WIDENING THE NET: DEPOSIT INSURANCE FOR DEVELOPMENT FINANCIAL INSTITUTIONS
- PIDM Perspective

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Agenda

1. Where we are now
   - Current PIDM protection

2. Where do we want to be
   - Our value proposition

3. Conclusion
   - Our conclusion...for now
Where are we now?
The key features of deposit insurance protection – a brief introduction

User pay, private funded protection

Minimise moral hazard by features of the system

Protect retail, unsophisticated depositors

Underpinned by preconditions:
• an ongoing assessment of the economy and banking system;
• sound governance of agencies comprising the financial system safety net;
• strong prudential regulation and supervision; and
• a well developed legal framework and accounting and disclosure regime.
Where are we now?
DFIs are currently not within PIDM’s explicit deposit insurance system

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Scope of supervisory oversight
• Out of 13 DFIs, 6 prescribed DFIs are under the purview of Bank Negara Malaysia (BNM) since 2002
• Rigour of prudential supervision has to be balanced by developmental mandate?

Core activities and primary role
• Distinct business model with specialised socio-economic mandate
• Out of the 6, only 5 are involved in deposit-taking activities
• Non-retail depositor base, except for 1 prescribed DFI

Alternative protection
• Protection to be provided for and funded by the Government
• Majority have implicit and explicit guarantee from the Government

Significance to financial system stability
• Share of deposit base of 7%

However, protection may be warranted as a stabilisation measure, for example, the temporary deposit guarantee administered by PIDM in 2008
Where are we now?
Size of DFIs deposits increased 3x in 10 years but the share remains the same, however depositors still require protection especially those underserved segments.

- The number of DFIs remains at 13, of which 6 are prescribed under the Development Financial Institutions Act 2002.
- Although the size of deposits increased by 3 folds in the past 10 years, the share of deposits held at DFIs remained at 10%.

Out of 7% deposits placed at the prescribed DFIs, only 23% from individual...
Where do we want to be?
Protection is vital BUT enhancing sound risk management the greatest value proposition for an industry funded, explicit deposit insurance protection; to complete the national financial safety net

- Enhancing risk culture & long term sustainability
- Private sector solutions & alignment of incentives
- Public confidence

Level playing field across all deposit-taking institutions

International trends
- Nationalisation/bail-out → private sector resolution/payout
- No taxpayers monies & public debt concerns

Domestic agenda
- Economic Transformation Programme
- BNM Blueprint
**Where do we want to be?**

**BUT further discussions are necessary.....**

| How should premiums be charged for carrying out socio-economic mandate, e.g. directed lending? |
| Should protection only for deposit reimbursement? Who should carry out resolution actions? |
| Is a back-stop from the Government still necessary even with industry-funded protection fund? |
| What is the ideal institutional arrangements? |
Conclusion
Our preliminary thoughts..

• Explicit and limited deposit insurance is preferable to implicit coverage - it would enhance market discipline and facilitate the adoption of an effective failure resolution regime for financial institutions.

• The evolution of crisis demonstrated that widening the safety net or extending deposit insurance for deposit-taking DFIs may be an area that merit further discussion and study at the national and international level!

• To be effective, the deposit insurance function needs to be part of a well-designed financial safety net, supported by strong prudential regulation and supervision, effective laws that are enforced, sound accounting and auditing standards, and strong disclosure regimes.

• The design features of the deposit insurance system for the commercially-driven and profit-maximising banking institutions may need to be modified to cater for the unique features of the deposit-taking DFIs. This is to ensure that the DFIs can fulfil their developmental mandates and at the same time, enhance the key role that deposit protection plays in maintaining depositor confidence in the financial system.

• The value proposition for an effective deposit insurance system is beyond just depositors’ reimbursement, it is to enhance overall financial system stability. A lot discussions and infrastructure need to be in place to make it effective.
THANK YOU!