



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

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**CONSULTATION PAPER ON  
THE PROPOSED ENHANCEMENTS TO THE VALIDATION  
PROGRAMME: DIFFERENTIAL PREMIUM SYSTEMS  
AND TOTAL INSURED DEPOSITS**

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<b>Ref No</b>	DI/CP37/2020	<b>Issued on</b>	18 June 2020
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## PART 1: INTRODUCTION

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### 1.0 BACKGROUND

- 1.1 Under the Guidelines on the Differential Premium Systems for Deposit Insurance System (“DPS Guidelines”) and the Guidelines on Total Insured Deposits and Premiums (“TID Guidelines”), licensed banks and Islamic banks (collectively known as “deposit-taking members” or “DTMs” or “members”) are required to submit their DPS’s quantitative information forms (“DPS QI Forms”) and Return on Total Insured Deposits (“RTID”) to Perbadanan Insurans Deposit Malaysia (“PIDM”) for the purposes of determining their annual premium payments.
- 1.2 Information to be submitted under the DPS Guidelines and the TID Guidelines (collectively known as “premium information submissions”) require prior certification from the members’ Chief Executive Officers (“CEO”) and Chief Financial Officers (“CFO”). Additionally, given the importance of information integrity, member’s premium information submission must be validated by their external auditors. An independent validation report must be submitted to PIDM, pursuant to the Guidelines on Validation Programme: Differential Premium Systems and Total Insured Deposits (“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 DTMs, PIDM proposes to revise the Validation Programme. DTMs with high levels of submission accuracy will not be required to perform an independent validation. However, DTMs 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 DTMs.
- 1.4 The requirements for certification under the DPS Guidelines and TID Guidelines will remain applicable. DTMs are expected to continue to be responsible and accountable for accurate premium information submissions.
- 1.5 PIDM believes that this revised approach will empower DTMs to control the cost of regulatory compliance, whilst ensuring accountability for accurate information submissions.

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## 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 Premium Submissions
Appendix 2	Preliminary Process Flow Chart for Premium 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 the Consultation Paper. All feedback shall be submitted to [dps@pidm.gov.my](mailto:dps@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:

Encik Amiruddin Hamzah	03-2173 7491
Encik Hadzri Hashim	03-2173 7411
Puan Fariza Ahmad	03-2173 7414

3.2 PIDM will collate comments submitted under this Consultation Paper. PIDM’s response to the comment 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**

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### **4.0 CURRENT VALIDATION PROGRAMME GUIDELINES**

- 4.1 Under the current Validation Programme Guidelines, a DTM must ensure that accurate premium information is submitted based on the DPS Guidelines and TID Guidelines and provide certification by its relevant authorised persons.<sup>1</sup>
- 4.2 Pursuant to the current Validation Programme Guidelines, PIDM also requires the external auditor of a DTM to validate the information provided in the DPS QI Forms and RTID, based on the procedures outlined in the Validation Programme Guidelines. Upon completion of the validation, the DTM is required to submit to PIDM its external auditor's independent validation report.
- 4.3 Based on PIDM's observations over the years, most members have demonstrated their compliance with PIDM's requirements under the DPS Guidelines and the TID 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 premium 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 DPS QI Forms and RTID as set out in the existing Validation Programme Guidelines;
  - (b) introduction of a new requirement for validation to be conducted by the external auditor only where there are errors in respect of premium information

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<sup>1</sup> The Chief Executive Officer and Chief Financial Officer shall certify that the information provided in the DPS and RTID reporting forms are accurate and reflective of the financial information of the deposit-taking member as at 31 December of the preceding assessment year and that it has complied with PIDM's guidelines

submitted by the members under DPS Guidelines and/or TID 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 DPS Guidelines and the TID Guidelines.

5.3 The benefits of the proposed enhancements are to:

- (a) lessen the regulatory burden on industry, as only members with errors in their premium 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 validations by the external auditors.

**Questions:**

1. Please provide your feedback and views on the proposal to remove the independent validation in respect of the DPS QI Forms and RTID 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 their premium information submitted by members under the DPS Guidelines and/or TID Guidelines.
3. Please provide your view on the foreseeable challenges to comply with the proposed enhancement to the Validation Programme.

## 6.0 ERRORS IN SUBMISSION

- 6.1 Under the proposed enhancements, should any errors (as defined in paragraph 6.3) be identified in the premium 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;
  - premium category for the current assessment year; or
  - premium payable for the current assessment year.

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

- 6.4 Such member will be required to resubmit the revised premium information and its certification as well as pay outstanding premiums 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 premiums.
- Please provide 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 the 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



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premium information submission. 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 premium information as well as pay outstanding premiums 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**

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#### **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 premium information under the DPS Guidelines and TID 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 premium 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 premium information and its certification, as well as pay outstanding premiums, 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 a DTM.

**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.<sup>2</sup> 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.

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<sup>2</sup> Refers to the DPS Guidelines and the RTID Guidelines.

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## APPENDIX 1: EXAMPLE OF ERROR IN PREMIUM INFORMATION SUBMISSIONS

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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 set below are for the 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 premium category.*

In the assessment year 2022, an error in Bank A’s total impaired loans ratio in the DPS QI Forms was identified.

The summary of error was as follows:

Assessment Year	Initial submission with error			Resubmission by member		
	Result	Score	Overall premium category	Result	Score	Overall premium category
2022	2.15%	10	2	2.98%	10	2

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

### **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 premium category.*

In the assessment year 2022, an error in Bank B’s total impaired loans ratio in the DPS QI Forms was identified that resulted in a change in the score of its total impaired loans ratio.

The summary of error was as follows:

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Assessment Year	Initial submission with error			Resubmission by member		
	Result	Score	Overall Premium category	Result	Score	Overall Premium category
2022	3.28%	10	2	3.59%	5	2

Consequently, a Notice of Error was issued to Bank B. The member would be required to resubmit its DPS QI Forms for the assessment year 2022 within five (5) working days from the date of Notice of Error and engage an external auditor to perform a validation on the revised premium information under the DPS and RTID Guidelines for the assessment year 2022.

### **Scenario 3: Error in the premium category for the current assessment year**

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

In the assessment year 2022, an error in Bank C's total impaired loans ratio was identified. The error resulted in the change in the score of its total impaired loans ratio, which in turn changed the premium category.

The summary of error was as follows:

Assessment Year	Initial submission with error			Resubmission by member		
	Result	Score	Overall Premium category	Result	Score	Overall Premium category
2022	3.13%	10	2	3.65%	5	3

Consequently, a Notice of Error was issued to Bank C. The member would be required to resubmit its DPS QI Form and RTID for the assessment year 2022 and remit any outstanding premiums to PIDM within five (5) working days from the date of the Notice of Error. At the same time, Bank C would also be required to engage an external auditor to perform a validation on the revised premium information under the DPS and RTID Guidelines for the assessment year 2022.

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#### **Scenario 4: Error in the premium payable for the current assessment year.**

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

In the assessment year 2022, an error in Bank D's premium payable was identified.

(a) An error was noted in the total insured deposits ("TID").

Assessment Year	Initial submission with error			Resubmission by member			Outstanding premium payable [C x D] (RM' 000)
	TID [A] (RM' 000)	Premium rate	Premium Payable (RM' 000)	Revised TID [B] (RM' 000)	Difference [C = B - A] (RM' 000)	Premium rate [D]	
2022	500,000	0.06%	300	520,000	20,000	0.06%	12

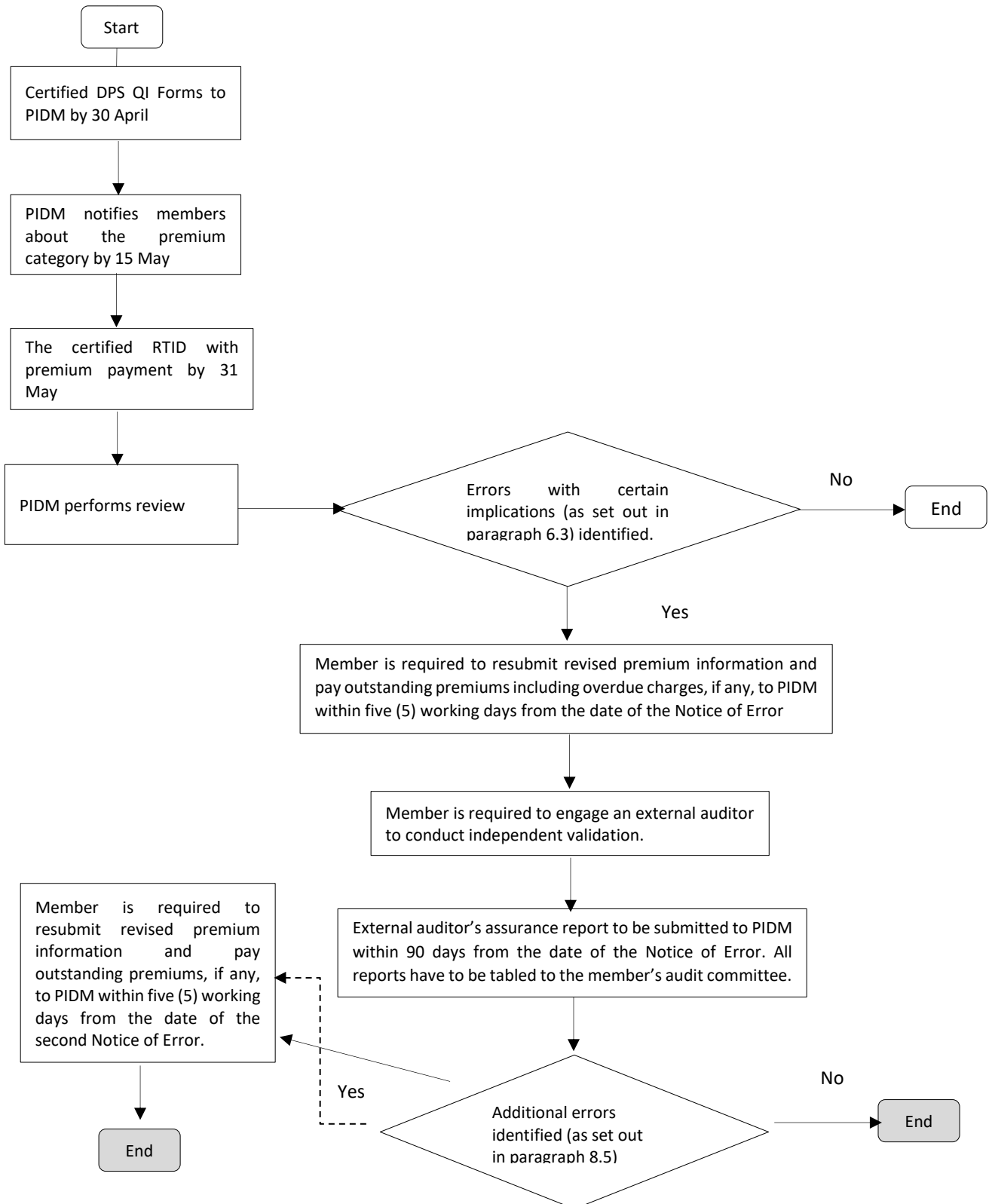
Consequently, a Notice of Error was issued to Bank D. The member would be required to resubmit its RTID form for the assessment year 2022 and remit the outstanding RM12,000 to PIDM within five (5) working days from the date of the Notice of Error. At the same time, Bank D would also be required to engage an external auditor to perform a validation on the revised premium information under the DPS and RTID Guidelines for assessment year 2022.

(b) Error noted in the premium rate used

Assessment Year	Initial submission with error			Resubmission by member			Outstanding premium payable [B-A] (RM' 000)
	TID (RM' 000)	Premium rate	Premium payable [A] (RM' 000)	TID (RM' 000)	Premium rate	Revised premium payable [B] (RM' 000)	
2022	500,000	0.06%	300	500,000	0.12%	600	300

Consequently, a Notice of Error was issued to Bank D. The member would be required to resubmit its RTID form for the assessment year 2022 and to remit the outstanding premium payable of RM300,000 to PIDM within five (5) working days from the date of the Notice of Error. At the same time, Bank D would also be required to engage an external auditor to perform a validation on the revised premium information under the DPS and RTID Guidelines for assessment year 2022.

## APPENDIX 2: PRELIMINARY PROCESS FLOW CHART FOR PREMIUM REPORTING AND EXAMINATION





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## APPENDIX 3: CONSULTATION PAPER RESPONSE TEMPLATE

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### PART 2: PROPOSED VALIDATION FRAMEWORK

#### 5.0 OVERVIEW OF THE PROPOSED VALIDATION FRAMEWORK

1. Please provide your feedback and views on the proposal to remove the independent validation in respect of the DPS QI Forms and RTID 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 their premium information submitted by members under the DPS Guidelines and/or TID Guidelines.

Comment Box

3. Please provide your view on the foreseeable challenges to comply with the proposed enhancement 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 premiums.

Comment Box



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

Comment Box

### **PART 3: EXTERNAL AUDITOR'S VALIDATION**

#### **8.0 OVERVIEW OF EXTERNAL AUDITOR'S VALIDATION**

- 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**

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

Comment Box

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

Comment Box