

PERBADANAN INSURANS DEPOSIT MALAYSIA

MEDIA BRIEFING ON ANNUAL REPORT 2005

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**“BEST GOVERNANCE PRACTICES:
Laying the Foundation”**

Presented by:

Jean Pierre Sabourin
Chief Executive Officer of
Perbadanan Insurans Deposit Malaysia (PIDM)

Members of the Press,

Ladies and Gentlemen,

Good morning and welcome to PIDM's Media Briefing. We are pleased to have you here with us today.

We're a fledgling deposit insurance corporation, birthed in August last year. We started out with a team of eight employees. Now we've grown to triple the size with **26** people on board. We're here to brief you about our Annual Report 2005 and results for our first year of operations.

Today's agenda would cover, first, the remarks by our Chairman and Chief Executive Officer (CEO). Second, corporate governance, where we will touch on the framework and three committees established by the Board namely, the Audit, Governance and Remuneration Committees. Third, the Charters for the three Board Committees. We will highlight one example, which is the Charter of the Governance Committee. Fourth, our financial highlights and followed by the fifth, our public awareness and education initiatives.

Now, let's take a look at what our Chairman has to say.

Chairman's Message

Our Chairman, Tan Sri Dato' Abdul Aziz bin Haji Taha, has three main points in his message. First, the strength of an institution's governance begins with its **Board**. In the first four months of PIDM's operations, the Board focused on building an effective organisational and reporting **structure**, and PIDM's governance **framework**.

Secondly, depositors now enjoy the guarantee of PIDM that their insured deposits kept in licensed commercial banks, finance companies and Islamic banks are **safe**. And, finally, the Board's overriding objective of establishing **strong foundations**, by incorporating the highest of governance standards based on the **principles** of integrity, independence, accountability, transparency and stewardship.

His message is clear – The Board has set the benchmark for the highest standards of governance. PIDM will be well-governed and well-managed.

You'll notice that he also provides a summary of PIDM's three-year Corporate Plan and our four business strategies, namely:

- **Readiness** – in fulfilling our role as the deposit insurer in Malaysia;
- **Sound business and financial practices** – ensuring that sound policies, procedures, systems, practices and reporting are in place;
- **Public awareness** – establishing sound public awareness and educational programmes to explain the benefits and limitations of deposit insurance; and
- **Strong partnerships** – building and enhancing relations with our partners, including member institutions, regulators and suppliers, to better achieve our mandate.

And now, I will briefly touch on my message.

CEO's Message

Our foundations will include sound policies, systems, procedures, internal controls and an accountability regime, so that we may effectively administer the deposit insurance system. At PIDM, we emphasise teamwork, quality and professionalism with minimal hierarchy. We strive for public confidence as we are keenly aware that public understanding of the deposit insurance system is key to our success.

During the year, PIDM became a member of the International Association of Deposit Insurers (IADI). Although a new entity, our active participation in the international arena has raised both our profile and our credibility.

As a member of IADI, we were invited to play a leading role in international fora held in China and Taiwan. We also hosted study tours from deposit insurers of Taiwan, Nigeria and Jamaica. We proudly note that the International Monetary Fund (IMF) also

visited us to assess our system. They confirmed that our system is based on international best practices.

Unwavering Commitment to Good Governance

As you can see, our theme is “Building Strong Foundations”. Our Report reflects PIDM’s objective of being an effective and efficient deposit insurer as well as being an exemplary statutory body. We’re very serious about our objective. We will achieve this by keeping an unwavering commitment to good governance. We are committed to conducting our affairs according to the highest corporate governance standards and integrity applicable to statutory bodies and, in particular, to deposit insurers.

The Financial Stability Forum’s Report on “Guidance for Developing Effective Deposit Insurance System” recommends that the basic governance arrangements for a deposit insurer should include:

- Having appropriate and knowledgeable individuals without conflicts of interest, and the authority to make decisions;
- Having access to interested parties;
- Transparent and accountable governance structures subject to oversight;
- Governance systems and practices to be developed on the basis of sound strategic planning, risk management practices, good internal control and audit systems; and
- The development of corporate governance rules.

PIDM Governance Framework

We’ve adopted international corporate governance standards as the policy cornerstone since PIDM’s formation on August 15 last year. Building on this foundation are six pillars upon which PIDM governance framework is based:

- **Minister of Finance oversight**
The *Akta Perbadanan Insurans Deposit Malaysia 2005* (PIDM Act) provides certain checks and balances in the form of the Minister having oversight of certain key powers, such as setting the annual premium rate charged to member institutions;
- **Stringent legislative controls**
The PIDM Act sets limits on, among others, the maximum premium rate, pre-conditions before PIDM can use certain key powers, specific appeal procedures for termination of membership and provisions for payments to depositors under specified conditions;

- **Balanced Board**

Board members are drawn from both public and private sectors. That way, different skills and expertise are on board to fulfill PIDM's mandate and to take into account the public policy objectives and financial safety net considerations.

The private sector directors are appointed by the Minister of Finance. And, we have three directors from the public sector, who are the Governor of Bank Negara Malaysia, Secretary General of Treasury and President of the Malaysian Institute of Integrity;

- **Separation of powers**

For there to be effective governance, separation of powers is essential. Thus, PIDM's policy-making powers and the executive function are clearly separated. The Board is the "directing mind" of PIDM and has collective responsibility for setting policies and the strategic direction, while I, the CEO, am responsible for the daily management of PIDM's business and affairs. As such, I am not a member of the Board of Directors. This was not an oversight as we made it clear in the PIDM Act;

- **Sound internal control framework**

The external auditing function is vested in the Auditor General of Malaysia by law. In addition, we will establish a strong and independent internal audit function. This is important to ensure that our operations are conducted according to the highest standards of best professional practices; and

- **Transparency**

Transparency is essential in order to build public confidence in the system. PIDM submits audited financial statements and Annual Report to the Ministry of Finance for tabling in Parliament. We also submit quarterly financial results to the Ministry of Finance.

Implementing the Governance Framework

Though we have a good framework in place, it still needs to be well-implemented.

Members of the Board are appointed by the Minister of Finance. The Board comprises seven experienced and high-calibre directors with skills in banking, finance, legal, accounting, and public and general management. For a balanced representation, three directors are from the public sector while four are from the private sector, one of whom is the non-executive Chairman. Our Report provides a short profile of each director of PIDM.

Only individuals of high integrity are appointed. Directors are prohibited from being appointed or remaining as directors if they concurrently hold positions as:

- A member of the Upper House or Lower House of Parliament or any State Legislative Assembly;
- An officer of a member institution; or
- A divisional head, or any person who holds any similar office or position, in a political party.

Governance Contributes to Better Deposit Insurance System

The term “governance” is of widespread interest throughout the corporate world. In recent years, it’s become one of the buzz words you often find on corporate agendas. However, it means different things to different people.

According to the Macmillan English dictionary, it is defined as the formal process of running an organisation. In academic circles, it often refers to formal institutional structures, policy mandates as enshrined in incorporation documents and the administrative processes that govern the organisation. This includes a system of checks and balances, the system of incentives, rules and administrative philosophies under which an organisation operates.

Deposit insurance systems, like ours, are set up mainly to **enhance macroeconomic and financial stability** by minimising the impact of bank failures. This is done by way of an upfront promise to repay depositors should a bank fail.

This is our primary aim – to **build confidence** in the banking system. Knowing that we’re adhering to best practices should help the public feel secure. The repayment of depositors is an important objective and serves to reinforce the objective of building confidence. Public confidence is the rock upon which deposit insurance is built. As long as the public believes in PIDM’s ability and capacity to fulfill its promise, our financial stability mandate can be met.

Furthermore, **stakeholders’ expectations** of deposit insurers are growing and over the last decade, there is increasing convergence in governance standards of public agencies and corporations. In the corporate arena, corporate governance standards are driven by competition and we are no different. Market forces will also drive deposit insurance governance. This is even more so as banking institutions are among the most regulated institutions in the world.

In a worst-case scenario, credibility problems in the deposit insurer may have implications for the competitiveness of the financial system bearing in mind that the law of weakest link applies to all players in the financial system. So, by meeting the **same fiduciary and corporate governance standards** as expected of PIDM’s member institutions, we **earn credibility** by ensuring no such gap exists.

Board Committee Charters

As part of good governance, we disclose the charters of the Audit Committee, Governance Committee and Remuneration Committee, and their respective components. These charters incorporate international governance practices to assist the Board to fulfill its governance responsibilities.

They spell out each committee's mandate, objective, operating principles, principal duties and responsibilities. The charters and performance of the committees are to be reviewed annually. So that it's easier for you to understand what a charter actually entails, let's go through the Governance Committee's Charter.

Charter of Governance Committee

The purpose of a Board Committee is to help the Board to fulfill its responsibilities effectively and efficiently by investigating issues or problems being considered by the Board in greater depth.

Mandate

The mandate is important as it specifies the authority under which the Governance Committee was established and the legal standing of the Governance Committee. In this case, the Governance Committee was established pursuant to Section 7 of the PIDM Act.

Objectives

The objectives of the Charter set out the scope of responsibilities of the three Board Committees within PIDM. In this case, the Governance Committee is responsible to identify and implement sound corporate governance principles in PIDM right through from Board to Management level. It is also responsible for succession planning of Board Members and the CEO.

Operating principles

All committees are governed by their operating principles which determine the composition, quorum, conduct of meetings and reporting to the Board. PIDM's Board Committees are no different.

I would highlight three key operating principles that all PIDM's Board Committees subscribe to. These are, namely, term of appointment, review of Charter and self-assessment. All PIDM Board Committees are committed to replace members of Board Committees on a regular basis to maximise the skills and expertise of its Board members. The requirement to review the Governance Committee and self-assessment is in line with PIDM's commitment to align performance with its mandate.

Principle Duties & Responsibilities:

The main duties of the Governance Committee are divided into five categories which are corporate governance oversight, evaluation of Board operations and Board Committees, Board nominations, succession planning and reporting and disclosure.

These duties relate directly to the scope of its objectives and operating principles. The sum of the Charter requires the Governance Committee to ensure that PIDM is managed according to sound corporate governance principles.

Financial Highlights

Turning to our operations, we're proud to say that we're the first country to administer two different systems – conventional and Islamic – under one statutory body. This is reflected in our financial statements, which comprise two separate sets of financial statements in one Report.

The public can clearly see how much each system contributes to the whole.

Here's the breakdown, showing you how much conventional and Islamic premiums contribute to the bottom line respectively.

	Conventional RM million	Islamic RM million	Total RM million
Premiums	32.37	3.30	35.67
Investment Income	0.18	0.02	0.20
Expenditures	(3.03)	(0.31)	(3.33)
Net surplus	29.53	3.01	32.54

Note: These numbers have been rounded up. Please refer to the Annual Report for actual figures.

In fact, just before the Financial Statements, our Annual Report has a section called Management Discussion and Analysis (MD&A) where we detailed out the operational review and other related matters. This is to enable the public to better understand the financial figures.

We'll now proceed to discuss the highlights of this section.

Management Discussion and Analysis (MD&A)

Our MD&A is an enhancement to the normal disclosures within an Annual Report, with the objective of promoting transparency and integrity of PIDM's operations. The MD&A is detailed out in three main parts:

A. *Operational review*

This part describes the main operational initiatives and activities of the Corporation since its establishment, in particular, premium assessment and management of the deposit insurance funds.

B. *Financial overview*

This part provides more detailed description of the items in the financial statements, including cash and investments, property and equipment, other assets, liabilities as well as items within the income statements. The performance of the funds as compared to the 2005 budget is also described therein.

C. *Going forward*

This part of the MD&A begins with what to expect in 2006, such as rate of premium payable by member institutions, PIDM's projected premium revenue, operating expenses, capital expenditures and net income.

A summary of the details of our three-year Corporate Plan and the strategic direction of the Corporation is also provided. The summary also includes brief description of key planning assumptions, operating environment and business strategies of PIDM.

The MD&A concludes by underlining PIDM's four areas of focus for 2006, which includes the following:

- Promote incentives for sound risk management in the financial system;
- Governance, risk management, internal policies, controls and procedures;
- Public awareness; and
- Strong partnerships.

You can see for yourselves that PIDM is going beyond minimum requirements by setting a benchmark with such detailed disclosures.

Statutory Declaration by Management

We are also proud to have an enhanced Statutory Declaration by Management on the financial statements, over and above the standard form applied by other organisations.

The Statutory Declaration emphasises that the financial statements are prepared in accordance with Shariah principles and requirements and applicable approved accounting standards in Malaysia. Our enhanced disclosure sets out the processes and controls that PIDM's Management has instituted in discharging its responsibility on financial reporting. This forms the basis of the Statutory Declaration.

Certificate of the Auditor General

Bearing in mind that our accounts closed on 31 December 2005, we managed to complete the audit process within 70 days, to the satisfaction of the Auditor General who signed the certificate on 10 March 2006.

That is a great accomplishment for a seven-month-old statutory body, I must say.

Raising Public Awareness

You've heard of how awareness is the first step – before it moves on to the next level – knowledge.

As part of our public awareness and education initiatives, we have conducted training for staff of member institutions on deposit insurance matters and developed a handbook for easy reference when responding to enquiries.

We also launched a public information campaign last month, in order to raise public awareness of deposit insurance. This included our website – www.pidm.gov.my – and distribution of four million public information leaflets entitled "Your Deposits are Now Insured" in five languages, including Kadazandusun. PIDM's call centre (toll free 1-800-88-1266) is another popular channel for depositors to find out more on PIDM and deposit insurance.

All member institutions have been instructed to display PIDM decals at their branches to indicate their membership in PIDM.

To help in the submission of correct information by professionals who maintain trust and joint accounts in our member institutions, we have also published the "Guidelines on Disclosure Requirements for Trust Accounts and Joint Accounts". Submission of information is necessary if they want to enable these accounts to enjoy separate coverage for each beneficiary or joint owner.

And, we're proud of our "tumble" version of the Annual Report in Bahasa Malaysia and English. On the website, we have the Annual Report in four languages – adding on Chinese and Tamil.

The Annual Report also contains feature articles on both Islamic and conventional deposit insurance systems, Frequently Asked Questions, listing of member institutions and PIDM's contact details.

To further enhance awareness, PIDM is in the midst of developing a comprehensive multi-year public awareness and educational campaign.

Conclusion

Well, you've heard quite a lot from us today. Just to wrap up, you've heard about three main items from us:

From the highlights of our inaugural Annual Report, you can see for yourselves how we're aiming to be well-run, and well-managed, and ultimately, an exemplary statutory body and leading deposit insurer.

Clearly, you can see that we disclose beyond what is required. Why do we do this? That links us to my next point.

Corporate governance is all-pervasive, and essential for Boards and Management to fulfill their duties. We're very serious about implementing best practices throughout our organisation.

Thank you for your kind attention and we hope you'll take with you a better understanding of why corporate governance is so important, and how we're committed to building strong foundations at PIDM.

I'll be happy to take your questions now.