



Perbadanan Insurans Deposit Malaysia
Malaysia Deposit Insurance Corporation



Islamic deposit insurance: Malaysian Perspective

Deposit Insurance in the MENA Region: Enhancing Confidence
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I will cover ...

- ❑ Islamic deposit insurance (IDI)
- ❑ Malaysian experience
- ❑ Need for IDI
- ❑ Salient features
- ❑ Profit sharing investment account
- ❑ Issues and challenges

Islamic deposit insurance

A Shariah-compliant system that provides protection to depositors against loss of insured Islamic deposits placed with Islamic member institutions (IMIs) when an IMI fails

Malaysian Experience

- ❑ Established in September 2005
- ❑ Dual deposit insurance system
- ❑ Ex-ante system with mandatory membership
- ❑ Endorsed by Shariah Advisory Council of Bank Negara Malaysia
- ❑ Administered separately by Malaysia Deposit Insurance Corporation, alongside the conventional system
- ❑ Guiding principle: To provide equivalent protection

Why do we need IDI?

MASLAHAH

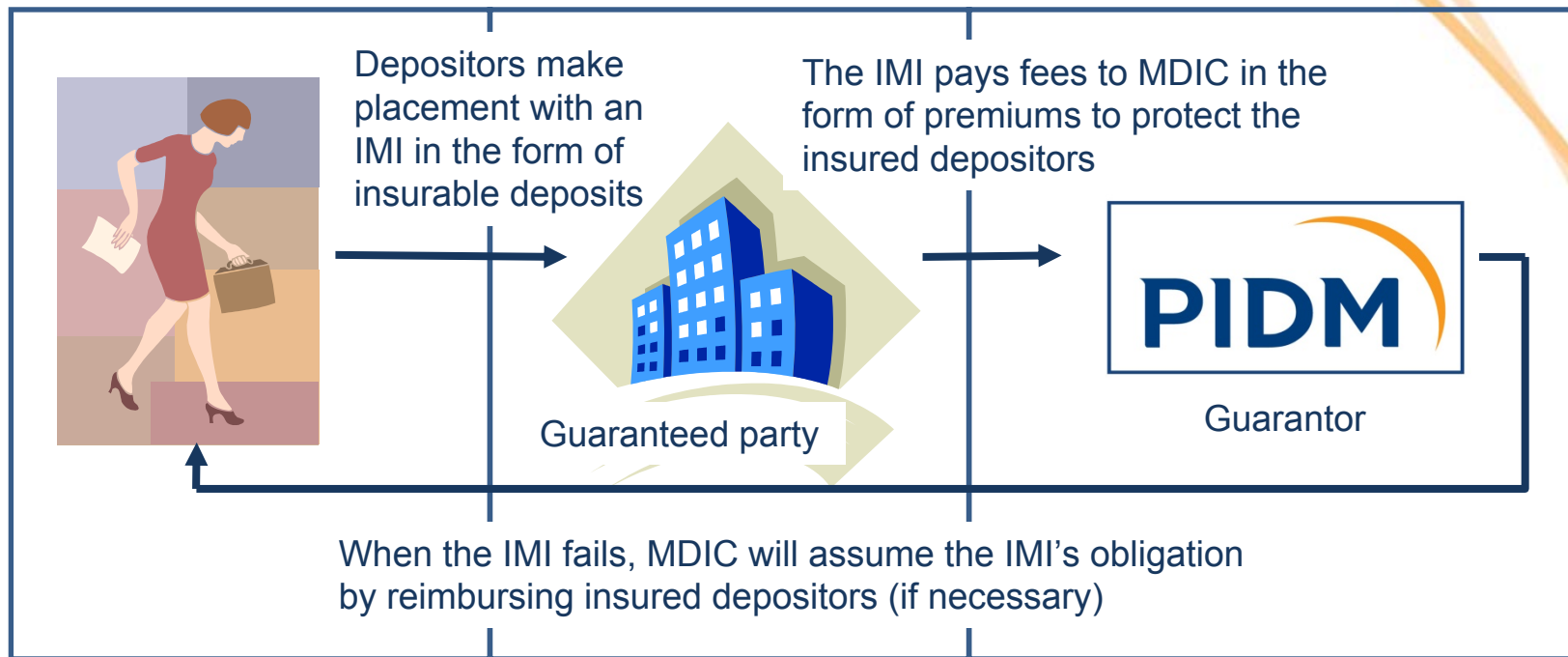
Public interest



- ❑ Protect public's money – prevent financial difficulty
- ❑ Instil public confidence
- ❑ Promote financial system stability
- ❑ Promote competitiveness of Islamic deposits
- ❑ A Shariah-compliant system for Muslim community

Salient features (1)

Based on arrangement of *kafalah bil ujr* (guarantee with fee) ...



This serves as a legal basis for the relationship between MDIC and the IMIs

Salient features (2)

Funding and premium assessment

- ❑ Funded by Islamic premiums
- ❑ Premiums assessed based on amount of insured Islamic deposits

Coverage

- ❑ Separate protection from conventional deposits
- ❑ Eligible deposits include savings, demand and PSIA

Salient features (3)

Management of fund

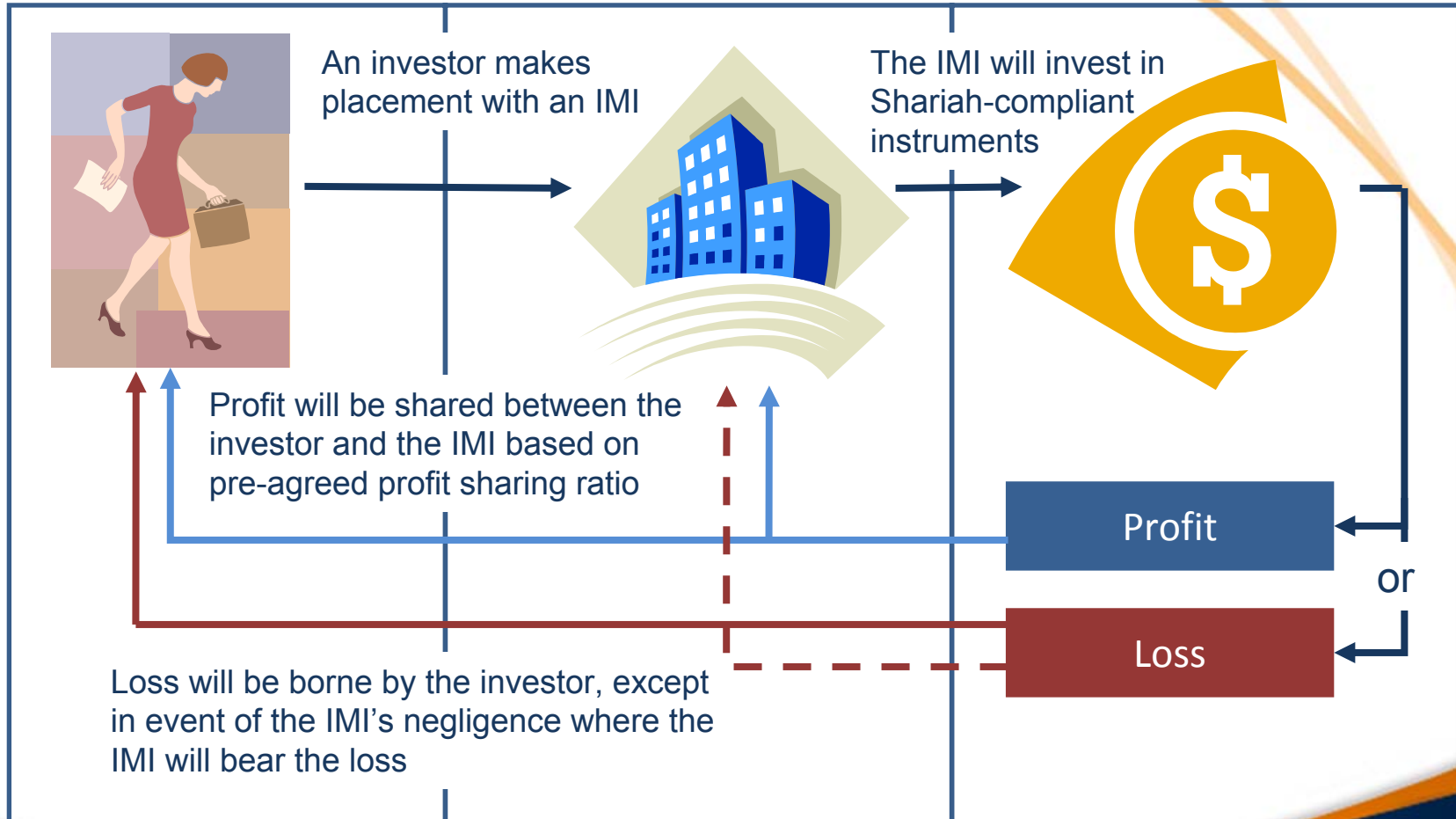
- ❑ Separate Islamic Deposit Insurance Fund (IDIF)
- ❑ Permissible expenditures
- ❑ Invest in Shariah compliant instruments
- ❑ No commingling or cross-subsidisation
- ❑ Access to market or Government funding, structured based on Shariah requirements

Salient features (4)

Payment and priority of payment

- ❑ All costs/losses incurred are to be charged to the IDIF
- ❑ Priority of payments is based on the underlying contracts of the deposits

Profit sharing investment account (PSIA)



Why we cover PSIA?

- ❑ Prudential measure
 - PSIA is treated as deposits and forms bulk of total deposits in the Islamic banking system
 - Protect PSIA holders and promote stability of financial system (masalahah)
- ❑ Guarantee is only in event of bank failure, not loss in the normal course of business
- ❑ Mudharabah contract allows third party guarantee

Issues & challenges

- ❑ Absence of guiding principles for IDI
- ❑ Greater product innovation under various Shariah contracts
 - Determining insurability
 - Determining priority of payments
- ❑ Identifying indicators to assess unique risks of the IMIs under Differential Premium System
- ❑ Cross border liquidation
- ❑ Liquidation of assets funded by restricted PSIA
- ❑ Public awareness

Thank you