

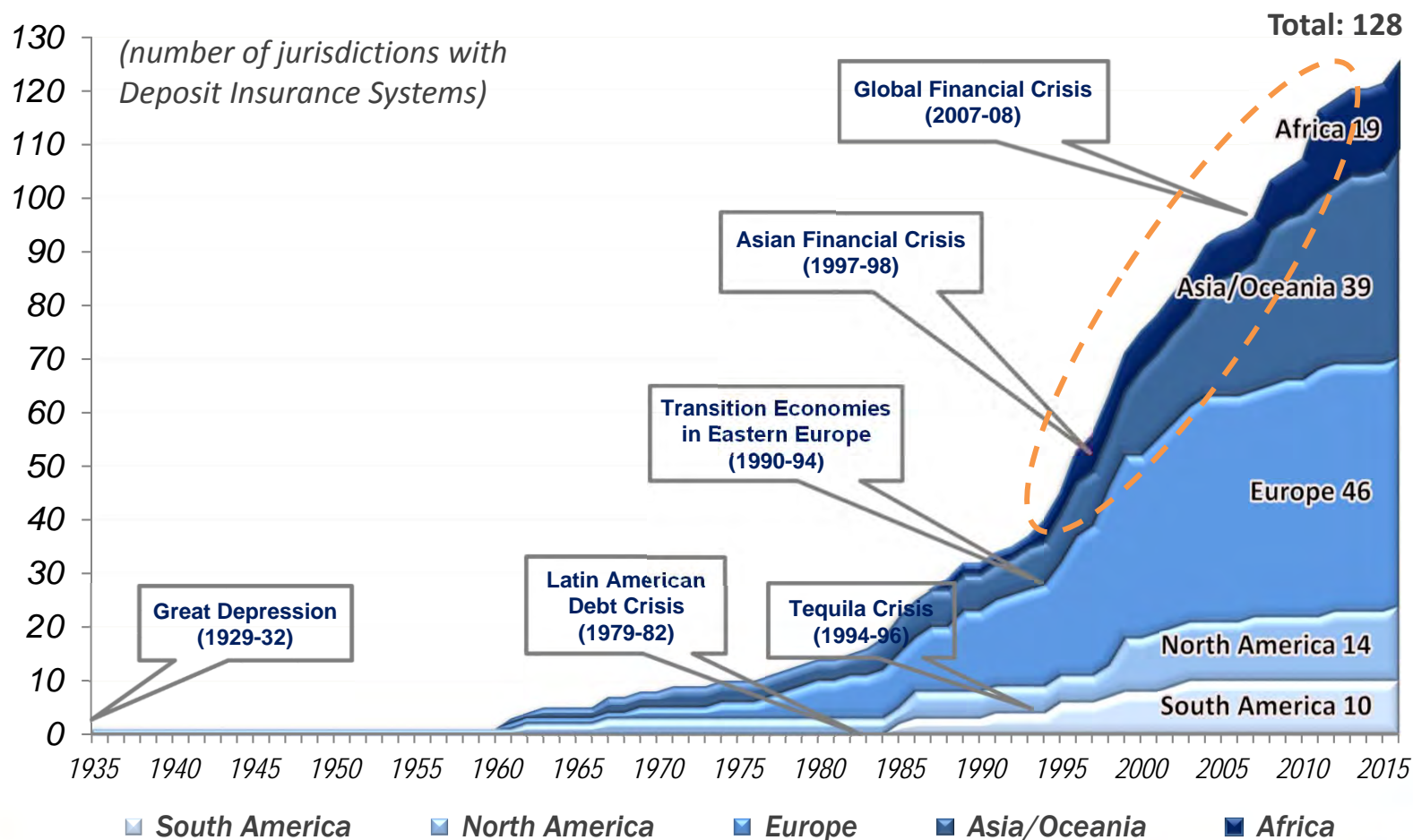
11th DICJ ROUND TABLE Is A Net Loss Model Sufficient?

13 March 2019



Perbadanan Insurans Deposit Malaysia
Protecting Your Insurance And Deposits In Malaysia

Deposit insurers gaining prominence post-AFC



Sources: World Bank (end of 2013), International Association of Deposit Insurers (2016)



Expanding mandate to resolve FIs and instil confidence in the financial system

System Mandate	2013	2018
Pay-box	28	42
Pay-box Plus	26	53
Loss Minimizer	11	19
Risk Minimizer	13	18
Other	3	3
Total	81	135

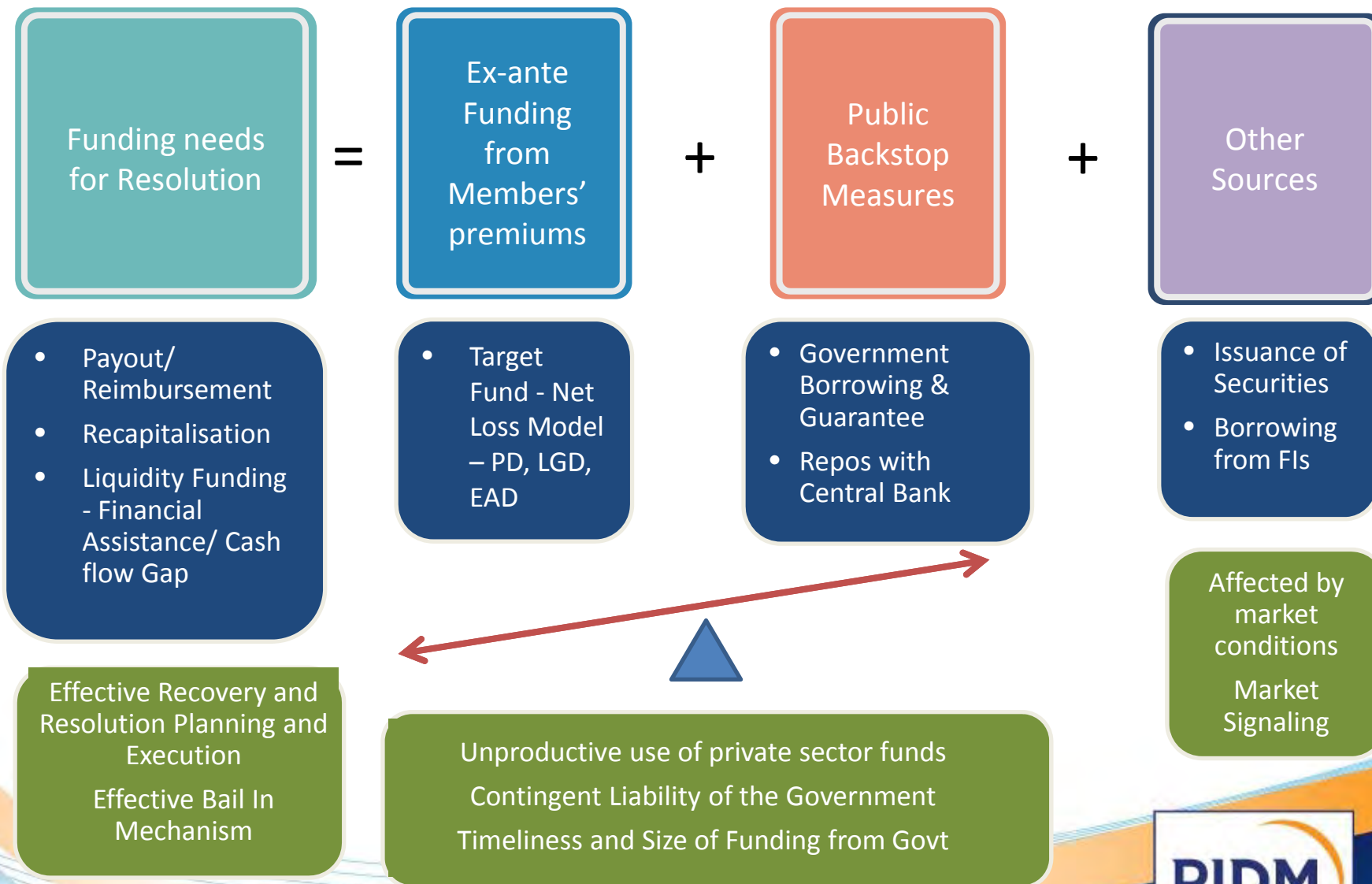
Over the past 5 years, the number of resolution-related Deposit Insurers have increased.



Failing to prepare is preparing to fail... How high should the seawall be?



Delicate balance between Ex-ante and Public Backstop Funding



Is the size of Deposit Insurance Fund commensurate with its intended use as a Resolution Authority?

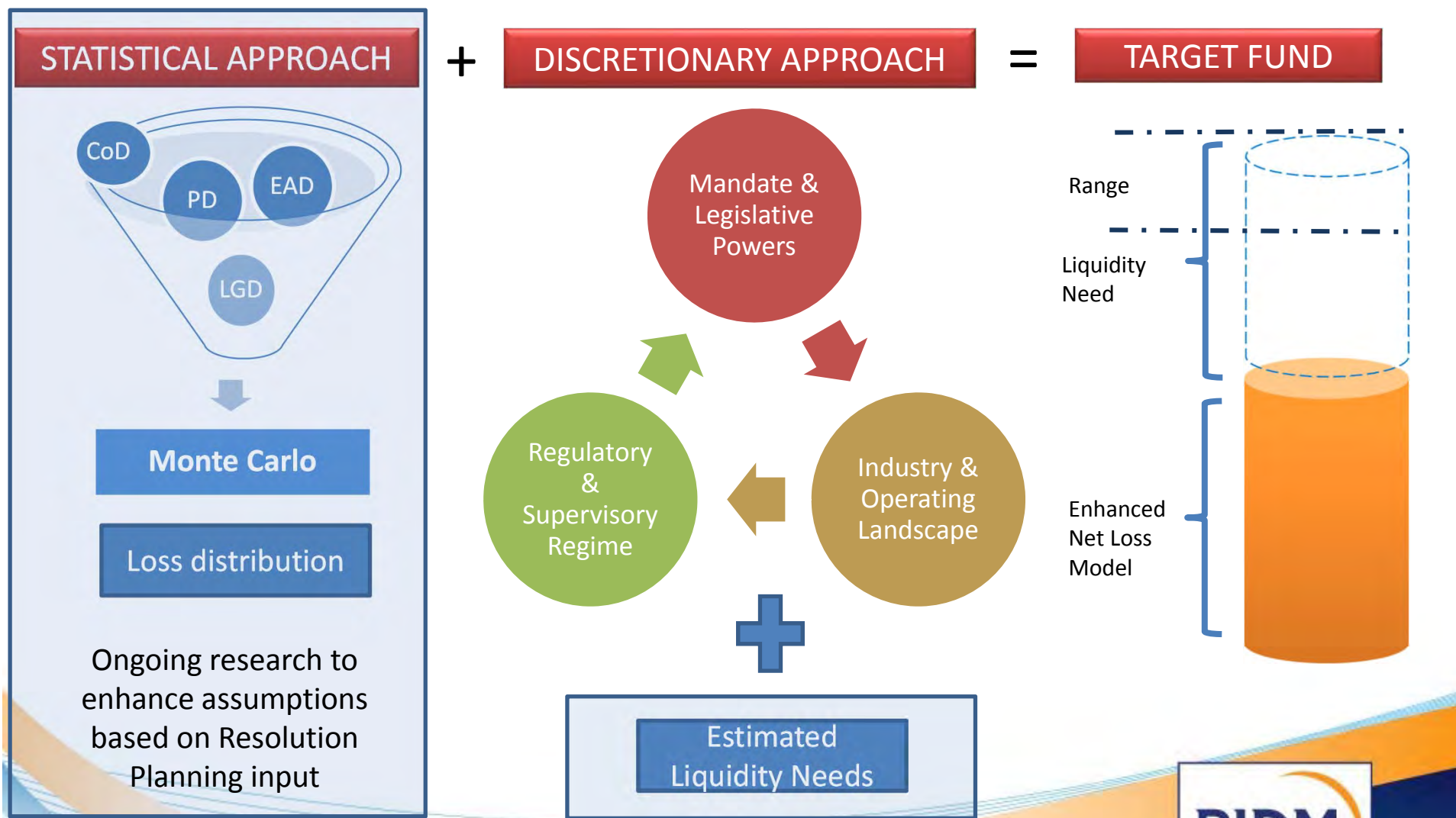
Is there a need to recalibrate ex-ante fund “beyond” Net Loss?

- ✓ Target level may be set above net loss amount to reflect PIDM’s capability to carry out its mandate

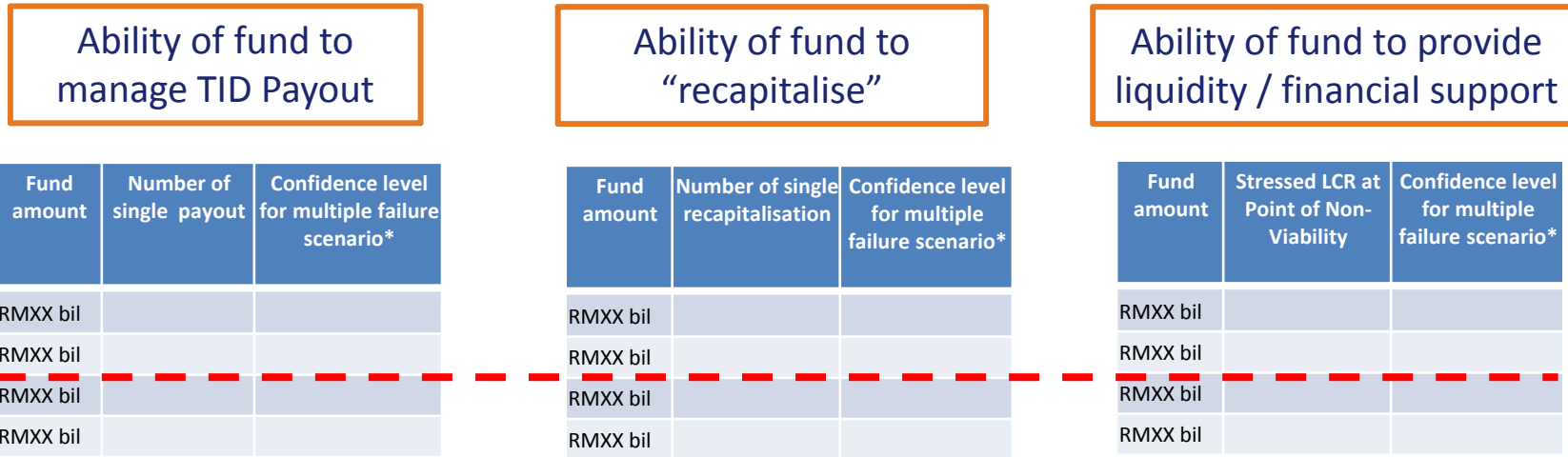
“The Target Fund should reflect the capability of the deposit insurer to meet its mandate, taking into account its overall sources of funding, as well as the financial exposure of the bank which the deposit insurance system is mandated to protect - IADI Enhanced Guidance for Effective Deposit Insurance Systems: Ex Ante Funding (June 2015)”

- ✓ Analysis of fund sufficiency could be used to calibrate a Target Fund Range level beyond net loss amount

Proposed enhancement envisages a more robust estimation of Net Loss, which also incorporates estimated liquidity needs



Current Research Area: Fund sufficiency analysis to determine ability to carry out Resolution Action either for a single or multiple failure scenario



Discretionary Target Amount

- Payout amount = TID
 - Analysis is performed only for members with liquidation as the resolution options
- Recapitalisation amount is as per computation in the loss estimation model
 - Analysis is performed for members with going concern resolution options only
- Measures liquidity gap of each entity, using simulated stressed LCR
 - Analysis is performed for members with going concern resolution options only

*Multiple failure scenario is modelled using Monte Carlo

Considerations



No Bank Failure
Experience in Malaysia

Interplay with Resolution
Planning at
Developmental Stage

Market Perceptions

Public Backstop Measure
– Is There?

THANK YOU

Liquidity funding of selected jurisdiction with ex-ante premium system

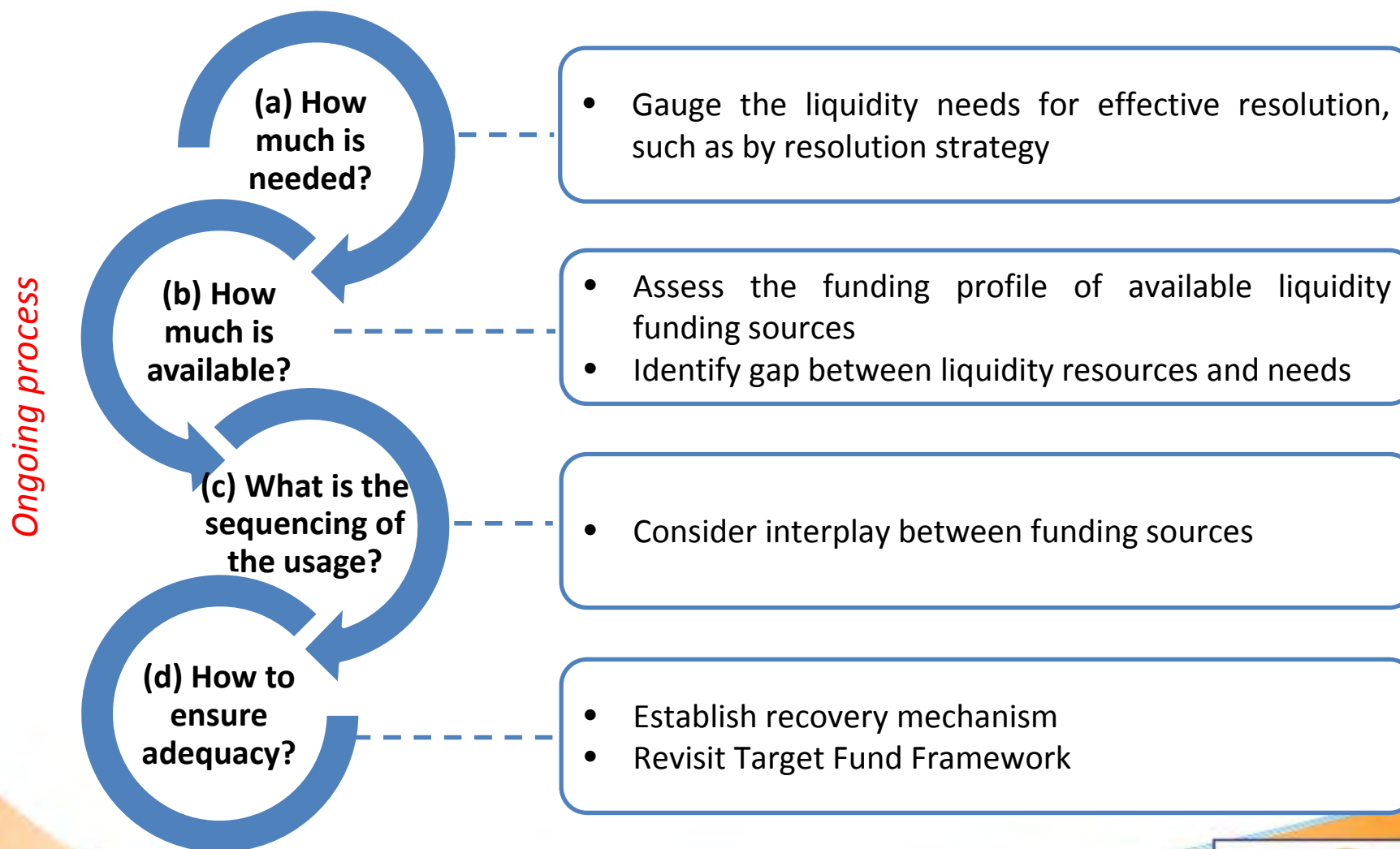
Jurisdiction	Sources of Liquidity Funding	Funding Limit
Paybox		
Hong Kong	<ul style="list-style-type: none"> Standby credit facility from the Exchange Fund Extraordinary premiums 	HKD120 billion
Singapore	<ul style="list-style-type: none"> Loan from Central Bank Borrow from market or private sources Extraordinary premiums 	MAS: SGD20 billion
Loss / risk minimiser		
Canada	<ul style="list-style-type: none"> Borrow from the government or market Additional borrowing requires special Act and Parliament approval Extraordinary premiums 	2016: CAD20 billion, indexed to growth in TID
USA	<ul style="list-style-type: none"> Borrow from the Treasury Note Purchase Agreement with the Federal Financing Bank (FFB) Borrow from the Federal Home Loan Banks and insured depository institutions 	Treasury: USD100 billion; FFB: USD100 billion, subject to Maximum Obligation Limitation (2016: USD182.1 billion)



“Two-thirds of DIAs have no formal funding arrangements with other safety net players”
– IADI Research Paper, July 2018



PIDM's Funding & Liquidity Adequacy Conceptual Framework



PIDM current thinking ...

Strategic Priorities



To work towards an effective resolution regime, initiatives include developing resolution plans and mitigating impediments to effective resolution, in order to contribute to the stability in the financial system.

Key Focus Area



Seamless payout will provide more effective ways of reimbursing insured deposits.

Review the basis and methodology for target fund and premium assessment in line with the resolution planning framework.

Current research areas on the methodology in deriving key assumptions of Target Fund model

Factor	Definition	Current Research Area
EAD	Represent the financial exposure to PIDM in the event of default	<ul style="list-style-type: none"> • Going concern – Recapitalisation amount as proxy • Liquidation – Total Insured Deposit amount as proxy
LGD	Represent the net loss to PIDM after taking into account recoveries in a given default situation.	<ul style="list-style-type: none"> • Going concern – Benchmark against lowest average historical Price-to-Book value as proxy for recovery rate • Liquidation – Based on bank-specific recovery rate estimated from the BASEL's Capital Requirement risk weight as a proxy for discount factor in determining the realizable value of failed bank's asset
PD	Measures the likelihood of a member banks going into default within a specific time horizon	<ul style="list-style-type: none"> • Adjusted PD benchmarked against ECAI default rates and mapped to PIDM's internal rating
CoD	Measures potential spillover or contagion effects from the failure of member banks	<ul style="list-style-type: none"> • Based on statistical correlation values derived from member banks' data over certain time horizon
Liquidity Need	Fund sufficiency analysis consider resolution funding requirement, as well as ability of funding to manage payout	<ul style="list-style-type: none"> • Going concern - Stressed LCR as a base to estimate potential liquidity gap/need that PIDM may need to cover • Liquidation – Fund sufficiency versus scale of payout