



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

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**CONSULTATION PAPER ON  
THE PROPOSED REVISED  
DIFFERENTIAL LEVY SYSTEMS FRAMEWORKS**

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## BACKGROUND

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### 1.0 OVERVIEW

1.1 On 14 March 2023, Perbadanan Insurans Deposit Malaysia (“PIDM”) issued a consultation paper on the proposed revised Differential Levy Systems for insurance companies and takaful operators (collectively known as “DLS Frameworks”). The consultation paper outlined the following proposed enhancements:<sup>1</sup>

- (a) the levy category to be solely determined based on Bank Negara Malaysia (“BNM”)’s supervisory rating, namely the Composite Risk Rating (“CRR”), given the holistic and robust nature of the CRR’s assessment in determining an insurer member<sup>2</sup> (“IM”)’s risk profile; and
- (b) in the future, once more data points under the Malaysian Financial Reporting Standards 17 Insurance Contracts (“MFRS 17”) reporting standards are available for a comprehensive study, and as part of PIDM’s plan to enhance further resolution readiness; to incorporate resolvability considerations into the DLS Frameworks to incentivise IMs’ resolvability.

1.2 Overall, the respondents were supportive of the proposal to leverage on BNM’s CRR as the measure for safety and soundness assessment. IMs concurred that it is a simple approach to provide a holistic and comprehensive view of an IM’s risk profile. Notwithstanding, there were suggestions for PIDM to include a resolution centric element concurrently into the DLS Frameworks to complement the CRR assessment. This would provide more avenue to the IMs for levy category improvement.

1.3 Having considered the feedback and additional insights gained, PIDM issued a communication in February 2024 on the outcomes of the proposal and refined further the proposal in respect of the revised DLS Frameworks. Accordingly, the proposal in this Consultation Paper (“CP”) sets forth an additional resolution centric component,

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<sup>1</sup> Considering the financial reporting and regulatory developments, as well as comments from the insurer members and industry associations on the double-counting effect and pro-cyclical nature of the current DLS Frameworks.

<sup>2</sup> An insurer member refers to a member institution of PIDM that is an insurance company or a takaful operator, as defined under Section 2 of the Malaysia Deposit Insurance Corporation Act 2011 (PIDM Act).



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on top of the CRR assessment, to incentivise IMs to be resolvable by addressing industry impediments at resolution.

- 1.4 The revised proposal incorporates a two-fold aspiration, which is to provide IMs with:
  - (i) continuous incentives for sound risk management; and
  - (ii) meaningful incentives towards resolvability, in line with PIDM's aim to develop an effective resolution regime in Malaysia.
- 1.5 PIDM is also taking this opportunity to refine the levy bases for PIDM's levy assessment to be in line with the requirements under MFRS 17. Notwithstanding, the levy rates remain the same.
- 1.6 The proposed revised DLS Frameworks and levy bases are planned for implementation in the assessment year 2026 and will respectively replace the existing DLS Frameworks and existing levy bases, in entirety.

## 2.0 OBJECTIVES OF THE CONSULTATION PAPER

- 2.1 PIDM invites written feedback on this CP especially on the proposed revision to the DLS Frameworks to include a resolution centric component to complement BNM's CRR assessment. Please support each comment with clear rationale, suggestions and / or accompanying evidence, where appropriate to facilitate PIDM's assessment.
- 2.2 Responses to this CP shall be submitted to PIDM via email to [dls@pidm.gov.my](mailto:dls@pidm.gov.my) by **20 September 2024**. Please state "**Revision to DLS Frameworks 2026**" in the subject.
- 2.3 PIDM's response to the feedback may be made public. Hence if you do not wish for any of your feedback to be made public, please indicate accordingly in your submission.

For any queries or clarification on this CP, please contact the following officers:

- (i) Puan Izrin Irina Khairil Anuar ([izrin@pidm.gov.my](mailto:izrin@pidm.gov.my)) / 03-2303 0639;
- (ii) Cik Hoh Li Yun ([liyun@pidm.gov.my](mailto:liyun@pidm.gov.my)) / 03-2303 0497; or
- (iii) Encik Azman Mokhtar ([azman@pidm.gov.my](mailto:azman@pidm.gov.my)) / 03-2303 0496.

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## PROPOSED REVISION

### 3.0 THE PROPOSED REVISED DLS FRAMEWORKS

3.1 The proposed revised DLS Frameworks introduce two (2) main areas of assessment as follows:

(a) **Safety and soundness component**

The safety and soundness component based on BNM's CRR, as outlined in the consultation paper issued on 14 March 2023, is retained. It is intended to measure and differentiate IMs by their risk profiles. A higher levy rate will apply as the IM's risk profile deteriorates.

(b) **Resolution centric component (New)**

A new resolution centric component is designed to incentivise IMs to enhance their capabilities to provide accurate and timely information necessary for resolution planning and execution. For now, resolution centric incentives are proposed to be in the form of deductibles, based on qualifying expenses incurred by the IMs to support selected industry-wide data sharing and standardisation initiatives, as specified by PIDM in the DLS Guidelines. These initiatives are envisaged to contribute to a more resilient industry, and at the same time, facilitate an effective and efficient resolution of a failed IM by PIDM.

3.2 The diagram below illustrates the broad concept of the proposed revised DLS Frameworks and the levy rate formula:

Component	Safety and Soundness	Resolution Centric (New)
Measurement	BNM's supervisory assessment	<b>Actual qualifying expenses</b> that improve industry resolvability, as specified by PIDM in the DLS Guidelines
Criteria	<b>Composite Risk Rating (CRR)</b> Determines the levy category	<b>Deductibles</b> Determines the adjustment amount to the levy payable

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Component	Safety and Soundness	Resolution Centric (New)											
<b>Scoring Approach</b>	<table border="1"> <thead> <tr> <th>CRR Category</th> <th>Levy Category</th> </tr> </thead> <tbody> <tr> <td>Low</td> <td>1</td> </tr> <tr> <td>Moderate</td> <td>2</td> </tr> <tr> <td>Above Average</td> <td>3</td> </tr> <tr> <td>High</td> <td>4</td> </tr> </tbody> </table>		CRR Category	Levy Category	Low	1	Moderate	2	Above Average	3	High	4	Deductibles = Minimum [a, b], of which [a] refers to “the amount equivalent to the actual qualifying expenses incurred during the preceding assessment year”; and [b] refers to “the amount equivalent to 30% of the Gross Levy Payable”. <span style="border: 1px solid black; padding: 2px;">[B]</span>
	CRR Category	Levy Category											
	Low	1											
	Moderate	2											
	Above Average	3											
High	4												
<b>Gross Levy Payable =</b>		<b>Final Levy Payable =</b>											
<b>Levy rate x levy base of each type of business</b>		<b>Gross Levy Payable – Deductibles</b>											
<span style="border: 1px solid black; padding: 2px;">[A]</span>		<span style="border: 1px solid black; padding: 2px;">[C]</span>											

**Note:** Levy rate for each levy category is as prescribed in the Levy Order<sup>3</sup> and levy base for each type of business is as discussed in Section 4.0 of this document.

**Diagram 1: Proposed Revised DLS Frameworks**

3.3 Under the proposed revised DLS Frameworks, the final levy payable is calculated as below:

<b>Final Levy Payable = Gross Levy Payable – Deductibles</b>		
<span style="border: 1px solid black; padding: 2px;">[C]</span>	<span style="border: 1px solid black; padding: 2px;">[A]</span>	<span style="border: 1px solid black; padding: 2px;">[B]</span>

Where,

- (i) the main determination of the IM’s rating will be the CRR. An IM’s levy category will be based on its CRR, which in turn determines the corresponding levy rate for the calculation of **gross levy payable** (see the red block [A] in the diagram above);
- (ii) the **deductibles** are determined based on the lower of either the amount of actual qualifying expenses incurred, or the amount equivalent to 30% of the gross levy payable (see the red block [B] in the diagram above); and
- (iii) the **final level payable** will be calculated based on the gross levy payable subtracting the deductibles (see the red block [C] in the diagram above).

An illustration on final levy payable is set out in the **Appendix**.

<sup>3</sup> Malaysia Deposit Insurance Corporation (Rates for First Levy and Annual Levy in respect of Insurer Members) Order 2023.



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### Question 1: Revised DLS Frameworks Methodology

PIDM seeks views on the following areas:

- (a) the proposed revision to the DLS Frameworks that includes a “resolution centric component” to complement the “safety and soundness component”; and
- (b) the proposed scoring approach under the resolution centric component.

### Details of qualifying “deductibles”

- 3.4 In 2024, PIDM has conducted focus group sessions with relevant stakeholders including selected IMs, BNM and industry associations, to identify potential challenges the industry may face during resolution. From the discussions, PIDM aims to focus on industry resolvability through strengthening industry shared data infrastructures and data standardisation initiatives that would support the implementation of an orderly resolution.
- 3.5 The incentives under the resolution centric component are proposed to be in the form of deductibles, based on qualifying expenses incurred by the IMs in establishing, building, enhancing and maintaining selected industry-wide data sharing and standardisation initiatives.
- 3.6 In identifying the eligible industry-wide data sharing and standardisation platforms / initiatives, PIDM considered the following:
  - (a) **equitable:** The initiatives should be applicable to all or the majority of the IMs for each business segment;
  - (b) **sustainable, with medium to long-term timeline:** The initiatives should have been well-established, or with a tenure of at least three (3) years to ensure its continuity and sustainability;
  - (c) **objective and well founded:** The initiatives should be easy to be implemented, measured, and monitored; and
  - (d) **complementary to PIDM’s role as the resolution authority:** The initiatives should be able to be leveraged on to fortify PIDM’s resolution readiness and minimise impediments at the industry level.



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- 3.7 Taking the above into consideration, PIDM has identified the following industry initiatives as qualifying deductibles. The cost incurred by IMs in establishing, building, enhancing and maintaining the following initiatives are qualifying expenses that are eligible as deductibles:
- (a) Claims and Underwriting Exchange (“CUE”) Motor;
  - (b) CUE Accident and Health;
  - (c) Fraud Intelligence System (“FIS”); and
  - (d) Medical and Health for Insurance and Takaful (MHIT) central platform.
- 3.8 PIDM envisages that the resolution centric component based on industry-wide data sharing and standardisation initiatives would benefit the industry in the form of improvement in underwriting and claims processes during business-as-usual, as well as facilitating PIDM in resolution<sup>4</sup>.
- 3.9 It is also envisaged that with such an incentive, more IMs would participate and submit frequent, relevant and granular data onto the platforms. This will in turn enrich the databases and facilitate more comprehensive, standardised and better quality data.

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<sup>4</sup> As an example, continuous submission of granular, standardised, accurate and timely claims data by the IMs on motor and accident & health businesses improve data availability and facilitate better liabilities valuation for a transfer of business in resolution or claims payout (subject to future enhancement). Further, the usage of the FIS improves claims management, as well as contributes to better reserving and valuation of liabilities for determination of deal value, which could facilitate a transfer in resolution.



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### **Question 2: Resolution centric component - criteria**

PIDM seeks feedback on the following aspects of the proposed criteria under the resolution centric component:

- (a) List of industry-wide initiatives and its corresponding costs that are eligible as deductibles as set out in paragraph 3.7 above;
- (b) Actual or estimated costs incurred by individual IM annually on the initiatives identified in paragraph 3.7 above. Please list down all possible existing and future costs, including:
  - (i) annual expenses charged by the platform / service provider to establish, build, enhance, maintain and utilise each centralised platform, and the charging and billing mechanisms;
  - (ii) for each platform, current or expected cost incurred by the IMs to enhance its own IT infrastructure to access the platform, submit data, and/or meeting data requirements / security standards specified by the platform / service provider of the platform(s); and
- (c) In your view, are there any other industry / shared data platforms or initiatives - ongoing or planned - that have similar objectives as discussed in paragraphs 3.4 to 3.9 above, and should be eligible as deductibles. Please share detailed information on the platforms and initiatives, if any, and supported with clear rationales for inclusion.

For confidentiality purposes, individual responses to Question 2 (b), will not be publicly disclosed in PIDM's responses to the consultation paper.

## **4.0 REVISION TO LEVY BASES**

4.1 In light of the new financial reporting regime under MFRS 17 which took effect from 1 January 2023, PIDM proposes to refine the description of the levy assessment bases with the objective of reflecting the reporting line items and measurement requirements under MFRS 17.

4.2 While the policy intention of the levy bases<sup>5</sup> remains the same, PIDM proposes the refinement to certain terminologies to align with the MFRS 17 reporting and measurement requirements, as shown in the table in the next page.

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<sup>5</sup> Malaysia Deposit Insurance Corporation (Basis for Calculation of First Levy and Annual Levy in respect of Insurer Members) Order 2023.



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Existing description of levy bases (Pre-MFRS 17)	Proposed description of levy bases (Post-MFRS 17)	Proposed formula and sources
<b>Family takaful / life insurance</b>		
Valuation of family takaful / life insurance liabilities	Valuation of family takaful / life insurance contract liabilities	<p>Valuation of family takaful / life insurance contract liabilities = <math>[a - b - c - d]</math>,</p> <p>where:</p> <ul style="list-style-type: none"> <li>a = Takaful / Insurance contract liabilities less Takaful / Insurance contract assets</li> <li>b = Retakaful / reinsurance contract assets less retakaful / reinsurance contract liabilities</li> <li>c = Expense liabilities in shareholder's fund (for takaful operators only)</li> <li>d = Net asset value of investment-linked funds</li> </ul> <p>Source: Audited financial statements, BNM's statistical returns or other management reports</p>
<b>General takaful / general insurance</b>		
Net contributions / net premiums	Net takaful revenue / net insurance revenue	<p>Net takaful revenue / net insurance revenue = <math>[a - b]</math>,</p> <p>where:</p> <ul style="list-style-type: none"> <li>a = Takaful / insurance revenue</li> <li>b = Allocation of retakaful contributions / reinsurance premiums</li> </ul> <p>Source: Audited financial statements, BNM's statistical returns or other management reports</p>



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4.3 For clarity, the levy rates remain the same notwithstanding the above proposed revision to the levy bases.

**Question 3: Other matters**

PIDM seeks feedback on any other matters related to the proposals in this CP.

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## APPENDIX

### Illustration on Final Levy Payable under the Proposed Revised DLS Frameworks

#### Formula:

Under the proposed revised DLS Frameworks, the final levy payable is calculated as below:

$$\text{Final Levy Payable} = \text{Gross Levy Payable} - \text{Deductibles}$$

Where,

- (i) Gross Levy Payable = Levy base x levy rate
- (ii) Deductibles = Minimum [a, b], of which
  - (a) Actual qualifying expenses incurred during the preceding assessment year; and
  - (b) Gross Levy Payable x levy adjustment rate of 30%.

#### Illustration:

Calculation of final levy payable for a general insurer member for assessment year 2026

2025 CRR	Levy Category	Levy Rate	Levy base = Net Insurance Revenue <sup>6</sup>	Actual Qualifying Expenses
Moderate	2	0.05%	RM100,000,000	RM30,000

$$\begin{aligned} \text{Gross Levy Payable} &= \text{RM100,000,000} \times 0.05\% \\ &= \text{RM50,000 [A]} \end{aligned}$$

$$\begin{aligned} \text{Deductibles} &= \text{RM30,000 or (RM50,000} \times 30\%), \text{ whichever is lower} \\ &= \text{RM15,000 [B]} \end{aligned}$$

$$\begin{aligned} \text{Final Levy Payable} &= \text{[A]} - \text{[B]} \\ &= \text{RM50,000} - \text{RM15,000} \\ &= \text{RM35,000} \end{aligned}$$

The final levy payable for the above insurer member for assessment year 2026 is RM35,000.

<sup>6</sup> As discussed in Section 4.0 Revision to Levy Bases.