



निक्षेप बीमा और प्रत्यय गारंटी निगम

DEPOSIT INSURANCE AND CREDIT GUARANTEE CORPORATION

(भारतीय रिज़र्व बैंक की संपूर्ण स्वामित्ववाली सहयोगी Wholly owned subsidiary of the Reserve Bank of India)



Lessons from 2008 Financial Crisis for Bank Resolution – Malaysian Experience



Lim Kong Kuan,

14-16 November 2011,

Jodhpur, India



International Association
of Deposit Insurers



Perbadanan Insurans Deposit Malaysia
Protecting Your Insurance And Deposits In Malaysia

Agenda

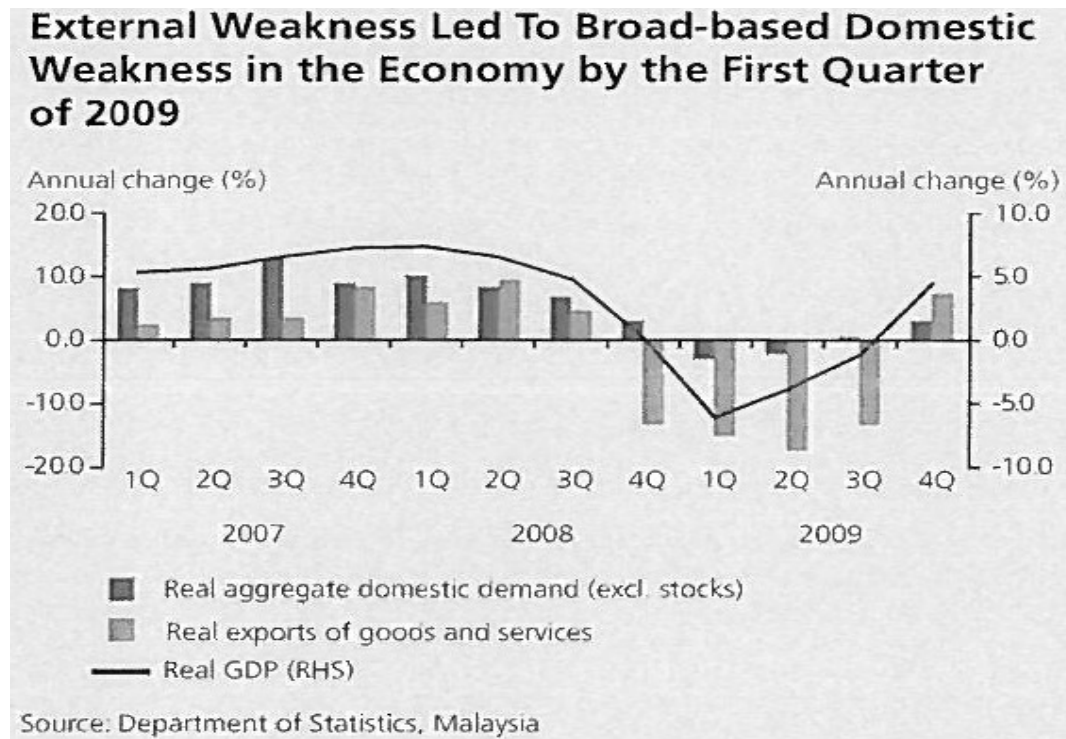
- (1) Impact of 2008 Financial Crisis
- (2) Malaysia's pre-emptive measure
- (3) Important resolution related developments and actions
- (4) Q & A session

1. Impact of 2008 Financial Crisis



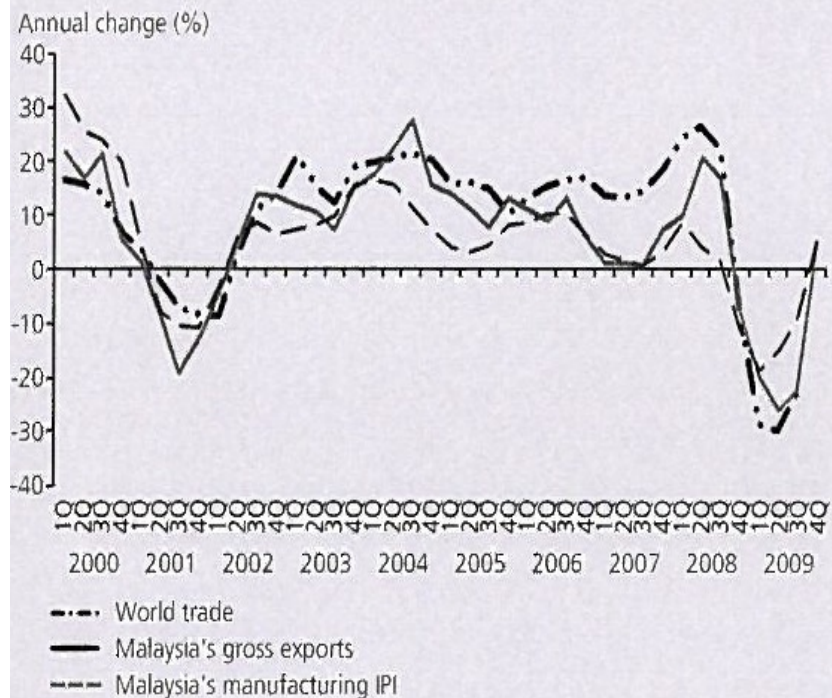
Impact of 2008 Global Financial Crisis on Malaysia

- **Effect of global crisis felt in the following manner:**
 - Market sell down/repatriation of foreign funds resulted in significant capital outflow
 - Slowdown in selected export oriented industries (e.g. manufacturing, mining)

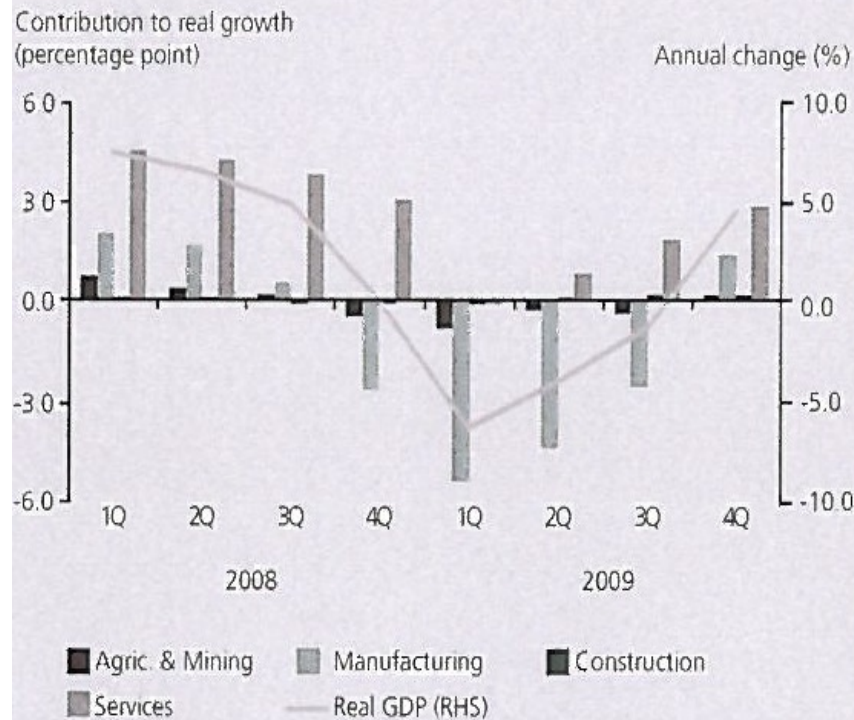


Impact of 2008 Global Financial Crisis on Malaysia

Collapse in World Trade Led to Sharp Contractions in Malaysia's Gross Exports and Manufacturing Production



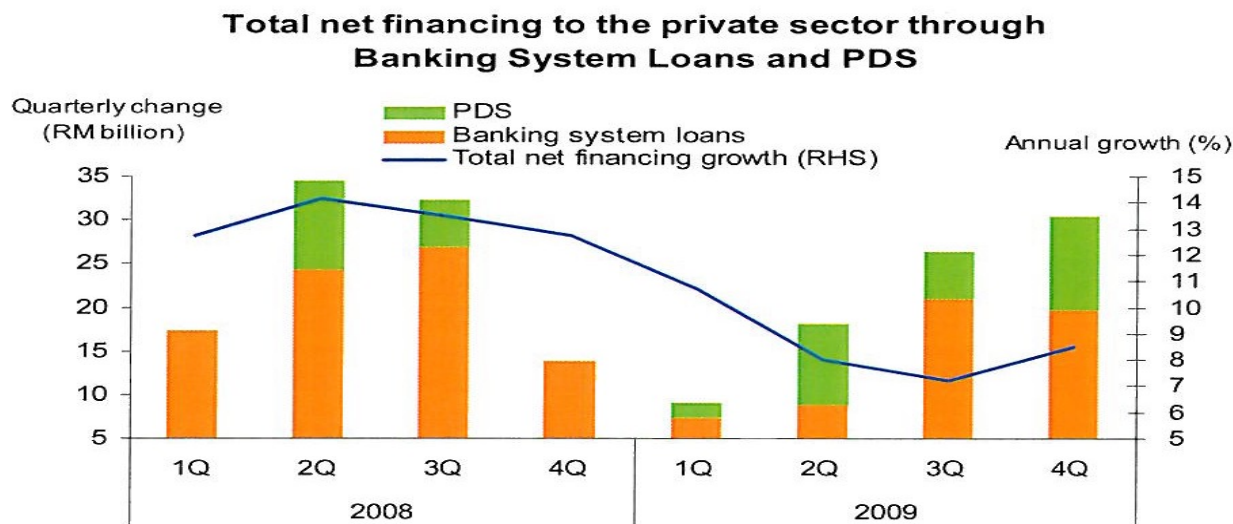
Export-oriented Manufacturing Sector was the Worst Affected



Impact of 2008 Global Financial Crisis on Malaysia

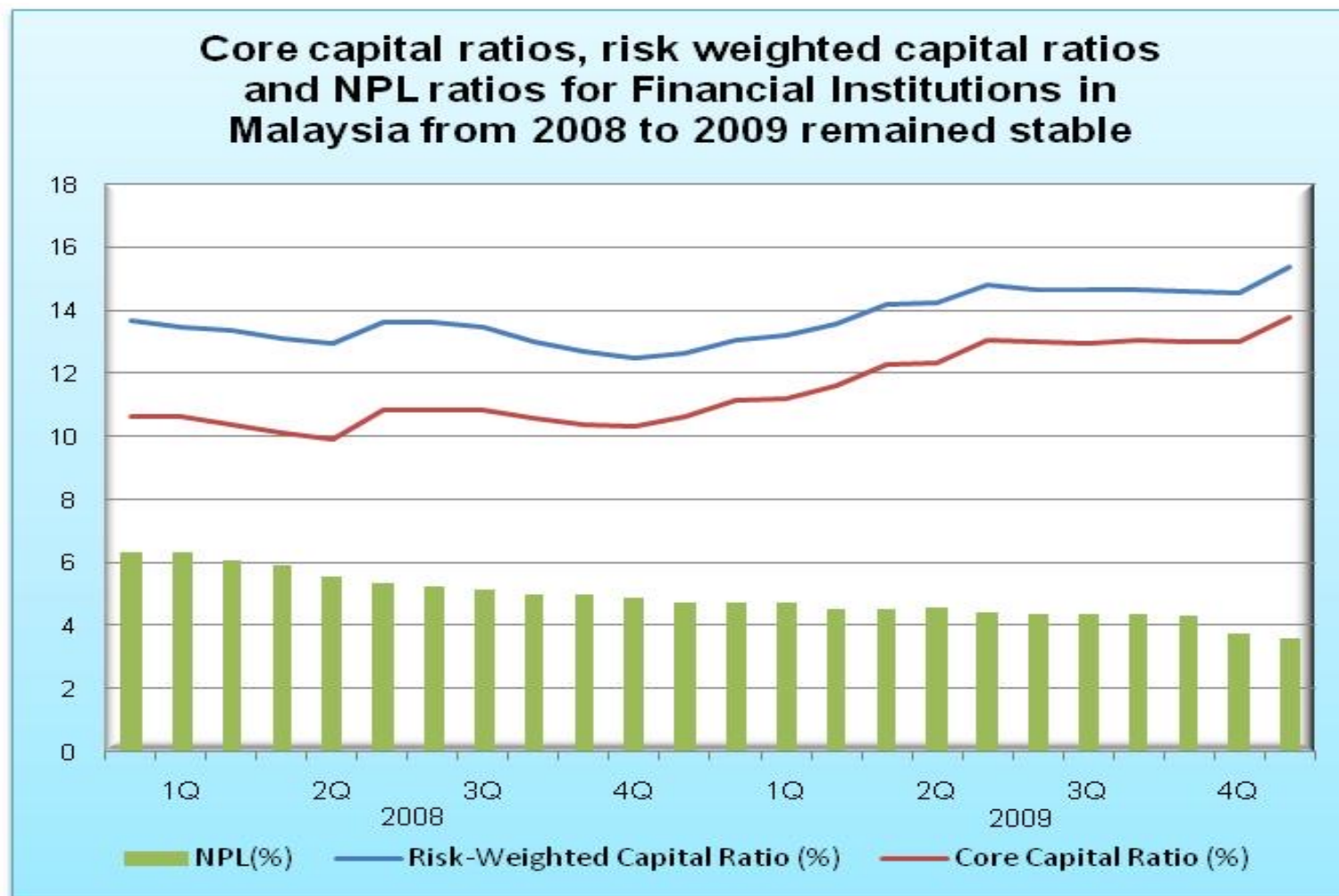
- **Banking system remained sound**

- Strong prudential regulation and supervision, effective legal system, sound accounting and disclosure regimes
- Financial institutions are well capitalised and had limited exposure to sub-prime mortgages
- Economic conditions fundamentally sound



Source : Bank Negara Annual Report 2009

Impact of 2008 Global Financial Crisis on Malaysia



Source : Bank Negara Statistical Bulletin, MDIC

2. Malaysia's pre-emptive measure



Implementation of the Government Deposit Guarantee (GDG) scheme (16 Oct 2008 to 31 Dec 2010)

- **Pre-emptive and precautionary measure to prevent:**

- Contagion stemming from cross border capital flows
- Possibility of deposit insurance arbitrage
- Likelihood of competitive distortions amongst banks across various countries

- **Co-ordinated approach with Singapore**



Malaysia Takes Pre-emptive Measures

Consistent with regional initiatives to preserve confidence in respective financial systems, the Ministry of Finance and Bank Negara Malaysia today jointly announce measures to maintain the stability of the Malaysian financial system.

These measures are pre-emptive and precautionary, since Malaysian banking institutions are well-capitalised with ample liquidity, and confidence in the system remains intact.

With immediate effect, the following measures are being implemented:

- all ringgit and foreign currency deposits with the Bank Negara Malaysia, will be fully guaranteed by Bank Negara Malaysia under the Government Deposit Guarantee Scheme (GDG) from 16 October 2008 to 31 December 2010. The guarantee extends to all domestic and foreign banking institutions; and
- access to Bank Negara Malaysia's liquidity facilities will be extended to insurance companies and takaful operators.

Given the soundness and stability of the Malaysian banking institutions, it is unlikely that these guarantees will be necessary. Malaysia has a strong regulatory and supervisory framework. PIDM, its differential, will continue to provide strong incentives for banks to adopt sound and rigorous risk management practices, including the maintenance of strong capital buffers.

Bank Negara Malaysia will continue to monitor any potential emerging risks and challenges to the Malaysian financial system. There will be no further destabilising consequences from the implementation of the GDG. Bank Negara Malaysia, in addition to ensuring adequate liquidity, will also guarantee interbank obligations of banking institutions to ensure efficient access to capital for banking institutions to maintain target levels well above the minimum standards.

Bank Negara Malaysia will also continue to ensure that regulatory framework remains robust and maintains appropriate incentives for prudent risk management as part of financial institutions to maintain the orderly functioning of the financial system and financial markets.

For more details and clarification, you may contact:

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PRESS RELEASE



The GDG as pre-emptive measure to enhance public confidence

- GDG administered by MDIC
- PIDM continued to cover up to RM60,000 per depositor. Government provided coverage in excess of RM60,000.
- Coverage extended to non-member financial institutions
 - 39 member institutions
 - 15 investments banks, 5 deposit-taking development financial institutions and 3 international Islamic banks



Stabilisation Insurance Provision as mechanism to implement the GDG

- **Amendments to the MDIC Act in 2010 to incorporate Stabilisation Insurance provisions**
 - Subject to an order by the Minister of Finance upon consultation with MDIC and Central Bank
 - Protection on some or all deposits
 - Protection may be increased to a greater amount
 - Coverage extended to non-member financial institutions

Smooth exit of GDG via enhanced consumer protection package

- Enhanced Consumer Protection Package announced early in May 2010 by the Prime Minister. New MDIC Act 2011 to:

- Increase deposit insurance limit from RM60,000 to RM250,000
- Scope of coverage expanded to protect foreign currency deposits
- Protection extended to owners of takaful certificates and insurance policyholders
- Introduction of new Provision of Information on Deposit Insurance Regulations 2011

Press Release

Enhanced Financial Consumer Protection Package
11/05/2010



MINISTER OF FINANCE OFFICE

Kuala Lumpur, 11 May 2010: Prime Minister Dato' Sri Mohd. Najib bin Tun Haji Abdul Razak announced the intention to advance a package of legislative initiatives aimed at enhancing consumer protection for Malaysians.

In this regard, Perbadanan Insurans Deposit Malaysia (PIDM) will be responsible for the Government to increase the deposit insurance limit to RM250,000. The plan is for the legislation package to be tabled in Parliament, for debate and passage in the second half of this year.

PIDM will also develop legislation to introduce an enhanced Insurance Compensation Scheme (ICS) for insurance and takaful policyholders. The Government's intention is to ensure that holders of insurance and takaful products will also enjoy a similar level of compensation. PIDM will also be responsible for the Government to increase the deposit insurance limit to RM250,000.

These enhanced consumer protection measures are a testament to the Government's continued commitment to enhance financial consumer protection and to promote continued public confidence in the financial system.

Since the temporary measures will lapse as scheduled at the end of this year, the enhanced protection package will provide increased protection to depositors. With this new limit, 99% of depositors will be protected.

On the ICS, as it is to be administered by PIDM, it would level the playing field between the bank and insurance industry as it would remove the competitive distortions between the two, as both sectors would now be protected. The proposed ICS will contribute to enhanced consumer confidence which would in turn promote consumer demand for insurance and takaful products.

PIDM will conduct a consultation process with stakeholders on the key design features of the proposed insurance compensation scheme before bringing forward its recommendations to the Government.

For more information about this press release, kindly contact:

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3. Important resolution related developments and actions



Extension of Central Bank's resolution powers beyond regulatees

New Central Bank Act enacted in Nov 2009 with powers to resolve financial institutions promptly as follows:

- Established Financial Stability Executive Committee to deal with financial institutions not under its purview
- Power to enter into arrangements with other central banks to provide liquidity assistance to subsidiaries or branches outside Malaysia of any financial institution established in Malaysia



Extension of MDIC's resolution powers

Wider powers for MDIC to provide stabilisation insurance and to resolve troubled financial institutions promptly

- Authority to increase deposit insurance beyond approved limits
- Authority to designate non-member financial institutions as members institutions
- Authority to incorporate and implement a Bridge Institution (BI) as a resolution tool and authority to transfer certain assets and liabilities of troubled financial institution to BI

Authority to deal with Qualified Financial Agreements (QFAs):

- Power to temporary suspend termination rights of QFAs
- Power to transfer QFAs to Qualified Third Parties
- Power to terminate QFAs if counterparty chooses not to do so



Development of record keeping requirements for QFAs

- MDIC is currently working with the Central Bank to develop record keeping requirements to facilitate determination of dealing with QFAs

Focus on MDIC's intervention and resolution readiness

IFR action plan focus of resolution readiness:

- Embarked on Project Eveready in 2008:
 - Develop comprehensive set of 14 policies and procedures document on mechanism and resolution approaches
 - Conducted corporate wide training and simulation exercises on resolution of trouble institutions
- Embarked on Payout Project to develop an integrated and robust means of reimbursing depositors in the event of a payout
- Develop intervention and resolution related policies: Early Intervention Trigger, Non-Viability Criteria, Authority Matrix

Key Lessons from the 2008 Global Financial Crisis

- **Actions need to be holistic to address concerns**

- Strong collaboration between safety net players
- Co-ordination between regional jurisdictions
- Powers to implement blanket deposit coverage
- Public perception must be managed when determining exit strategies for blanket guarantees



- **Implementation must be prompt**

- Importance of safety net players to co-ordinate efforts

- **Continuous review of powers, policies and procedures**

- Powers, policies and procedures must be reviewed regularly to ensure its relevance and robustness to deal with crisis

Thank You



Perbadanan Insurans Deposit Malaysia
Protecting Your Insurance And Deposits In Malaysia
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