BNM'S CLARIFICATION ON EFFECT OF ZERO RATED GST IN THE DETERMINATION OF DEVIATION OF NEW PREMIUM IN RESPECT OF THE PHASED LIBERALISATION OF MOTOR AND FIRE TARIFFS (Policy Document)

Date: 28 May 2018

Phased Liberalisation of Motor & Fire Tariffs - GST Revision - Computation of Premium / Contribution Deviation

Rajeswari Eliyathamby to: Mark Lim, Azli Munani 28/05/2018 10:45

Cc: "Joy Lim", Ho Yi Duan, Fong Sook Fun, Liyana Ahmad Shukri

Dear Mark & Azli,

We refer to the FAQs for implementation of Phased Liberalisation dated 21 June 2017 and 6 July 2017. For the purpose of computing the deviation of new premium/ takaful contribution rates from the rates that are applicable on 30 June 2016 as required by paragraph 9.1(b) of the Policy Document on Phased Liberalisation of Motor and Fire Tariffs, the Bank has previously clarified via the FAQs dated 21 June 2017 and 6 July 2017 that both the new rates and reference rates shall include GST.

Following the recent announcement by the Ministry of Finance on the revision of GST from 6% to 0% effective from 1 June 2018, licensed persons shall apply GST of 0% to both the new rates and reference rates for the purpose of computing the deviation.

Deviation of rate = [New rate / Reference rate] - 1

where

- New rate = New premium or takaful contribution rate charged post 1 July 2017 for a policy based on the current risk profile of the policyholder, including any adjustments (loadings and discounts), No Claim Discount (NCD) entitlement, **0% GST** and stamp duty; and
- Reference rate = Premium or takaful contribution rate that would have been charged for the policy using the rates (and actual loadings) applicable on 30 June 2016, but based on the current risk profile of the policyholder, including the actual loadings, NCD entitlement, **0% GST** and stamp duty.

We would appreciate your kind assistance to disseminate this clarification to the general insurers and takaful operators.

Thank you.

Regards,

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Extract of Section B2 of the Enhanced BNM FAQ issued on 23 Jun 17:

Further clarification to FAQ for Implementation of Phased Liberalisation pursuant to BNM/RH/PD 029-8 on Phased Liberalisation of Motor and Fire Tariffs (Policy Document)
Date: 23 June 2017

B. Deviation of new premium or takaful contribution rates from the rates applicable on 30 June 2016

2. In computing the deviation of new premium or takaful contribution rates from the Tariff rates that are applicable on 30 June 2016 for the purpose of paragraph 9.1(b) of the Policy Document, how do the licensed persons determine the reference rates that are applicable on 30 June 2016? Should the reference rates include or exclude loadings?
For the purpose of paragraph 9.1(b) of the Policy Document, the deviation of new premium or takaful contribution rates from the rates that are applicable on 30 June 2016 shall be computed for each individual policy as follows:

$$\text{Deviation of rate} = \frac{\text{New rate}}{\text{Reference rate}} - 1 \quad \text{where;}$$

- New rate = New premium or takaful contribution rate charged post 1 July 2017 for a policy based on the current risk profile of the policyholder, including any adjustments (loadings and discounts), No Claim Discount (NCD) entitlement, GST and stamp duty; and
- Reference rate = Premium or takaful contribution rate that would have been charged for the policy using the rates (and actual loadings) applicable on 30 June 2016, but based on the current risk profile of the policyholder, including the actual loadings, NCD entitlement, GST and stamp duty.

Licensed persons shall not apply the maximum permitted loading under the Tariff across all policies when computing the deviation of rate because not all individual policies have or would have been subjected to the maximum loadings on 30 June 2016 and by doing so, the changes in premium or takaful contribution rates for some policies will be underestimated.

The deviation of rate shall be computed separately for each Motor covers including Comprehensive, Third Party Fire and Theft and optional add-ons covers.

If the deviation of rate is more than 10%, licensed persons are required to submit the new rates for approval of the Bank prior to implementing the new rates. The submission for the rates revision shall be justified by data and risk analysis based on the loss experience of the licensed person or external data.