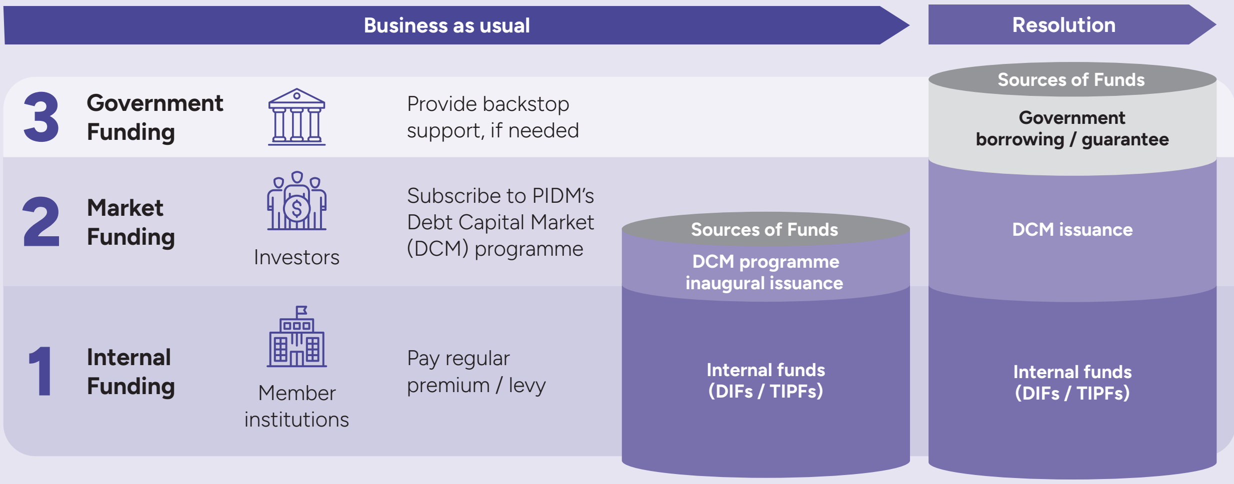
20 YEARS OF ADVANCING FUNDING READINESS

A deposit insurer should maintain readily available funds and robust funding mechanisms to effectively meet its mandate.[1] Over the past 20 years, PIDM has progressively strengthened our funding framework, guided by the principle that taxpayers should no longer be the default financial source during intervention and resolution activities. To support this, PIDM employs three levels of funding sources, comprising internal, market, and Government funding – each refined over time to enhance resilience while keeping the burden on member institutions at a manageable level.

Three Levels of Funding Sources



DIFs: Deposit Insurance Funds; TIPFs: Takaful and Insurance Benefits Protection Funds; DIFs and TIPFs are collectively known as Protection Funds

Internal Funding

PIDM builds our internal funds through premiums or levies from member institutions, and investment income generated from the funds net of operating expenses. The main objective of internal funding is to ensure sufficient financial resources to support daily operations, and to build reserves to meet future obligations arising from potential member institution failures.

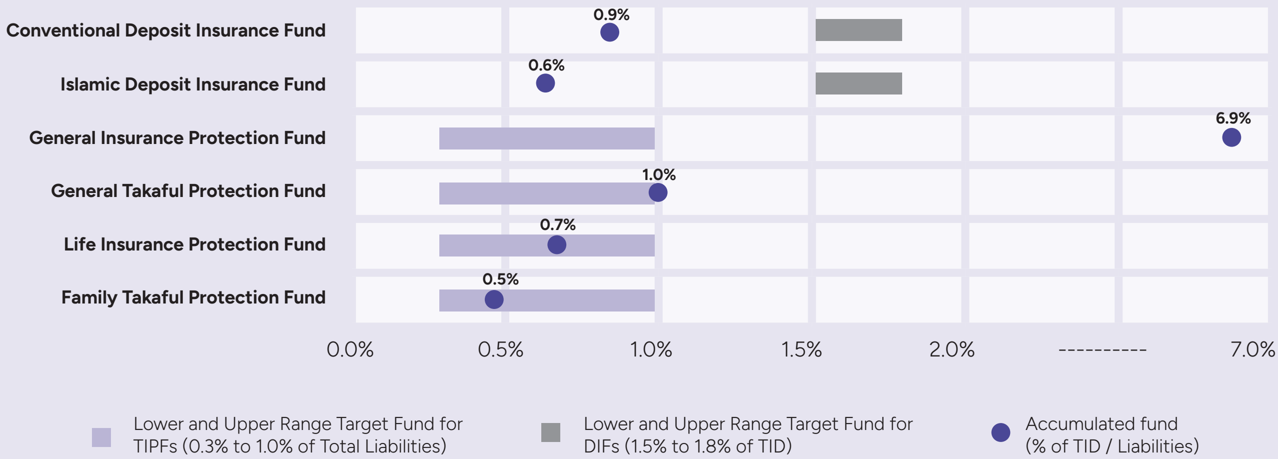
Target fund

PIDM does not aim to fully cover potential exposures solely through regular premium or levy collections from member institutions. Instead, PIDM establishes a Target Fund, determined by using a combination of statistical and discretionary methodologies, to build a reasonable level of Protection Funds from the industry during good times, to be used in carrying out intervention and resolution activities.

Since the introduction of the Target Fund frameworks in 2011, the Target Fund levels for the DIFs and TIPFs have been periodically reviewed to ensure the continued relevance of the underlying models and assumptions. The target range for the two DIFs[2] is set at 1.5% to 1.8% of Total Insured Deposits (TID). For the four TIPFs,[3] the target range is 0.3% to 1.0% of total takaful or insurance liabilities. The diagram below illustrates the current levels of accumulated DIFs and TIPFs relative to their respective Target Fund ranges.[4]

[1] *International Association of Deposit Insurers' Core Principles for Effective Deposit Insurance Systems*
[2] *Conventional and Islamic Deposit Insurance Funds*
[3] *General Insurance Protection Fund, General Takaful Protection Fund, Life Insurance Protection Fund and Family Takaful Protection Fund*
[4] *The TID depicted is the total industry TID as at 31 December 2024, in accordance with the annual submission of the Return on TID. The total takaful and insurance liabilities represent the total industry aggregates as at 31 December 2024, in accordance with Bank Negara Malaysia's Risk Based Capital Framework for Insurers and Risk Based Capital Framework for Takaful Operators reporting forms*

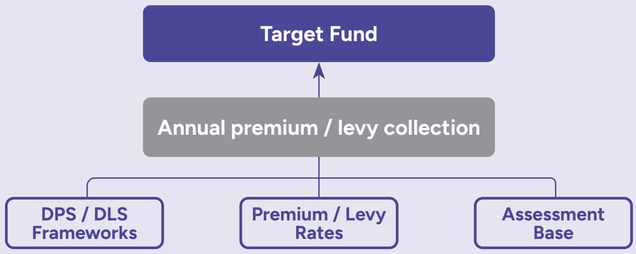
Accumulated Funds and Target Fund Levels



Strengthening collection frameworks amid an evolving operating landscape

In progressing towards the Target Fund levels, PIDM continues to undertake periodical reviews and strengthen the components of our premium and levy collection frameworks to support timely and steady fund build up. These efforts aim to strike a prudent balance between calibrating premium and levy rates under the incentives mechanism, while progressively building the funds to their respective Target Fund levels.

Components of Collection Frameworks for Internal Funds



Recent key enhancements to the components of premium and levy collection include:[5]

a strengthened DPS and DLS Frameworks to provide stronger incentives for improved risk management and enhanced resolvability at member institutions;[6]

b revised levy assessment base that is aligned with the Malaysian Financial Reporting Standard 17: Insurance Contracts to better reflect risk exposure and reduce double reporting; and

c gradual revision of the DPS base premium rates over a three-year period beginning AY 2026 onwards (refer to table below), as the DIFs remain below their Target Fund levels relative to the TIPFs. These adjustments are expected to enable the DIFs to reach the lower and upper bounds of their Target Fund range within 8 to 11 years, instead of 10 to 13 years.

Base Premium Rates

Risk Grade	Base Premium Rates			
	AY 2025	AY 2026	AY 2027	AY 2028 and onwards
1	0.060%	0.060%	0.065%	0.075%
2	0.120%	0.130%	0.140%	0.150%
3	0.240%	0.260%	0.280%	0.300%
4	0.480%	0.520%	0.560%	0.600%

[5] *The enhancements to the DLS frameworks and levy assessment base take effect beginning Assessment Year (AY) 2026*
[6] *Refer to the Enhancement to the DPS and DLS Frameworks diagram in page 33*

Market Funding: Prompter Liquidity Access

As PIDM progresses towards meeting our Target Fund levels, PIDM can access market funding, when necessary, particularly in situations where a relevant Protection Fund may be insufficient to meet our liquidity obligations.

Drawing on lessons from past bank resolution experiences and recognising the need for swift liquidity mobilisation, PIDM will establish a DCM programme in 2026, with the inaugural issuance to be launched subject to market conditions. The inaugural issuance will be maintained at a nominal amount, serving primarily to initiate the programme and ensure that a ready funding line is in place. This enables PIDM to draw down promptly from the programme, if required, during intervention and resolution activities. It will provide ready access to market funding and enhance PIDM's ability to raise funds efficiently during periods of stress.

The pre-emptive measure, undertaken during the current stable financial system, marks a significant advancement in our funding readiness. It provides a more diversified liquidity source, enhancing PIDM's agility to respond rapidly during stress.

Government Funding: A Backstop for Stability

PIDM's priority is to utilise internal and market funding sources, with Government funding serving as a backstop should the need arise. Under the PIDM Act, PIDM has the power to borrow from the Government to meet our obligations. Such borrowings would be based on terms and conditions as the Minister of Finance will determine.

Conclusion

Through a phased and progressive approach, PIDM has strengthened the key building blocks across all three levels of funding. Over the past 20 years, our funding readiness has matured into greater financial capacity, a more diversified funding base, and enhanced operational agility. This progress reflects two decades of disciplined growth and underscores PIDM's commitment to maintaining a robust funding framework that supports resolution readiness and reinforces financial system resilience.