Islamic deposit” refer to financial products where the DTMs are obliged to repay principal amount *in full*. This means that “investment-like” products where the holders may lose part or whole of their principal will be excluded from the definitions and the DIS coverage. Examples of “investment-like” products include investment accounts and gold or silver investment accounts.
- 3.5 The proposed amendments will not have any major implication on the DIS coverage. Most “investment-like” products are currently not insured by PIDM as they do not meet PIDM’s insurability criteria.⁴
- 3.6 PIDM is of the view that a clear demarcation between traditional deposits and “investment-like” products will help educate members of the public on the different features and risk profiles of such products. This will also reinforce the messaging to the public that investment risks are not protected by PIDM.
- 3.7 For this purpose, all investment linked-to-derivatives (“ILDs”) products (whether principal guaranteed or not) are excluded from the scope of DIS protection.

¹ Based on deposits data as of 31 December 2017 that are submitted by the deposit-taking members (“DTMs”).

² The International Association of Deposit Insurers (IADI)’s *Enhanced Guidance for Effective Deposit Insurance Systems: Deposit Insurance Coverage, March 2013*, recommended an “80/20” rule. The coverage limit should fully cover 80% of the number of depositors but only 20% to 30% of the value of deposits.

³ At the median level of the coverage levels in Hong Kong, Philippines, Canada, Korea, Taiwan, United States and Japan.

⁴ PIDM’s insurability criteria are stipulated under the Guidelines on Deposit Insurance Coverage for Deposits dated 26 November 2013.



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- 3.8 For the transition, PIDM will continue to protect the ILDs which have been specified as insured by PIDM until maturity or full withdrawal of such products, whichever is earlier.

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4.0 PROPOSED AMENDMENTS TO ENHANCE THE POLICY DESIGN AND OPERATIONAL EFFICACY FOR DIS AND TIPS – PREMIUM AND LEVY ASSESSMENT

4.1 PIDM has implemented the Differential Premium Systems (“DPS”) and Differential Levy Systems (“DLS”) frameworks to provide incentives for MIs to enhance risk management practices and minimise excessive risk-taking.

4.2 PIDM proposes to amend the PIDM Act and the relevant subsidiary legislation in relation to premium and levy assessment frameworks, to better reflect the risk profiles of certain new MIs and MIs involved in an amalgamation. This will introduce greater fairness in the assessment process.

Premium and Levy Assessment for New MIs

4.3 Under the existing frameworks, a new MI is automatically classified in the best premium or levy category (i.e. category 1) for its first and second assessment years. The premium or levy payable will be based on rate prescribed for category 1, subject to the applicable minimum amount.

4.4 PIDM proposes to differentiate the premium and levy assessment between a new MI with existing banking, insurance or takaful business and a new MI that does not have existing business.

4.5 It is proposed that a new MI that has been operating or carrying out banking, insurance or takaful business prior to being licensed under the FSA or IFSA would be assessed and classified in the relevant DPS or DLS category. The new MI would be required to pay first premium or first levy of RM250,000 or an amount calculated based on its DPS or DLS category, whichever is higher. This proposal is to better reflect the risk profile of such new MI.

4.6 For a new MI without an existing business, the current frameworks will continue to apply. The new MI will automatically be classified in the best premium or levy category for its first and second assessment years.

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4.7 A summary of the position before and after the proposed amendments in relation to the premium and levy assessment frameworks for a new MI is as follows:

Entity	Current Framework	Proposed Framework
New entrant into banking, insurance or takaful business as a new MI	<u>First assessment year:</u> RM250,000 or category 1, whichever is higher	<u>First assessment year:</u> Remains unchanged
	<u>Second assessment year:</u> Category 1	<u>Second assessment year:</u> Remains unchanged
Not a new entrant but obtains a banking or insurance licence and becomes a new MI <i>(For example, a prescribed deposit-taking institution under the Development Financial Institutions Act 2012)</i>	<u>First assessment year:</u> RM250,000 or category 1, whichever is higher	<u>First assessment year:</u> RM250,000, or DPS or DLS category, whichever is higher Where there is insufficient information in respect of its supervisory rating or capital measure for premium or levy assessment, the new MI will be classified in category 3 for the relevant assessment year. This is to reflect the uncertain risk exposure associated with lack of verified information or formal assessment by a competent authority.
	<u>Second assessment year:</u> Category 1	<u>Second assessment year:</u> DPS or DLS category Where there is insufficient information in respect of its supervisory rating or capital measure for premium or levy assessment, the new MI will be classified in category 3 for the relevant assessment year.

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Premium and Levy Assessment for MIs Involved in Amalgamation

4.8 In general, an amalgamation may take any of the following forms:

- (a) an amalgamation resulting in a formation of a new entity licensed under the FSA or IFSA and thus becomes a new MI of PIDM; or
- (b) an amalgamation where a business of a transferee is absorbed under an MI.

The amalgamation may involve an MI with another MI or an MI with a non-member institution (“non-MI”).

4.9 PIDM proposes to amend the PIDM Act and the relevant subsidiary legislation to streamline the premium and levy assessment for MIs involved in an amalgamation, in order to introduce greater fairness to the frameworks.

4.10 The proposed amendments seek to achieve two (2) main objectives:

- (a) to take into account the fact of amalgamation (whether it is between an MI and another MI or between an MI and a non-MI) for premium and levy assessment in the assessment year where the amalgamation takes place; and
- (b) to streamline the premium or levy assessment for an amalgamated MI, whether the amalgamated MI is a newly formed entity or an existing MI.

4.11 Under the proposed enhanced framework, where there is an amalgamation:

- (a) the amalgamated MI will pay premiums or levies for the assessment year in which the amalgamation takes effect, unless premiums or levies have been paid for in respect of the business assumed by the amalgamated MI;
- (b) the premiums or levies will be calculated based on the relevant DPS or DLS category of the amalgamated MI, subject to the applicable minimum amount;⁵
- (c) for amalgamation of DTMs, the base for calculation of the premiums will be as follows:
 - (i) for an amalgamation involving DTMs only, the premiums will be based on the TID of the amalgamating DTMs as of 31 December of the preceding assessment year; or

⁵ If the amalgamated MI is a newly formed entity, the minimum amount is RM250,000, which is the minimum amount payable by the new MI. In relation to an amalgamated MI that is an existing MI, the minimum amounts are those that are currently prescribed for each premium or levy category under the existing frameworks.

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- (ii) for an amalgamation involving a DTM and a non-MI, the premiums will be based on the TID of the DTM as of 31 December of the preceding assessment year and the TID of the non-MI as of the transfer date; and
 - (d) for amalgamation of insurer members (“IMs”), the base for calculation of the levies will be as follows:
 - (i) for IMs carrying on life insurance or family takaful business, the base for calculation of levies is the valuation of life insurance or family takaful liabilities (“liabilities”). The reference dates in respect of which the liabilities will be determined will be 31 December of the preceding assessment year (for an IM’s liabilities) and the transfer date (for a non-MI’s liabilities); and
 - (ii) for IMs carrying on general insurance or general takaful business, the base for calculation of levies is the total net premiums or net contributions of the preceding assessment year. The relevant reference period in all cases (for IM or non-MI) will be from January to December of the preceding assessment year.
- 4.12 Appendix 2 provides a summary of the current premium and levy assessment frameworks and the proposed amendments to the frameworks.
- 4.13 Appendix 3 illustrates the proposed premium and levy assessment for amalgamated MIs pursuant to the proposed amendments.
- Rebate of Premium or Levy**
- 4.14 When an internal fund reaches the upper target fund level, PIDM may consider a premium or levy rebate to eligible MIs under that fund, based on, amongst others, an assessment of the economic environment and industry conditions. PIDM proposes to make it explicit in the PIDM Act that, subject to conditions, it would be permissible for PIDM to allow for premium or levy rebates to eligible MIs.
- 4.15 The provision of a rebate is to further incentivise MIs to adopt sound risk management.

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5.0 PROPOSED AMENDMENTS TO ENHANCE THE RESOLUTION REGIME FOR MALAYSIA

Resolution Planning Powers

- 5.1 In view of its financial stability mandate and the risks associated with financial crises, a strategic priority for PIDM is to work towards the establishment of an effective resolution regime for Malaysia.
- 5.2 An important aspect of an effective resolution regime is resolution planning. PIDM is currently establishing a resolution planning process for MIs. It is proposed that the PIDM Act explicitly states that PIDM will prepare and maintain a resolution plan for the orderly resolution of an MI.

Secrecy Provision

- 5.3 PIDM proposes to enhance section 24 of the PIDM Act to make it explicit that any information received from any person and acquired in the performance of duties or the exercise of PIDM's functions will be subject to the secrecy requirements.

Inter-fund Borrowing

- 5.4 Net surpluses from PIDM's operations are credited into the respective six (6) internal funds administered by PIDM. These internal sources of funding, coupled with external sources of funding, would enable PIDM to meet its future obligations that may arise from administering the financial consumer protection systems and acting as a resolution authority.
- 5.5 PIDM proposes to make it explicit in the PIDM Act that PIDM can carry out an "inter-fund borrowing" between the funds administered by it.⁶ PIDM has obtained the clearance from Bank Negara Malaysia ("BNM")'s Shariah Advisory Council on this in relation to the Islamic funds.

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⁶ To be transacted on terms that are benchmarked against commercial market terms.

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APPENDIX 1

Summary of Proposals to Amend the PIDM Act

Enhance the Policy Design and Operational Efficacy for DIS and TIPS		
Definition of “Deposit” and Scope of Coverage		
Proposed Amendments	Purposes	Reference (paragraph)
1. To align the definitions of “conventional deposit” and “Islamic deposit” with the definitions in the FSA and IFSA.	For consistent regulatory treatment and reporting between PIDM and BNM.	3.3
2. To exclude all principal guaranteed and non-principal guaranteed ILDs from the DIS coverage with transition to continue to protect those ILDs which are already specified as insured by PIDM.	To reinforce the messaging to the public that “investment-like” products and investment risks are not protected by PIDM.	3.7 – 3.8
Premium and Levy Assessment for New MIs and MIs Involved in Amalgamation		
3. New MIs: To assess a new MI that has been operating or carrying out banking, insurance or takaful business prior to being licensed under the FSA or IFSA based on the relevant DPS or DLS category.	<ul style="list-style-type: none"> To differentiate the premium and levy assessment between a new MI with existing banking, insurance or takaful business and a new MI that does not have existing business; and 	4.5 – 4.7
4. MIs Involved in Amalgamation: To assess an amalgamated MI, whether it is a newly formed entity or an existing MI, based on the relevant DPS or DLS category for the assessment year in which the amalgamation takes effect.	<ul style="list-style-type: none"> To take into account the fact of amalgamation, and to streamline the premium or levy assessment for an amalgamated MI, <p>in order to better reflect the risk profiles of the MIs and introduce greater fairness in the assessment process.</p>	4.11 – 4.13

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Proposed Amendments	Purposes	Reference (paragraph)
5. To make it explicit in the PIDM Act that, subject to conditions, PIDM may give premium or levy rebates to eligible MIs.	For clarity. To provide further incentive to the MIs to adopt sound risk management, when upper target fund level of a respective fund is met.	4.14
Enhance the Resolution Regime for Malaysia		
Proposed Amendments	Purposes	Reference (paragraph)
6. To make it explicit in the PIDM Act that PIDM will prepare and maintain a resolution plan.	To ensure PIDM is better placed and prepared to execute effective resolution actions during a crisis. This will help maintain public confidence and promote financial system stability.	5.2
7. To enhance and strengthen the secrecy provision in the PIDM Act.		5.3
8. To make it explicit in the PIDM Act that PIDM can carry out an “inter-fund borrowing”.		5.5

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APPENDIX 2

Summary of the Current Premium and Levy Assessment Frameworks and the Proposed Amendments to the Frameworks for an Amalgamation involving MIs

1. DTMs⁷

Type of Entity	Current Framework	Proposed Framework ⁸
(I) Amalgamated DTM is a surviving DTM (i.e. existing DTM)		
(a) An amalgamation involving a DTM with another DTM and resulting in a surviving/existing DTM.	<u>Before 31 May</u> DPS rate: Surviving DTM pays annual premium based on the relevant DPS category. The DPS category will be that of the DTM with the highest quantitative score between the two (2) DTMs.	<u>Before 31 May</u> DPS rate: Surviving DTM pays annual premium based on the surviving DTM's DPS category.
	Assessment basis: Premium calculation does not include transferred insured deposits.	Assessment basis: Premium calculation will include transferred insured deposits. The reference date in respect of which the TID of the respective DTMs are calculated is as of 31 December of the preceding assessment year.
	<u>After 31 May</u> No need to pay additional annual premium. ⁹	<u>After 31 May</u> Remains unchanged.

⁷ The same principles and approach under the proposed framework apply to IMs under the DLS framework.

⁸ The overall premium liability will continue to be subject to the applicable minimum amount.

⁹ Amalgamating MIs would have paid annual premiums by 31 May.

Type of Entity	Current Framework	Proposed Framework ⁸
(b) An amalgamation involving a DTM with a non-MI and resulting in a surviving DTM.	<u>Before 31 May</u> DPS rate: Surviving DTM pays annual premium based on its own DPS category.	<u>Before 31 May</u> DPS rate: Remains unchanged.
	Assessment basis: Premium calculation does not include transferred insured deposits.	Assessment basis: Premium calculation will include transferred insured deposits. The reference dates in respect of which the TID are calculated are: (a) for DTM, as of 31 December of the preceding assessment year; and (b) for non-MI, as of the date of transfer.
	<u>After 31 May</u> As if no amalgamation takes place.	<u>After 31 May</u> Surviving DTM pays additional annual premium in respect of the transferred insured deposits from the non-MI, based on the surviving DTM's DPS category.
(II) Amalgamated DTM is a newly formed entity		
(a) An amalgamation involving a DTM with another DTM and resulting in a new DTM; or	DPS rate: New DTM pays first premium based on the rate of DPS category 1.	DPS rate: New DTM pays first premium based on its DPS category, but if unable to determine the supervisory rating or capital measure for the purposes of DPS, then category 3 or RM250,000, whichever is higher.

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Type of Entity	Current Framework	Proposed Framework ⁸
(b) An amalgamation involving a DTM with a non-MI and resulting in a new DTM.	<p>Assessment basis: Premium calculation does not include transferred insured deposits.</p>	<p>Assessment basis: Premium calculation will include transferred insured deposits.</p> <p>The reference dates in respect of which the TID are calculated are:</p> <p>(a) for DTM, as of 31 December of the preceding assessment year; and</p> <p>(b) for non-MI, as of the date of transfer.</p>
	No first premium if transfer within same business group.	No first premium if premiums have been paid by amalgamating DTMs.

2. IMs

The same principles and approach under the proposed framework for DTMs discussed above will apply to IMs under the proposed enhanced DLS framework, except for the basis for calculation of levy:

- (a) for IMs carrying on life insurance and family takaful business, the basis for assessment is the valuation of life insurance or family takaful liabilities. The reference dates in respect of which the liabilities will be determined will be 31 December of the preceding assessment year (for an IM's liabilities) and the transfer date (for a non-MI's liabilities); and
- (b) for IMs carrying on general insurance and general takaful business, the basis for assessment is the total net premiums or contributions of the preceding assessment year. The relevant reference period in all cases (for IM or non-MI) will be from January to December of the preceding assessment year.

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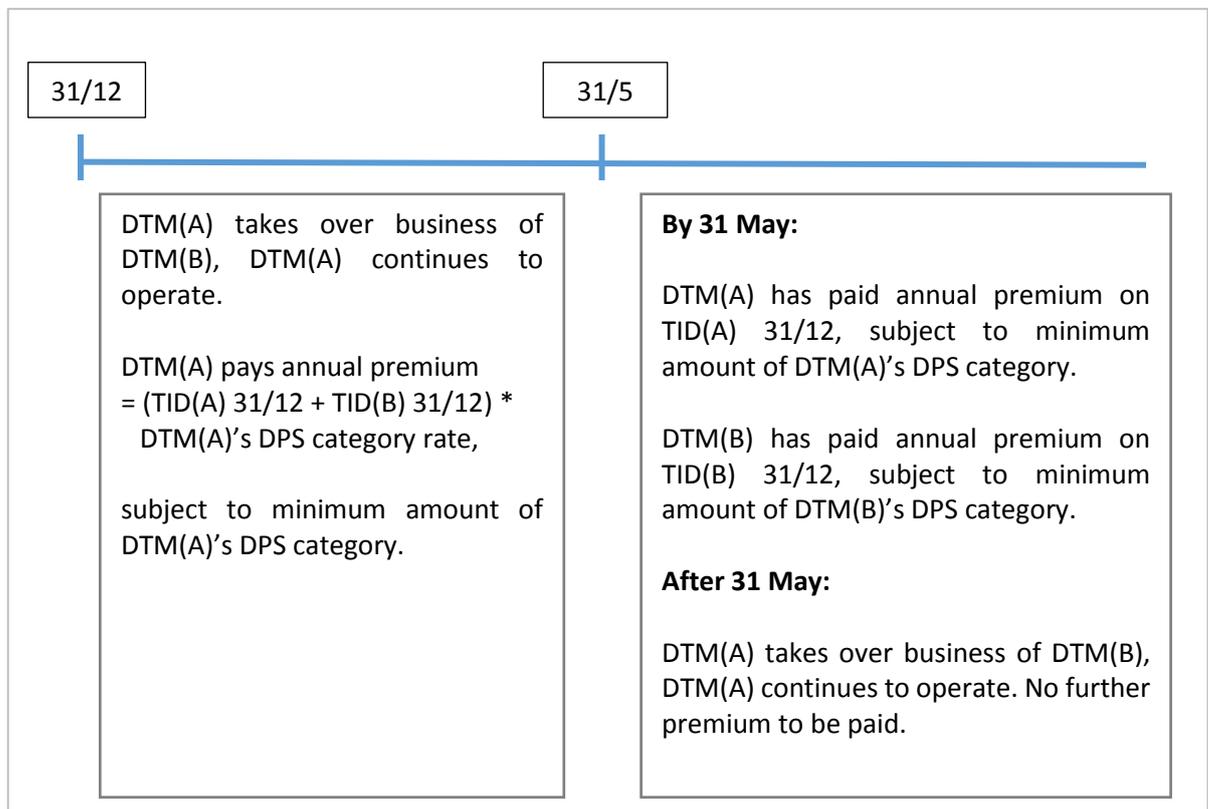
APPENDIX 3

Illustrations of the Proposed Premium and Levy Assessment for Amalgamated MIs

A. DTMs

1. An amalgamation involving a DTM with another DTM and resulting in a surviving/existing DTM

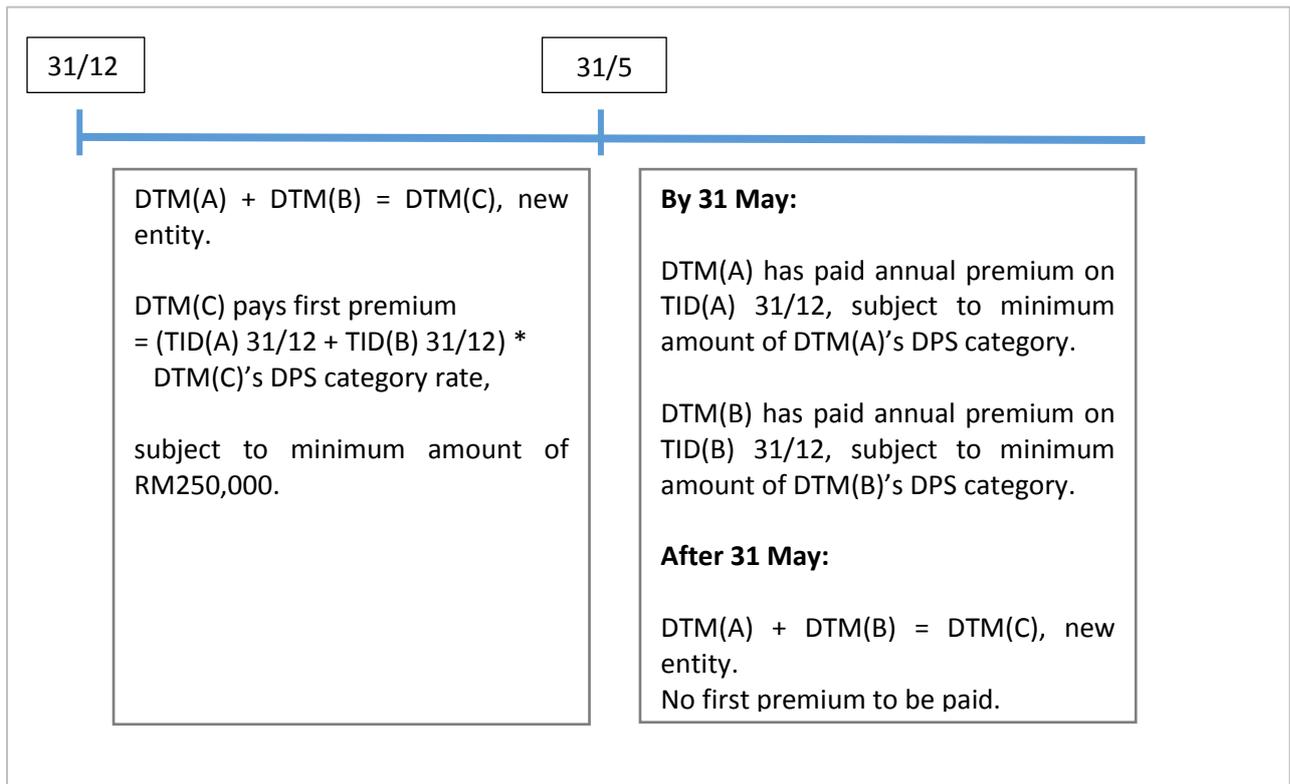
- (a) For an amalgamation involving DTMs only, the premium will be based on the respective TID (basis for assessment) as of 31 December of the preceding assessment year (reference date).
- (b) If the amalgamation takes place **before** 31 May of an assessment year (i.e. the due date for payment of annual premium), the surviving DTM will be responsible to pay the annual premium calculated based on its TID and TID of the amalgamating DTM.
- (c) If the amalgamation takes place **after** 31 May of an assessment year, annual premiums would already have been paid by both DTMs prior to the amalgamation. No further premium will be required to be made.
- (d) This is depicted as below:



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2. An amalgamation involving a DTM with another DTM and resulting in a new DTM

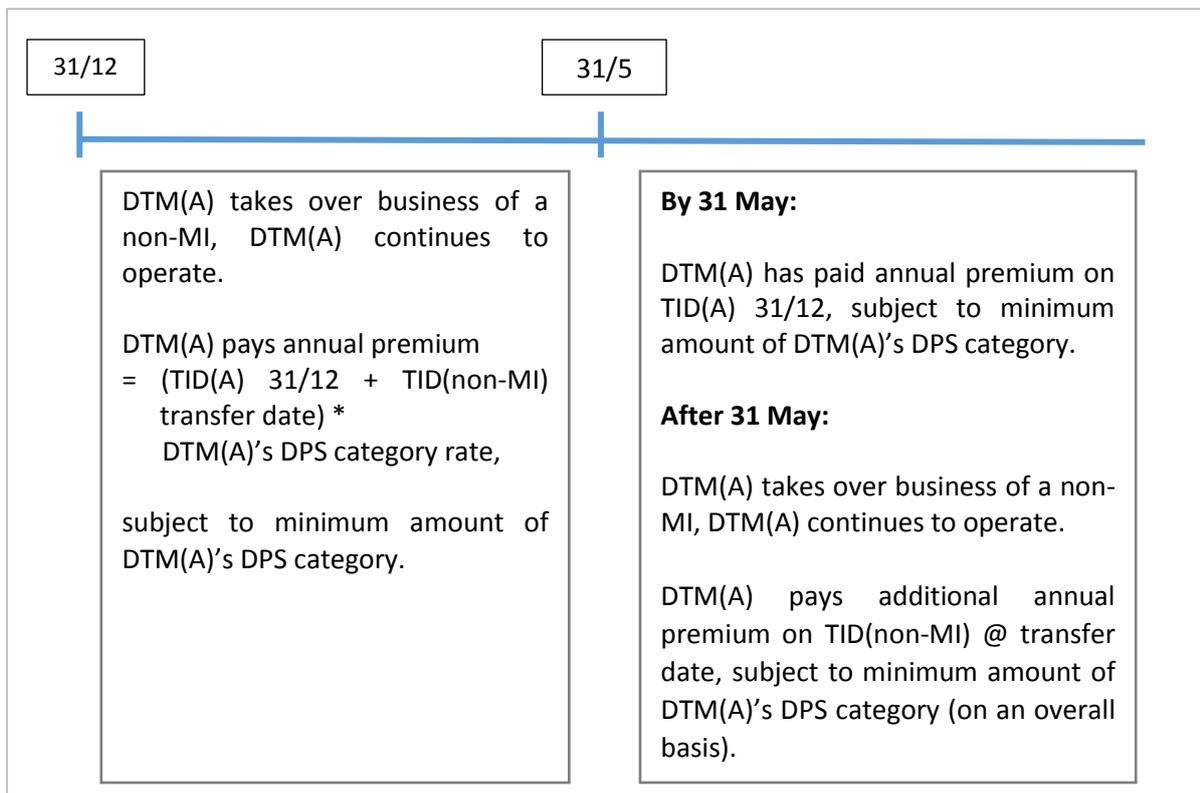
- (a) For an amalgamation where both DTMs' businesses are transferred to a new DTM, the same basis as described in paragraph 1 above applies.
- (b) If the amalgamation takes place *before* 31 May of an assessment year, the new DTM will be responsible to pay the first premium based on the respective TID of the amalgamating DTMs as of 31 December of the preceding assessment year.
- (c) If the amalgamation takes place *after* 31 May of an assessment year, annual premiums would already have been paid by both amalgamating DTMs. The new DTM will not be required to pay first premium in respect of the transferred business.
- (d) This is depicted as follows:



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3. An amalgamation involving a DTM with a non-MI and resulting in a surviving DTM

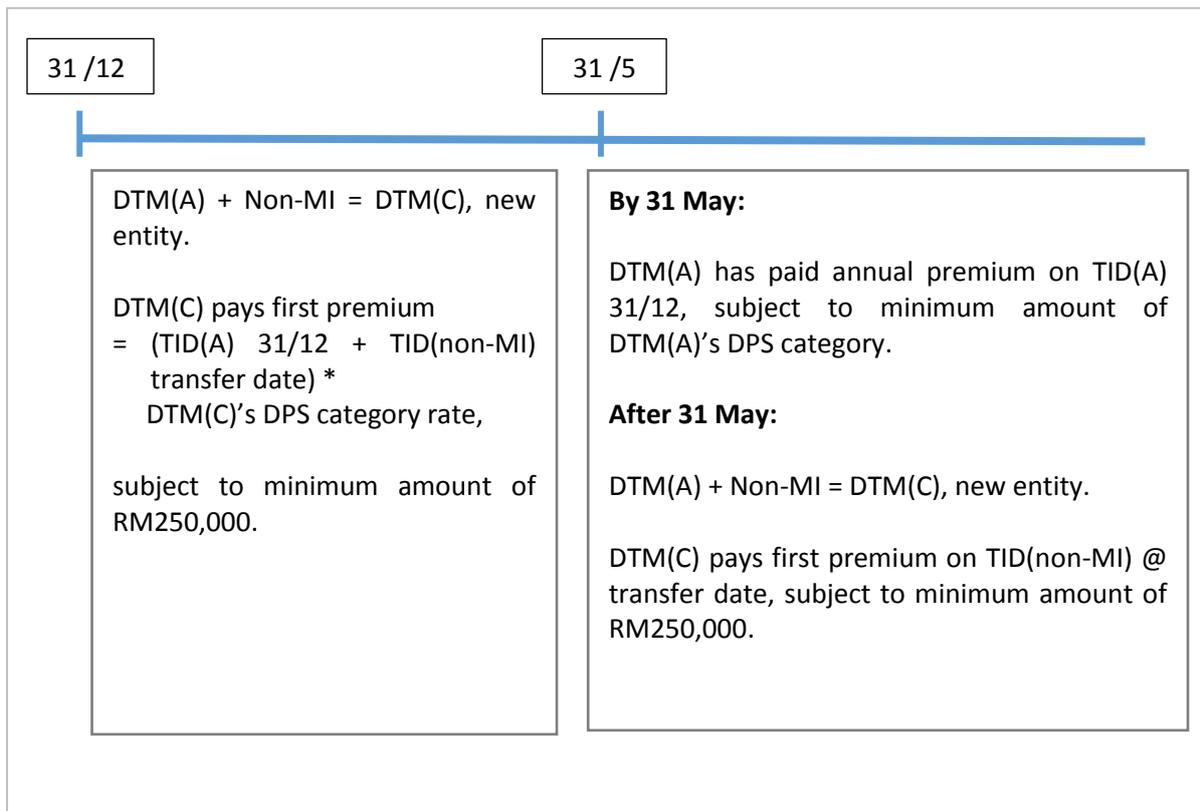
- (a) For an amalgamation between a non-MI and a DTM, with the DTM surviving, the premium will be based on:
- (i) the TID of the surviving DTM as of 31 December of the preceding assessment year; and
 - (ii) the TID of the non-MI as of the transfer date.
- (b) If the amalgamation takes place **before** 31 May of an assessment year, the surviving DTM will pay the annual premium based on its own TID as of 31 December of the preceding assessment year, plus the TID transferred from the non-MI to it as of the transfer date.
- (c) If the amalgamation takes place **after** 31 May of an assessment year, the surviving DTM would have paid annual premium based on its own TID as of 31 December of the preceding assessment year. The surviving DTM will be required to pay additional premium based on the transferred TID of the non-MI as of the transfer date.
- (d) This is depicted as follows:



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4. An amalgamation involving a DTM with a non-MI and resulting in a new DTM

- (a) For an amalgamation where both the DTM's and the non-MI's businesses are transferred to a new DTM, the same basis as described in paragraph 3 applies.
- (b) If the amalgamation takes place **before** 31 May of an assessment year, the new DTM will have to pay first premium based on the DTM's TID as of 31 December of the preceding assessment year and the non-MI's TID as of the transfer date.
- (c) If the amalgamation takes place **after** 31 May of an assessment year, the amalgamating DTM would have already paid annual premium based on its TID as of 31 December of the preceding assessment year. The new DTM will have to pay additional premium in respect of the TID of the non-MI as of the transfer date.
- (d) This is depicted as follows:

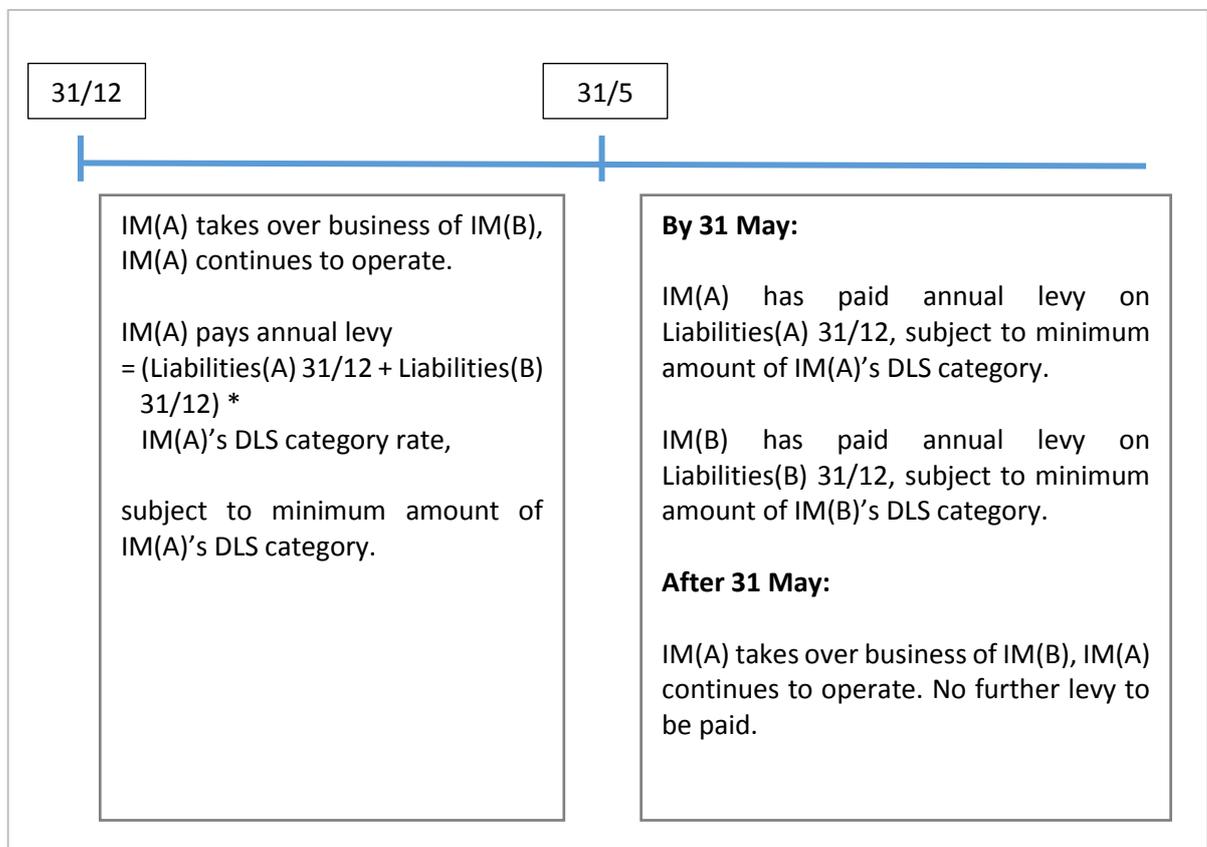


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B. IMs carrying on life insurance or family takaful business

5. An amalgamation involving an IM with another IM and resulting in a surviving/existing IM

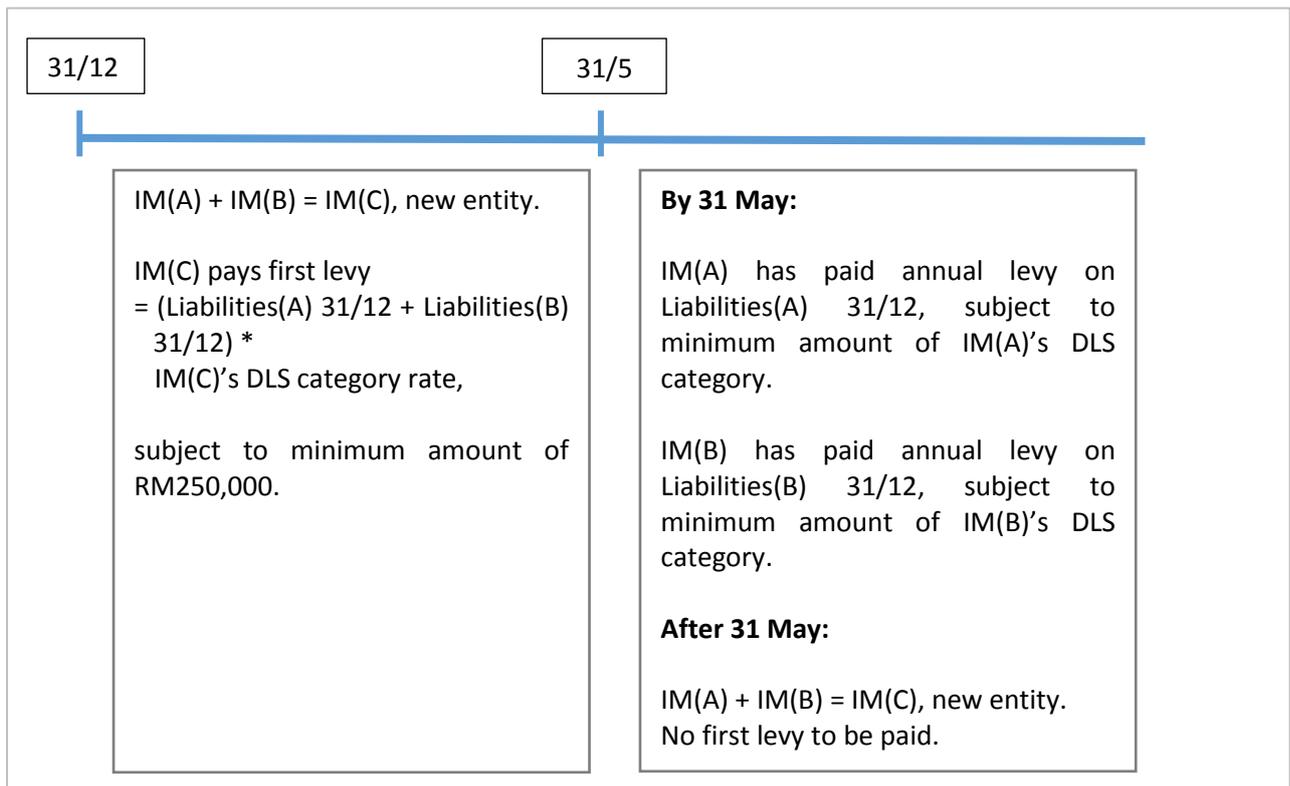
- (a) For an amalgamation involving IMs only, the levy will be based on the respective valuation of life insurance or family takaful liabilities (“liabilities”) (basis for assessment) as of 31 December of the preceding assessment year (reference date).
- (b) If the amalgamation takes place **before** 31 May of an assessment year (i.e. the due date for payment of annual levy), the surviving IM will be responsible to pay the annual levy calculated based on its liabilities and liabilities of the amalgamating IM.
- (c) If the amalgamation takes place **after** 31 May of an assessment year, annual levies would already have been paid by both IMs prior to the amalgamation. No further levy will be required to be made.
- (d) This is depicted as below:



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6. An amalgamation involving an IM with another IM and resulting in a new IM

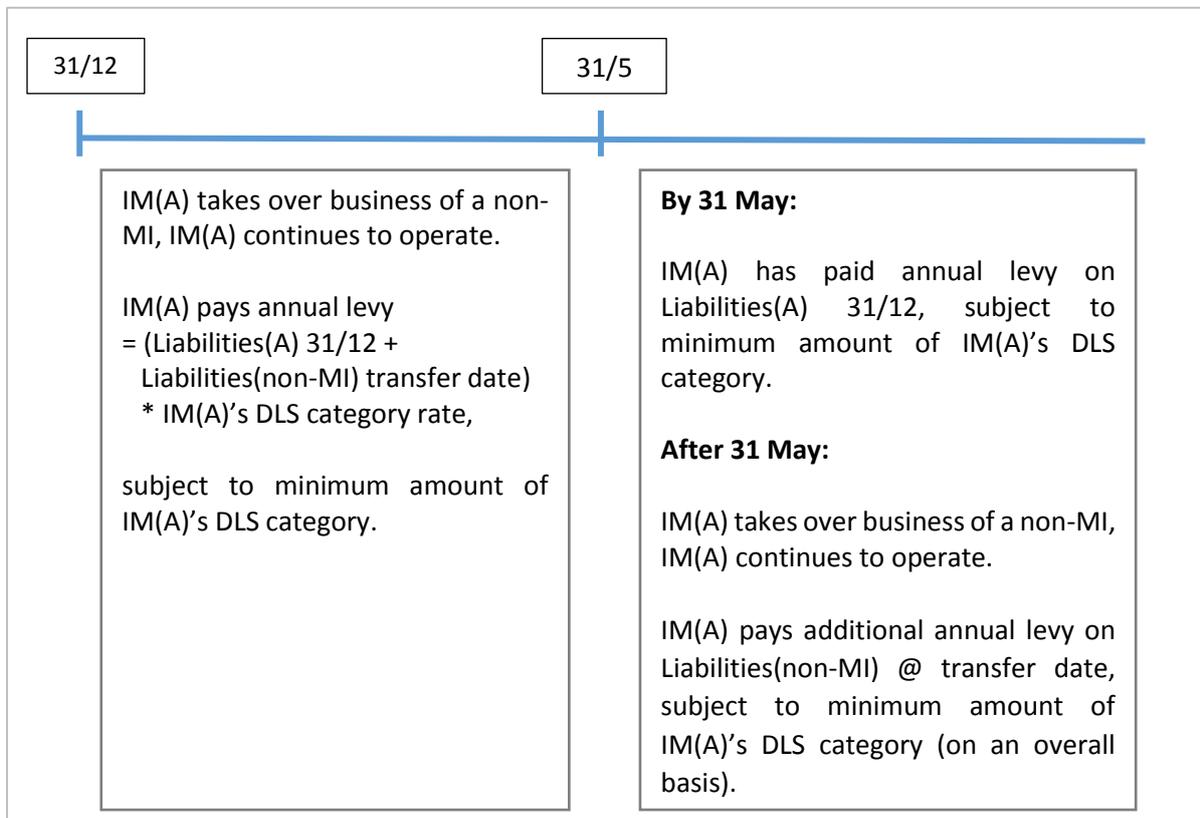
- (a) For an amalgamation where both IMs’ businesses are transferred to a new IM, the same basis as described in paragraph 5 above applies.
- (b) If the amalgamation takes place *before* 31 May of an assessment year, the new IM will be responsible to pay the first levy based on the respective liabilities of the amalgamating IMs as of 31 December of the preceding assessment year.
- (c) If the amalgamation takes place *after* 31 May of an assessment year, annual levies would already have been paid by both amalgamating IMs. The new IM will not be required to pay first levy in respect of the transferred business.
- (d) This is depicted as follows:



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7. An amalgamation involving an IM with a non-MI and resulting in a surviving IM

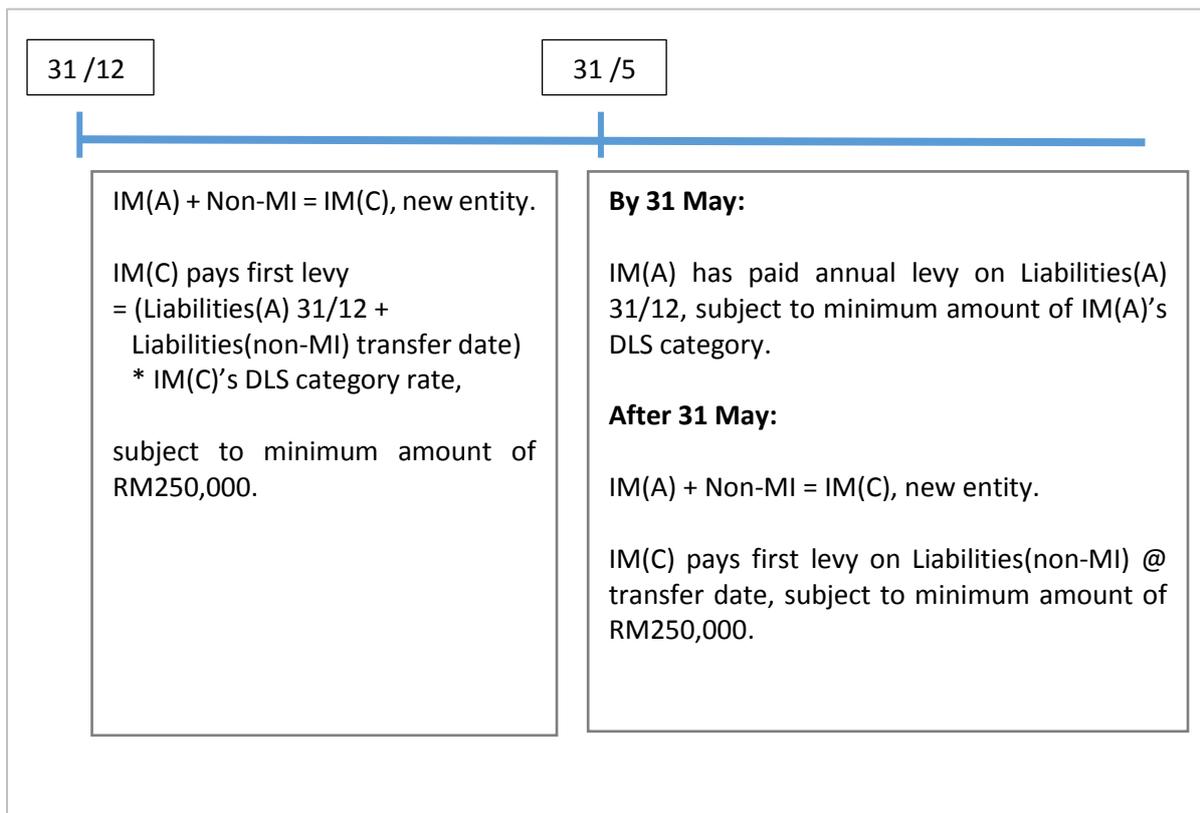
- (a) For an amalgamation between a non-MI and an IM, with the IM surviving, the levy will be based on:
- (i) the liabilities of the surviving IM as of 31 December of the preceding assessment year; and
 - (ii) the liabilities of the non-MI as of the transfer date.
- (b) If the amalgamation takes place **before** 31 May of an assessment year, the surviving IM will pay the annual levy based on its own liabilities as of 31 December of the preceding assessment year, plus the liabilities transferred from the non-MI to it as of the transfer date.
- (c) If the amalgamation takes place **after** 31 May of an assessment year, the surviving IM would have paid annual levy based on its own liabilities as of 31 December of the preceding assessment year. The surviving IM will be required to pay additional levy based on the transferred liabilities of the non-MI as of the transfer date.
- (d) This is depicted as follows:



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8. An amalgamation involving an IM with a non-MI and resulting in a new IM

- (a) For an amalgamation where both the IM’s and the non-MI’s businesses are transferred to a new IM, the same basis as described in paragraph 7 applies.
- (b) If the amalgamation takes place *before* 31 May of an assessment year, the new IM will have to pay first levy based on the IM’s liabilities as of 31 December of the preceding assessment year and the non-MI’s liabilities as of the transfer date.
- (c) If the amalgamation takes place *after* 31 May of an assessment year, the amalgamating IM would have already paid annual levy based on its liabilities as of 31 December of the preceding assessment year. The new IM will have to pay additional levy in respect of the liabilities of the non-MI as of the transfer date.
- (d) This is depicted as follows:

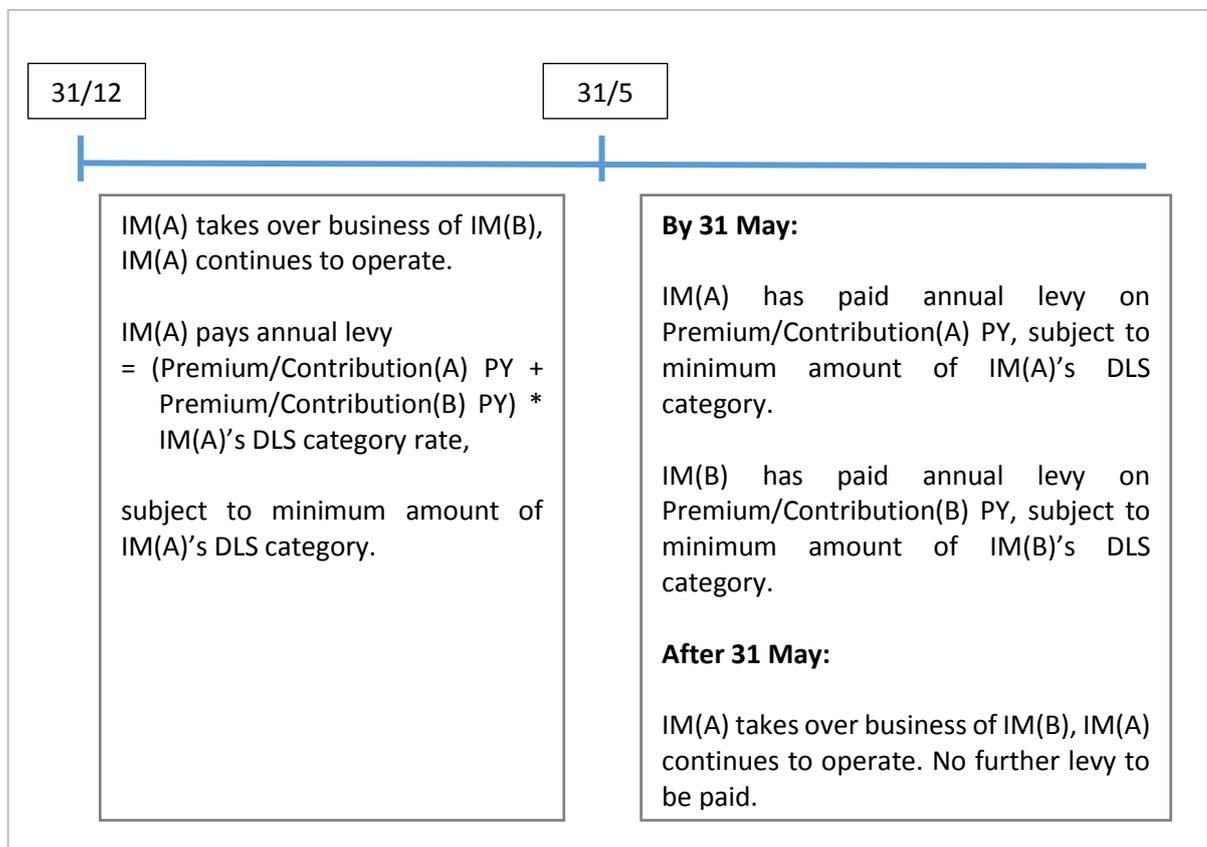


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C. IMs carrying on general insurance or general takaful business

9. An amalgamation involving an IM with another IM and resulting in a surviving/existing IM

- (a) For an amalgamation involving IMs only, the levy will be based on the respective total net premiums or contributions (“premium/contribution”) (basis for assessment) from January to December of the preceding assessment year (reference period).
- (b) If the amalgamation takes place **before** 31 May of an assessment year (i.e. the due date for payment of annual levy), the surviving IM will be responsible to pay the annual levy calculated based on its premium/contribution and the premium/contribution of the amalgamating IM.
- (c) If the amalgamation takes place **after** 31 May of an assessment year, annual levies would already have been paid by both IMs prior to the amalgamation. No further levy will be required to be made.
- (d) This is depicted as below:

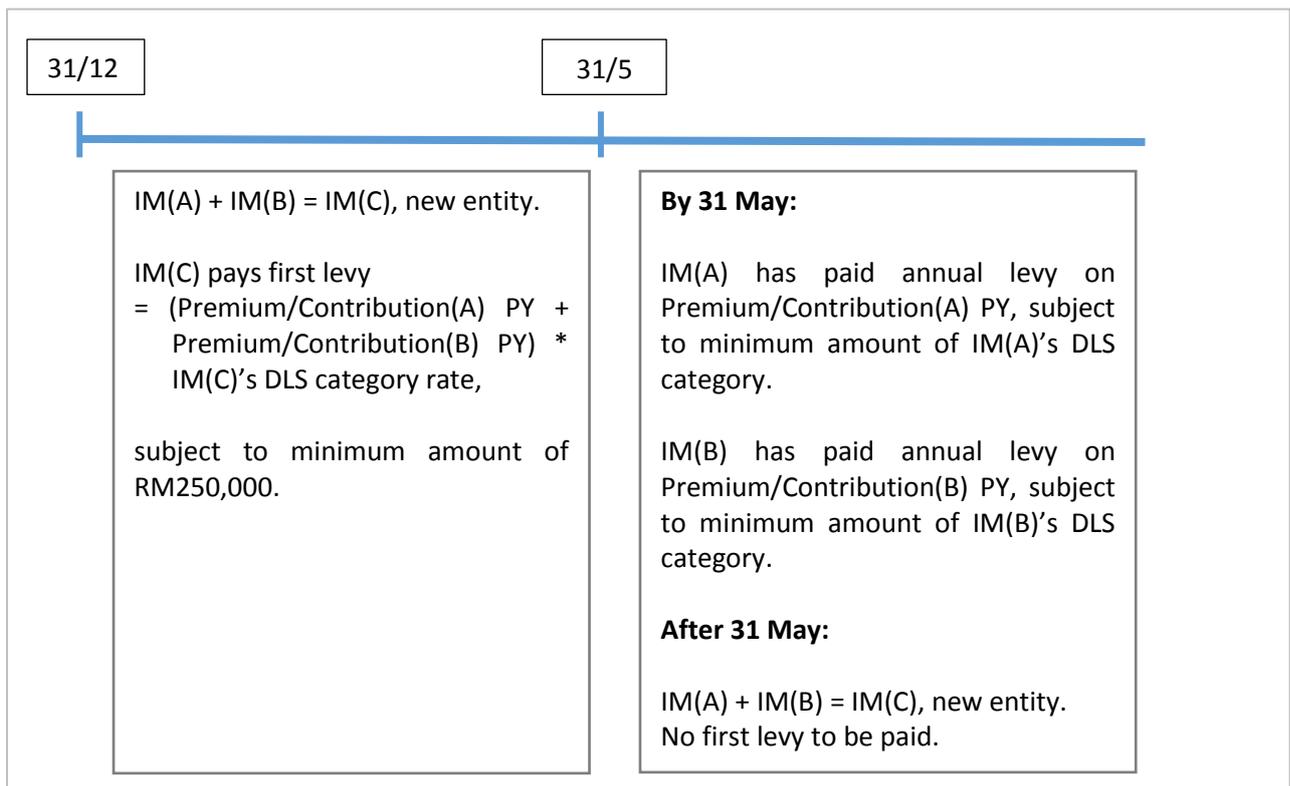


PY refers to preceding assessment year

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10. An amalgamation involving an IM with another IM and resulting in a new IM

- (a) For an amalgamation where both IMs' businesses are transferred to a new IM, the same basis as described in paragraph 9 above applies.
- (b) If the amalgamation takes place *before* 31 May of an assessment year, the new IM will be responsible to pay the first levy based on the respective premium/contribution of the amalgamating IMs from January to December of the preceding assessment year.
- (c) If the amalgamation takes place *after* 31 May of an assessment year, annual levies would already have been paid by both amalgamating IMs. The new IM will not be required to pay first levy in respect of the transferred business.
- (d) This is depicted as follows:

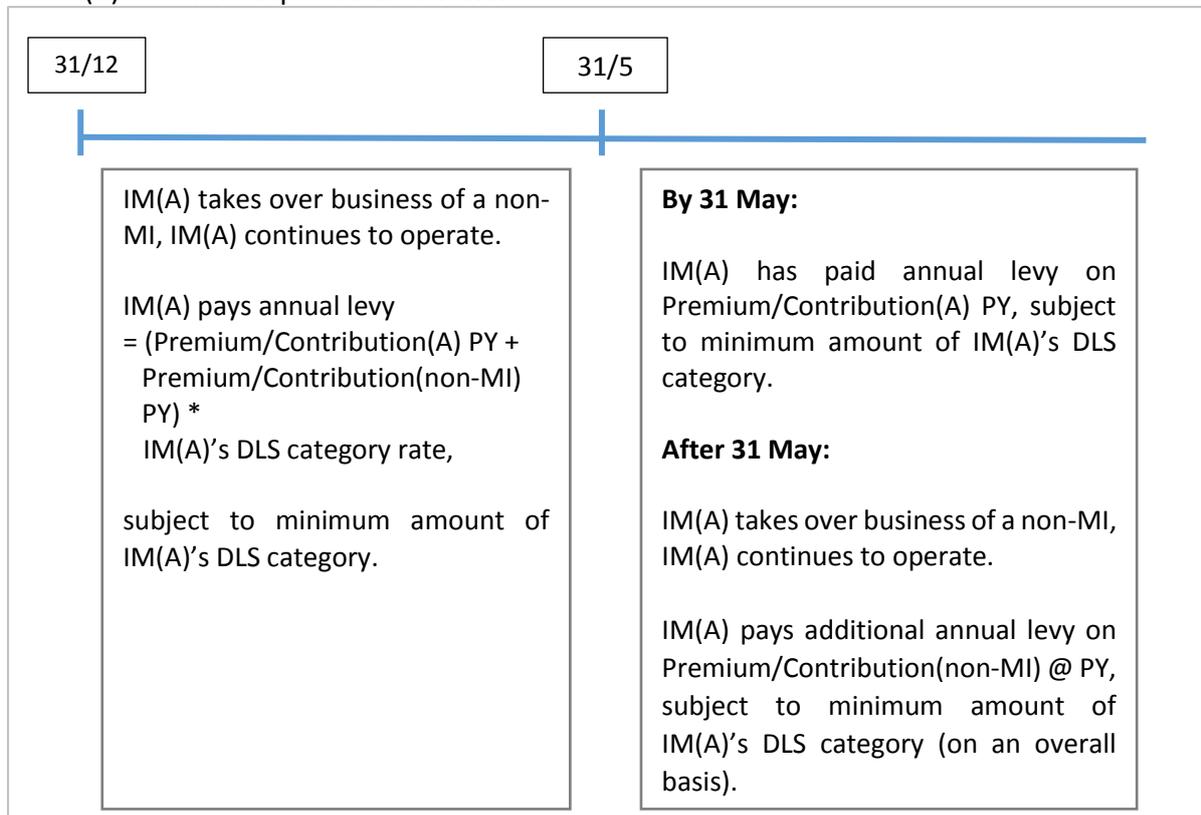


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11. An amalgamation involving an IM with a non-MI and resulting in a surviving IM

- (a) For an amalgamation between a non-MI and an IM, with the IM surviving, the levy will be based on:
- (i) the premium/contribution of the surviving IM from January to December of the preceding assessment year; and
 - (ii) the premium/contribution of the non-MI from January to December of the preceding assessment year.
- (b) If the amalgamation takes place **before** 31 May of an assessment year, the surviving IM will pay the annual levy based on its own premium/contribution from January to December of the preceding assessment year, plus the premium/contribution of the non-MI from January to December of the preceding assessment year.
- (c) If the amalgamation takes place **after** 31 May of an assessment year, the surviving IM would have paid annual levy based on its own premium/contribution from January to December of the preceding assessment year. The surviving IM will be required to pay additional levy based on the premium/contribution of the non-MI from January to December of the preceding assessment year.

(d) This is depicted as follows:



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12. An amalgamation involving an IM with a non-MI and resulting in a new IM

- (a) For an amalgamation where both the IM's and the non-MI's businesses are transferred to a new IM, the same basis as described in paragraph 11 applies.
- (b) If the amalgamation takes place **before** 31 May of an assessment year, the new IM will have to pay first levy based on the IM's premium/contribution from January to December of the preceding assessment year and the non-MI's premium/contribution from January to December of the preceding assessment year.
- (c) If the amalgamation takes place **after** 31 May of an assessment year, the amalgamating IM would have already paid annual levy based on its premium/contribution from January to December of the preceding assessment year. The new IM will have to pay additional levy in respect of the premium/contribution of the non-MI from January to December of the preceding assessment year.
- (d) This is depicted as follows:

