



Perbadanan Insurans Deposit Malaysia
Protecting Your Insurance And Deposits In Malaysia

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

ISSUE DATE : 14 March 2023
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Ref No	TIPS/CP42/2023	Issued on	14 March 2023
TITLE	Consultation Paper on the Proposed Revised Differential Levy Systems Frameworks		

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EXECUTIVE SUMMARY

The Differential Levy Systems Framework for Insurance Companies ("DLS") and the Differential Levy Systems Framework for Takaful Operators ("DLST"), collectively known as the "DLS Frameworks", were introduced to provide incentives for sound risk management practices with a levy assessment that is based on an insurer member's¹ individual risk profile.

In view of the implementation of the new accounting standards, in particular Malaysian Financial Reporting Standard ("MFRS") 17 Insurance Contracts and the impending changes to the regulatory reporting landscape, PIDM proposes to leverage on Bank Negara Malaysia ("BNM")'s Composite Risk Rating ("CRR") as the sole driver for the DLS Frameworks, given that the CRR is a holistic and robust assessment of an insurer member's risk profile. This approach not only provides incentives for sound risk management but also seeks to address the impact of double counting in the existing DLS Frameworks.

Under the proposed revised framework, there is no information submission required from insurer members as PIDM will obtain the CRR information directly from BNM. The proposed revised DLS Frameworks are planned for implementation from the assessment year 2024 onwards and will replace the existing DLS Frameworks entirely.

OBJECTIVES OF THIS CONSULTATION PAPER

PIDM invites written feedback on this consultation paper ("CP") to seek views on the proposed revision to leverage on BNM's CRR as the sole driver for the DLS Frameworks. To facilitate PIDM's assessment, please support each comment with clear rationale, suggestions and/or accompanying evidence, where appropriate.

Responses to this CP shall be submitted to PIDM via email to dls@pidm.gov.my by **17 April 2023**. Please state **"Revision to DLS Frameworks"** in the subject.

PIDM will collate the feedback on this CP. PIDM's response to the feedback may be made public. If you do not wish for any of your feedback to be made public, please indicate accordingly in your submission.

¹ 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 ("PIDM Act").



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PROPOSED REVISION

1.0 OVERVIEW

- 1.1 Effective 2023, insurer members are required to apply MFRS 17 Insurance Contracts and MFRS 9 Financial Instruments (for entities that choose to apply it together with MFRS 17). The financial reporting regime under MFRS 17 amongst others, establishes new principles on revenue recognition, introduces new valuation models for insurance contracts liability, and enhances the presentation and disclosure of information to enable users of financial statements to assess the effect that insurance contracts within the scope of MFRS 17 have on the financial position, financial performance and cash flows of an insurer member.
- 1.2 From the regulatory front, BNM is currently enhancing the reporting forms under the Insurance Companies Statistical Submission ("ICSS") and Takaful Operators Statistical System ("TOSS"), following the changes in the financial reporting standards.
- 1.3 BNM is also reviewing its Risk-Based Capital ("RBC") Framework for insurance companies and takaful operators, including the methodology for the valuation of insurance contracts liability.
- 1.4 In view of the financial reporting and regulatory developments mentioned above, the existing quantitative criteria under the DLS Frameworks are now less relevant and practical as the key performance matrices in assessing the risk profiles of insurer members. As such, a reset is required for the following main reasons:
 - (a) the new revenue recognition and measurement bases introduced by MFRS 17 will impact some existing indicators, and a recalibration of benchmark and score ranges is required;
 - (b) some components in the indicators are no longer relevant under the MFRS 17 reporting regime, and need to be reviewed to align them with the new concepts under MFRS 17;
 - (c) insurer members may have two (2) sets of reporting (for the solvency and financial statement statutory reporting purposes) and some components in the existing indicators are not aligned between the two (2) reportings, and as

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such, further assessment is required to determine the most appropriate source of information for the indicators; and

- (d) the impending changes in BNM's reporting forms and changes in the RBC Framework for insurance companies and takaful operators will impact the existing indicators as these are the main sources of information for the DLS indicators.

1.5 In addition, PIDM also takes into consideration comments from insurer members and industry associations on the double-counting effect of the existing DLS financial indicators that overlap with the supervisory assessment, as well as its pro-cyclical nature, which was observed during the COVID-19 pandemic period.

1.6 The changes in the financial reporting requirements, BNM's reporting forms and the RBC Framework, as well as comments from the industry on the existing DLS financial indicators, necessitate a review of the relevancy and applicability of the existing DLS Frameworks.

2.0 THE PROPOSED REVISED DLS FRAMEWORKS

2.1 Taking into account the changes in the financial and regulatory reporting requirements going forward, as well as comments from the industry, PIDM proposes to leverage on BNM's supervisory rating, namely the CRR, as the sole driver for the proposed revised DLS Frameworks, given that the CRR is a holistic and robust assessment of an insurer member's risk profile.

2.2 The proposed revised DLS Frameworks that anchor on BNM's CRR, will continue to differentiate insurer members based on their risk profile, to incentivise sound risk management practices.

2.3 Under the proposed revised DLS Frameworks, an insurer member's levy category shall be based on its CRR, which in turn will determine its levy rate accordingly² as shown below:

² Levy rates as prescribed in the Levy Order: Malaysia Deposit Insurance Corporation (First Premium and Annual Premium in respect of Insurer Members) Order 2016 will be applied to the respective levy categories accordingly.

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Mapping of CRR to Levy Category

CRR Category	Levy Category
Low	Levy Category 1
Moderate	Levy Category 2
Above Average	Levy Category 3
High	Levy Category 4

- 2.4 As part of PIDM's plan to enhance further resolution readiness, PIDM intends to incorporate resolution components to incentivise insurer member's resolvability into the DLS Frameworks in due course. In this regard, PIDM will continue to review the DLS Frameworks to ensure the intended outcomes continue to be met.

Question 1: Revised DLS Frameworks Methodology

PIDM seeks feedback on the proposed revision to the DLS Frameworks that assesses insurer members based on BNM's CRR only.