

MATERIAL MATTERS



PIDM identifies and prioritises material matters. These are issues that can or have the potential to substantially affect our strategies, business model, or certain forms of 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

MANDATE AND STATUTORY OBJECTS

- Protect depositors, takaful certificate and insurance policy owners in relation to a member institution failure
- Administer the Deposit Insurance System and the Takaful and Insurance Benefits Protection System
- Provide incentives for sound risk management in the financial system
- Promote or contribute to financial system stability

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”

VALUE DRIVERS

- Clear legislative mandate and wide powers
- Corporate governance (accountability)
- Talents (competence and agility)
- Stakeholder engagement

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 our financial reporting practices with regard to these subsidiaries.

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

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MANAGING RISK IN 2022: LIVING WITH COVID-19 – TRANSITIONING TO THE ENDEMIC PHASE

The measures implemented over the last two years to stem the spread and impact of the COVID-19 pandemic accelerated technological and digital advancements to facilitate and promote the changes forced upon the working landscape. PIDM has begun to upgrade our information technology (IT) infrastructure to take advantage of the latest technology equipment and solutions in our effort to future-proof ourselves and enhance the efficiency and effectiveness of our operations. At the same time, we will need to consider the implications and the upskilling required for employees in response to these strategic plans. PIDM has also moved into a hybrid work arrangement, with continued remote access, and we are considering the “Future of Work” trends under the changing working landscape. Exposure and vulnerabilities to cyberattacks remain a threat as PIDM moves towards digital transformation.

Malaysia is transitioning towards coronavirus endemicity, with the Government focusing its efforts on reviving the economy and addressing the gaps and consequences arising from the earlier pandemic measures. However, uncertainties and volatilities in the environment continue to prevail, and as such, PIDM continues our efforts towards realising heightened focus on our state of readiness, so that we can quickly move into position if called upon to deploy our powers.

A summary of our principal risks for the year 2022 is set out in the table below.






PRINCIPAL RISKS	CONTEXT
Future Ready and Adapting to the Changing Digital and Working Landscape – Operational Risk	Key operational risks include: <ul style="list-style-type: none"> • hybrid working arrangements and continued remote access in an environment with increasing cyber and information security threats; • upgrading and evolving our IT systems and processes through the adoption of technological advancements arising from the changing digital working environment; and • ensuring a safe working environment and the physical safety of employees.
Realising Readiness to Carry Out Our Mandate – Insurance Risk	Uncertainties continue to linger over the Malaysian economy as the country shifts into the endemic phase of the COVID-19 pandemic and seeks to recover from the impact and repercussions arising from the earlier measures taken to address the COVID-19 pandemic.
Future Proofing Our Human Capital – People Risk	PIDM will need to manage the implications and the upskilling required for our employees as we move towards the adoption of technological advancements arising from the changing digital working environment, including providing the support required by our employees as they adapt to the changes, whilst ensuring that morale and productivity remain intact. Other challenges include managing employee performance and expectations as PIDM explores the “Future of Work” trends under the changing working landscape.
Damage to Image and Reputation – Reputation Risk	PIDM’s credibility as a statutory body depends on the trust and confidence of a diverse group of stakeholders, especially during an intervention and failure resolution. Sufficient support from key stakeholders is also important for PIDM to fulfil our corporate initiatives and mandate effectively. PIDM continues our efforts to enhance relationships with stakeholders, including elevating the importance of online and social media as a means of communicating and engaging with stakeholders.

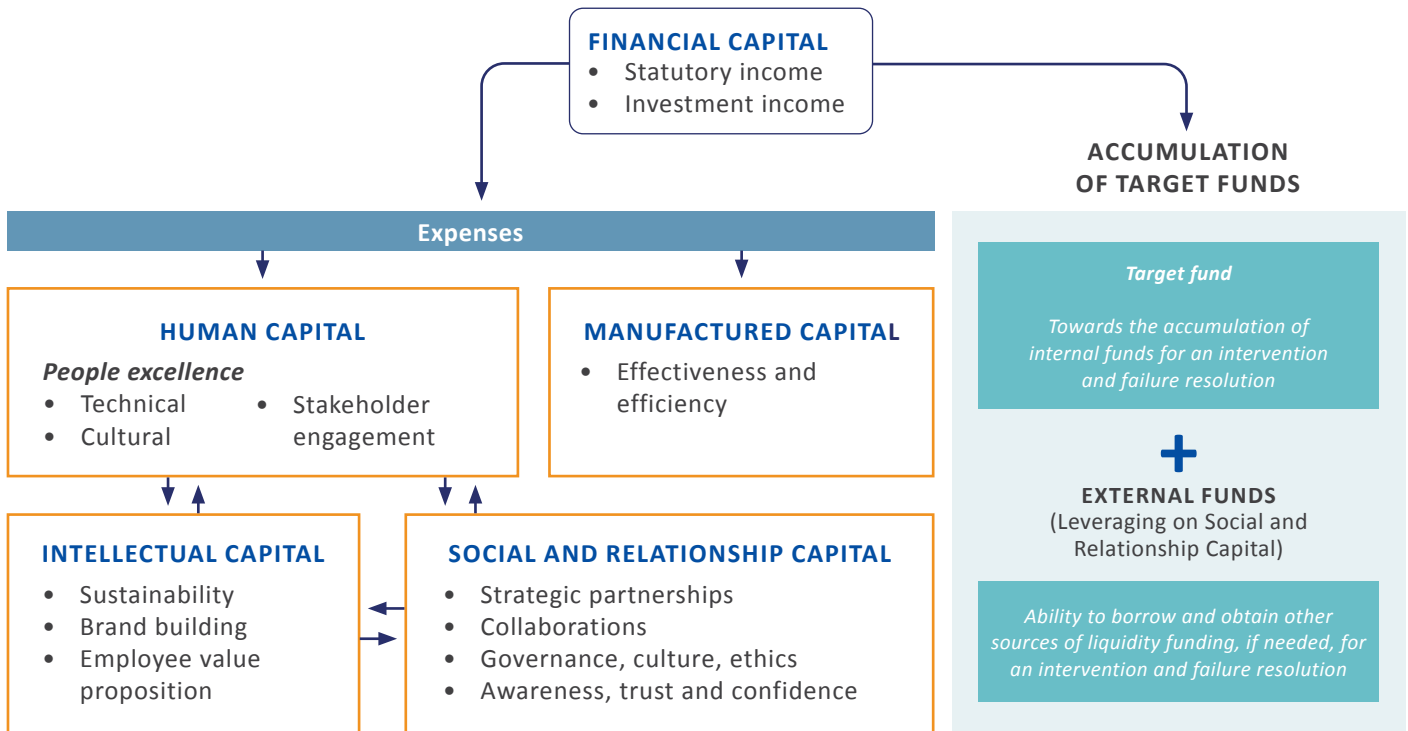
PIDM’s risk philosophy is fundamentally focused on anticipating and being prepared to minimise risks that threaten the protection of financial consumers’ savings in Malaysia and the stability of the financial system.

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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.

OUR CAPITALS AND HOW THEY ARE INTERLINKED AND TRANSLATED TO ACHIEVE OUR MANDATE	
 Human capital	<ul style="list-style-type: none"> • Competencies, capabilities and experience of employees
 Social and relationship capital	<ul style="list-style-type: none"> • Strong relationship within PIDM and with our external stakeholders • Reputation and image
 Financial capital	<ul style="list-style-type: none"> • Statutory income from premiums and levies collected from our member institutions and investment income from the protection funds • Ability to borrow to carry out our statutory functions
 Intellectual capital	<ul style="list-style-type: none"> • Knowledge and expertise in DIS and TIPS • Knowledge of corporate governance practices in the public sector • Knowledge acquired and captured through our learning organisation initiatives
 Manufactured capital	<ul style="list-style-type: none"> • System and infrastructure for our day-to-day operations and for intervention and failure resolution • Disaster recovery centre and information technology security infrastructure



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

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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 respective funds are collected before a failure of any member institution (ex-ante). The target fund size is determined by reference to what is considered sufficient to meet PIDM's expected future obligations and to cover PIDM's operational and related costs. The target funds are not intended to cover all of the insured deposits or insurance or takaful liabilities. This is to avoid PIDM holding funds that are not needed and that could be better used by the industry for lending and other business purposes. This means, then, for PIDM to be able to promptly carry out our obligations during an intervention and failure resolution, we must have access to prompt liquidity funding should there be a shortfall in our internal funds.

A comprehensive review of the target fund framework was undertaken in 2022. Refer to the article in Part II on the new target fund framework.

Financial and Relationship Capitals are Translated into Intellectual, and Other Capitals for Creation of Value

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 PIDM's 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. PIDM's plans going forward include a digital transformation plan to help guide how we manage and use the data and information we collect (e.g. from member institutions, Bank Negara Malaysia (BNM) and other resolution authorities), and to carry out more research, in particular on data and information that we and others can analyse and use, with a view to facilitating the creation of value for society.

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As highlighted below, material matters include concerns that may 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.




MATERIAL MATTER	DEFINITION	STAKEHOLDER / CAPITAL AFFECTED / PRINCIPAL RISKS	STRATEGY
Preparedness	<p>Achieving a high-level state of preparedness to enable PIDM to meet our mandate effectively and efficiently, from the perspectives of:</p> <p>(a) legislative framework, systems and processes; (b) competence and capability of our people; (c) financial safety net coordination and cooperation; and (d) funding.</p>	<p>Stakeholders</p> <ul style="list-style-type: none"> • Government • BNM • Public • Strategic partners <p>Capitals</p>  <p>Principal risks</p> <ul style="list-style-type: none"> • Insurance risk • People risk • Reputation risk • Operational risk 	<p>Ensure protocols and arrangements among key financial safety net players and strategic partners to enhance coordination, and continue to simulate and test various aspects of PIDM’s contingency plans.</p> <p>Ensure alignment of people, processes and systems to the changing industry landscape – digital transformation.</p>
	<p>Related to preparedness, resolution planning refers to “A plan intended to facilitate the effective use of Resolution Powers by the Resolution Authority, with the aim of making feasible the resolution of any financial institution without severe systemic disruption ... while protecting systemically important functions.”²</p>	<p>Stakeholders</p> <ul style="list-style-type: none"> • Industry • BNM • Financial consumers of member institutions • Foreign counterparts • Employees • Shareholders and creditors of member institutions <p>Capitals</p>  <p>Principal risks</p> <ul style="list-style-type: none"> • Insurance risk • People risk • Reputation risk 	<p>Early engagement and buy-in from relevant stakeholders.</p>

² International Association of Deposit Insurers’ definition at <https://www.iadi.org>

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MATERIAL MATTER	DEFINITION	STAKEHOLDER / CAPITAL AFFECTED / PRINCIPAL RISKS	STRATEGY
Awareness, trust and confidence, and crisis communication	<p>Achieving public awareness and understanding, and trust, so that there can be confidence among depositors and other financial consumers in the stability of the financial system, and sufficient credibility to help calm the public during times of uncertainty.</p> <p>Having contingency plans so that PIDM is in a state of readiness to communicate effectively in crisis situations to avert or mitigate risks.</p>	<p>Capitals</p>  <p>Principal risks</p> <ul style="list-style-type: none"> • Reputation risk • Insurance risk 	<p>Increase visibility and understanding among the public as well as targeted stakeholders, to elevate PIDM's reputation and credibility, as well as preparedness for crisis communication by working with strategic partners.</p>
Leadership, employee engagement and development	<p>Commitment to employee engagement, succession planning and skills development for current and future needs.</p>	<p>Capitals</p>  <p>Principal risks</p> <ul style="list-style-type: none"> • People risk • Operational risk 	<p>Ensure that human capital strategy and plans are aligned with PIDM's strategic direction, corporate objectives, and needs.</p> <p>Ensure ongoing employee engagement and management of employee welfare.</p> <p>Ensure alignment of people, processes and systems to the changing operating environment – digital transformation.</p>
Corporate governance	<p>Commitment to transparency, accountability and integrity, and ensuring strategic management and sound management practices</p>	<p>Capitals</p>  <p>Principal risks</p> <ul style="list-style-type: none"> • Operational risk • Reputation risk 	<p>Adopt best practice management</p> <p>Ensure data and knowledge are organised effectively, leveraging on technology whilst ensuring IT and cybersecurity.</p> <p>Strategy focus</p> <p>Other opportunities for value creation including in partnership with others.</p>

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MATERIAL MATTER	DEFINITION	STAKEHOLDER / CAPITAL AFFECTED / PRINCIPAL RISKS	STRATEGY
<p>Future ready operations</p>	<p>Shifting towards a more cyber and digital working environment, and enhancing the efficiency and effectiveness of PIDM's operations to be better equipped and ready for the future.</p>	<p>Capitals</p>  <p>Principal risks</p> <ul style="list-style-type: none"> • Operational risk • Reputation risk • People risk • Strategic risk 	<p>Modernising PIDM's IT infrastructure, processes and security to augment future readiness, including ensuring a resilient cyber defence to deal with the increasing cyber and information security threats in a digital working environment.</p> <p>Expand PIDM's resolution capabilities and effectiveness by leveraging on digital applications as well as enhanced data management and analytics.</p> <p>Ensuring strong talent and capabilities, and strengthening PIDM's culture including getting our workforce ready to embrace digitalisation and the "Future of Work" culture.</p>

Looking forward, the principal risks are also mapped to the corporate plan for the planning period 2023 – 2025. Refer to Part III of this Annual Report.