

International Deposit Insurance Survey

Section 1: Background Information

1.1 Organization (deposit insurer) responsible for administering the deposit insurance system:

1.1.1 Organization Name:

Malaysia Deposit Insurance Corporation (MDIC)

1.1.2 Organization Address:

Level 19, 1 Sentral, Jalan Travers, Kuala Lumpur Sentral, 50470 Kuala Lumpur, Malaysia

1.1.3 Organization Telephone No:

603 2173 7436

1.1.4 Organization Fax No:

603 2260 7431

1.1.5 Organization Internet Address:

www.pidm.gov.my

1.2 Contact Person(s):

1.2.1 Contact Person(s) Name:

Wai Keen, Lai (Ms), GM, Policy and International

1.2.2 Contact Person(s) Address:

Level 19, 1 Sentral, Jalan Travers, Kuala Lumpur Sentral, 50470 Kuala Lumpur, Malaysia

1.2.3 Contact Person(s) Telephone:

603 2173 7481

1.2.4 Contact Person(s) Fax:

603 2260 7431

1.2.5 Contact Person(s) E-mail address:

laiwaikeen@pidm.gov.my

1.2.6 Are there other deposit insurance systems operating in your country ? (i.e. applying to other types of non-bank or non-depository institutions e.g.. insurance, securities) Please state their name(s) and contact information:

No

1.3 Please provide information on other participants in your financial system safety-net:

1.3.1 Name of Central Bank:

Bank Negara Malaysia (Central Bank of Malaysia)

1.3.2 Central Bank Address:

Jalan Dato' Onn, P.O. Box 10922, 50929 Kuala Lumpur, Malaysia

1.3.3 Central Bank Telephone:

603-2698-8044 (General Line)

1.3.4 Central Bank Fax:

603-26936919/26982931

1.3.5 Central Bank Internet Address:

www.bnm.gov.my

1.3.6 Central Bank Contact Person:

Director, Corporate Communications Department

1.4 Financial Supervisor:

1.4.1 Financial Supervisor Name:

Bank Negara Malaysia (Central Bank of Malaysia)

1.4.2 Financial Supervisor Address:

Jalan Dato' Onn, P.O. Box 10922, 50929 Kuala Lumpur, Malaysia

1.4.3 Financial Supervisor Telephone:

603-2698-8044 (General Line)

1.4.4 Financial Supervisor Fax:

603-26936919/26982931

1.4.5 Financial Supervisor Internet Address and contact:

www.bnm.gov.my

1.5 Other related entities:

1.5.1 Other Related Entities Name:

N/A

1.5.2 Other Related Entities Address:

N/A

1.5.3 Other Related Entities Telephone:

N/A

1.5.4 Other Related Entities Fax:

N/A

1.5.5 Other Related Entities Internet Address:

N/A

Section 2: Objectives, Mandates & Powers

2.1.1 When and why was the DIS established (please provide details)?

1 September 2005 MDIC was established to protect depositors against the loss of their deposits in the unlikely event that a financial institution is unable to meet their obligations. The idea of implementing a deposit insurance system crystallized in 2000 under the Financial Sector Masterplan as part of measures to strengthen the financial system and to replace the blanket guarantee with an efficient deposit insurance system.

2.1.2 What are the stated public policy objectives or mandate for your country's DIS? When was the last time they were reviewed and changed?

a)Administer a deposit insurance system under the MDIC Act 2005 b)Provide insurance against the loss of part or all deposits of a member institution c)Provide incentive for sound risk management in the financial system d)Promote or contribute to the stability of the financial system In achieving (b) and (d), MDIC is required to act in such manner as to minimise costs to the financial system.

2.1.3 What process was used to determine these objectives in your country?

Conducted comparative analysis of several established DIs with a view to understand their role as financial safety net players in their respective countries and their effectiveness. A situational country review was then conducted, including the roles of the existing safety net players and how a DI could enhance the existing safety net and the financial system. The objectives of MDIC were then designed to reflect this expected role.

2.1.4 What is the legal basis under which the DIS was established? Please provide a copy.

Legislation

MDIC was established by an Act of Parliament, the MDIC Act 2005

http://www.pidm.gov.my/consumers/di/listed_act.php

2.1.5 Is there a formal process for a periodic review of the policy objectives/mandates?

Yes

Yes. It is the internal policy of MDIC to review once every 5 years

2.1.6 What sort of system do you have?

Government legislated and administered

Risk minimiser with an objective to minimise cost to the financial system.

2.1.7 Who makes decisions to pay depositor claims?

DIS

2.2 Which of the following powers has been provided to the DIS in order to carry out its mandate?

2.3 Authority to

2.3.1 Enter into contracts

Yes

2.3.2 Set regulations or by-laws for conduct of its business

Yes

2.4 Authority over entry and exit of member deposit taking institutions

2.4.1 Establish terms and conditions of membership

Yes

2.4.2 Authority to terminate the insured status of a member institution

Yes

2.5 Depositor reimbursement

2.5.1 Affect reimbursement of depositors claims

Yes

2.5.2 Access to depositor information

Yes

2.5.3 Use various methods of reimbursing depositors claims

Yes

2.6 Funding

2.6.1 How funding is provided

Yes

2.6.2 Terms and conditions of premiums or levies

Yes

2.6.3 Borrowing authorities and limits

Yes

2.7 Information Requirements

2.7.1 Access to information directly from member deposit taking institutions or its auditors

Yes

2.7.2 Access to information through supervisory authorities

Yes

2.8 Enforcement and intervention

2.8.1 Authority to conduct examinations and/or reviews

Yes

Yes, for special examinations. Examinations are carried out by the Central Bank of Malaysia (supervisor) and they are required, by law, to provide MDIC with the reports following examination of member institutions.

2.8.2 Ability to set standards or guidelines for member institutions

Yes

2.8.3 Authority to take enforcement actions against members (i.e. such as the authority to require a change in institutional control and/or behaviour).

Yes

2.8.4 Authority to cancel deposit insurance of a member institution

Yes

Upon the Central Bank of Malaysia notifying MDIC of a member institution that has ceased or is about to cease to be non-viable, MDIC may, with the approval of the Minister of Finance, terminate the deposit insurance membership of the non-viable member. MDIC will cancel deposit insurance membership for those member institutions which surrendered, or had their banking licences revoked by the Central Bank of Malaysia.

2.8.5 Authority to hold officers and directors of failed institutions legally liable for the failure of the institution

Yes

2.9 Failure resolution

2.9.1 Authority to decide on appropriate form of failure resolution

Yes

2.9.2 Authority to provide financial assistance (e.g. in the form of a loan -- with or without security -- by purchasing assets from the institution or through some other process).

Yes

2.9.3 Authority to guarantee deposits with member institutions or guarantee loans to an institution by other parties

Yes

2.10 Authority to:

2.10.1 Undertake formal liquidation

Yes

2.10.2 Purchase and assumption (sale and merger)

Yes

2.10.3 Open assistance (bridge bank)

Yes

2.10.4 Other forms of failure resolution

Yes

2.11 Optimizing recoveries

2.11.1 Ability to act as a receiver

No

2.11.2 Ability to act as a liquidator

No

Section 3: Governance Arrangements

3.1.1 Is the DIS a legally separate organization from other public or private bodies? (e.g. central bank, supervisor, industry association)

Yes

MDIC is an independent statutory body.

3.1.2 What is the form of governance used by the DIS organization?

Board of Directors

null|null|null|null|null|

3.1.3 How is the governing body selected?

Except for the Governor and the Secretary General of the Treasury who are permanent members, all Board members are appointed by the Minister of Finance. The process adopted by MDIC is for MDIC to recommend suitable candidates to the Minister for appointment.

3.1.4 What is the composition of the governing body?

Seven board members, comprising: (a) a Chairman appointed by the Minister of Finance who shall have relevant private sector experience; (b) the Governor of the Central Bank of Malaysia; (c) the Secretary General of the Treasury; (d) a director appointed by the Minister from the public sector; and (e) not more than three other directors appointed by the Minister, who shall have relevant private sector experience and at least one of whom shall have relevant banking and financial sector experience.

3.1.5 What are the duties and responsibilities of the governing body?

The Board is responsible for the conduct of the business and affairs of MDIC and shall exercise all powers and do all acts which may be exercised or done by MDIC.

3.1.6 Is there any direct or indirect representation in the management of the DIS by member insured institutions?

No

3.1.7 Is there any direct or indirect representation in the management of the DIS by the central bank?

No

except for the Governor of the Central Bank of Malaysia who is an ex-officio of the Board of Directors.

3.1.8 Is there any direct or indirect representation in the management of the DIS by the regulator?

No

The Governor of the Central Bank of Malaysia (which is also the regulator) is a member of the Board of Directors. The Board is not involved in day-to-day management of MDIC.

3.1.9 Is there any direct or indirect representation in the management of the DIS by the supervisor?

No

The Governor of the Central Bank of Malaysia (which is also the supervisor of banks) is a member of the Board of Directors. The Board is not involved in day-to-day management of MDIC.

3.1.10 Is there any direct or indirect representation in the management of the DIS by other?

No

3.1.11 Please provide a breakdown of the management structure of the DIS

Chief Executive Officer Chief Financial Officer General Counsel and Corporate Secretary Chief Internal Auditor, Accounting General Manager, Insurance, Risk Assessment and Monitoring General Manager, Policy and International General Manager, Communications and Public Affairs General Manager, Human Capital General Manager, Enterprise Risk Management

3.1.12 Do you have an internal control and audit systems

Yes

3.1.13 Are directors and officers of the DIS and/or supervisors personally liable for their decisions in the normal course of their activities?

No

provided they have acted in good faith.

3.1.14 Is there an advisory committee to the DIS?

No

3.1.15 Has the DIS ever taken legal action against directors of failed member institutions? Or others? What position did the person(s) hold?

No

3.1.16 Please indicate which of the following tools are used as part of your accountability regime.

Annual Reports, Audited Financial Statements, Corporate Business Plan

MDIC is accountable to Parliament through the Minister of Finance. MDIC also publishes an Annual Report and a Corporate Plan. The Annual Report details MDIC's performance against the Corporate Plan. The Annual Report is required by law to be submitted by 31 March each year to the Minister of Finance and is then tabled in Parliament. [null][null][null]

Section 4: Human Resources & Infrastructure

4.1.1 What is the total number of employees at the DIS (e.g. full-time, part-time and contract) ?

As at end June 2008, MDIC has a total of 61 employees, the breakdown of which is as follows:- Full time employees: 59 Contract employees: 2

4.1.2 Are the majority of DIS employees dedicated staff or do they come from other organizations (i.e. government, central bank, private sector)?

Yes

4.1.3 Does the DIS train and develop its own staff? If so, briefly describe programs which have been put in place for training and development?

Yes

Blended learning and development solutions which includes but not limited to, knowledge transfer, both locally and internationally, cross functional training, on-the-job training, sharing of best practice with local and international bodies, participation in local and international forums and in-house training programs.

4.1.4 Is there shared training and development between the staff of the DIS and other authorities involved in financial sector supervision or regulation? (i.e. central bank, supervisor, regulator, other)

Yes

we leverage on training programs from the Institute of Banks in Malaysia (IBBM), the International Centre for Leadership in Finance (ICLIF), the Central Bank of Malaysia and The South East Asian Central Banks (SEACEN) Research and Training Centre.

4.1.5 Are compensation and incentives offered sufficient to attract and retain skilled staff? Please elaborate.

5

MDIC pays to market. We ensure market competitiveness by consistently benchmarking ourselves against relevant industries and developing a robust, competitive and equitable compensation, benefits and reward policy to support our talent acquisition and retention initiatives in a highly performance driven culture.

4.1.6 Are confidentiality provisions for employees provided for?

Yes

4.1.7 Do employees of the DIS receive legal protection against lawsuits for their actions taken in good faith and acting in the best interests of the DIS?

Yes

provided they have acted in good faith.

4.1.8 What percentage of the budget is spent on training and development and information technology?

Total Learning & Development budget for 2008 is 7% against total operating expenditure. Information Technology (Human Resource Information system) is 2% of total Capital Expenditure.

Section 5: Information Sharing & Interrelationship Among Safety-Net Players

5.1.1 Who performs examinations of DIS member institutions?

Central Bank

Central Bank of Malaysia (supervisor)

5.1.2 Please describe the examination process that is used to evaluate member

institution performance?

Onsite examination by Central Bank of Malaysia and offsite monitoring by MDIC.

5.1.3 What information is collected from member institutions for the DIS and other parties?

Information on Total Insured Deposits is collected directly from member banks. Additionally, MDIC has access to the Central Bank's information on the financial health and performance of MDIC members which the Central Bank collects directly. This arrangement is to minimise non-productive duplication of regulatory resources.

5.1.4 What arrangements (i.e. formal or informal) are in place between organizations responsible for deposit insurance and other parties comprising the safety-net (e.g. central bank, supervisor, regulator) regarding the sharing of information concerning member institutions? Please provide details of these agreements.

MDIC and the Central Bank of Malaysia entered into a Strategic Alliance Agreement in mid-2006 as a means to formalize the coordination of prudential and supervisory actions and information sharing between the two organisations. The agreement is a formal arrangement to ensure the relationship remains collaborative and effective and to minimize unproductive duplication.

5.2 On a scale from 1 to 5, 1 being low and 5 being high, please rate both the accessibility (i.e. access to all necessary information for the DIS to fulfill its mandate) and timeliness (i.e. information is received when needed) of information that is shared amongst members of the safety net.

5.2.1 accessibility

5

5.2.2 timeliness

5

5.2.3 Is there a consistent definition/classification across authorities of problem institutions

Yes

5.2.4 When policy regarding the DIS and financial sector is developed or amended, are other bodies consulted and/or advised (e.g. central bank, supervisor, regulator, government, industry associations) ? If you do consult and/or advise what bodies do you do it with?

Consult, Advise

The Central Bank of Malaysia, member institutions and the general public. |The Central Bank of Malaysia, member institutions and the general public. |null|

5.2.5 Is discussion with other bodies encouraged prior to the implementation of new policy?

Yes

5.2.6 How often do you contact other DIS?

Regularly

On a regular and need basis under IADI.

5.2.7 Is the DIS consulted when the regulator, supervisor or central bank enters into an agreement with a financial institution that is experiencing problems?

Yes

Section 6: Membership

6.1.1 What types of institutions are covered in your DIS?

Member institutions are all commercial banks and Islamic banks, including foreign owned banks operating in Malaysia.

6.1.2 Is membership in the DIS mandatory for designated deposit taking institutions?

Yes

6.1.3 Do you have terms and conditions of membership? (i.e. laws, regulations or agreements which member institutions have to abide by) If so, please explain the application process used and any conditions of membership imposed on institutions by the DIS.

Yes (please explain)

Please refer to MDIC's Regulation on Terms and Conditions of Membership, which is currently under the legislative process: <http://www.pidm.gov.my/consumers/downloads/policies.php> Membership is automatic and mandatory. So there is no application process.

6.1.4 Is the membership of foreign institutions (i.e. foreign bank branches and/or subsidiaries) covered in the same way as domestic institutions? If not, please describe the difference.

Yes

6.1.5 If more than one safety-net organization is responsible for the application process for membership, how is the application process coordinated between the parties responsible?

N/A

6.1.6 Are deposit-taking institutions required to re-apply for membership after a certain period of time?

No

6.1.7 How many member institutions do you have?

35

6.1.8 What is the total level of assets, deposits and insurable deposits of all DIS member institutions?

Total assets: 1,145 billion Total deposits: 803 billion Total insurable deposits: 636 billion

Section 7: Coverage

7.1.1 Is there a formal definition of a deposit and or insured deposit used by your

DIS? If so what is it?

Yes (please explain)

“deposit” means the unpaid balance of the aggregate of deposits as defined in subsection 2(1) of the MDIC Act received or held by a member institution from or on behalf of a person in the usual course of the business of deposit taking of the member institution and shall include—(i) a bank draft, certified cheque or other similar instrument or payment instruction, drawn or made against a deposit account for which the member institution shall be primarily liable;(ii) a cheque entered into a payment system designated under subsection 6(1) of the Payment Systems Act 2003 notwithstanding any delay or failure by the member institution in crediting the account; or (iii) any other liability or financial instrument as may be specified by MDIC, but excludes—(A) a deposit that is not payable in Malaysia; (B) foreign currency deposits; (C) money market deposits; (D) negotiable instruments of deposit and other bearer deposits; (E) repurchase agreements; and (F) any other liability or financial instrument as may be specified by MDIC

7.1.2 What types of deposits are eligible for coverage in your DIS?

Other

null|null|null|null|null|null|null|null|null|Insurable deposits include: • All deposit products including current, savings, fixed and investment deposits • Certified cheques, bank drafts and other similar payment instructions drawn or made against a deposit account • Any other financial instruments as may be specified by MDIC from time to time Only Ringgit deposits that are payable in Malaysia are eligible for insurance.|

7.1.3 Is coverage

per depositor per institution

7.1.4 What is the coverage limit per depositor?

Ringgit (RM)60,000 per depositor per member institution. The RM60,000 limit is applicable separately for conventional and Islamic deposits and includes both the principal amount and the interest, for conventional deposits, and for Islamic deposits, return.

7.1.5 How was this figures arrived at?

Two surveys were conducted and the surveys indicated that at the coverage level of RM60, 000 per depositor per member institution, 95% of depositors would be covered in full.

7.1.6 For eligible financial instruments with maturity dates, what is the longest contract term covered by the DIS?

N/A

7.1.7 What types of depositors are not eligible for coverage in your DIS?

Other

null|null|null|null|All depositors are covered including corporates and foreigners.|

7.1.8 Is the coverage amount indexed?

No

7.1.9 What is it indexed to?

N/A

7.1.10 Does your DIS use coinsurance? If coinsurance is used please describe the approach used.

No

7.1.11 Is the public widely aware of the presence of coinsurance?

other

N/A

7.1.12 Are coverage levels affected by resolution methods? If so, please explain.

No

7.1.13 To what extent, is there a public expectation that the DIS coverage limit would be extended to 100% coverage in the event of a banking crisis or the failure of a very large institution? Please provide recent examples, if applicable.

Other

N/A

7.1.14 How is a decision made on the insurance eligibility of new financial products?

The insurability of a new financial product is assessed by MDIC based on clear criteria.

7.1.15 When member institutions merge how are insured deposits treated?

When two member institutions merge or amalgamate, the deposits will continue to be separately insured for two years or until maturity or withdrawal of the deposits, whichever is earlier, after the date of amalgamation or acquisition, as the case may be.

7.2 Does your country offer the following?

7.2.1 Islamic banking

Yes

7.2.2 Islamic deposit insurance

Yes

Section 8: Funding & Fund Management

8.1.1 What type of funding is used by the DIS?

Ex-ante (defined as the accumulation of a reserve or fund to cover deposit insurance claims in anticipation of the failure of a member institution).

8.1.2 Is the DIS funded by levying insurance premium assessments against member institutions or, by some other means such as general tax revenues?

Premium assessment

MDIC is funded by ex-ante annual premiums paid by member institutions.

8.1.3 If insurance premiums are assessed, are they assessed as a flat rate or are they differential in some way, please explain? (e.g. risk based)

For the first two years, member institutions were subjected to a flat premium rate based on the total insured deposits held by a member as of 31 December of the preceding assessment year. From 2008, a differential premium system was implemented whereby members pay premiums based on their respective risk profile.

8.1.4 What is the current premium rate? If there have been changes to this rate, details would be appreciated.

Under MDIC's differential premium system, there are 4 rates reflecting the 4 categories of risk: Category 1: 0.03% Category 2: 0.06% Category 3: 0.12% Category 4: 0.24%

8.1.5 How often is the premium assessed?

Once a year

8.1.6 Is the premium assessed on total deposits, insured deposits or something else?

Insured Deposits
Total insured deposits

8.1.7 Are premiums paid by member institutions tax deductible as a business expense?

Yes

8.1.8 For premiums that are differentiated please explain the risk assessment system that is used to ascertain a premium assessment.

The differential premium system uses both quantitative and qualitative factors. The quantitative factors account for a score of 60 out of 100. These include capital adequacy, profitability, efficiency, asset quality, asset concentration and asset growth. The remaining 40 points are based on qualitative factors which include the supervisor's supervisory rating and other information. The quantitative and qualitative scores are then added up. The total score determines the premium category and the premium rate against which the member bank would be assessed. There are four premium categories, from 1 to 4, with 1 being the lowest risk category.

8.1.9 Does the DIS have a target with respect to the optimal size of the DIS fund? (Yes is chosen go to question 8.10 otherwise Skip the next 2 questions)

Other (Skip next question)
MDIC will be considering the benefits of a target fund.

8.1.10 How is the optimum level (i.e. target) of the fund determined?

N/A

8.1.11 What investment policies (i.e. safeguards against abuse) exist concerning the use of the fund?

1) The MDIC Act allows MDIC to invest in the following: (a) ringgit denominated securities issued or guaranteed by the Government or Central Bank of Malaysia or of high investment grade as rated by a reputable rating agency; (b) deposits with Central Bank of Malaysia or any financial institution; or (c) any other investment as approved by the Minister, upon the recommendation of the Board of Directors. 2) MDIC may, solely for the purpose of hedging any exposure arising from paragraph (a), (b) or (c), enter into financial derivative transactions, whether exchange traded or over the counter including swaps, futures, options and forward contracts. 3) Any investment made by MDIC under subsection (1) from the Islamic fund shall be in accordance with Syariah principles.

8.1.12 If a fund is not maintained, is an assessment levied on institutions after the failure of a financial institution has occurred? If so, please explain how the levies are determined and losses distributed among institutions.

Other

N/A

8.1.13 Which of the following sources of additional funding, for emergency or liquidity purposes, does the DIS have access to?

Other please explain
null|null|MDIC Act empowers MDIC to borrow or raise funds from the Government and from the market. |

8.1.14 Are member institutions required by law to issue, on a regular basis, subordinated debt?

No

Section 9: Reimbursing Depositors

9.1.1 Please describe the procedure for reimbursing depositors used by your DIS?

Background: Depositors do not have to file a claim for payment as MDIC will process deposit insurance payment based on the records of the failed member institution. Step 1: The member institution will submit its depositor records to MDIC based on deposit records at a given cut-off date. The information to be submitted will include information on depositors, total number of accounts and the total amount of deposits. Step 2: As a check and balance, an external auditor appointed by MDIC will verify and validate the number of accounts and total amount of deposits. A written certification will also be required from the auditor. Step 3: Based on the verified submission, MDIC will process and aggregate all accounts of each depositor and calculate the amount of insured payments. For member institutions which provide Islamic banking facilities, the aggregated amount would then be separated into Islamic and conventional deposits for each depositor. Please note that MDIC provides separate deposit insurance coverage for Islamic and conventional deposits. Separate coverage is also provided for joint accounts, trust accounts, partnerships and sole proprietorships. Step 4: An external auditor appointed by MDIC will verify and validate that the process for deriving the total amount of insured payments due to each depositor. A written certification will also be required from the auditor. Step 5: Reimbursement will be made according to the selected method of payment. MDIC can use any available method or several methods of deposit payment simultaneously.

9.1.2 Are depositors required to file a claim when a member institution fails? If so, what is the process?

No

9.1.3 When is the DIS obligated to reimburse insured depositors?

MDIC is obligated to reimburse when a winding up order has been made for a member institution. Such payment must be made not longer than 3 months from the date of the winding up order.

9.1.4 Is there an established legal basis upon which to base the reimbursement process? Please explain.

Yes

The MDIC Act sets out the circumstances for which MDIC shall make obligatory or discretionary deposit insurance payments to depositors under Section 55 and Section 56.

9.1.5 Is the DIS subject to explicit standards for prompt reimbursement? If so what are they?

Yes

The MDIC Act specifies deposit insurance payments to be made as soon as possible and in any case not later than three months from the date of the winding-up order.

9.1.6 What methods of payment can be used and under what circumstances are they used?

MDIC is not restricted to use any particular method of payment. Payment may be made using any one or combination the following methods: •Cheque •Agent bank •Automated Teller Machine (ATM) •Use existing failed member institution's payment infrastructure, including ATM and internet banking facilities •Any other appropriate method The choice of payment method will depend on several factors, including:- •Geographical location •Size of deposit insurance payment •Depositor profile •Payment infrastructure available •Efficiency and speed of payment method

9.1.7 Are the rules regarding clearing, set-off, trust accounts, and related issues well defined (through the legal system or formal agreement)? Please explain.

Yes

Yes, the rules are well defined. MDIC has issued: Guidelines on the Insurability of Trust and Joint Accounts; and Guidelines on Total Insured Deposit MDIC will also issue to member institutions in 3rd Quarter 2008 "Guidelines on Member Institutions' Readiness to Submit Reliable and Accurate Deposit

Information”, which sets out amongst others, clearing rules. The MDIC Act does not provide for set-off.

9.1.8 What are financial institutions obligated to hold with respect to deposit records?

Member institutions are required under MDIC’s regulations to maintain the following trust accounts, that the account is held by the trustee; the name, identity card number (non-Malaysian trustees, the passport number) and address of the trustee; the name, id address of each beneficiary and the amount held for each named beneficiary. The bank by the trustee, record the name of the beneficiaries as an alpha numeric number. For jo names, identity card number (in the case of non-Malaysian trustees, the passport num the respective joint account holders. For all other deposit accounts, member institution of practice: the names, identity card number (the case of non-Malaysians, the passport and contact telephone of each depositor, including all transactions in respect of the acc the identity card number is unique to each Malaysia citizen.

9.1.9 When is the DIS given access to an institutions financial and depositor records?

Section 94 of the MDIC Act empowers MDIC to request any information pertaining to the business or affairs of such member institution or its related corporation.

9.1.10 Does the DIS have the option of making advance payments to depositors in situations of dire need (i.e. in an emergency)?

Yes

MDIC may use its discretion to make advance deposit insurance payments to depositors.

9.1.11 Does the DIS make interest payments to depositors during the time taken for reimbursement? Please explain.

Other

For obligatory payments, interest is computed up to the date of the commencement of winding up order. From this date to the date of payment, MDIC may have the discretion whether to pay interest. For discretionary payment, interest is computed up to the date of payment.

9.1.12 What information is communicated to depositors regarding the reimbursement process?

At the minimum, the following information will be communicated to depositors: •Indicative payment date •Payment method •Reminder for depositors that their claims on their deposits will automatically be processed, therefore there is no need for them to file for such claims •Channel for depositors’ enquiries

9.1.13 What process does the DIS use to ensure that depositor secrecy and confidentiality is maintained during the reimbursement process?

The MDIC Act prohibits MDIC’s Board of Directors, its employees and agents from disclosing any information related to the business and affairs of its member institutions and this includes information relating to depositors.

9.1.14 What steps are taken to verify, reconcile and settle insured deposit accounts?

Verification and reconciliation will be done during every step of the payout data processing. External auditors will also be engaged to validate and certify on the accuracy of the data and payment. Please refer to 9.1.1 for detailed answer.

9.1.15 What steps are taken to ensure that an institutions depositor records are accurate, up to date and accessible?

MDIC’s Regulation on Terms and Conditions of Membership, which is currently under the legislative process, requires members to maintain accurate and up to date records. For further details, please refer to: <http://www.pidm.gov.my/consumers/downloads/policies.php> MDIC will also be issuing the Guidelines on Member Institutions’ Readiness to Submit Reliable and Accurate Deposit Information to the member institutions. The Guidelines specify among others, the standard file format for submission of deposit information, the type of information to be compiled, the requirement for an independent validation by the

external auditor that the process for compiling deposit insurance data (including checks and balances to ensure data fidelity) are robust.

9.1.16 Does the DIS document its experiences with respect to each reimbursement action (i.e. lessons learned) in order to allow for continuous improvement?

Other

No payout activity has been conducted since MDIC's establishment in 2005.

9.1.17 What technologies does the DIS use to facilitate the reimbursement process?

We are currently commissioning a customized automated IT system to extract and process depositor data which will integrate the payment, accounting and communications functions.

Section 10: Public Information & Awareness

10.1.1 What obligations are there to inform the public?

Informing the public about deposit insurance, including its benefits and limitations, is a key activity of MDIC although it is not set out as an obligation in the MDIC Act.

10.1.2 Who is responsible for communicating information about the DIS to the general public?

DIS

MDIC is responsible for conducting public awareness and education initiatives to disseminate information about deposit insurance to the general public. MDIC also works closely with stakeholders and partners including member institutions and other safety net players, such as the Central Bank of Malaysia, Credit Counseling and Debt Management Agency and Financial Mediation Bureau. |null|null|null|null|

10.1.3 Are these explicitly stated in policy or law?

Other

MDIC's Communications Policy underlines the guiding principles and manner in which MDIC will adhere to in undertaking its communications and public awareness activities, including the appointment of a spokesperson. To build greater public awareness, MDIC will be issuing new Regulations on the Provision of Information on Deposit Insurance in the third quarter of 2008. The Regulations aim to ensure that member institutions make clear representations about their membership in the deposit insurance system, provide accurate information on deposit insurance and disclose whether a deposit product is insured or not.

10.1.4 Are the terms and conditions of DIS explained in a manner that the general public can understand fully?

Yes

the deposit insurance system is explained to the general public in 4 main languages and 2 minority languages, using simple, direct and clear language. MDIC's advertising materials and messages are also tested for acceptance, relevance and understanding through focus group discussions before the advertisements are launched.

10.1.5 If so, what methods are utilized?

Brochures, Use of Official Sign to display insured status, Telephone call center, Website, Other null|Membership Decal|null|null|MDIC uses a combination of advertising and public relations approaches and initiatives to communicate to the public. |

10.1.6 At what point is information disclosed to the public about an institution that is having problems and how is information disclosed?

When information on the member institution is made public.

10.1.7 Has a survey of public awareness about the DIS been conducted? If so/ what were the results? If not why not? Please include supporting documentation.

Yes

MDIC commissions an annual nationwide consumer survey to gauge and evaluate the current level of awareness of deposit insurance and MDIC and enhance the public awareness strategy and initiatives for the subsequent year. Based on the survey conducted at the end of 2007 with a sample size of 1,000 respondents throughout the country, the overall awareness of deposit insurance is 15 per cent while the overall awareness of MDIC is 12 per cent.

10.1.8 Has the DIS ever embarked on a public awareness campaign to increase awareness and knowledge? If yes, how many times has this been done and when was the last time?

Yes

MDIC conducts on-going public awareness campaigns as part of its multi-year program to build depositor confidence in MDIC and the safety and stability of the financial system.

10.1.9 Please describe the approach used; objectives, target audience, communication strategy, and timing results.

Objectives MDIC's Integrated Communications Plan 2007-2011 is based on two strategic thrusts, which are creating awareness of the deposit insurance system and building confidence in MDIC's role as the national deposit insurer. Target audience Depositors and the general public, member institutions, the mass media, professional and business associations, Government and regulatory authorities, colleges, universities and other stakeholders. Communications strategy In line with the thrusts, the Plan identifies various advertising and public relations approaches and initiatives. In terms of advertising, MDIC uses print, broadcast and electronic media to publicize information about deposit insurance. The advertising approach is complemented by public relations initiatives such as the toll-free Call Centre, a website in the four main languages of Malaysia (English, Bahasa Malaysia, Chinese and Tamil), briefings for various stakeholder groups, public talks, participation in roadshows and exhibitions, stakeholder engagement, media interviews, feature articles and distribution of public information materials including brochures in six languages (English, Bahasa Malaysia, Chinese, Tamil, Iban and Kadazandusun), handbook and an information video.

Section 11: Risk Assessment & Intervention

11.1.1 Does the DIS have a risk monitoring function to analyze and assess the risk of member financial institutions?

Yes

11.1.2 Does the DIS perform examinations of its member institutions? If not, who does?

No

The Central Bank of Malaysia (supervisor) performs the on-site examinations and provides MDIC with written reports of its examination findings.

11.1.3 Does the DIS receive information/data/statistics directly from its member institutions or from a third party, such as a regulator or supervisor? If so what information is received and how often?

Yes

Most information/data/statistics are furnished to MDIC by the Central Bank of Malaysia pursuant to the Strategic Alliance Agreement signed between MDIC and the Central Bank. However, from time to time, MDIC will also obtain information/data from the member institutions directly for e.g. information related to the Differential Premium System and Total Insured Deposits. In addition, MDIC may also request for information from the member institutions as and when needed.

11.1.4 What is the risk assessment approach used by the DIS to monitor financial institutions? Please describe. Please be sure to include the criteria used to determine member institution risk.

MDIC uses the “Identify, measure, control and monitor” risk assessment process. In brief, the approach consists of the following areas of assessment, namely: a. Broad base – overall operating environment Economic conditions Government policies and impact on members BNM/regulatory guidelines members Industry trends among the member institutions Financial landscape analysis position b. Bank specific analysis Corporate structure Management and strategies Capital quality - credit risk management and market risk management Earnings Funding and c. Supervisors ratings/input/discussion with central bank Member institutions are categorized into three risk categories (ie low Risk, Moderate Risk, Above Average Risk, Special Mention and Watch List) for monitoring purposes. Besides daily monitoring of market news and specific developments, statistical numbers are monitored on a monthly basis. MDIC has developed a Risk Assessment System (RAS) to assist in assessing risks more efficiently. The RAS compiles and analyzes data on capital, asset quality, earnings as well as funding and liquidity. The system also facilitates a scoring mechanism for quantitative data and is also a platform for the risk managers to discuss and analyze other qualitative factors. RAS also provides an avenue for easy peer and industry benchmarking.

11.1.5 Please list and describe the actions taken by the DIS in situations where member institutions are causing concern. Please indicate when coordination occurs with other supervisory/regulatory authorities and the mechanisms used.

In the normal course of business, MDIC meets with the Central Bank of Malaysia (supervisor) on a regular basis to share information and views (including concerns on member banks). For banks which pose a concern, MDIC has given views and suggestions to the supervisor on regulatory actions to be taken.

Section 12: Failure Resolution

12.1.1 Is your DIS involved in the failure resolution of member institutions?

Yes

12.1.2 Who determines whether a member institution has failed or is insolvent?

The Central Bank of Malaysia will notify MDIC in writing that a member institution has ceased, or is likely to cease, to be viable. With this notification, MDIC is then empowered to resolve the member institution in a least cost manner.

12.1.3 Under what conditions can the DIS cancel/terminate the deposit insurance of a member institution?

MDIC may, at any time after it received a notification from the Central Bank of Malaysia that a member institution has ceased, or is about to cease, to be viable, terminate the membership of the member. This is subject to a veto by the Minister of Finance and such a veto should be received by MDIC within 15 days from the date of termination notice by MDIC issued to the Minister.

12.1.4 How is the failure/non viability of a member institution determined?

The criteria for non-viability is currently being developed.

12.1.5 How many member institutions have failed in your country in the last 20 years?

During the 1997-98 financial crisis, several of the troubled or smaller banks were acquired and/or merged with other stronger banks as part of the financial market rationalization exercise. A national asset management company was also set up to manage and resolve the NPL problem.

12.1.6 Do banks go through the regular corporate bankruptcy process? If no, what is the process used?

Yes

12.1.7 Is the receiver of failed institutions also the one that disposes of the institutions? If not, who does?

Other

Receiver may or may not be the party to dispose of the failed institution's assets.

12.2 Which methods of failure resolution are used in your country to deal with failures. Also, please indicate the frequency of use of the various methods in the last 20 years.

12.2.1 Formal liquidation

Yes

No bank has ever been liquidated since MDIC's establishment in 2005. However, MDIC does have the powers to conduct formal liquidation, purchase and assumption, open bank assistance and other solutions.

12.2.2 Purchase and assumption (sale and merger)

Yes

12.2.3 Open bank assistance (e.g. recapitalization)

Yes

12.2.4 Bridge banks and other interim solutions

Yes

12.2.5 What criteria are used to determine the method of failure resolution?

Any criteria used will be considered pursuant to our statutory requirement to minimize costs to the financial system.

12.2.6 Is the deposit insurer required to resolve failed or failing insured depository institutions in a manner that is least costly to the DIS?

No

No, any failure resolution option chosen is subject to a requirement for MDIC to minimize costs to the financial system, not to the DIS.

12.2.7 Please indicate what kind of private companies, if any, are included in the failure resolution process?

MDIC may engage private companies to be involved in various stages of the failure resolution process as and when needed. These private companies may include, amongst others, accounting firms, legal firms, valuation companies, property managers, real estate agents, security personnel, payment agents, IT companies, liquidators and etc.

Section 13: Claims, Recoveries & Estate Management

13.1.1 Does the DIS play a role in the claims and recoveries process? If yes please describe this role

Yes

MDIC will act as a creditor as a result of subrogation of all the rights and interests of insured depositors upon deposit payout. In addition, MDIC shall also monitor the entire claims and recoveries as well as the performance of the liquidator or receiver and/or manager.

13.1.2 What is the primary objective of the DIS when dealing with claims and recoveries (i.e.. maximization of nominal and present value recoveries, financial system stability, system discipline)?

The overriding principle will be to maintain financial system stability.

13.1.3 What role does the private sector play in the claims, recovery process?

Relevant private sector entities will be involved at various stages of the claims and recoveries process.

13.1.4 What approaches and strategies are adopted by the deposit insurer to accomplish the objectives of claims and recovery activities?

To be developed.

13.1.5 By what standard is the DIS judged with respect to performing its function in claims and recoveries (e.g.x. Comparative private sector or DIS benchmarks, internal assessments, past experience)?

To be developed.

13.1.6 What assets have you found to be the hardest to recover? Why? What types of strategies have been used to recover different assets?

Not applicable as no member institution has failed since MDIC's establishment in 2005.

13.1.7 Does the DIS have rights of subrogation (i.e. the subrogation of insurance entity to the rights of insured depositors) or an equivalent arrangement?

Yes

Where MDIC makes a payment in respect of any deposit, it is subrogated, to the extent of the amount of the payment made, to all the rights and interests of the depositor and may maintain an action in respect of those rights and interests in the name of the depositor or MDIC.

13.1.8 Is there depositor priority when banks fail? (i.e. Do depositor claims rank in priority above other unsecured creditors in the liquidation of a bank?)

Other

As provided for under the MDIC Act, depositors rank in priority over all other unsecured liabilities in the event of a liquidation. In addition, in respect of Islamic deposits, there will be priority ranking among the various types of Islamic deposits from safe custodian to profit sharing.

13.1.9 Are rights of set-off available or imposed in your country's legal system? Please describe the various forms set-off can take.

Yes

In Malaysia, a right of set-off can be found in legislation or based on common law. i)Contract right of set-off – a right of set off provided for in a contract/agreement. E.g. in a Memorandum of Deposit between a bank and its customers/borrowers; in a tenancy agreement between a landlord and a tenant. ii)Statutory right of set-off in the Bankruptcy Act and Companies Act – a right of set-off in the event of liquidation, i.e. between a wound-up company/bank and a claimant. Note that as a deposit insurer, the MDIC Act does not provide MDIC with a right of set-off.

Section 14: Other Issues

14.1.1 What is your view on recent trends and emerging issues in the financial sector in your country and the potential impact they might have on the DIS?

Globalisation – Malaysian banks are expanding rapidly regionally – this might have re cross-border risk assessment on the member institutions Complex and more sophistica

Islamic Banking

14.1.2 Are there any issues related to deposit insurance which you would like to see more research in?

More research on early warning signals and failure prediction models Islamic Banking Insurance Provisioning and Target Funds