



**Perbadanan Insurans Deposit Malaysia**  
**Protecting Your Insurance And Deposits In Malaysia**

**RESPONSE TO THE CONSULTATION PAPER ON  
VALIDATION PROGRAMME:  
DIFFERENTIAL LEVY SYSTEM AND  
PREMIUMS CALCULATION**

**ISSUE DATE : 9 DECEMBER 2013**



Perbadanan Insurans Deposit Malaysia  
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<b>Ref No</b>	TIPS/CP19-R/2013	<b>Issued on</b>	9 December 2013
<b>TITLE</b>	Response to the Consultation Paper on Validation Programme: Differential Levy System and Premiums Calculation		

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## **1.0 INTRODUCTION**

1.1 Perbadanan Insurans Deposit Malaysia (“PIDM”) issued a Consultation Paper on the Validation Programme: Differential Levy System and Premiums Calculation (“Validation Programme”) for public consultation on 13 September 2013. Comments were received from insurer members (“members”), Bank Negara Malaysia (“BNM”) and external auditors during the one-month consultation period, which ended on 14 October 2013. As part of the consultation process, PIDM discloses the summary of comments received and its responses to those comments.

## **2.0 OVERVIEW OF COMMENTS RECEIVED**

2.1 A majority of the comments and suggestions provided by members and external auditors related to the scope of validation and the reporting requirements in the Validation Programme.

## **3.0 CHANGES MADE TO THE VALIDATION PROGRAMME ARISING FROM FEEDBACK RECEIVED**

3.1 After considering the views and suggestions received, we have incorporated the following changes to the proposed Validation Programme:

- (a) The Differential Levy System (“DLS”) and Returns on Calculation of Premiums (“RCP”) reporting forms will be validated by the member’s internal auditor for information that is directly sourced from BNM’s Insurance Companies Statistical Submission (“ICSS”)/Takaful Operators Statistical System (“TOSS”) and/or the Risk-Based Capital Framework for Insurers (“RBC”)/Risk-Based Capital Framework for Takaful Operators (“RBCT”) submissions.
- (b) The member’s external auditor will validate:
  - (i) other information required in the DLS reporting forms which is not sourced directly from BNM’s ICSS and the RBC submissions; and
  - (ii) the classifications of qualified and non-qualified policies as reported in the RCP pursuant to the Guidelines on Takaful and Insurance Benefits Protection System: Submission of Returns on Calculation of Premiums for Takaful and Insurance Businesses (2011).

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#### 4.0 DETAILED COMMENTS RECEIVED AND PIDM'S RESPONSES

4.1 The details of the comments received, and PIDM's responses, are set out below:

##### (1) Submission Dates of the Independent Validation Report and Detailed Action Plan and Timeline

###### Question 1 (a)

The Consultation Paper ("CP") invited comments and suggestions whether there is sufficient time for the submission of independent validation reports to PIDM. The proposed deadlines are 31 October 2014 during the transitional year and 31 May of each assessment year for the subsequent years.

###### Comments Received

A majority of the respondents agreed with the proposed submission dates for the transitional year (by 31 October 2014) and subsequent years (by 31 May of each assessment year).

Three (3) respondents, however, wished to have clarification about the need to raise the exceptions or issues in the independent validation report as these exceptions or issues would have been rectified before the DLS and RCP reporting forms are submitted to PIDM.

There were suggestions that if any adjustment must be made by the members, they should not be subjected to any penalty/surcharge arising from the late payment in respect of any adjustments.

###### PIDM's Response

For the transitional year 2014, the independent validation report will be due for submission to PIDM by 31 October 2014. Thereafter, the independent validation report shall be due for submission to PIDM by 31 May of each assessment year.

PIDM wishes to clarify that only those exceptions or issues that have yet to be rectified by the members should be raised in the independent validation report.

With regard to non-compliance with any requirements of the PIDM's guidelines, regulations or orders, such non-compliance could result in a levy surcharge pursuant to section 75 of the Malaysia Deposit Insurance Corporation Act 2011.

**Question 1 (b)**

The CP invited comments and suggestions on the proposed sample report as set out in Appendix 3. This provides the format on the action plan and timeline to rectify the exception/findings.

**Comments Received**

Generally, the respondents had no comment on the proposed sample report in respect of the member's action plan and timeline as set out in Appendix 3.

**PIDM's Response**

PIDM will proceed with the proposed sample report on member's action plan and timeline as set out in Appendix 3.

**(2) Scope****Question 2**

The CP asked for feedback with regard to the agreed upon procedures as set out in Appendix 2.

**Comments Received**

A majority of the respondents were concerned about the proposal that requires the information submitted for DLS and RCP reporting forms to be validated by the member's external auditor, as additional cost will be incurred by the members.

These respondents were of the view that the validation of the DLS and RCP reporting forms may not be necessary as the information is directly sourced from the BNM's ICSS/TOSS and/or RBC/RBCT submissions.

Further, it was highlighted that the information in the DLS and RCP reporting forms can be verified or validated by the member's internal auditor.

On the other hand, two (2) respondents suggested that the member's external auditor should only validate the accuracy of the qualified policies and non-qualified policies.

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### PIDM's Response

We take note of the concerns raised by the respondents. However, validation is necessary for information/data that is not derived from BNM's ICSS/TOSS and/or RBC/RBCT submissions.

In view of the respondents' comments, the Validation Programme will be amended as follows:

#### (a) Internal Auditor

The DLS and RCP reporting forms will be validated by the member's internal auditor for information that is directly sourced from the BNM's ICSS/TOSS and/or RBC/RBCT reporting submissions.

#### (b) External Auditor

As for the validation of the other supporting information reported in the DLS and classification of the qualified policies/certificates and non-qualified policies/certificates reported in the RCP, the validation will be performed by the member's external auditor.

### (3) Validation Report

#### Question 3

The CP asked for comments on the form and content of the External Auditor's Independent Validation Report ("EA Report") as set out in Appendix 4.

#### Comments Received

Generally, most members had no comment on the form and content of the EA Report.

However, there were comments and suggestions from professional firms involved in conducting external audits on the members regarding the procedures set out in the work programme and the content of the EA Report.

#### PIDM's Response

We take note of the suggestions and have reflected the changes in the procedures set out in the work programme and the content of the EA Report.

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#### (4) Validation Programme – Agreed Upon Procedures

##### Question 4

The CP asked for feedback and suggestions with regard to the appropriateness of placing reliance on the internal controls established for the processes involved in the preparation of DLS quantitative information and RCP forms.

##### Comments Received

A few respondents were of the view that the member's internal auditor would have reviewed the DLS and RCP reporting forms submitted to PIDM. Therefore, the members suggested that further reliance be placed on the internal auditor.

Several respondents suggested that the validation of the DLS and RCP reporting forms should be verified by the member's internal auditor.

##### PIDM's Response

Similar to Question 2, we take note of these concerns and would like to highlight that the validation is necessary for information/data that is not derived from BNM's ICSS/TOSS and/or RBC/RBCT submissions.

In view of the respondents' comments, the Validation Programme will be amended as follows:

##### (a) Internal Auditor

The DLS and RCP reporting forms will be validated by the member's internal auditor for information that is directly sourced from the BNM's ICSS/TOSS and/or RBC/RBCT reporting submissions.

##### (b) External Auditor

As for the validation of the other supporting information reported in the DLS and classification of the qualified policies/certificates and non-qualified policies/certificates reported in the RCP, the validation will be performed by the member's external auditor.



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## 5.0 CONCLUSION AND GOING FORWARD

5.1 We appreciate the feedback received in response to the CP on the Validation Programme. We have incorporated some changes into the Guidelines on Validation Programme for DLS and Premiums Calculation as highlighted earlier in this paper. The guidelines will be issued latest by January 2014 for implementation and will be made available to the public through PIDM's website.

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