



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

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**GUIDELINES ON  
VALIDATION PROGRAMMES:  
DIFFERENTIAL LEVY SYSTEMS AND  
LEVIES CALCULATION**

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**ISSUE DATE : 14 MARCH 2016**



Perbadanan Insurans Deposit Malaysia  
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<b>Ref No</b>	TIPS/GL15-A1/2016(VDLS)	<b>Issued on</b>	14 March 2016
<b>TITLE</b>	Guidelines on Validation Programmes: Differential Levy Systems and Levies Calculation		

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## PART 1: INTRODUCTION

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### BACKGROUND

- 1.1 PIDM issued *Guidelines on Validation Programme: Differential Levy System and Premiums Calculation* on 6 January 2014.
- 1.2 As part of the continuous review process, PIDM enhanced the Differential Levy Systems Framework for Insurance Companies (“DLS”) and the Returns on Calculation of Levies (“RCL”). The Corporation also introduced the new Differential Levy Systems Framework for Takaful Operators (“DLST”). Following from these enhancements, PIDM has refined the validation programmes.
- 1.3 The validation programmes set out the scope and procedures for the insurer members<sup>1</sup> internal auditor and external auditor to perform their independent validation on the DLS or DLST quantitative information and RCL. This is to ensure that the information provided to PIDM is accurate and in compliance with the requirements of the DLS, DLST and RCL guidelines.
- 1.4 In exercise of the powers conferred by paragraph 209(1)(b) of the Malaysia Deposit Insurance Corporation Act 2011 (“the Act”), PIDM makes the *Guidelines on Validation Programmes: Differential Levy Systems and Levies Calculation* (“Guidelines”). These Guidelines are applicable to all insurer members.
- 1.5 These Guidelines will be effective beginning assessment year 2016 and shall supersede the *Guidelines on Validation Programme: Differential Levy System and Premiums Calculation* issued on 6 January 2014.

### LEGAL PROVISIONS

- 1.6 Section 96 of the Act provides that PIDM may examine or commission another person to conduct an examination of the operations of an insurer member, and that the scope of audit may include the examination of:

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<sup>1</sup> As defined in Section 2 of the Act, insurer member means a member institution that is an insurance company or a takaful operator.

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- (a) whether proper and adequate records of its takaful or insurance benefits liabilities are maintained by the insurer member; or
  - (b) whether reports made by the insurer member on its levies, takaful liabilities or insurance liabilities are substantially correct.
- 1.7 Pursuant to Section 193 of the Act, any person who prepares, signs, approves or concurs in any account, statement, return, report or other document required for submission to PIDM that he or she knows or has reason to believe is false or contains false or misleading information, commits an offence punishable by fine and/or imprisonment.<sup>2</sup>

### REFERENCE MATERIALS

- 1.8 Insurer members may refer to the following documents for the DLS or DLST framework and RCL reporting processes:
- (a) the Act;
  - (b) the Malaysia Deposit Insurance Corporation (Protected Benefits) Regulations 2011;
  - (c) the Malaysia Deposit Insurance Corporation (Protected Benefits Limit) Order 2011;
  - (d) the Malaysia Deposit Insurance Corporation (Differential Premium Systems in Respect of Insurer Members) Regulations 2012<sup>3</sup>;
  - (e) the Malaysia Deposit Insurance Corporation (First Premium and Annual Premium in Respect of Insurer Members) Order 2016;
  - (f) the Guidelines on Takaful and Insurance Benefits Protection System: Submission of Returns on Calculation of Levies for Takaful and Insurance Businesses issued on 14 March 2016;

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<sup>2</sup> Section 193 of the Act, applies to officers of insurer members, internal auditors and external auditors with regard to the DLS or DLST framework and RCL reporting and the validation programme.

<sup>3</sup> As amended by the Malaysia Deposit Insurance Corporation (Differential Premium Systems in respect of Insurer Members) (Amendment) Regulations 2016.



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- (g) the Guidelines on Differential Levy Systems Framework for Insurance Companies issued on 14 March 2016; and
- (h) the Guidelines on Differential Levy Systems Framework for Takaful Operators issued on 7 March 2016.

1.9 A reference to a statute or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them.

Enquiries relating to these Guidelines may be directed to:

General Manager  
Insurance, Risk Assessment and Monitoring Division  
Perbadanan Insurans Deposit Malaysia  
Level 12, Axiata Tower  
No. 9, Jalan Stesen Sentral 5  
Kuala Lumpur Sentral  
50470 Kuala Lumpur  
Malaysia.

General Line : 03-2173 7436 / 03-2265 6565  
Fax : 03-2173 7494  
Email : validation@pidm.gov.my

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## PART 2: VALIDATION PROGRAMMES

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### OVERVIEW

- 2.1 An insurer member is required to submit to PIDM the following information (hard copy and soft copy in pre-formatted excel spreadsheet) in respect of each assessment year within the following deadlines:
- (a) certified DLS or DLST quantitative information by 30 April (or earlier if 30 April falls on a weekend or a public holiday in Kuala Lumpur); and
  - (b) certified RCL by 31 May (or earlier if 31 May falls on a weekend or a public holiday in Kuala Lumpur ).
- 2.2 An insurer member is required to complete the DLS or DLST and RCL submissions based on information obtained from the Insurance Companies Statistical System (“ICSS”) or Takaful Operators Statistical System (“TOSS”), Risk-Based Capital Framework for Insurers (“RBC”) or Risk-Based Capital Framework for Takaful Operators (“RBCT”) reporting forms, audited or approved management accounts<sup>4</sup>, and other supporting sources of information for the relevant financial periods required.
- 2.3 PIDM requires both the internal auditor and external auditor of the insurer members to validate the quantitative information provided by the insurer members in the DLS or DLST and RCL reporting forms. The chairman of the insurer member’s audit committee and the chief internal auditor shall certify the Independent Validation Report submitted to PIDM.
- 2.4 The insurer member’s senior management shall provide the necessary and complete information to the internal auditor and external auditor.
- 2.5 The validation programmes to be performed by the internal auditor shall be carried out in accordance to the scope of validation determined by PIDM. **Appendices 1A and 1B** describe the Validation Programmes for Internal Auditors.

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<sup>4</sup> Approved management accounts refer to the management accounts which have been approved by the management of the insurer member

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- 2.6 The validation to be performed by the external auditor shall be carried out in accordance to the International Standards on Related Services (“ISRS”) 4400 - Engagements To Perform Agreed-Upon Procedures Regarding Financial Information. **Appendices 2A and 2B** describe the Validation Programmes for External Auditors.
- 2.7 The chairman of the insurer member’s audit committee, the chief internal auditor and the external auditor are required to provide to PIDM their independent validation report in respect of the DLS or DLST quantitative information and RCL submitted by the insurer members. Refer to **Appendix 3** for the Internal Auditor’s Independent Validation Report and **Appendix 4** for the External Auditor’s Independent Validation Report.
- 2.8 If an insurer member changes or adopts new accounting policies arising from the implementation of new applicable accounting standards, Bank Negara Malaysia (“BNM”) guidelines and regulations or changes in business operations, the insurer member must ensure that the necessary adjustments are correctly reflected in the insurer member’s financial information for the period of assessment. As such, the insurer member is required to engage its external auditor to perform an independent review of the adjustments reflected in the financial information for the period of assessment.
- 2.9 In the event that the DLS or DLST and RCL reporting forms have to be resubmitted, PIDM will determine based on a case-by-case basis whether the validation is required to be performed again before resubmission.

#### **SUBMISSION DATES OF THE INDEPENDENT VALIDATION REPORTS AND DETAILED ACTION PLAN AND TIMELINE**

- 2.10 All insurer members, their internal auditors and external auditors are required to plan for the conduct of the validation programme in such manner so that the internal auditor will submit its independent validation report together with the External Auditor’s Independent Validation Report to PIDM by **31 May (or earlier if 31 May falls on a weekend or a public holiday in Kuala Lumpur)** of each assessment year.
- 2.11 As such, all exceptions or findings raised in the independent validation reports shall be rectified before the submission of the certified DLS or DLST quantitative information and RCL to PIDM.

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- 2.12 If the exceptions or findings are not rectified, the detailed action plans and timeline to address the exceptions or findings, as highlighted in the independent validation reports, shall be submitted by the insurer members to PIDM by **31 July (or earlier if 31 July falls on a weekend or a public holiday in Kuala Lumpur)** of each assessment year.
- 2.13 PIDM reserves its powers and rights under the Act to take any action outside the scope of the validation programme which includes additional validation of the insurer members' records.

Transition Year for takaful operators (Assessment Year 2016)

- 2.14 During the transition year i.e. assessment year 2016, the internal auditor of a takaful operator is required to submit its independent validation report together with the External Auditor's Independent Validation Report to PIDM by **31 October 2016 (or earlier if 31 October falls on a weekend or a public holiday in Kuala Lumpur)**.
- 2.15 A takaful operator is required to separately submit to PIDM its detailed action plan and timeline on how to address the exceptions or findings, if any, as highlighted in the independent validation reports, by **31 December 2016 (or earlier if 31 December falls on a weekend or a public holiday in Kuala Lumpur)**. Refer to **Appendix 5** for a sample of the report.
- 2.16 Any post submission rectification (after certification by the takaful operator's Chief Executive Officer and Appointed Actuary/Head of Finance/Chief Financial Officer) during the transition year that results in a change to the levy category will be reviewed on a case-by-case basis to determine whether a levy surcharge should be imposed.

**SCOPE OF THE VALIDATION PROGRAMMES**

- 2.17 The approaches for the validation of financial figures in the DLS or DLST quantitative information and RCL are as follows:

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DLS/DLST	Scope of the validation programmes
Internal Auditor	Validate the DLS or DLST reporting forms in respect of information that is directly extracted and compiled from ICSS or TOSS and RBC or RBCT submissions.
External Auditor	Validate selected components of two (2) DLS indicators and two (2) DLST indicators that are not directly sourced from ICSS or TOSS and RBC or RBCT reporting forms.
RCL	Scope of the validation programmes
Internal Auditor	Validate the RCL reporting forms in respect of information that is directly sourced from the ICSS or TOSS and the RBC or RBCT submissions.
External Auditor	Select samples on a random basis to validate the classification of qualified and non-qualified policies or certificates as reported in the RCL.

2.18 The summary of sources of information for the DLS indicators, DLST indicators and RCL are illustrated in **Appendix 6**.

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**Appendix 1A**

**VALIDATION PROGRAMMES FOR INTERNAL AUDITOR – INSURANCE COMPANIES**

1. The validation shall be carried out in accordance with the validation programmes determined by PIDM.
2. This validation programmes must be read in conjunction with reference materials in paragraph 1.8 of these guidelines, in particular the followings:
  - (a) Guidelines on Differential Levy Systems Framework for Insurance Companies issued on 14 March 2016; and
  - (b) Guidelines On Takaful And Insurance Benefits Protection System: Submission Of Returns On Calculation Of Levies For Takaful And Insurance Businesses issued on 14 March 2016.
3. The reference period for the validation programmes shall be **1 January to 31 December** of the preceding assessment year. For insurance companies with 31 December financial year end, the validation shall be based on the audited ICSS and RBC reporting forms. For insurance companies with non-31 December financial year end, the validation shall be based on the management approved ICSS and RBC reporting forms.
4. As part of the planning procedures, internal auditor shall carry out the following:
  - (a) obtain an understanding of the guidelines, regulations or any law (collectively referred to as “Instruments” in this paragraph) relating to DLS and RCL, and check against the information contained in PIDM’s website for any changes to the Instruments at the point of the validation that may have an impact on the preparation, contents and submission of the DLS quantitative information and RCL;
  - (b) obtain an understanding of applicable BNM guidelines or requirements on reporting of financial information to BNM;
  - (c) obtain an understanding of the business activities, systems, processes, procedures and management controls for completing the DLS quantitative information and RCL;

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- (d) review the systems capability or other methods deployed in extracting information to ensure that the information extracted is reliable and adequate for the preparation of the DLS quantitative information and the RCL;
- (e) review the availability of documented operational policies and procedures pertaining to the preparation and submission of the DLS quantitative information and RCL; and
- (f) review the approval process by the insurance company over the preparation of DLS quantitative information and RCL.

5. Validation procedures to be performed by the **internal auditor – DLS**

Procedures to be performed for general insurance and/or life insurance business:

Step 1	Obtain the ICSS and RBC reporting forms submitted to BNM.
Step 2	Obtain the DLS reporting forms prepared for submission to PIDM.
Step 3	<p>For those DLS quantitative information directly sourced from the ICSS and RBC reporting forms, compare the balances in the ICSS and RBC against the balances in DLS reporting forms. [Refer to Appendix 6, para 1(a), for the information in DLS reporting forms that can be sourced directly from ICSS and RBC].</p> <p>For Individual Target Capital Level (“ITCL”) under the Free Capital Index indicator, check the ITCL used has been agreed by BNM.</p> <p>For Malaysian Government Securities spot rates under the Investment Yield indicator, agree to the rates as published by the Bond Pricing Agency Malaysia Sdn Bhd.</p>
Step 4	Recompute all the DLS quantitative information as per the DLS reporting forms.
Step 5	Meet with the External Auditor to discuss work done and findings to ensure completeness.
Step 6	Highlight any exceptions or findings observed and include any exceptions or findings raised by the External Auditor in the Internal Auditor’s Validation Report.

6. Validation procedures to be performed by the **internal auditor – RCL**

Procedures to be performed for general insurance business:

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Step 1	Obtain the total net premiums and the breakdown by class of business as reported in the ICSS reporting forms submitted to BNM.
Step 2	Obtain the RCL for general insurance business and compare the total net premiums and the breakdown by class of business against the ICSS reporting forms submitted to BNM.
Step 3	Obtain the listing of all non-qualified policies as reported in the RCL to PIDM.
Step 4	Compare the total net premiums of non-qualified policies as reported in the listing obtained against the amounts reported in the RCL.
Step 5	Recompute the information reported in the RCL.
Step 6	Check that the correct levy rate has been applied in calculating the levy payable. For composite insurance companies, if the total levy payable is the minimum levy amount, to ensure the apportionment according to the percentage of net premiums for the life insurance and general insurance business is correct.
Step 7	Meet with the External Auditor to discuss work done and findings to ensure completeness.
Step 8	Highlight any exceptions or findings observed and include any exceptions or findings raised by the External Auditor in the Internal Auditor's Validation Report.

Procedures to be performed for life insurance business:

Step 1	Obtain the total actuarial valuation liabilities as reported in the RBC reporting forms submitted to BNM.
Step 2	Obtain the RCL for life insurance business.
Step 3	Obtain the listing of all non-qualified policies as reported in the RCL to PIDM.
Step 4	Compare the total actuarial valuation liabilities including non-qualified policies reported in the RCL against the total actuarial valuation amounts as per the RBC reporting forms submitted to BNM.
Step 5	Recompute the information reported in the RCL.
Step 6	Check that the correct levy rate has been applied in calculating the levy payable. For composite insurance companies, if the total levy payable is the minimum levy amount, to ensure the apportionment according to the percentage of net premiums for the life insurance and general insurance business is correct.
Step 7	Meet with the External Auditor to discuss work done and findings to ensure completeness.
Step 8	Highlight any exceptions or findings observed and include any exceptions or findings raised by the External Auditor in the Internal Auditor's Validation Report.

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**Appendix 1B**

**VALIDATION PROGRAMMES FOR INTERNAL AUDITOR – TAKAFUL OPERATORS**

1. The validation shall be carried out in accordance with the validation programmes determined by PIDM.
2. This validation programmes must be read in conjunction with reference materials in paragraph 1.8 of these guidelines, in particular the followings:
  - (a) Guidelines on Differential Levy Systems Framework for Takaful Operators issued on 7 March 2016; and
  - (b) Guidelines On Takaful And Insurance Benefits Protection System: Submission Of Returns On Calculation Of Levies For Takaful And Insurance Businesses issued on 14 March 2016.
3. The reference period for the validation programmes shall be **1 January to 31 December** of the preceding assessment year. For takaful operators with 31 December financial year end, the validation shall be based on the audited TOSS and RBCT reporting forms. For takaful operators with non-31 December financial year end, the validation shall be based on the management approved TOSS and RBCT reporting forms.
4. As part of the planning procedures, internal auditor shall carry out the following:
  - (a) obtain an understanding of the guidelines, regulations or any laws (collectively referred to as “Instruments” in this paragraph) relating to DLST and RCL, and check against the information contained in PIDM’s website for any changes to the Instruments at the point of the validation that may have an impact on the preparation, contents and submission of the DLST quantitative information and RCL;
  - (b) obtain an understanding of applicable BNM guidelines or requirements on reporting of financial information to BNM;
  - (c) obtain an understanding of the business activities, systems, processes, procedures and management controls for completing the DLST quantitative information and RCL;

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- (d) review the systems capability or other methods deployed in extracting information to ensure that the information extracted is reliable and adequate for the preparation of the DLST quantitative information and the RCL;
- (e) review the availability of documented operational policies and procedures pertaining to the preparation and submission of the DLST quantitative information and RCL; and
- (f) review the approval process by the takaful operators over the preparation of DLST quantitative information and RCL.

5. Validation procedures to be performed by the **internal auditor – DLST**

Procedures to be performed for general takaful and/or family takaful business:

Step 1	Obtain the TOSS and RBCT reporting forms submitted to BNM.
Step 2	Obtain the DLST reporting forms prepared for submission to PIDM.
Step 3	For those DLST quantitative information directly sourced from the TOSS and RBCT reporting forms, compare the balances in the TOSS and RBCT reporting forms against the balances in the DLST reporting forms. [Refer to Appendix 6, para 1(b), for the information in DLST reporting forms that can be sourced directly from TOSS and RBCT].  For Individual Target Capital Level (“ITCL”) under the Free Capital Index indicator, check the ITCL used has been agreed by BNM.  For Government Investment Issues spot rates under the Investment Yield indicator, agree to the rates as published by the Bond Pricing Agency Malaysia Sdn Bhd.
Step 4	Recompute all the DLST quantitative information as per the DLST reporting forms.
Step 5	Meet with the External Auditor to discuss work done and findings to ensure completeness.
Step 6	Highlight any exceptions or findings observed and include any exceptions or findings raised by the External Auditor in the Internal Auditor’s Validation Report.

6. Validation procedures to be performed by the **internal auditor – RCL**

Procedures to be performed for general takaful business:

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Step 1	Obtain the total net contributions and the breakdown by class of business as reported in the TOSS reporting forms submitted to BNM.
Step 2	Obtain the RCL for general takaful business and compare the total net contributions and the breakdown by class of business against the TOSS reporting forms submitted to BNM.
Step 3	Obtain the listing of all non-qualified certificates as reported in the RCL to PIDM.
Step 4	Compare the total net contributions of non-qualified certificates as reported in the listing obtained against the amounts reported in the RCL.
Step 5	Recompute the information reported in the RCL.
Step 6	Check that the correct levy rate has been applied in calculating the levy payable. For composite takaful operators, if the total levy payable is the minimum levy amount, to ensure the apportionment according to the percentage of net contributions for the family takaful and general takaful business is correct.
Step 7	Meet with the External Auditor to discuss work done and findings to ensure completeness.
Step 8	Highlight any exceptions or findings observed and include any exceptions or findings raised by the External Auditor in the Internal Auditor's Validation Report.

Procedures to be performed for family takaful business:

Step 1	Obtain the total actuarial valuation liabilities as reported in the RBCT reporting forms submitted to BNM.
Step 2	Obtain the RCL for family takaful business.
Step 3	Obtain the listing of all non-qualified certificates as reported in the RCL to PIDM.
Step 4	Compare the total actuarial valuation liabilities including non-qualified certificates reported in the RCL against the total actuarial valuation amounts as per the RBCT reporting forms submitted to BNM.
Step 5	Recompute the information reported in the RCL.
Step 6	Check that the correct levy rate has been applied in calculating the levy payable. For composite takaful operators, if the total levy payable is the minimum levy amount, to ensure the apportionment according to the percentage of net contributions for the family takaful and general takaful business is correct.
Step 7	Meet with the External Auditor to discuss work done and findings to ensure completeness.
Step 8	Highlight any exceptions or findings observed and include any exceptions or findings raised by the External Auditor in the Internal Auditor's Validation Report.

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**Appendix 2A**

**VALIDATION PROGRAMMES FOR EXTERNAL AUDITOR – INSURANCE COMPANIES**

1. The validation will be carried out in accordance to International Standard on Related Services (“ISRS”) 4400 - Engagements To Perform Agreed-Upon Procedures Regarding Financial Information.
2. This validation programmes must be read in conjunction with reference materials in paragraph 1.8 of these Guidelines, in particular the followings:
  - (a) Guidelines on Differential Levy Systems Framework for Insurance Companies issued on 14 March 2016; and
  - (b) Guidelines On Takaful And Insurance Benefits Protection System: Submission Of Returns On Calculation Of Levies For Takaful And Insurance Businesses issued on 14 March 2016.
3. The reference period for the validation programmes shall be **1 January to 31 December** of the preceding assessment year.
4. Validation procedures to be performed by the **external auditor – DLS**
  - (a) Procedures to be performed for general insurance business:

**Mean-adjusted return volatility (“MARV”)**

Step 1	Obtain the latest available supporting financial records <sup>5</sup> that are the source of the following components of the MARV indicator (for three (3) consecutive assessment years): (a) Tax income or expense arising from recognition of deferred taxation; and (b) Changes in gross available-for-sale (“AFS”) reserves.
Step 2	Compare the components reported in the DLS reporting forms against the balances from the supporting financial records.
Step 3	Highlight any exceptions or findings observed in the External Auditor’s Validation Report.
Step 4	Discuss work done and findings, if any, from the validation procedures with the internal auditor.

<sup>5</sup> The supporting financial records may comprise audited financial statements, approved management accounts, ageing schedule, general ledger, sub-ledger and supporting schedules.

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- (b) Procedures to be performed for life insurance business:

**Investment yield**

Step 1	Obtain the supporting financial records that are the source of the changes in gross available-for-sale (“AFS”) reserves in the investment yield indicator.
Step 2	Compare the changes in gross AFS reserves reported in the DLS reporting forms against the balances from the supporting financial records.
Step 3	Highlight any exceptions or findings observed in the External Auditor’s Validation Report.
Step 4	Discuss work done and findings, if any, from the validation procedures with the internal auditor.

5. Validation procedures to be performed by the **external auditor – RCL**

Procedures to be performed for general insurance and/or life insurance business:

Step 1	Obtain the list of all non-qualified policies as reported in the RCL to PIDM.
Step 2	From the list, select on a random basis twenty (20) samples for each of general insurance business and/or life insurance business to be validated. If the list contains less than the required sample size, select all policies for validation.  The external auditor is encouraged to use its statistical random sampling tools to provide a representative sample of the policies.
Step 3	For policies selected, compare the policies with the requirements specified in the Guidelines On Takaful And Insurance Benefits Protection System: Submission Of Returns On Calculation Of Levies For Takaful And Insurance Businesses issued on 14 March 2016.  <i>Please note that the definition of qualified policies is specified in paragraph 1.10 of the abovementioned guidelines.</i>
Step 4	Highlight any exceptions or findings observed in the External Auditor’s Validation Report.
Step 5	Discuss work done and findings, if any, from the validation procedures with the internal auditor.

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**Appendix 2B**

**VALIDATION PROGRAMMES FOR EXTERNAL AUDITOR – TAKAFUL OPERATORS**

1. The validation will be carried out in accordance to International Standard on Related Services (“ISRS”) 4400 - Engagements To Perform Agreed-Upon Procedures Regarding Financial Information.
2. This validation programmes must be read in conjunction with reference materials in paragraph 1.8 of these guidelines, in particular the followings:
  - (a) Guidelines on Differential Levy Systems Framework for Takaful Operators issued on 7 March 2016; and
  - (b) Guidelines On Takaful And Insurance Benefits Protection System: Submission Of Returns On Calculation Of Levies For Takaful And Insurance Businesses issued on 14 March 2016.
3. The reference period for the validation programmes shall be **1 January to 31 December** of the preceding assessment year.
4. Validation procedures to be performed by the **external auditor – DLST**
  - (a) Procedures to be performed for family takaful business:

**Investment yield**

Step 1	Obtain the supporting financial records that are the source of the changes in gross AFS reserves in the investment yield indicator.
Step 2	Compare the changes in gross AFS reserves reported in the DLST reporting forms against the balances from the supporting financial records.
Step 3	Highlight any exceptions or findings observed in the External Auditor’s Validation Report.
Step 4	Discuss work done and findings, if any, from the validation procedures with the internal auditor.

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- (b) Procedures to be performed for general and/or family takaful business:

**Expense gap ratio**

Step 1	Obtain the supporting financial records that are the source for the mudharabah surplus transfer in the expense gap ratio.
Step 2	Compare the mudharabah surplus transfer reported in the DLST reporting forms against the amount from the supporting financial records.
Step 3	Highlight any exceptions or findings observed in the External Auditor's Validation Report.
Step 4	Discuss work done and findings, if any, from the validation procedures with the internal auditor.

5. Validation procedures to be performed by the **external auditor – RCL**

Procedures to be performed for general takaful business and/or family takaful business:

Step 1	Obtain the list of all non-qualified certificates as reported in the RCL to PIDM.
Step 2	From the list, select on a random basis twenty (20) samples for each of general takaful business and/or family takaful business to be validated. If the list contains less than the required sample size, select all certificates for validation.  The external auditor is encouraged to use its statistical random sampling tools to provide a representative sample of the certificates.
Step 3	For certificates selected, compare the certificates with the requirements specified in the Guidelines On Takaful And Insurance Benefits Protection System: Submission Of Returns On Calculation Of Levies For Takaful And Insurance Businesses issued on 14 March 2016.  <i>Please note that the definition of qualified certificates is specified in paragraph 1.10 of the abovementioned guidelines.</i>
Step 4	Highlight any exceptions or findings observed in the External Auditor's Validation Report.
Step 5	Discuss work done and findings, if any, from the validation procedures with the internal auditor.



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### **Appendix 3**

## **INTERNAL AUDITOR'S INDEPENDENT VALIDATION REPORT**

Perbadanan Insurans Deposit Malaysia  
[Address]

Date

Dear Sirs,

### **CERTIFICATION ON THE DIFFERENTIAL LEVY SYSTEMS QUANTITATIVE INFORMATION AND RETURNS ON CALCULATION OF LEVIES TO PERBADANAN INSURANS DEPOSIT MALAYSIA**

1. We have performed the procedures as set out in Appendix 1A\*/1B\* of the Guidelines on Validation Programmes: Differential Levy Systems and Levies Calculation ("Guidelines") with respect to the Differential Levy Systems for Insurance Companies ("DLS")\*/Differential Levy Systems for Takaful Operators ("DLST")\* quantitative information and Returns on Calculation of Levies ("RCL") of [Insurance company A\*/Takaful Operator A\*] for the period 1 January to 31 December [year].
2. Based on the procedures as enumerated in Appendix 1A\*/1B\* of the Guidelines,
  - (i) we have no exception to report; or
  - (ii) we report to you by way of exceptions and these are detailed in Attachment A\*.
3. We also attached herewith the External Auditor's Independent Validation Report for your reference.

\_\_\_\_\_  
[Name of Chairman of the Audit Committee]  
Chairman of the Audit Committee  
Date

\_\_\_\_\_  
[Name of Chief Internal Auditor]  
Chief Internal Auditor  
Date

*\*Strike out whichever is inapplicable*

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### Attachment A

(Example below given for a general insurance business)

#### 1. Exceptions in DLS\*/DLST\* quantitative information, without correction in the submission

(a) Differences noted in the amounts/balances by internal auditor:

No.	Exception / Finding	Balance as per ICSS / RBC* or TOSS / RBCT* reporting forms (RM'000) [a]	Balance as per DLS*/DLST* quantitative information (RM'000) [b]	Differences (RM'000) [c] = [a] – [b]
1.	<u>Gross premium growth rate</u> Total gross premiums as at:			
	(a) 31 December 2015	110,000	130,000	(20,000)
	(b) 31 December 2014	107,000	110,000	(3,000)
	(c) 31 December 2013	98,000	100,000	(2,000)
	(d) 31 December 2012	89,000	90,000	(1,000)

(b) Differences noted in the amounts/balances by external auditor:

No.	Exception / Finding	Balance as per audited financial statements/ approved management accounts/ general ledger, sub-ledger/supporting schedules (RM'000) [a]	Balance as per DLS* /DLST* quantitative information (RM'000) [b]	Differences (RM'000) [c] = [a] – [b]
1.	<u>Mean-adjusted return volatility</u> Gross available-for-sale reserves as at 31 December 2015	500	460	40

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(c) Summary impact of the findings by the Internal Auditor and the External Auditor to the indicators and score:

No.	Indicators	Ratio as reported in DLS/ <del>DLST</del> * quantitative information	Ratio if adjusted	Score as reported in DLS/ <del>DLST</del> * quantitative information	Score if adjusted
1.	Gross premium growth rate	14.00%	6.00%	20%	14%
2.	Mean-adjusted return volatility	0.6	0.2	0%	15%

(d) Overall impact on the DLS\*/~~DLST~~\* quantitative score:

No.	Criteria	Indicators score as reported in the DLS/ <del>DLST</del> * quantitative information	Indicators score if adjusted
1.	<b>Capital measure:</b> Free capital index	1.30	1.30
2.	<b>Operational and sustainability measure:</b> General Insurance Business	76% <sup>#</sup>	85% <sup>##</sup>
3.	<b>Total Operational and sustainability measure:</b> For Direct Insurance Companies	76% <sup>#</sup>	85% <sup>##</sup>
4.	<b>DLS quantitative score</b> (Maximum score of 60%)	55%	60%

<sup>#</sup>Assumed indicator score is derived as follows, before adjustments:

Indicators	Score
Gross premium growth rate	20%
Business diversification ratio	16%
Receivable ratio	15%
Combined ratio	25%
Mean-adjusted return volatility	0%
<b>DLS score before adjustments</b>	<b>76%</b>

<sup>##</sup>Assumed indicator score after adjustment for findings by the internal auditor and the external auditor:

Indicators	Score
Gross premium growth rate	14%
Business diversification ratio	16%
Receivable ratio	15%
Combined ratio	25%
Mean-adjusted return volatility	15%
<b>DLS score after adjustments</b>	<b>85%</b>

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## 2. Exceptions in RCL, without corrections in the submission

(a) Differences noted in the amounts/balances:

No.	Exception / Finding	Balance as per RCL (RM'000) [a]	Balance as per ICSS*/ <del>TOSS*</del> and RBC*/ <del>RBCI*</del> reporting forms (RM'000) [b]	Differences (RM'000) [c]=[a] – [b]	Levy rate (%) [d]	Impact to levy payable (RM'000) [e] = [c] x [d]
1.	Total net premiums	500,000	520,000	(20,000)	0.05	(10)

(b) Errors identified during recomputation of levy payable:

No.	Exception/Finding	Levy payable as per RCL (RM'000)	Levy payable after adjustment (RM'000)	Remarks
1.	Wrong levy rate used	200	210	<i>To provide details of exceptions noted.</i>

*\*Strike out whichever is inapplicable*



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## **Appendix 4**

### **EXTERNAL AUDITOR'S INDEPENDENT VALIDATION REPORT**

The Board of Directors  
[Insurance Company A\*/Takaful Operator A\*]  
[Address]

Date

Dear Sirs,

#### **Insurance Company A\*/Takaful Operator A\***

#### **AGREED-UPON PROCEDURES REPORT ON DIFFERENTIAL LEVY SYSTEMS QUANTITATIVE INFORMATION AND RETURNS ON CALCULATION OF LEVIES TO PERBADANAN INSURANS DEPOSIT MALAYSIA**

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1. We are the independent auditors of [Insurance Company A\*/Takaful Operator A\*] with respect to standards established by the Malaysian Institute of Accountants.
2. We have performed the procedures as set out in Appendix 2A\*/2B\* of the Guidelines on Validation Programmes: Differential Levy Systems and Levies Calculation ("Guidelines") with respect to the Differential Levy Systems for Insurance Companies ("DLS")\*/Differential Levy Systems for Takaful Operators ("DLST")\* quantitative information and Returns on Calculation of Levies ("RCL") of [Insurance Company A\*/Takaful Operator A\*] for the period 1 January to 31 December [year], set forth in the accompanying appendices. Our engagement was conducted in accordance with International Standard on Related Services ("ISRS") 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Malaysian Institute of Accountants, applicable to Agreed-Upon Procedures engagements. The procedures were performed solely to assist you in evaluating the validity of the information in the DLS\*/DLST\* quantitative information and RCL of [Insurance Company A\*/Takaful Operator A\*] as compared to the financial records of [Insurance Company A\*/Takaful Operator A\*] of the same date.
3. Based on the procedures as enumerated in Appendix 2A\*/2B\* of the Guidelines,
  - (i) we have no exception to report; or
  - (ii) we report to you by way of exceptions and these are detailed in Attachment A\*.
4. This report records the Agreed-Upon Procedures work on the above as agreed in our terms of reference dated [date]. Our Agreed-Upon Procedures work is limited solely to those procedures set out in the Appendix 2A\*/2B\* of the Guidelines.



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5. The procedures that we performed do not constitute either an audit or a review made in accordance with Approved Standards on Auditing in Malaysia and, consequently we do not express any assurance on the information in the DLS\*/DLST\* quantitative information and RCL of [Insurance Company A\*/Takaful Operator A\*] for the period 1 January to 31 December [year].
6. Had we performed additional procedures or had we performed an audit or review of the financial statements in accordance with Approved Standards on Auditing in Malaysia, other matters might have come to our attention that would have been reported to you.
7. It should be understood that we make no representations as to questions of legal interpretation or as to the sufficiency for your purposes of the procedures enumerated in accompanying appendices; also, such procedures would not necessarily reveal any material misstatement of the information identified in the DLS\*/DLST\* quantitative information and RCL. Further, we have addressed ourselves solely to the foregoing data as set forth in the DLS\*/DLST\* quantitative information and RCL and make no representations as to the adequacy of disclosure or as to whether any material facts have been omitted.
8. Our report is solely for the purpose of [Insurance Company A\*/Takaful Operator A\*]'s submission to PIDM in relation to the DLS\*/DLST\* quantitative information and RCL submitted to PIDM and for your information and is not to be used for any other purpose or to be relied upon by any other parties. This report relates only to the items specified above and does not extend to any financial statements of [Insurance Company A\*/Takaful Operator A\*], taken as a whole.

Yours faithfully,

Name of audit firm  
(No. AF: XXXX)  
Chartered Accountants

*\*Strike out whichever is inapplicable*

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## Attachment A

(Example below given for a general insurance business)

### 1. Exceptions in ~~DLS\*/DLST\*~~ quantitative information, without correction in the submission

(a) Differences noted in the amounts/balances:

No.	Exception / Finding	Balance as per audited financial statements/ approved management accounts/general ledger, sub-ledger/supporting schedules (RM'000) [a]	Balance as per <del>DLS*/DLST*</del> quantitative information (RM'000) [b]	Differences (RM'000) [c] = [a] – [b]
1.	<u>Mean-adjusted return volatility</u> Gross available-for-sale reserves as at 31 December 2015	500	460	40

### 2. Exceptions in RCL, without corrections in the submission

(a) Summary of non-qualified policies\*/~~certificates\*~~ that have been wrongly classified in the RCL:

No.	Sample selected	Net premiums of sample selected (RM)	Remarks
1.	<u>General insurance business</u> Motor policy	5,000	<i>To provide details on the exceptions highlighted.</i>
	<b>Total</b>	<b>5,000</b>	
	Number of exceptions/Total number of samples (%)	5% [1/20]	

No.	Sample selected	Net premiums of sample selected (RM)	Remarks
1.	<u>Life insurance business</u> Endowment plan	10,000	<i>To provide details on the exceptions highlighted.</i>
	<b>Total</b>	<b>10,000</b>	
	Number of exceptions/Total number of samples (%)	5% [1/20]	

\*Strike out whichever is inapplicable



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**Appendix 5**

**SAMPLE REPORT ON INSURER MEMBER'S ACTION PLAN AND TIMELINE**

**Insurance Company A\*/Takaful Operator A\*: Action plan and timeline to rectify the exception/finding**

**A. DLS\*/DLST\***

<b>Exception / Finding Noted</b>	<b>Action Plan</b>	<b>Timeline for Rectification</b>

**B. RCL**

<b>Exception / Finding Noted</b>	<b>Action Plan</b>	<b>Timeline for Rectification</b>

*\*Strike out whichever is inapplicable*

**Appendix 6**

**SUMMARY OF SOURCES OF INFORMATION FOR THE DLS INDICATORS, DLST INDICATORS AND RCL**

**1. DLS or DLST**

**(a) DLS**

Key sources of information for the DLS reporting forms – Insurance Companies

No.	DLS Quantitative Criteria/Indicator	Key sources of information		
		ICSS	RBC	Other supporting information
<b>A.</b>	<b>Capital Measure</b>			
1.	Free capital index		✓	
<b>B.</b>	<b>Operational and Sustainability Measure - Life Insurance Business</b>			
1.	New business growth rate	✓		
2.	Business concentration ratio	✓		
3.	Business conservation ratio	✓		
4.	Investment yield	✓		<i>a. AFS reserves gross of tax</i>
5.	Expense ratio	✓		
<b>C.</b>	<b>Operational and Sustainability Measure - General Insurance Business</b>			
1.	Gross premium growth Rate	✓		
2.	Business diversification ratio		✓	
3.	Receivable ratio	✓		

No.	DLS Quantitative Criteria/Indicator	Key sources of information		
		ICSS	RBC	Other supporting information
4.	Combined ratio	✓		
5.	Mean-adjusted return volatility	✓		<i>a. AFS reserves gross of tax</i>
				<i>b. Income/Expense arising from recognition of deferred taxation</i>

**(b) DLST**

Key sources of information for the DLST reporting forms – Takaful Operators

No.	DLST Quantitative Criteria/Indicator	Key sources of information		
		TOSS	RBCT	Other supporting information
<b>A.</b>	<b>Capital Measure</b>			
1.	Free capital index		✓	
<b>B.</b>	<b>Operational and Sustainability Measure – Family Takaful Business</b>			
1.	New business growth rate	✓		
2.	Business concentration ratio	✓		
3.	Business conservation ratio	✓		
4.	Investment yield	✓		<i>a. AFS reserves gross of tax</i>
5.	Expense gap ratio	✓	✓	<i>a. Mudharabah surplus transfer</i>
<b>C.</b>	<b>Operational and Sustainability Measure - General Takaful Business</b>			
1.	Gross contribution growth rate	✓		

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No.	DLST Quantitative Criteria/Indicator	Key sources of information		
		TOSS	RBCT	Other supporting information
2.	Business diversification ratio		✓	
3.	Receivable ratio	✓		
4.	Loss ratio	✓		
5.	Expense gap ratio	✓	✓	<i>a. Mudharabah surplus transfer</i>

## 2. RCL

### (a) RCL for Insurance Companies

Key sources of information for the RCL reporting forms.

No.	Returns on Calculation of Levies	Key sources of information		
		ICSS	RBC	Other supporting information
1.	Total Net Premiums	✓		
2.	Total Actuarial Valuation Liabilities		✓	
3.	Total Qualified and Non-Qualified policies			✓

### (b) RCL for Takaful Operators

Key sources of information for the RCL reporting forms.

No.	Returns on Calculation of Levies	Key sources of information		
		TOSS	RBCT	Other supporting information
1.	Total Net Contributions	✓		
2.	Total Actuarial Valuation Liabilities		✓	
3.	Total Qualified and Non-Qualified certificates			✓