Perbadanan Insurans Deposit Malaysia

Protecting Your Insurance And Deposits In Malaysia

RESPONSE TO THE CONSULTATION PAPER ON THE PROPOSED REVISED DIFFERENTIAL LEVY SYSTEMS FRAMEWORKS

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1.0 BACKGROUND

1.1 On 22 August 2024, Perbadanan Insurans Deposit Malaysia ("PIDM") issued a consultation paper ("CP") on the Proposed Revised Differential Levy Systems Framework for Takaful Operators and Insurance Companies ("DLS Frameworks"). The CP outlined the following proposals:

(a) enhancement to the DLS Frameworks by introducing an additional "resolution centric component" ("RCC") to complement the "safety and soundness component". The RCC aims to incentivise insurer members ("IMs") to be resolvable by addressing industry impediments to resolution in line with PIDM's aim to develop an effective resolution regime in Malaysia; and

(b) revision to the levy bases to better align with the reporting and measurement requirements under the Malaysian Financial Reporting Standard 17 Insurance Contracts ("MFRS 17").

1.2 PIDM received written feedback from 42 IMs**.** PIDM wishes to thank the IMs and industry association who have provided their comments on the CP, and appreciate the valuable inputs provided during the engagement sessions. Given that some of the comments are similar, those under broad topics have been grouped and responses are provided on that basis.

2.0 OVERVIEW OF COMMENTS RECEIVED FROM IMS

2.1 Generally, the respondents were supportive of the proposals discussed in the CP, with some suggestions for refinements. The detailed comments, together with PIDM's responses are set out in Section 3 of this CP.

2.2 PIDM has considered IMs' views and have reflected some of their suggestions in finalising the proposals.

Summary of final proposals and key changes

2.3 **Proposed revised DLS Frameworks.** There are no changes to the proposed enhancement to the DLS Frameworks as specified in the CP. For clarity, all actual expenses incurred and paid by the IMs to service provider(s) for participating, establishing, building, enhancing and maintaining the Claims and Underwriting Exchange ("CUE") Motor, CUE Accident and Health, Fraud Intelligence System and Medical and Health Insurance or Takaful ("MHIT") central platform are qualifying expenses for deductibles, up to 30% of gross levy payable.

2.4 PIDM will incorporate further guidance on the deductibles criteria under the RCC, including the eligibility of industry-wide data sharing and standardisation initiatives or systems, qualifying expenses, supporting documentation, and process for inclusion of additional initiatives in the relevant guidelines. Please refer to the Appendix on the final proposed DLS Frameworks.

2.5 **Proposed revised levy bases.** The feedback and recommendations received from the IMs had supported PIDM in making the refinements, particularly on the formula used in the calculation of proposed levy bases for family takaful or life insurance business, as follows:

Business	Initial proposal in the CP	Final proposal
Family Takaful	Valuation of family takaful contract liabilities = [a – b – c – d], where: a = Takaful contract liabilities less takaful contract assets b = Retakaful contract assets less retakaful contract liabilities c = Net asset value of investment-linked funds d = Expense liabilities in shareholder's fund	Valuation of family takaful contract liabilities = [a – b – c – d – e], where: a = Takaful contract liabilities less takaful contract assets b = Retakaful contract assets less retakaful contract liabilities c = Net asset value of investment-linked funds d = Shareholder's fund liabilities *[Renamed from "expense liabilities"][N1]* e = Unallocated surplus[1] *[New]* *[N1] Takaful operator's Contractual Service Margin ("CSM") is reported under the shareholder's fund liabilities.*

[1] Refers to surplus maintained in the takaful funds after considering surplus distributable to shareholders and takaful participants.

Business	Initial proposal in the CP	Final proposal
Life Insurance	Valuation of life insurance contract liabilities = [a – b – c], where: a = Insurance contract liabilities less insurance contract assets b = Reinsurance contract assets less reinsurance contract liabilities c = Net asset value of investment-linked funds	Valuation of life insurance contract liabilities = [a – b – c – d – e], where: a = Insurance contract liabilities less insurance contract assets b = Reinsurance contract assets less reinsurance contract liabilities c = Net asset value of investment-linked funds d = CSM *[New]* e = Unallocated surplus[2] *[New]*
General Takaful	Net takaful revenue = [a – b], where: a = Takaful revenue b = Allocation of retakaful contributions	Remains unchanged
General Insurance	Net insurance revenue = [a – b], where: a = Insurance revenue b = Allocation of reinsurance premiums	Remains unchanged

Source: Audited financial statements, BNM's statistical returns or other management reports, where applicable

2 Refers to the estate in the participating life policy, including retained surplus built up before the implementation of the asset share rule by Bank Negara Malaysia ("BNM") on 1 April 2005 which relates to policies that are no longer in-forced.

Transitional arrangement relating to MHIT repricing

2.6 PIDM recognises that some IMs may be impacted by the implementation of the staggered premium repricing under the interim measures relating to MHIT ("MHIT staggered premium repricing") announced in December 2024. In this regard, PIDM will be introducing a transitional arrangement to support the industry in addressing the MHIT matters, while preparing for the implementation of the revised DLS Frameworks and levy bases.

2.7 PIDM proposes to adjust the levy bases to account for the effect of the increase in the liabilities in respect of MHIT certificates or policies ("MHIT liabilities") arising from the implementation of MHIT staggered premium repricing. The increased portion of the MHIT liabilities arising from the MHIT staggered premium repricing may be excluded from the calculation of levies for family takaful and life insurance businesses, for three (3) years from Assessment Years ("AY") 2025 to 2027. For levy assessment purpose, it is proposed that the valuation of MHIT liabilities as at 31 December 2024 (excluding the increased portion arising from the MHIT staggered premium repricing, if any) be adopted as a proxy for MHIT liabilities of each IM for AY 2025 to AY 2027.

2.8 PIDM envisages that this temporary adjustment to the levy base will reduce the impact on the levy payment, as well as provide additional time for the IMs to manage and re-evaluate their business strategy during the implementation of the MHIT staggered premium repricing over the 3-year interim period.

2.9 Further details of the transitional arrangement for AY 2025 are set out in the Addendum to Guidelines for the Returns on Calculation of Levies for Takaful and Insurance Businesses. PIDM will incorporate further guidance on the transitional arrangement for AY 2026 and AY 2027 in the relevant guidelines after PIDM has undertaken the legislative process.

3.0 DETAILED COMMENTS RECEIVED AND PIDM'S RESPONSES

3.1 Revised DLS Frameworks Methodology
The CP proposed to include RCC to complement the "safety and soundness component" in the DLS Frameworks, with a corresponding scoring approach. The RCC is designed to incentivise the IMs to enhance their capabilities in providing accurate and timely information necessary for resolution planning and execution. PIDM sought feedback on the proposal.

Comments Received
PIDM received a favourable response on the proposed inclusion of the RCC, noting that it will bring mutual benefits to support the IMs in enhancing its data capabilities, and for industry resolvability. A few respondents proposed to increase the deductibles weightage to 50% of the gross levy payable, instead of the proposed 30% without further justification on the proposal. Other respondents suggested for quantitative RCC indicators with transparent and measurable criteria, to provide the IMs with an opportunity for improvement in the resolvability scoring.

PIDM's Response
PIDM will maintain the proposed cap of 30% of the gross levy payable for deductibles. PIDM considers the proposed 30% of the gross levy payable a reasonable proportion as we aim to provide a meaningful adjustment to incentivise resolvability of IMs while acknowledging the importance of continuing to incentivise safety and soundness. As a starting point, PIDM proposes qualitative indicators for RCC assessment, considering that the new financial reporting regime under MFRS 17 only took effect on 1 January 2023. PIDM will conduct further studies on potential quantitative financial indicators once longer series of MFRS 17 data points are available for comprehensive review and back-testing.

3.2 RCC - criteria
PIDM sought feedback on the following aspects of the proposed criteria under the RCC, in relation to: • the proposed list of industry-wide initiatives and their corresponding costs that are eligible for deductibles (i.e., qualifying expenses); and • suggestion on other ongoing or planned industry platforms / initiatives that would enhance the industry resolvability.

Comments Received
The respondents suggested to consider the costs associated with the following industry-wide initiatives as qualifying expenses for deductibles: (a) **Industry-wide platforms, systems or databases relating to the IMs' operational matters**, such as Jabatan Pendaftaran Negara or myCoverage portal and Agency Information Exchange;

(b) **Industry-wide collaborative initiatives relating to national awareness and consumer protection** (e.g., expenses incurred for financial literacy programme, Financial Industry Collective Outreach, National Anti-Financial Crime Centre, and Ombudsman for Financial Services), and annual fees to industry associations; and

(c) **Internal initiatives** to enhance internal infrastructures and systems that improve their data capabilities, regulatory reporting, and business operations, including enhancements relating to risk-based capital frameworks (RBC2), MFRS 17, Insurance Takaful System Redevelopment, Anti-Money Laundering, Know Your Customer, and training costs.

Some respondents also requested clarification on the definition of "qualifying expenses", particularly regarding the types of transactions that would qualify for deduction and the sources of information needed to support these expenses. Additionally, there was a suggestion to establish a formal application process for proposing other platforms and initiatives in the future.

PIDM's Response
PIDM wishes to reiterate that the current focus is on industry-shared data infrastructures and data standardisation initiatives that would support the implementation of an orderly resolution and minimise resolvability impediments at the industry level. Generally, these platforms should contain periodic, standardised and granular policy or product level data, and cover the entire business line or segment for it to be leveraged for PIDM's resolution readiness. As the suggested platforms and initiatives do not fully meet the resolution readiness objective, PIDM will, at this juncture, retain the four (4) platforms[3] as proposed in the CP. PIDM will conduct regular reviews and engagements with the IMs to ensure relevancy of the proposed platforms. IMs will also be given the opportunity to provide periodic inputs and suggestions on any new platforms or initiatives, at least annually. PIDM takes note of the IMs' feedback on the types of transactions that qualify for deductibles. Broadly, all actual expenses incurred and paid by the IMs to service provider(s) for participating, establishing, building, enhancing and maintaining the four (4) platforms are qualifying expenses for deductibles. PIDM will provide guidance on the qualifying expenses and supporting documentation required in the relevant guidelines.

[3] As stated in the CP, the four (4) platforms are CUE Motor, CUE Accident and Health, Fraud Intelligence System and MHIT central platform.

3.3 Other matters
PIDM seeks feedback on any other matters related to the proposals in the CP, including levy bases proposal.

Comments Received
The majority of family takaful and life insurance respondents suggested to exclude CSM component from the levy bases for family takaful or life insurance businesses. CSM component is not an obligation attributable to certificate or policy owners and will be released to the shareholders as the company provides takaful or insurance contract services over the coverage period. There were also suggestions for PIDM to exclude unallocated surplus from the levy bases, as they are not directly attributable to any identified groups of certificate or policy owners. Clarification was sought on the source of information for the components under the proposed levy bases i.e., net takaful / insurance revenue for general takaful or general insurance businesses and expense liabilities for family takaful business. A few respondents proposed revisiting the levy rates to better align with the proposed changes to the levy bases.

PIDM's Response
PIDM's approach was to introduce a suitable proxy for IMs' exposure at failure as levy bases, and at the same time, consider IMs' reporting burden. This remains unchanged. However, following the constructive feedback and engagement with the IMs, we take note of the suggestion to have a more granular assessment of the components in the takaful and insurance liabilities. Hence, PIDM agrees with the suggestion to exclude CSM and unallocated surplus from the levy bases, considering that they represent liabilities that are not directly attributable to identifiable certificate or policy owners. This is not deemed as an additional reporting burden. For clarity, the levy rates remain the same with the proposed levy bases. In addition, following the comments, PIDM will provide further clarification on the source of information for the levy bases in the relevant guidelines.

4.0 GOING FORWARD

4.1 PIDM will proceed with the legislative process for the issuance of the relevant Regulations and Order in respect of the proposed enhancement to the DLS Frameworks and levy bases. The Regulations and Order will be published on PIDM's website once they are gazetted. The proposed enhancement to the DLS Frameworks and levy bases will apply to the levy assessment starting from AY 2026.

4.2 Notwithstanding the above, the transitional arrangement as outlined in paragraphs 2.6 to 2.9 will take effect from AY 2025 to AY 2027. The details of the arrangement for AY 2025 are set out in the Addendum to Guidelines for the Returns on Calculation of Levies for Takaful and Insurance Businesses.

4.3 With regard to the details of the revised DLS Frameworks and levy bases, as well as the transitional arrangement for AY 2026 and AY 2027, PIDM will issue an update to the following guidelines, where relevant, to help the IMs with the implementation:

- Guidelines on Differential Levy Systems Framework for Insurance Companies;
- Guidelines on Differential Levy Systems Framework for Takaful Operators; and
- Guidelines for the Returns on Calculation of Levies for Takaful and Insurance Businesses.

Perbadanan Insurans Deposit Malaysia
7 April 2025

APPENDIX
FINAL PROPOSED DLS FRAMEWORKS

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

<table>
<tr><th>Component</th><th>Safety and Soundness</th><th>Resolution Centric</th></tr>
<tr><td>Measurement</td><td>BNM's supervisory assessment</td><td>Actual qualifying expenses that improve industry resolvability, as specified by PIDM in the relevant guidelines</td></tr>
<tr><td>Criteria</td><td>Composite Risk Rating ("CRR")

Determines the levy category</td><td>Deductibles

Determines the adjustment amount to the levy payable</td></tr>
<tr><td>Scoring Approach</td><td><table><tr><th>CRR Category</th><th>Levy Category</th></tr><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></table></td><td>Deductibles = Minimum [a, b], of which

[a] refers to "the amount equivalent to the actual qualifying expenses incurred during the preceding AY"; and

[b] refers to "the amount equivalent to 30% of the Gross Levy Payable". [B]</td></tr>
<tr><td>Levy Payable</td><td>Gross Levy Payable =

Levy rate x levy base of each type of business
[A]</td><td>Final Levy Payable =

Gross Levy Payable – Deductibles
[C]</td></tr>
</table>

Note: Levy rate for each levy category is as prescribed in the Levy Order[4] and levy base for each type of business is as discussed in paragraph 2.5 of this document.

[4] Malaysia Deposit Insurance Corporation (Rates for First Levy and Annual Levy in respect of Insurer Members) Order 2023.

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

Final Levy Payable = Gross Levy Payable – Deductibles **[C] [A] [B]**

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).