



**Perbadanan Insurans Deposit Malaysia**  
**Protecting Your Insurance And Deposits In Malaysia**

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**CONSULTATION PAPER ON  
ENHANCEMENT TO THE FUNDING PROFILE CRITERION UNDER  
THE DIFFERENTIAL PREMIUM SYSTEMS FRAMEWORK**

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<b>Ref No</b>	DI/CP31/2017	<b>Date:</b>	2 June 2017
<b>TITLE</b>	Consultation Paper on Enhancement to the Funding Profile Criterion under the Differential Premium Systems Framework		

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## PART 1: INTRODUCTION

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### 1.0 BACKGROUND

- 1.1 The Differential Premium Systems (“DPS”) framework was implemented in 2008 as part of PIDM’s mandate in administering the deposit insurance system and promoting financial system stability. The DPS framework’s primary objectives are to introduce greater fairness into the premium assessment process and to provide incentives for member banks to maintain strong risk management practices.
- 1.2 The DPS framework is periodically reviewed to ensure that it remains effective and relevant in achieving its objectives. A review of the DPS framework incorporates an impact assessment of developments in the operating environment, including changes to regulatory requirements and accounting standards. The last revision to the DPS framework was made in 2015, with the introduction of a two-dimensional ‘matrix approach’ for the quantitative criteria assessment, that emphasised on the need for member banks to have strong capital buffers and sustainable financial performance.
- 1.3 Based on the review of the DPS framework, PIDM concluded that the methodology and criteria remain relevant and effective in meeting the objectives of the DPS framework. Member banks would continue to be assessed based on a combination of quantitative and qualitative criteria.
- 1.4 Nevertheless, PIDM noted developments in the funding landscape that warranted a review of the indicators under the funding profile criterion. Based on discussions with Bank Negara Malaysia (“BNM”), it was also acknowledged that there is a need for the funding profile assessment to be more reflective of the changes in the member banks’ funding structure as well as to align with the regulatory developments.
- 1.5 As part of our early engagement with member banks, PIDM had, on 29 November 2016, outlined the proposed revision to the funding profile criterion and sought feedback from member banks. We are pleased to acknowledge the positive feedback on the proposed enhancement.



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- 1.6 This consultation paper is an extension of the previous feedback process. PIDM has refined the proposals based on feedback received, and also provides clarification on the definition of the components used in the indicators. The consultation paper also sets out the proposed threshold and scores as well as a detailed source of information for the computation of the proposed funding indicators.

## 2.0 CONSULTATION PROCESS

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

- 2.2 Responses to this consultation paper shall be submitted to PIDM latest by **7 July 2017**, and addressed to:

General Manager  
Insurance, Risk Assessment and Monitoring Division  
Perbadanan Insurans Deposit Malaysia  
Level 12, Axiata Tower  
No. 9, Jalan Stesen Sentral 5  
Kuala Lumpur Sentral  
50470 Kuala Lumpur

(Please mark "**CP Response – DPS 2017**" on the top left hand corner of the envelope)  
The soft copy of the response shall be submitted via email to [dps@pidm.gov.my](mailto:dps@pidm.gov.my).

- 2.3 PIDM will collate the comments on this consultation paper and publish its response on PIDM's website, where necessary. Your comments may be made public by PIDM. If you do not wish any of your comments to be made public, please indicate accordingly in your response. Thereafter, PIDM will undertake the relevant legislative process to amend the DPS Regulations to reflect the proposed changes, and the revised DPS framework is planned for implementation in assessment year 2018.

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

Encik Pannirsilwam Subramaniam ([pannir@pidm.gov.my](mailto:pannir@pidm.gov.my)) / 03-21737403 or  
Encik Muhammad Azhar Mohd Ashirab ([azhar@pidm.gov.my](mailto:azhar@pidm.gov.my)) / 03-21737496 or  
Puan Fariza Ahmad ([fariza@pidm.gov.my](mailto:fariza@pidm.gov.my)) / 03-21737414

## PART 2: PROPOSED ENHANCEMENT TO THE FUNDING PROFILE CRITERION

### 3.0 OVERVIEW

- 3.1 The funding profile criterion is one of the components of the quantitative assessment under the DPS framework. It comprised two indicators, namely the loans-to-deposits ratio (“LDR”) and composition of individual depositors. Both indicators were introduced to assess the ability of member banks to fund the business using stable funding sources.
- 3.2 PIDM acknowledged that the new liquidity standards under Basel III, particularly the net stable funding ratio (“NSFR”), is aimed at promoting longer-term resilience of a bank’s liquidity risk profile by ensuring banks fund their activities with sufficiently stable sources of funding, on an ongoing basis. Under Basel III, funding from small business customers and operational deposits are also being recognised as sources of stable funds, in addition to the retail deposits.
- 3.3 It was also noted that in preparation for compliance with Basel III’s liquidity standards, member banks are increasingly tapping into other stable sources of funding, such as long-tenured debt instruments, to diversify their funding base.
- 3.4 In view of these developments, PIDM is proposing the enhancement to the existing funding indicators to better reflect the assessment of a member bank’s funding profile under the DPS framework. The current weightage and the overarching objective of the funding profile criterion under the DPS framework have been maintained, and the proposed enhancement to the funding indicators is tabulated below:

No.	Current Indicators	Proposed Indicators
1.	Loans/Financing to Deposits Ratio	Loans/Financing to Available Funds Ratio
2.	Composition of Individual Depositors	Composition of Core Funds

#### 4.0 PROPOSED INDICATORS UNDER THE FUNDING PROFILE CRITERION

##### Loans/Financing to Available Funds Ratio

- 4.1 The proposed Loans/Financing to Available Funds ratio would recognise the broader range of funding instruments that are available to member banks to fund their lending activities. Generally, as financial intermediaries, member banks' lending activities should be predominantly funded by stable funding sources. This ratio is intended to provide incentives for member banks to manage their balance sheet prudently with appropriate matching of more diversified and stable funding sources to its lending activities.
- 4.2 The proposed computation as well as the threshold and the corresponding scores for this ratio are as follows:

<b>Formula</b>	<div style="border: 1px solid black; padding: 10px; width: fit-content; margin: auto;"> <math display="block">\frac{\text{Total Loans/Financing}}{\text{Total Available Funds}} \times 100</math> </div>
<b>Definition</b>	<ul style="list-style-type: none"> <li>▪ <b>Total Loans/Financing</b> excludes financing funded by investment accounts<sup>1</sup> and loans/financing sold to Cagamas.</li> <li>▪ <b>Total Available Funds</b> are defined as the sum of the following items:             <ul style="list-style-type: none"> <li>(i) Total deposits from customers;<sup>2</sup></li> <li>(ii) All debt instruments<sup>3</sup> i.e. subordinated debts, debt certificates/sukuk issued, commercial papers and structured notes; and</li> <li>(iii) Other long-term borrowings.<sup>4</sup></li> </ul> </li> </ul> <p><b>Notes:</b></p> <p><sup>1</sup> All financing funded by investment accounts that are reported as 'on-balance sheet' item for Islamic member banks.</p> <p><sup>2</sup> Total deposits from customers is the summation of 'deposits from customers' and 'deposits and placements of banks and other financial institutions' as reported in the financial statements, excluding interbank borrowings.</p>

	<p><sup>3</sup> All debt instruments also refers to capital securities reported as financial liabilities in the financial statements.</p> <p><sup>4</sup> Other long-term borrowings refers to those borrowings e.g. term loans and syndicated loans, with the remaining maturity of more than one year.</p>										
<b>Threshold and Score Range</b>	<ul style="list-style-type: none"> <li>Based on our analysis, including industry trend, PIDM proposes thresholds and scores that are similar to the existing threshold used for the loans to deposits ratio as it remains relevant in providing incentives for member banks to fund their business with stable funding sources. The proposed threshold will also be relevant in differentiating member banks that rely excessively on less stable funding, in particular, interbank borrowings.</li> </ul> <table border="1" data-bbox="544 892 1351 1186"> <thead> <tr> <th>Threshold</th> <th>Score</th> </tr> </thead> <tbody> <tr> <td>Loans/Financing to Available Funds Ratio <math>\leq</math> 80%</td> <td>15</td> </tr> <tr> <td>80% &lt; Loans/Financing to Available Funds Ratio <math>\leq</math> 90%</td> <td>10</td> </tr> <tr> <td>90% &lt; Loans/Financing to Available Funds Ratio <math>\leq</math> 100%</td> <td>5</td> </tr> <tr> <td>Loans/Financing to Available Funds Ratio &gt; 100%</td> <td>0</td> </tr> </tbody> </table>	Threshold	Score	Loans/Financing to Available Funds Ratio $\leq$ 80%	15	80% < Loans/Financing to Available Funds Ratio $\leq$ 90%	10	90% < Loans/Financing to Available Funds Ratio $\leq$ 100%	5	Loans/Financing to Available Funds Ratio > 100%	0
Threshold	Score										
Loans/Financing to Available Funds Ratio $\leq$ 80%	15										
80% < Loans/Financing to Available Funds Ratio $\leq$ 90%	10										
90% < Loans/Financing to Available Funds Ratio $\leq$ 100%	5										
Loans/Financing to Available Funds Ratio > 100%	0										

**Feedback 1:**

Based on comments received from member banks, PIDM has incorporated minor changes to the definition of the proposed Loans/Financing to Available Funds ratio as follows:

- (a) Loans/financing sold to Cagamas will be excluded from total loans/financing.
- (b) Other long-term borrowings as defined in Note 4 above, will be included as part of the total available funds.

For this consultation, PIDM seeks feedback on the proposed threshold for the Loans/Financing to Available Funds ratio, as well as other comments on this ratio, if any.

### Composition of Core Funds Indicator

- 4.3 The proposed Composition of Core Funds indicator is intended to provide incentives for member banks to maintain a strong level of stable funds. Apart from retail deposits, other forms of stable funds such as funds from small business customers, operational deposits and long-tenured debt instruments and borrowings are included in this indicator.
- 4.4 The proposed computation as well as the threshold and the corresponding scores for this indicator are as follows:

<b>Formula</b>	<div style="border: 1px solid black; padding: 10px; width: fit-content; margin: auto;"> <math display="block">\frac{\text{Total Core Funds}}{\text{Total Available Funds}} \times 100</math> </div>				
<b>Definition</b>	<ul style="list-style-type: none"> <li>▪ <b>Total Core Funds</b> is defined as the sum of the following items:             <ul style="list-style-type: none"> <li>(i) Retail deposits;</li> <li>(ii) Funding from small business customers;</li> <li>(iii) Operational deposits;</li> <li>(iv) All debt instruments as stated in paragraph 4.2 (ii), with the remaining maturity of more than one year; and</li> <li>(v) Other long-term borrowings as stated in paragraph 4.2 (iii).</li> </ul> </li> <li>▪ All the components in this indicator would be computed based on the total outstanding balance. The retail deposits, funding from small business customers and operational deposits would follow the definition provided under the BNM's Liquidity Coverage Ratio ("LCR") Guidelines as follows:</li> </ul> <table border="1" style="width: 100%; margin-top: 10px;"> <thead> <tr style="background-color: #cccccc;"> <th style="text-align: center;">Items</th> <th style="text-align: center;">Definition</th> </tr> </thead> <tbody> <tr> <td style="vertical-align: top;">Retail Deposits</td> <td>As per Paragraph 14.1 of LCR: Retail deposits shall consist of deposits placed with a banking institution by a natural person. The deposits include all retail demand and saving deposits, and retail term deposits, whether denominated in Ringgit or other currencies.</td> </tr> </tbody> </table>	Items	Definition	Retail Deposits	As per Paragraph 14.1 of LCR: Retail deposits shall consist of deposits placed with a banking institution by a natural person. The deposits include all retail demand and saving deposits, and retail term deposits, whether denominated in Ringgit or other currencies.
Items	Definition				
Retail Deposits	As per Paragraph 14.1 of LCR: Retail deposits shall consist of deposits placed with a banking institution by a natural person. The deposits include all retail demand and saving deposits, and retail term deposits, whether denominated in Ringgit or other currencies.				

Items	Definition
Small Business Customers	<p>As per Paragraph 15.17 of LCR: Small business customers shall refer to:</p> <ul style="list-style-type: none"> <li>(i) Sole proprietorships, partnerships and SMEs; and</li> <li>(ii) Non-individual customers for whom total aggregate funding raised from the customer is less than RM5 million (on a consolidated basis, where applicable) and where deposits from the customer are managed as retail deposits in the banking institution’s internal risk management systems consistently over time, and not individually managed like large corporate deposits.</li> </ul>
Operational Deposits	<p>As per Paragraph 15.5 of LCR: Operational deposits shall refer to deposits placed by financial or non-financial customers with a banking institution arising from qualifying activities, namely clearing, custody or cash management activities (defined in paragraphs 15.9 to 15.11) that meet the criteria set out in paragraph 15.7 to 15.8 of LCR.</p> <p><b>Note:</b> The amounts considered as excess balances shall not form part of the operational deposits, as per paragraph 15.12 of LCR.</p>

▪ **Total Available Funds** would follow the definition provided under the Loans/Financing to Available Funds ratio.

<b>Threshold and Score Range</b>	<ul style="list-style-type: none"> <li>Based on our analysis, including industry trend, PIDM is proposing the following thresholds and scores, which would also reflect the expanded recognition of stable funds: <table border="1" data-bbox="578 436 1297 709"> <thead> <tr> <th>Threshold</th> <th>Score</th> </tr> </thead> <tbody> <tr> <td>Composition of Core Funds <math>\geq</math> 60%</td> <td>10</td> </tr> <tr> <td><math>50\% \leq</math> Composition of Core Funds <math>&lt;</math> 60%</td> <td>8</td> </tr> <tr> <td><math>30\% \leq</math> Composition of Core Funds <math>&lt;</math> 50%</td> <td>5</td> </tr> <tr> <td>Composition of Core Funds <math>&lt;</math> 30%</td> <td>0</td> </tr> </tbody> </table> </li> </ul>	Threshold	Score	Composition of Core Funds $\geq$ 60%	10	$50\% \leq$ Composition of Core Funds $<$ 60%	8	$30\% \leq$ Composition of Core Funds $<$ 50%	5	Composition of Core Funds $<$ 30%	0
Threshold	Score										
Composition of Core Funds $\geq$ 60%	10										
$50\% \leq$ Composition of Core Funds $<$ 60%	8										
$30\% \leq$ Composition of Core Funds $<$ 50%	5										
Composition of Core Funds $<$ 30%	0										

**Feedback 2:**

PIDM seeks feedback on the proposed threshold for the Composition of Core Funds indicator, as well as other comments on this ratio, if any.

### PART 3: SOURCE OF INFORMATION

#### 5.0 PROPOSED SOURCE OF INFORMATION

5.1 The table below sets out the source of information for the computation of the proposed funding indicators. This information shall be reported in the revised DPS Quantitative Information forms that will be issued to member banks in due course.

Funding Profile Criterion			
No	Data Requirement	Source of Information	Remarks
1.	Gross Loans/Financing	Annual financial statements/ Interim financial statements/ Management accounts	
2.	Financing funded by Investment Account	Annual financial statements/ Interim financial statements/ Management accounts	This item shall be sourced from a member bank's internal records if it is not available in the financial statements.
3.	Loans/Financing sold to Cagamas	Annual financial statements/ Interim financial statements/ Management accounts	This item shall be sourced from a member bank's internal records if it is not available in the financial statements.
4.	Deposits from Customers	Annual financial statements/ Interim financial statements/ Management accounts	
5.	Deposits and Placements from Banks and Other Financial Institutions	Annual financial statements/ Interim financial statements/ Management accounts	
6.	Interbank Borrowings	This item shall be sourced from a member bank's internal records.	
7.	All debt instruments i.e. subordinated debts, debt certificates/sukuk issued, commercial papers and structured notes.	Annual financial statements/ Interim financial statements/ Management accounts	
8.	Other long-term borrowings with the remaining maturity of more than one year.	Annual financial statements/ Interim financial statements/ Management accounts	This item shall be sourced from a member bank's internal records if it is not available in the financial statements.



<b>Funding Profile Criterion</b>			
<b>No</b>	<b>Data Requirement</b>	<b>Source of Information</b>	<b>Remarks</b>
9.	Retail deposits	BNM's Liquidity Coverage Ratio ("LCR") - Monitoring Tools (Table 2b: Contractual Maturity Mismatch) – 'Total Amount'	Member banks shall source these items from the LCR submission to BNM, based on entity level reporting requirements. For a member bank with a Labuan banking subsidiary, the amount reported for these items shall exclude the Labuan banking subsidiary's exposure.
10.	Small Business Customers	BNM's Liquidity Coverage Ratio ("LCR") - Monitoring Tools (Table 2b: Contractual Maturity Mismatch) – 'Total Amount'	
11.	Operational Deposits	BNM's Liquidity Coverage Ratio ("LCR") – Table 1a: LCR-Main (Summation of Cell D:117, 118, 120, 121, 123,124, 126 & 127)	
12.	All debt instruments i.e. subordinated debts, debt certificates/sukuk issued, commercial papers and structured notes with the remaining maturity of more than one year.	This item shall be sourced from a member bank's internal records.	

**Feedback 3:**

PIDM seeks feedback on the proposed source of information for the data required under the funding profile criterion.