



Perbadanan Insurans Deposit Malaysia
Protecting Your Insurance And Deposits In Malaysia

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

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Protecting Your Insurance And Deposits In Malaysia

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TITLE	Response to the Consultation Paper on the Proposed Enhancements to the Differential Levy Systems and Levies Calculation		

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1.0 BACKGROUND

- 1.1 On 18 June 2020, Perbadanan Insurans Deposit Malaysia (“PIDM”) issued a consultation paper on the Proposed Enhancements to the Validation Programme: Differential Levy Systems and Levies Calculation (“CP”).
- 1.2 The consultation period ended on 30 July 2020. We received feedback and comments from member institutions (“members”), Bank Negara Malaysia and accounting firms during the consultation period.
- 1.3 PIDM wishes to thank the respondents who have provided their comments to the CP. PIDM has carefully considered these comments and our responses are set out in Section 3. We have grouped similar comments under common topics and provided our responses accordingly.

2.0 OVERVIEW OF COMMENTS RECEIVED

- 2.1 Generally, the respondents were supportive of the proposed enhancements to the Validation Programme which 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.
- 2.2 After giving due consideration to the respondents’ views and suggestions, we will refine the following areas:
 - a) Errors in submission:
PIDM will refine the definition of the error to include the frequency criteria for error(s) that may result in changes in the indicator’s result and score. The revised definition of error that will trigger the external auditor validation is any error(s) that may result in changes in any of the following areas:
 - (a) indicator’s result for three (3) consecutive assessment years;
 - (b) indicator’s score for three (3) consecutive assessment years;
 - (c) levy category for the current assessment year; or
 - (d) levy payable for the current assessment year.

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- b) Scope and nature of the validation by external auditor:
PIDM will set out the minimum scope of coverage for the external auditor validation to provide clarity of expectations as well as to ensure that the objectives of the validation are met. This will assist the members to plan its resources accordingly.
- c) Timeline for the resubmissions and remittance of outstanding levies:
The timeline of five (5) working days will be extended to ten (10) working days to allow sufficient time for the resubmission and remittance of outstanding levies.
- d) Timeline for the submission of external auditor's findings and member's detailed action plan:
We will extend the timeline of three (3) months to five (5) months for the submission of the external auditor's findings and member's detailed action plan to PIDM.

2.3 Details of the refinement will be incorporated in the Guidelines¹ accordingly.

3.0 DETAILED COMMENTS RECEIVED AND PIDM'S RESPONSE

3.1 REMOVAL OF THE INDEPENDENT VALIDATION PRIOR TO LEVY SUBMISSIONS

In the CP, PIDM proposed the removal of the requirement for mandatory independent validation in respect of quantitative information for Differential Levy Systems Framework for Insurance Companies ("DLS"), Differential Levy Systems Framework for Takaful Operators ("DLST") and Returns on Calculation of Levies ("RCL") as set out in the existing Validation Programme Guidelines.

PIDM also sought feedback on the foreseeable challenges to comply with the proposed enhancements to the Validation Programme.

Comments Received

A majority of respondents were agreeable and supportive of this proposal. Only one (1) member suggested to maintain the current approach as the proposed validation scope is seen as too wide.

Most respondents did not foresee challenges in complying with the proposed enhancement to the Validation Programme. However, seven (7) respondents were concerned with meeting the proposed timeline of five (5) working days for the resubmission and payment of

¹ Refers to the revised Guidelines on Validation Programme: Differential Levy Systems and Levies Calculation.

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Comments Received

outstanding levies as well as 90 days for submission of the external auditor's findings together with member's action plan.

PIDM's Response

We take note of the comments. With regard to the timeline, please refer to section 3.4 and 3.5 for our responses.

3.2 ERRORS IN SUBMISSION

Under the proposed enhancements, should any error be identified in the levy information submission, PIDM will issue a Notice of Error to the member. In this respect, any inaccurate submission that may result in changes in the following areas are considered as error(s):

- (a) indicator's result for the current assessment year;
- (b) indicator's score for the current assessment year;
- (c) levy category for the current assessment year; or
- (d) levy payable for the current assessment year.

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, and will be required to engage external auditors to conduct an independent validation.

Comments Received

Most respondents commented that the definition of error is too wide. Some respondents suggested that the requirement for a validation to be conducted by external auditors should only be triggered when material errors are detected and/or when inaccurate submissions persist. Accordingly, an error is only material when it impacts the levy category, resulting in wrong levy payment.

Some respondents suggested that PIDM issue a warning letter in respect of minor errors and first offence, instead of imposing the requirement for independent validation. It was also suggested that PIDM should have a process where the error is to be acknowledged by the member or clarified in writing by the member upon identification of error(s), prior to the issuance of the Notice of Error. Similarly, another respondent proposed that PIDM should have discussions with the member to verify the error(s), prior to the issuance of a Notice of Error.

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PIDM's Response

PIDM wishes to reiterate that the intention of the enhancement is to instill greater discipline among members, where insurer members with high levels of submission accuracy will not be required to perform an independent validation. However, members with errors in their submissions will be subjected to more extensive independent external auditor validation procedures.

As such, we are of the view that although inaccuracies described in item (a) (i.e., indicator's result) and item (b) (i.e., indicator's score) above do not change the levy category and levy payable, continuous errors may possibly indicate ineffective internal controls which impede accurate submissions to PIDM. Hence, we have expanded the frequency criteria for items (a) and (b) as these errors may indicate lapses in their internal control process. The revised definition of error that will trigger the external auditor validation is any error(s) that may result in changes in any of the following:

- (a) indicator's result for three (3) consecutive assessment years;
- (b) indicator's score for three (3) consecutive assessment years;
- (c) levy category for the current assessment year; or
- (d) levy payable for the current assessment year.

With regard to the comment on having discussions with members prior to the issuance of Notice of Error, we would like to reiterate that PIDM practises open and transparent communication with its members, and will continue to do so.

3.3 SCORE AND NATURE OF THE VALIDATION BY EXTERNAL AUDITOR

PIDM proposed that the scope of external auditor's validation be focused on the systems, processes and controls required for the compilation, repository, checking, approval and submission of information required under the relevant guidelines.

The validation is divided into three (3) broad categories:

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

PIDM sought feedback on the proposed scope and nature of the external auditor's validation as well as other considerations in relation to the external auditor's validation.

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Comments Received

Most of the respondents commented that the scope is too wide and may result in significant cost to perform the independent validation. As such, respondents suggested for PIDM to provide more specific scope, with a comprehensive and detailed work programme similar to the current validation programme. This would facilitate the effective planning of cost and resources.

Two (2) respondents recommended that the validation to be performed by internal auditors, either fully or partially, to minimise the cost.

Some respondents asked whether the validation will be based on limited or reasonable assurance engagement under ISAE 3000.

PIDM's Response

We take note of the comments and suggestions highlighted. For the scope of external auditor validation, we will provide clarity regarding PIDM's minimum expectations based on limited assurance engagement under ISAE 3000. This is to ensure that the objectives of the validation are met and to assist the members to plan their resources accordingly.

Although the requirement for mandatory validation will be removed, 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.

PIDM wishes to highlight the importance of the members' internal audit functions to continue with their existing role to ensure the systems, processes and controls are consistently reviewed and remain effective.

3.4 TIMELINE OF FIVE (5) WORKING DAYS IN RELATION TO THE RESUBMISSIONS AND REMITTANCE OF OUTSTANDING LEVIES

PIDM's proposal as per the CP requires the members to resubmit the revised levy information and its certification as well as to pay the outstanding levies to PIDM including overdue charges, if any, within five (5) working days from the date of the Notice of Error.

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Comments Received

A majority of the respondents commented that the timeline of five (5) working days from the date of the Notice of Error is insufficient. This is because members will require more time to perform a thorough examination on the resubmission to avoid any further errors, which includes investigation, rectification, review, approval, tabling the revised submissions to the Audit Committee and obtaining approval for payment of outstanding levies.

PIDM's Response

We take note of the comments provided by the respondents and PIDM will extend the timeline of five (5) working days to ten (10) working days for the members to have sufficient time for the resubmission and remittance of outstanding levies.

3.5 TIMELINE OF 90 DAYS (3 MONTHS) IN RELATION TO THE SUBMISSION OF THE EXTERNAL AUDITOR'S FINDINGS AND MEMBER'S ACTION PLAN

The CP invited comments on whether the proposed timeline to submit the findings by external auditor and member's detailed action plan to PIDM is sufficient. The proposed timeline for the submission is within 90 days (3 months) from the date of the issuance of Notice of Error by PIDM.

Comments Received

Respondents commented that timeline of 90 days (3 months) from the date of the Notice of Error is not sufficient. Additional time is required to complete the validation process, which may be pro-longed due to more time required for ad-hoc engagements. As such, the respondents suggested the timeline to be extended between 120 days (4 months) and 150 days (5 months).

PIDM's Response

PIDM will extend the timeline from 90 days (3 months) to 150 days (5 months) for the submission of the findings by external auditor and member's detailed action plan to PIDM.

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4.0 GOING FORWARD

- 4.1 PIDM will issue the Guidelines on the revised Validation Programme: Differential Levy Systems and Levies Calculation (“revised Guidelines”) by early next year, which will be made available to the public through PIDM’s website.
- 4.2 The revised Guidelines will be implemented effective from assessment year 2021, with a one-year transition period. During the transition period, members are not required to engage auditors to validate the levy information submission to PIDM should errors defined in paragraph 2.2 (a) be identified. The transition period will allow members to have sufficient time and resources to prepare for the enhancements.

Perbadanan Insurans Deposit Malaysia
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