

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 (DIS) and the Takaful and Insurance Benefits Protection System (TIPS)
- 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 increases, 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

MANAGING RISKS IN 2021 AMIDST THE ONGOING COVID-19 SETTING

As Malaysia and other countries around the world continue to grapple with waves of new COVID-19 variants and infections, and the resulting control measures put in place by governments, the industry and PIDM needed to quickly adapt to remote as well as hybrid working arrangements. Whilst these helped to somewhat mitigate the operational constraints, it also increased the areas of exposure and vulnerabilities for cyberattacks on PIDM and will continue to remain as a threat as we move into the digital environment.

As uncertainties and volatilities in the environment continue to prevail, PIDM has intensified our monitoring and heightened our focus on our state of readiness, so that we can quickly move into position if PIDM were called upon to deploy our powers.

PIDM also acknowledges the impact of the pandemic on our key assets – our people. Greater effort had been put into the management of employee welfare and mental health as employees continue to work remotely and in isolation over a prolonged period of time.

A summary of our principal risks for the year 2021 is set out in the table below.






PRINCIPAL RISKS	CONTEXT
Entering a More Cyber and Digital Landscape – Operational Risk	COVID-19 pandemic-related risks include: <ul style="list-style-type: none"> increased potential cyber vulnerabilities from virtual working arrangements and access, in an environment which is seeing an increasing number of cyberattacks; adapting operational processes and procedures to a virtual and hybrid platform; accelerated need for digital transformation arising from a fast changing operating environment; safeguarding of information security in work from home arrangements; and ensuring a safe working environment and the physical safety of employees.
Heightened Readiness to Perform Our Mandate – Insurance Risk	COVID-19 pandemic-related risks include uncertainties about the recovery of the global and Malaysian economy and its impact on the public, as well as on enterprises and industries if the crisis is prolonged.
Human Capital – People Risk	<p>The COVID-19 pandemic raised risks to the morale and performance of employees, some of whom might have been affected by the need to manage uncertainties or to balance personal and professional commitments while working from home.</p> <p>Other challenges include maintaining the desired employee culture and team spirit within the organisation in a fully remote work arrangement setting.</p>
Damage to Image and Reputation – Reputation Risk	<p>PIDM's credibility as a statutory body depends upon 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.</p> <p>PIDM has also explored alternative platforms to continue 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.</p>

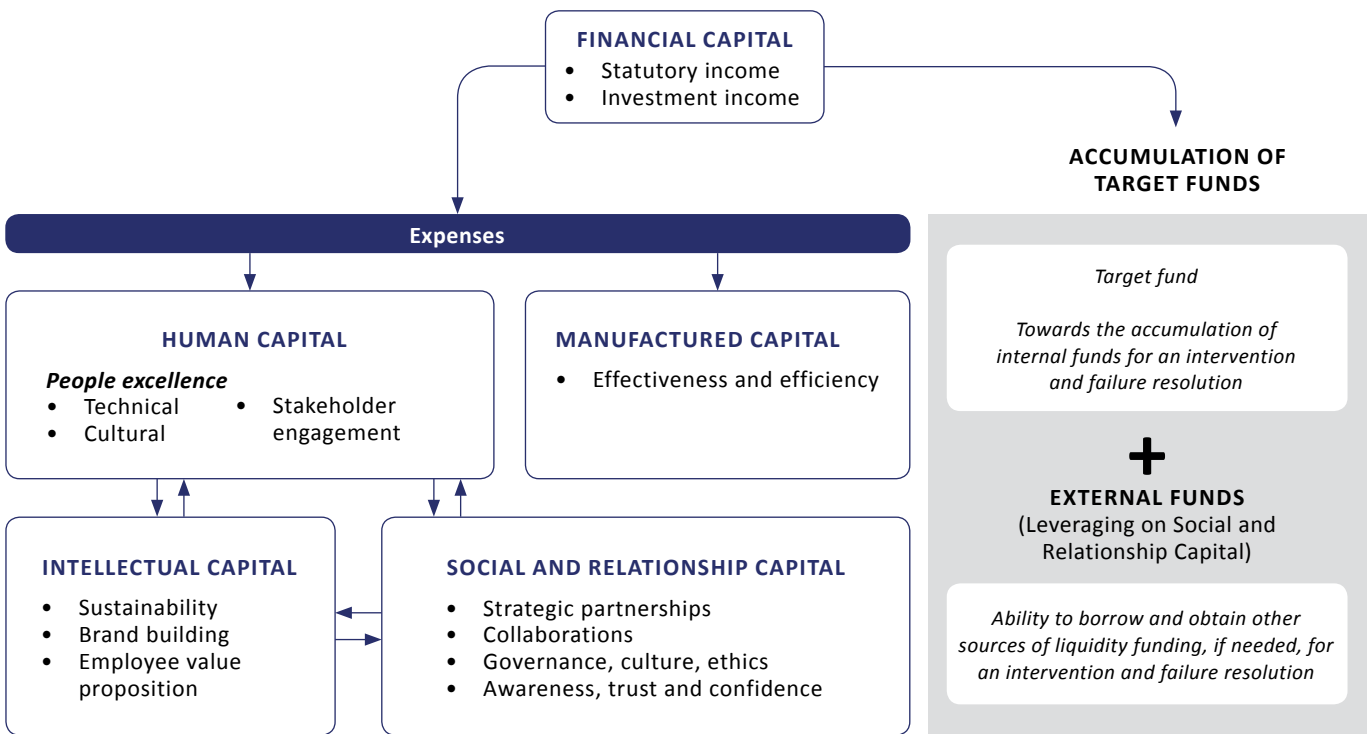
PIDM's risk philosophy is fundamentally focused on anticipating and being prepared to minimise risks that threaten the protection of financial consumers' savings in Malaysia and the stability of the financial system.

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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

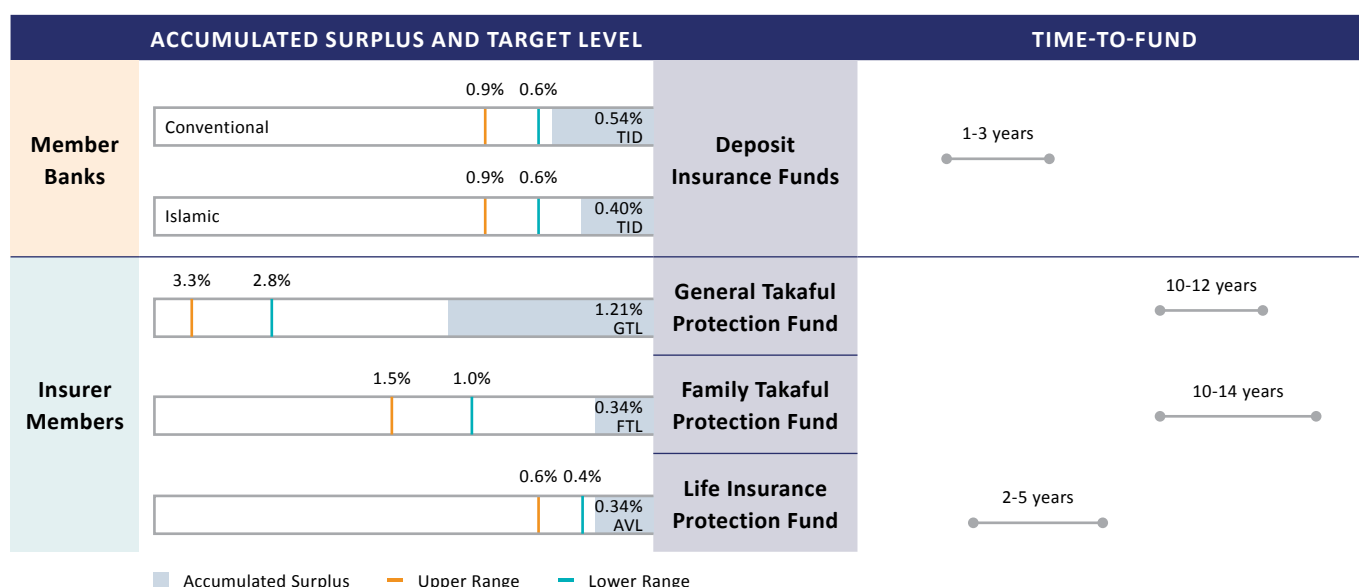
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Source of Financial Capital

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.

In 2021, accumulated surplus, target levels and time-to-fund of the DIS and TIPS funds are depicted in the chart below. While the general insurance protection fund target level has been met in 2015, PIDM remains on track to meet the lower range of the other current target fund levels for the DIS and TIPS funds. Also refer to Note 12 of the financial statements for details of respective funds.



Notes:

The General Insurance Protection Fund has met its target level of 80% - 100% of Total Net Expected Loss

TID: Total Insured Deposits

FTL: Family Takaful Liabilities

GTL: General Takaful Liabilities

AVL: Actuarial Valuation Liabilities

Source: PIDM

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.

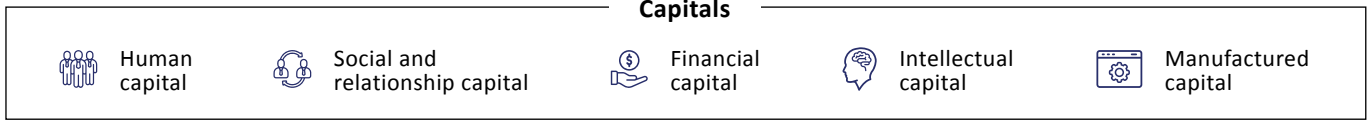
As part of the financial safety net, to successfully manage our financial resources and liquidity needs during an intervention and failure resolution, PIDM also needs to build relevant relationships. Social and relationship capital (reputation and image) is also important if the public is to have trust 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 communications and relations.

Manufactured capital, such as our information technology (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> <ul style="list-style-type: none"> legislative framework, systems and processes; competence and capability of our people; financial safety net coordination and cooperation; and funding. 	<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 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, 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>

Looking forward, the principal risks are also mapped to the corporate plan initiatives for the planning period 2022 - 2024. Details can be found at www.pidm.gov.my.