



Perbadanan Insurans Deposit Malaysia
Protecting Your Insurance And Deposits In Malaysia

**CONSULTATION PAPER ON THE PROPOSED
ENHANCEMENTS TO THE
VALIDATION PROGRAMME: DIFFERENTIAL LEVY
SYSTEMS AND LEVIES CALCULATION**

ISSUE DATE : 18 JUNE 2020
CLOSING DATE : 30 JULY 2020



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Ref No	TIPS/CP36/2020	Issued on	18 June 2020
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PART 1: INTRODUCTION

1.0 BACKGROUND

- 1.1 Under the Guidelines on Differential Levy Systems Framework for Insurance Companies (“DLS Guidelines”), the Guidelines on Differential Levy Systems Framework for Takaful Operators (“DLST Guidelines”) and the Guidelines on Takaful and Insurance Benefits Protection System: Submission of Returns on Calculation of Levies for Takaful and Insurance Businesses (“RCL Guidelines”), insurance companies and takaful operators (collectively known as “insurer members” or “members”) are required to submit their DLS or DLST quantitative information, as the case may be, as well as RCL forms to Perbadanan Insurans Deposit Malaysia (“PIDM”) for the purposes of determining their annual levy payments.
- 1.2 Information to be submitted under the DLS Guidelines, the DLST Guidelines and the RCL Guidelines (collectively known as “levy information submissions”) require prior certification by the members’ Chief Executive Officers (“CEO”) and Chief Financial Officers (“CFO”)/Head of Finance/Appointed Actuary. Additionally, given the importance of information integrity, members’ levy information submissions must be validated by their internal and external auditors. An independent validation report must be submitted to PIDM pursuant to the Guidelines on Validation Programme: Differential Levy Systems and Levies Calculation (“Validation Programme Guidelines”).
- 1.3 Since the implementation of the existing Validation Programme, vast improvement could be seen in the accuracy of the submissions. As such, in order to instil greater discipline and fairness amongst insurer members, PIDM proposes to revise the Validation Programme. Insurer members with high levels of submission accuracy will not be required to perform an independent validation. However, insurer members with errors in their submissions will be subjected to a more extensive independent external auditor validation procedure. In addition, PIDM may impose a premium surcharge on the non-compliant insurer members.

1.4 The requirements for certification under the DLS Guidelines, the DLST Guidelines and the RCL Guidelines will remain applicable. Insurer members are expected to continue to be responsible and accountable for accurate levy information submissions.

1.5 PIDM believes that this revised approach will empower insurer members to control the cost of regulatory compliance, whilst ensuring accountability for accurate information submissions.

2.0 OBJECTIVE

2.1 The purpose of this Consultation Paper on the Proposed Enhancements to the Validation Programme (“Consultation Paper”) is to seek members’ views and comments on the proposed enhancements set out in paragraph 5.2 of this Consultation Paper.

2.2 The key proposed enhancements are discussed in the following parts.

Part 1	Introduction
Part 2	Proposed Enhancements to the Validation Programme
Part 3	Proposed External Auditor’s Validation
Appendix 1	Examples of Error in the Levy Submissions
Appendix 2	Preliminary Process Flow Chart for Levies Reporting and Examination
Appendix 3	Consultation Paper Response Template

3.0 CONSULTATION PROCESS AND EFFECTIVE DATE

3.1 PIDM welcomes written comments on any aspect of this Consultation Paper. All feedback shall be submitted to validation@pidm.gov.my using the prescribed format (please refer to Appendix 3) no later than **30 July 2020**. Enquiries relating to this Consultation Paper may be directed to:

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Ms. Siew Shwu Ying	03-2265 6432
Encik Azman Mokhtar	03-2173 7596



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- 3.2 PIDM will collate the comments submitted under this Consultation Paper. PIDM's response to the comments may be made public. If you do not wish for any of your comments to be made public, please indicate this in your submission.
- 3.3 The proposed enhancements is targeted to take effect in 2021 with a one-year transition period for the members. PIDM will issue the revised guidelines in relation to the proposed enhancements to the Validation Programme and these guidelines will be published on PIDM's website when they come into force.

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PART 2: PROPOSED ENHANCEMENTS TO THE VALIDATION PROGRAMME

4.0 CURRENT VALIDATION PROGRAMME GUIDELINES

- 4.1 Under the current Validation Programme Guidelines, an insurer member must ensure that accurate levy information is submitted based on the DLS Guidelines, the DLST Guidelines (as the case may be) and RCL Guidelines and provide certification by its relevant authorised persons.¹
- 4.2 Pursuant to the current Validation Programme Guidelines, PIDM also requires the internal and external auditors of an insurer member to validate the information provided in the DLS or DLST and RCL reporting forms, based on the procedures outlined in the Validation Programme Guidelines. Upon completion of the validation, the insurer member is required to submit an independent validation report, certified by its Chairman of the Audit Committee and the Chief Internal Auditor, to PIDM.
- 4.3 Based on PIDM's observations over the years, most members have demonstrated their compliance with PIDM's requirements under the DLS Guidelines, the DLST Guidelines and the RCL Guidelines.

5.0 OVERVIEW OF THE PROPOSED ENHANCEMENTS

- 5.1 The proposed enhancements to the Validation Programme aim to provide greater flexibility and efficiency for members to ensure the accuracy of their levy information submissions, whilst maintaining their accountability for accurate information submissions.
- 5.2 The key proposals under the revised Validation Programme are as follows:
- (a) removal of the requirement for mandatory independent validation in respect of quantitative information for DLS or DLST and for the RCL as set out in the existing Validation Programme Guidelines;

¹ The Chief Executive Officer, Chief Financial Officer or Head of Finance or Appointed Actuary shall certify that the information provided in the DLS or DLST and RCL reporting forms are accurate and reflective of the financial information of the insurer member as at 31 December of the preceding assessment year and that it has complied with PIDM's guidelines.

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- (b) introduction of a new requirement for validations to be conducted by the external auditors only where there are errors in respect of levy information submitted by members under the DLS Guidelines, the DLST Guidelines and/or the RCL Guidelines, in any assessment year.

Members are to remain accountable and responsible to ensure the accuracy of information submitted to PIDM, and are required to provide a certification by the members' relevant authorised persons, as set out in the DLS Guidelines, the DLST Guidelines and the RCL Guidelines.

5.3 The benefits of the proposed enhancements are to:

- (a) lessen the regulatory burden on the industry, as only members with errors in their levy information submissions will be required to engage an external auditor to conduct a validation;
- (b) incentivise members to ensure and maintain the practice of accurate reporting; and
- (c) create greater efficiencies by simplifying the submission process through the removal of the mandatory requirement for independent validation by members' internal and external auditors.

Questions:

1. Please provide your feedback and views on the proposal to remove the independent validation in respect of the DLS or DLST quantitative information, as well as the RCL from the Validation Programme Guidelines.
2. Please provide your feedback and views on the proposal for validation to be conducted by members' external auditors only where there are errors in respect of levy information submitted by members under the DLS Guidelines, the DLST Guidelines and/or the RCL Guidelines.
3. Please provide your views on the foreseeable challenges to comply with the proposed enhancements to the Validation Programme.

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6.0 ERRORS IN SUBMISSION

- 6.1 Under the proposed enhancements, should any errors (as defined in paragraph 6.3) be identified in the levy information submissions, PIDM will issue a “Notice of Error” to the member.
- 6.2 The member shall provide any supporting information to PIDM upon PIDM’s request.
- 6.3 In respect of paragraph 6.1, the member will, through the receipt of a Notice of Error, be notified of any error(s) identified that may result in changes in the following areas:
- indicator’s result for the current assessment year;
 - indicator’s score for the current assessment year;
 - levy category for the current assessment year; or
 - levy payable for the current assessment year.

*Please refer to **Appendix 1** on the examples of errors in levy submissions.*

- 6.4 Such member will be required to resubmit the revised levy information and its certification as well as pay outstanding levies to PIDM including overdue charges, if any, within five (5) working days from the date of the Notice of Error.

Questions:

- Please provide your comments on the proposed timeline of five (5) working days in relation to the resubmission and remittance of outstanding levies.
- Please provide your views on the overall proposed enhancements to the Validation Programme.

7.0 TRANSITION YEAR

- 7.1 PIDM plans to implement the enhanced Validation Programme in the assessment year 2021 with a one-year transition period for members. During the transition year, (i.e., assessment year 2021), members with error(s) identified (as defined in paragraph 6.3) will not be required to engage an external auditor to perform a validation on its levy



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information submissions. The transition period is to ensure that members have sufficient time and resources to prepare for the implementation.

- 7.2 However, such member is required to comply with paragraph 6.4, i.e., to file a resubmission of the levy information as well as to pay outstanding levies including overdue charges, if any, to PIDM within five (5) working days from the date of the Notice of Error.

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PART 3: PROPOSED EXTERNAL AUDITOR'S VALIDATION

8.0 OVERVIEW OF EXTERNAL AUDITOR'S VALIDATION

- 8.1 In the event a member is issued with a Notice of Error, the member is required to engage an external auditor to perform a validation on the revised levy information under the DLS Guidelines, the DLST Guidelines and the RCL Guidelines for the current assessment year in accordance with the International Standard on Assurance Engagements ("ISAE") 3000 – Assurance Engagement Other Than Audit or Review of Historical Financial Information.
- 8.2 The external auditor shall be a professional accountant in public practice in Malaysia and qualified to issue an opinion in accordance with the requirements set out in ISAE 3000.
- 8.3 Should the member voluntarily engage an external auditor to perform a review or validation of its original levy information submissions, in the event a Notice of Error is issued, the member shall not engage the same external auditor to perform the validation required by PIDM.
- 8.4 The member shall submit the findings of the external auditor as well as a detailed action plan together with the proposed timeline to address such exceptions to PIDM within 90 days from the date of the Notice of Error from PIDM. The member is also required to table all reports to its Audit Committee prior to submission to PIDM.
- 8.5 If additional errors are identified based on the external auditor's report, PIDM will issue another Notice of Error to the member. The member is then required to resubmit another revised levy information and its certification, as well as pay outstanding levies, if any, to PIDM within five (5) working days from the date of the second Notice of Error.
- 8.6 PIDM reserves its powers and rights under Section 96 of the PIDM Act to examine or commission an external party to carry out any further review on the operations of an insurer member.

Question:

6. Please provide your comments on the proposed timeline in relation to the submission of findings by the external auditor and a detailed action plan as set out in paragraph 8.4.

9.0 SCOPE AND NATURE OF THE VALIDATION BY EXTERNAL AUDITOR

9.1 The scope of the validation by the external auditor should focus on the systems, processes and controls required for the compilation, repository, checking, approval and submission of information required under the relevant guidelines.² The validation can be divided into three (3) broad categories:

- (a) Overall control environment of the member.
- (b) Operational controls to ensure proper and timely:
 - Data extraction and information preparation;
 - Verification and reconciliation of data; and
 - Approval and submission of data.
- (c) IT controls on automated procedures, application systems and computing tools.

9.2 The nature of work to be performed by the external auditor includes ensuring that controls over the relevant processes and procedures are in place and are in compliance with the requirements set out in the relevant PIDM guidelines.

Questions:

7. Please provide your views on the proposed scope and nature of the external auditor's validation.
8. Please provide your views on any further considerations in relation to the external auditor's validation.

² Refers to the DLS Guidelines, the DLST Guidelines and the RCL Guidelines.

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APPENDIX 1: EXAMPLE OF ERROR IN LEVY SUBMISSIONS

As highlighted earlier in paragraph 6.3, there are four (4) types of errors that could trigger a resubmission and a validation by an external auditor. For purposes of illustration, the scenarios below are applicable for a general insurance company and for levy submissions in the assessment year 2022.

Scenario 1: Error in indicator's result for the current assessment year.

Note: The error gives rise to a change in indicator result but does not change the indicator score or the overall levy category.

In the assessment year 2022, an error in Insurance Company A's receivable ratio was identified.

The summary of error was as follows:

Assessment Year	Initial submission with error			Resubmission by member		
	Result	Score	Overall levy category	Result	Score	Overall levy category
2022	16.15%	5%	2	15.98%	5%	2

Consequently, a Notice of Error was issued to Insurance Company A. The member would be required to resubmit its DLS form for the assessment year 2022 within five (5) working days from the date of the Notice of Error and to engage an external auditor to perform a validation on the revised levy information under the DLS and RCL Guidelines for the assessment year 2022.

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Scenario 2: Error in indicator’s score for the current assessment year.

Note: The error gives rise to a change in indicator score but does not change the overall levy category.

In the assessment year 2022, an error in Insurance Company B’s receivable ratio was identified. The error resulted in a change in the score of its receivable ratio.

The summary of error was as follows:

Assessment Year	Initial submission with error			Resubmission by member		
	Result	Score	Overall levy category	Result	Score	Overall levy category
2022	14.98%	10%	2	16.67%	5%	2

Consequently, a Notice of Error was issued to Insurance Company B. The member would be required to resubmit the DLS form for the assessment year 2022 within five (5) working days from the date of the Notice of Error and to engage an external auditor to perform a validation on the revised levy information under the DLS and RCL Guidelines for the assessment year 2022.

Scenario 3: Error in the levy category for the current assessment year.

Note: The error gives rise to a change in indicator score and overall levy category.

In the assessment year 2022, an error in Insurance Company C’s receivable ratio was identified. The errors resulted in the change in the score of its receivable ratio, which in turn changed the levy category.

The summary of error was as follows:

Assessment Year	Initial submission with error			Resubmission by member		
	Result	Score	Overall levy category	Result	Score	Overall levy category
2022	14.67%	10%	2	15.98%	5%	3

Consequently, a Notice of Error was issued to Insurance Company C. The member would be required to resubmit the DLS form and RCL form for the assessment year 2022 and remit any outstanding levies to PIDM within five (5) working days from the date of Notice of Error. At the same time, Insurance Company C would also be required to engage an external auditor to perform a validation on the revised levy information under the DLS and RCL Guidelines for the assessment year 2022.

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Scenario 4: Error in the levy payable for the current assessment year.

Note: The error gives rise to a change in total levy payable.

In the assessment year 2022, an error in Insurance Company D's levy payable was identified.

(a) An error was noted in the total net premiums received for general insurance business.

Assessment Year	Initial submission with error			Resubmission by member			
	Total net premiums [A] (RM' 000)	Levy rate	Levy payable (RM' 000)	Revised total net premiums [B] (RM' 000)	Difference [C = B - A] (RM' 000)	Levy rate [D]	Outstanding levy payable [C * D] (RM' 000)
2022	500,000	0.05%	250	520,000	20,000	0.05%	10

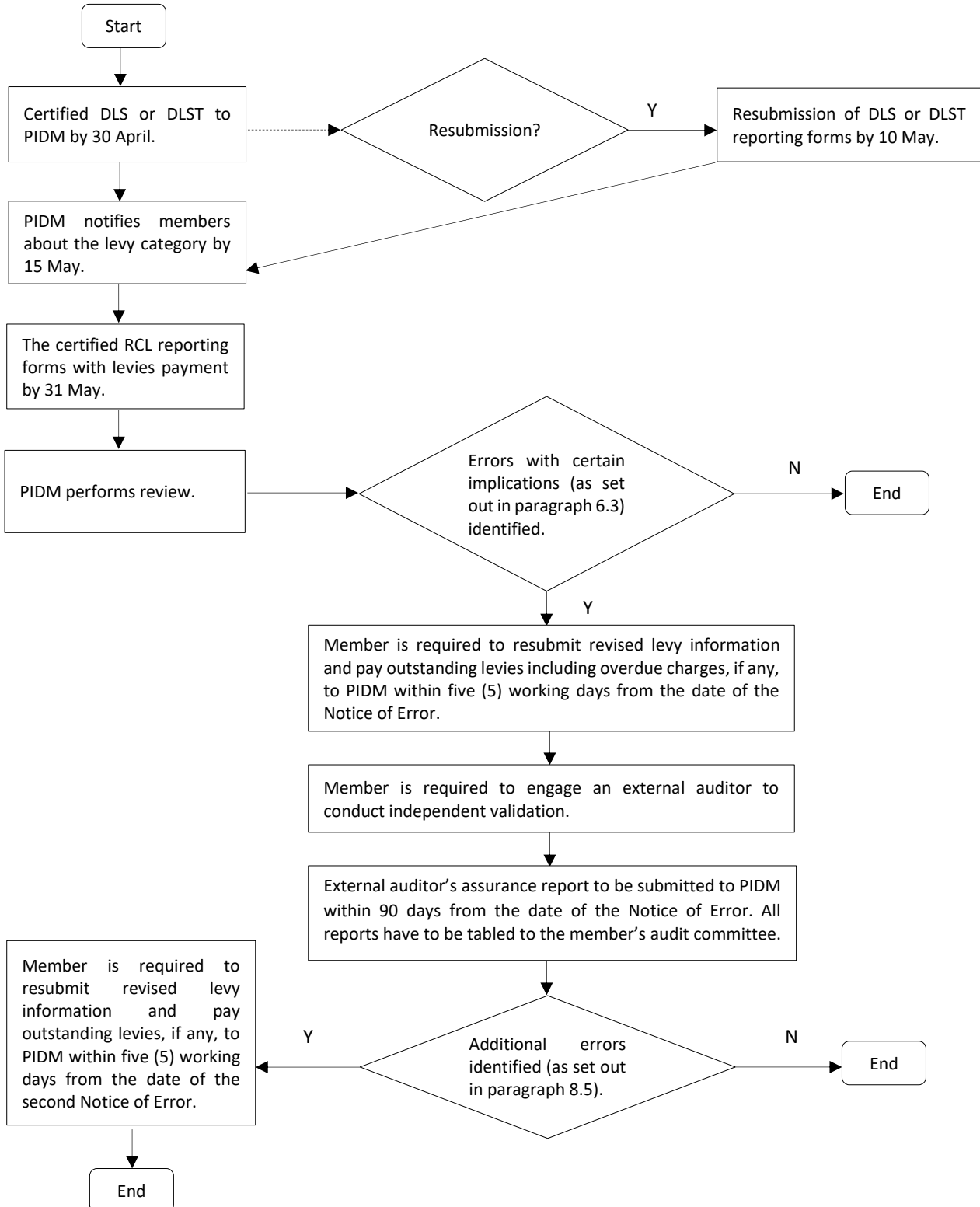
Consequently, a Notice of Error was issued to Insurance Company D. The member would be required to resubmit its RCL form for the assessment year 2022 and to remit the outstanding levy payable of RM10,000 to PIDM within five (5) working days from the date of the Notice of Error. At the same time, Insurance Company D would also be required to engage an external auditor to perform a validation on the revised levy information under the DLS and RCL Guidelines for assessment year 2022.

(b) Error noted in the levy rate used.

Assessment Year	Initial submission with error			Resubmission by member			
	Total net premiums (RM' 000)	Levy rate	Levy payable [A] (RM' 000)	Total net premiums (RM' 000)	Levy rate	Revised levy payable [B] (RM' 000)	Outstanding levy payable [B - A] (RM' 000)
2022	500,000	0.05%	250	500,000	0.1%	500	250

Consequently, a Notice of Error was issued to Insurance Company D. The member would be required to resubmit its RCL form for the assessment year 2022 and to remit the outstanding levy payable of RM250,000 to PIDM within five (5) working days from the date of the Notice of Error. At the same time, Insurance Company D would also be required to engage an external auditor to perform a validation on the revised levy information under the DLS and RCL Guidelines for assessment year 2022.

APPENDIX 2: PRELIMINARY PROCESS FLOW CHART FOR LEVIES REPORTING AND EXAMINATION





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APPENDIX 3: CONSULTATION PAPER RESPONSE TEMPLATE

PART 2: PROPOSED ENHANCEMENTS TO THE VALIDATION PROGRAMME

5.0 OVERVIEW OF THE PROPOSED ENHANCEMENTS

1. Please provide your feedback and views on the proposal to remove the independent validation in respect of the DLS or DLST quantitative information, as well as the RCL from the Validation Programme Guidelines.

Comment Box

2. Please provide your feedback and views on the proposal for validation to be conducted by members' external auditors only where there are errors in respect of levy information submitted by members under the DLS Guidelines, the DLST Guidelines and/or the RCL Guidelines.

Comment Box

3. Please provide your views on the foreseeable challenges to comply with the proposed enhancements to the Validation Programme.

Comment Box

6.0 ERRORS IN SUBMISSION

4. Please provide your comments on the proposed timeline of five (5) working days in relation to the resubmission and remittance of outstanding levies.

Comment Box

5. Please provide your views on the overall proposed enhancements to the Validation Programme.

Comment Box



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PART 3: PROPOSED EXTERNAL AUDITOR'S VALIDATION

8.0 OVERVIEW OF EXTERNAL AUDITOR'S VALIDATION

6. Please provide your comments on the proposed timeline in relation to the submission of findings by the external auditor and a detailed action plan as set out in paragraph 8.4.

Comment Box

9.0 SCOPE AND NATURE OF THE VALIDATION BY EXTERNAL AUDITOR

7. Please provide your views on the proposed scope and nature of the external auditor's validation.

Comment Box

8. Please provide your views on any further considerations in relation to the external auditor's validation.

Comment Box