



JOINT WEBINAR

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# **ASIA'S FASTEST GROWING INSURANCE AND RISK INTERMEDIATION CENTRE**

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Thursday • 11 November 2021 • 4.00PM (GMT +8)

# ASIA'S FASTEST GROWING INSURANCE AND RISK INTERMEDIATION CENTRE



## Labuan IBFC as Asia's Risk Intermediation Centre

**Annie Undikai**

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# Labuan IBFC as Asia's Risk Intermediation Centre



**Presented by Annie Undikai**

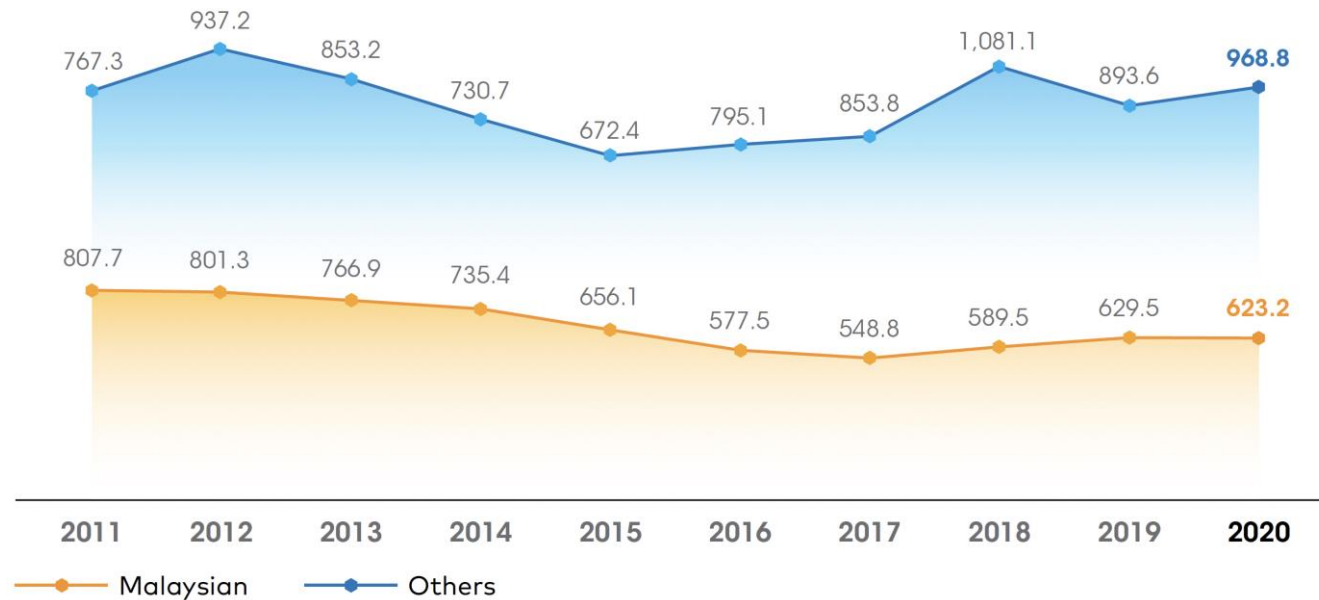
Managing Director, Brighton International Group

November 2021



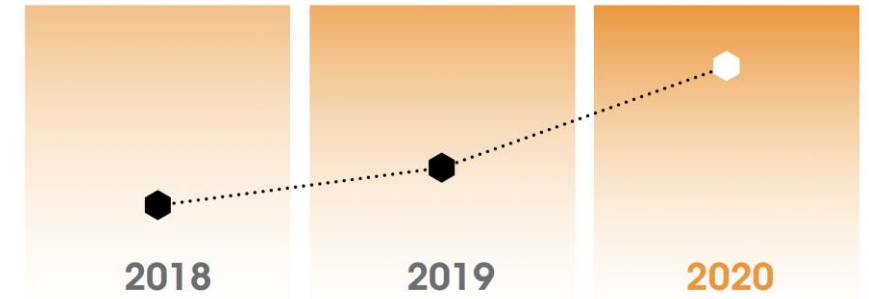
# Labuan Insurance Industry Key Highlights 2020

## TOTAL GROSS PREMIUMS (In USD Million)



- Total gross premiums recorded a marginal growth of 4.5% to USD1.6 billion, mainly from (re)insurance business
- Foreign business forms the larger share of 60.9% or USD968.8 million of the underwritten premiums.

## PROFITABILITY



- The industry's overall profitability improved by 87.1% to USD364.1 million in 2020 (2019: USD194.6 million) buoyed by favourable underwriting performance.

**Total insurance assets grew by 9.9% to USD5.1 billion which was mainly attributable to higher investments in fixed deposits and money market instruments.**

# Labuan Insurance Companies and Labuan Insurance Related Companies



Labuan Financial Services & Securities Act 2010 (LFSSA)  
Labuan Islamic Financial Services & Securities Act 2010 (LIFSSA)

## Labuan Insurance Companies

- General and Life Insurer and Reinsurers including takaful and retakaful
- Captive (including takaful captive)
- Pure Captive or Single Captive
- Master Captive and Rent-a-Captive
- Protected Cell Company

## Labuan Insurance Related Company

- General and Life Broker (including takaful broker)
- Insurance Manager and Underwriting Manager
- Managed Underwriting Manager
  - Lloyd's Syndicate
  - Underwriting Agent
  - Captive Manager

# Labuan Insurance Companies and Labuan Insurance Related Companies

As at 30th September 2021, Labuan FSA has issued 220 licenses comprising:

## Labuan Insurance Company

Licenses	Numbers
Reinsurance-General	32
Retakaful-General	3
Reinsurance-Life	3
Retakaful-Life	3
General Insurer	12
Life Insurer	9
Captive Insurer	36
Captive Takaful	1
Rent-A-Captive Insurer	1
Master-Rent-A-Captive	4
Subsidiary-Rent-A-Captive-Insurer	7
Protected Cell Company – Captive	9
<b>Total Licenses</b>	<b>120</b>

## Labuan Insurance Related Company

Licenses	Numbers
Insurance Broker-Life	27
Insurance Broker-General	31
Insurance Broker - General & Life	21
Underwriting Manager-Lloyd's	9
Managed Underwriting Manager	4
Underwriting Manager	5
Insurance Manager	3
<b>Total Licenses</b>	<b>100</b>



# Special Advantage of Labuan

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- An insurance and insurance related company in Labuan IBFC is governed by Labuan Financial Services & Securities Act 2010 (LFSSA) and Labuan Islamic Financial Services & Securities Act 2010 (LIFSSA) which was specially drafted in a manner designed to provide a simple and helpful operating environment
- Gives as good an access to permitted Malaysian risks and reinsurance of Malaysian business as having an office in Kuala Lumpur but without requirement to comply with detailed regulations governing business in Malaysia.
- Insurer, reinsurer, brokers, underwriting manager, PCC may establish a takaful division and no separate licence is required. Existing insurer licensed under LFSSA and intends to undertake takaful activities within their operations, can use their existing funds from the above non shariah compliant businesses to be channeled as 'seed capital' to the Retakaful division for the following purposes:
  - i. For the business commencement of the Takaful Division
  - ii. For the payment of underwriting deficit or any other forms of payments that are shariah compliant as advised by the Shariah Supervisory Council
- Freedom to follow any recognized accounting standard or standard agreed with Labuan FSA. The accounts should be audited by an auditor who appears on the list of auditors maintained by Labuan FSA

# Special Advantage of Labuan (cont')

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- Freedom to invest funds in manner considered appropriate by the management of the licensees.
- No exchange control restrictions. As all businesses in the IBFC are to be denomination in foreign currency, the Central Bank of Malaysia realised that to enable business to be conducted, complete exemption from foreign currency exchange control restriction is necessary
- Can choose the principal currency in which they will operate and maintain expenses in the accounting records
- May establish a Labuan Marketing Office (LMO) or co-located office outside Labuan island without any limit in numbers
- Can be managed by a management company licensed in Labuan instead of establishing its own management office.
- Subject to meeting **substance requirements**, can be taxed at three per cent (3%) of audited net profits.
- Existence of **Labuan Managers** as service providers to facilitate insurance and insurance related companies wishing to be domiciled in Labuan with an easy entry.
- Meetings of shareholder and the board of directors can be held anywhere in or out of Labuan. However, a meeting in Labuan maybe required by Inland Revenue to comply with substance



## Substance Requirement Under LBATA (effective 1st January 2019)

- Pursuant to Section 2B(1) (b) of Labuan Business Activity tax (LBATA), the Labuan entities shall, for the purpose of the Labuan business activity, have :-
  - an adequate number of full time employees (FTE) in Labuan; and
  - an adequate amount of annual operating expenditure (OPEX) in Labuan, as prescribed by the Minister by regulations made under this Act.
- To benefit under LBATA and be taxed at three per cent (3%) of audited net profits, a Labuan Insurance/Insurance Related Company will need to comply with the substance requirements of the following: -

Activities	FTEs	OPEX (MYR)
Labuan insurer, Labuan reinsurer, Labuan takaful operator or Labuan retakaful operator	3	200,000
Labuan insurance broker or Labuan takaful broker	2	100,000
Labuan captive insurer or Labuan captive takaful		
a. Labuan first party captive insurer or Labuan first party captive takaful; or	2	100,000
b. Labuan third party captive insurer or Labuan third party captive takaful	3	
Labuan underwriting manager, Labuan underwriting takaful manager, Labuan insurance manager, Labuan takaful manager	4	100,000

- A Labuan entity carrying on a Labuan business activity which fails to comply with the substance requirement for a basis period for a year of assessment shall be charged to tax at the rate of twenty four per cent (24%) upon its chargeable profits for that year of assessment.

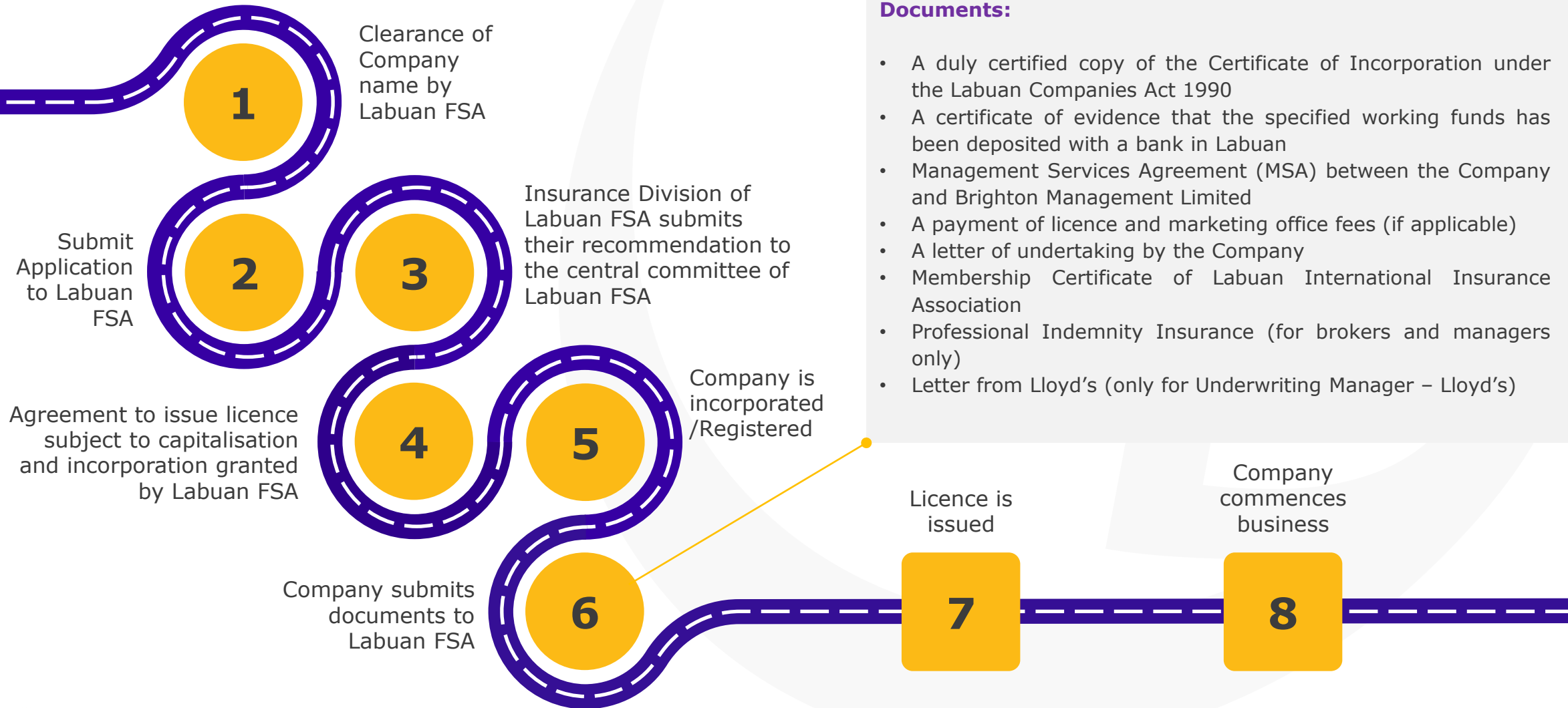
# Role of Labuan Managers in the Labuan IBFC

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- The Labuan Managers provide a value-added dimension to any potential Labuan licensee by providing services to the latter's backroom and processing needs in their day-to-day operations. These Labuan Managers are categorized as: -
  - Labuan insurance manager: Provision of managerial and administrative services to Labuan (re)insurers and brokers.
  - Labuan underwriting manager: Aside from providing services akin to a Labuan insurance manager, it also offers underwriting expertise to augment the technical capabilities of the Labuan (re)insurers and captives. This is particularly useful for underwriting of specialized risks where there is less familiarity on such areas. For the Labuan Managers engaged by the Labuan captives, they are normally referred to as “captive managers”.
- The Labuan Managers offer greater efficiency and efficacy for insurance business operations. In this regard, (re)insurers/captives are able to focus more on core strategic activities as they have the opportunity to outsource their operational functions and processes to competent professionals such as the Labuan Managers.
- Specifically, by engaging Labuan Managers, Labuan (re)insurers/captives would be able to avail to a variety of business advantages and facilitation such as: -
  - i. Provision of manpower capacity / office facilities
  - ii. Provision of technical capabilities
  - iii. Due-diligence Assessment
  - iv. Professional conduct and quality services
  - v. Regulatory facilitation

# Role of Labuan Managers in the Labuan IBFC

The manager is usually involved from the application process onwards



# Labuan Insurance Company

- “Labuan insurance business” means insurance business which is not domestic insurance business, and which is transacted in foreign currency, and includes takaful and retakaful business.
- Notwithstanding the above, Labuan insurer may carry on the reinsurance business of domestic insurance business transacted in Malaysian Ringgit & such other business as maybe specified by the authority. “Labuan insurer” means a person who is licensed to carry on Labuan insurance business; includes Insurer/takaful (Life and non-life), Professional Reinsurer/Retakaful (Life and Non-Life) and Captive Insurer/Takaful.

Licenses	Activities
General Insurer/Takaful	<ul style="list-style-type: none"> <li>• Insurance and reinsurance activities including Malaysian reinsurance business transacted in Ringgit</li> <li>• permitted Malaysian risks (including marine, aviation and transit (MAT) (subject to approval from Bank Negara Malaysia)</li> <li>• Under RBC –qualify reinsurer if conditions met</li> </ul>
General Reinsurer/Retakaful	<ul style="list-style-type: none"> <li>• Reinsurance business including Malaysian reinsurance business transacted in Malaysian Ringgit</li> <li>• Under RBC – qualify reinsurer if conditions met</li> </ul>
Life Insurer/Family Takaful	<ul style="list-style-type: none"> <li>• Insurance and reinsurance activities including Malaysian reinsurance business transacted in Ringgit</li> <li>• Sell life policies including investment-linked insurance products in foreign currency to high net-worth Malaysian residents.</li> </ul>
Life Reinsurer/Family Retakaful	<ul style="list-style-type: none"> <li>• Reinsurance business including Malaysian reinsurance business transacted in Ringgit</li> <li>• Under RBC –qualify reinsurer if conditions met</li> </ul>

# Labuan Insurance Company (con't)

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- May establish Takaful/Retakaful Window (for conventional Insurer and Reinsurer)
- The Malaysian Insurers must ensure that in placing reinsurance, priority must be accorded to the optimizing the retention capacity of Malaysian re(insurers), followed by Labuan-based re(insurers), before securing overseas reinsurance support in their treaty and facultative arrangements.
- As an incentive for Malaysian insurers to use Labuan based entities for their reinsurance needs (currently only for insurer who comply with substance),
  - premium ceded to reinsurers licensed under the LFSSA/LIFSSA are 100% deductible for tax computation purposes
  - reinsurers licensed under the LFSSA/LIFSSA are not considered foreign reinsurers and the minimum rating imposed by Malaysia Central Bank on foreign reinsurers does not apply.
- Solvency Margin - The excess of assets over liabilities is equal or greater than the higher of the followings: -
  - a) RM7.5 million and RM10 million for insurer and reinsurer respectively  
and
  - b) (i) in case of life insurance business : 3% of actuarial valuation of Liabilities  
(ii) in case of general insurance business : 20% of net premium income

# Labuan Captive Insurance Company

- “Labuan captive insurance business” means Labuan insurance business where the insured is a related corporation or associate corporation of the Labuan insurer or where the insured is any other person in respect of whom the Labuan insurer is authorized by the Authority to provide insurance or reinsurance.

Licenses	Activities
Pure/single Captive	<ul style="list-style-type: none"> <li>• owned and controlled by the parent and underwrites policies for the parent, and solely bears the risks of the parent.</li> </ul>
Agency Captive	<ul style="list-style-type: none"> <li>• owned by groups of brokers or other insurance intermediaries and are</li> <li>• typically structured like rent-a-captives.</li> </ul>
Association Captive	<ul style="list-style-type: none"> <li>• owned and controlled by multiple insured, who may or may not be related entities or a part of a homogeneous group like industry or trade groups.</li> <li>• to offer captive services as part of their membership benefits.</li> </ul>
Rent-a-Captive (RAC)/ Master Rent-a-Captive (MRAC)/ Protected Cell Company (PCC)	<ul style="list-style-type: none"> <li>• "rents" its services to other parties in exchange for a management fee, and insured generally do not share each other's risk. The main purpose of a rent-a-captive is to provide captive facilities to parties that cannot afford the fixed cost of a captive company or are not interested in the ownership and maintenance responsibilities</li> <li>• PCCs are essentially rent-a-captive companies that ensure complete separation among program participants. PCCs generally guarantee complete separation of each cell's assets, capital, and surplus from each other.</li> </ul>



# Labuan Captive Insurance Company (con't)

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- Underwrite its group's risk either as direct or reinsurance business. Risk insured by the captive must be the group's risks.
- A captive insurer may obtain reinsurance covers from any insurance company irrespective of whether it is licensed under LFSSA/LIFSSA
- Captive insurance company can do a limited amount of third party business (with agreement of Labuan FSA) without losing its character as a captive insurer.
- Each cell/subsidiary rent-a-captive/rent-a-captive can only underwrite its own group risks. The advantages are: -
  - Lower cost
  - Management time
  - Share of resources
- Solvency Margin – Please find the slide below.

# Labuan Captive Insurance Company - Solvency Margin for Captives

No.	Types of Captive	General Insurance/ General Takaful Business	Life Insurance/ Family Takaful Business
1	<ul style="list-style-type: none"> <li>Pure/Single Owner Captive</li> <li>Group/ Association &amp; Multi-owner Captive</li> </ul>	The surplus of assets over liabilities is at least the higher of: <ol style="list-style-type: none"> <li>the working fund's amount of RM300,000; or</li> <li>10% of the net premium/ contribution income for the preceding year; or</li> <li>10% of provision for outstanding claims for the preceding year (net basis).</li> </ol>	The surplus of assets over liabilities is at least the higher of: <ol style="list-style-type: none"> <li>the working fund's amount of RM300,000; or</li> <li>2.5% of the actuarial valuation of the liabilities for life insurance/ family takaful business as at the last valuation date.</li> </ol>
2	Master Rent-a-Captive (MRAC)	The surplus of assets over liabilities is at least the higher of: <ol style="list-style-type: none"> <li>the working fund's amount of RM500,000; or</li> <li>10% of the net premium/ contribution income for the preceding year; or</li> <li>10% of provision for outstanding claims for the preceding year (net basis).</li> </ol>	The surplus of assets over liabilities is at least the higher of: <ol style="list-style-type: none"> <li>the working fund's amount of RM500,000; or</li> <li>2.5% of the actuarial valuation of the liabilities for life insurance/ family takaful business as at the last valuation date.</li> </ol>
3	<ul style="list-style-type: none"> <li>Protected Cell Company (PCC)</li> <li>Captive (Overall)</li> </ul>	The surplus of aggregate assets over aggregate liabilities 1 is at least the higher of: <ol style="list-style-type: none"> <li>the working fund's amount of RM500,000; or</li> <li>10% of the Cells' net premium/ contribution income for the preceding year; or</li> <li>10% of the Cells' provision for outstanding claims for the preceding year (net basis).</li> </ol>	The surplus of aggregate assets over aggregate liabilities <sup>1</sup> is at least the higher of: <ol style="list-style-type: none"> <li>the working fund's amount of RM500,000; or</li> <li>2.5% of the Cells' actuarial valuation of the liabilities for life insurance/ family takaful business as at the last valuation date.</li> </ol>
4	<ul style="list-style-type: none"> <li>PCC Captive Cell</li> <li>Subsidiary Rent-a-Captive (SRAC)</li> </ul>	The surplus of each Cell's or each SRAC's assets over its liabilities is at least the higher of: <ol style="list-style-type: none"> <li>10% of the Cell's or 10% of the SRAC's net premium/ contribution income for the preceding year; or</li> <li>10% of the Cell's or 10% of the SRAC's provision for outstanding claims for the preceding year (net basis).</li> </ol>	The surplus of each Cell's or each SRAC's assets over its liabilities is at least 2.5% of the Cell's or 2.5% of the SRAC's actuarial valuation of the liabilities for life insurance/ family takaful business as at the last valuation date.

# Labuan Insurance Related Company

In general, Labuan Insurance Related companies could be described as insurance service providers or insurance specialists or insurance intermediaries, as the case maybe, vis-a-vis:-

Licenses	Activities
Broker	<ul style="list-style-type: none"> <li>• Arrange general insurance and reinsurance business but can only do reinsurance business in Malaysia</li> <li>• Financial Adviser for expatriate living in Malaysia</li> <li>• Sell Labuan Life insurer policy to expatriate &amp; high net worth Malaysian</li> <li>• The adviser must be suitably qualified in accordance with Labuan FSA guideline</li> </ul>
<b>Managed Underwriting Manager</b>	
Lloyd's	<ul style="list-style-type: none"> <li>• Basically act the same as a reinsurer except the security in this case is the Lloyd's syndicate only and deal via brokers or directly with the insured</li> </ul>
Underwriting Agent	<ul style="list-style-type: none"> <li>• Can only underwrite for Labuan Insurer/reinsurer in accordance to the term of the contract. Basically the company is the agent of the insurance company and they have the authority to bind the insurer to the contract.</li> <li>• Not interested to provide administrative or management services to company, only to get risks and place with the insurer.</li> </ul>
Captive Manager	<ul style="list-style-type: none"> <li>• Typically the big captive manager in the world and does not have office or staff in Labuan</li> <li>• Provide risk management including the insurance &amp; reinsurance structure to the captive in Labuan.</li> <li>• The administration and management of the captive is usually handled by the insurance manager of the captive manager.</li> </ul>

# Regulatory Capital and License Fees

The following represents the minimum regulatory capital and annual license fees in Labuan IBFC.

Activities	Minimum Capital (MYR)	Licence Fee (USD)
Insurer	7.5 mil (approx. USD1.9 mil)	15,000
Reinsurer	10.0 mil (approx. USD2.5 mil)	15,000
Pure/Agency/Association Captive	300,000 (approx. USD75k)	3,000
Rent-a-Captive/Master Captive	500,000 (approx. USD125k)	4,000
Subsidiary Captive	Nil	1,000
Protected Cell Company- Core	500,000 (approx. USD125k)	9,500
Protected Cell Company- Cell	Nil	3,000
Broker	300,000 (approx. USD75k)	6,500
Insurance Manager	300,000 (approx. USD75k)	6,500
Underwriting Manager	300,000 (approx. USD75k)	6,500
Underwriting Manager – Lloyd's	500,000 (approx. USD125k)	2,500

Insurance related company must maintain a minimum net assets as per prescribed minimum capital.

# Options for Marketing or Co-Located Offices

Labuan FSA has issued guidelines for the establishment of either (a) Labuan Marketing Office (LMO) or (a) co-located office outside of Labuan island.

Licenses	Labuan	Marketing	Co-located
<b>Labuan Insurance Licenses</b>			
Insurer/Reinsurer	Office or Managed	No	Yes
Captive	Office or Managed	Yes	Yes
<b>Labuan Insurance Related Licenses</b>			
Insurance and Underwriting Managers	Office	Yes	No
Broker	Office or Managed	Yes	Yes
<b>Managed Underwriting Manager</b>			
Underwriting Manager	Office	Yes	No
Lloyd's	Either Office or Managed	Yes	Yes
Underwriting Agent	Office	Yes	No
Underwriting Agent	Managed	No	No
Captive Manager	Managed	No	No

# Labuan International Insurance Association (LIIA)

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- All companies licensed under the LFSSA and LIFSSA must join Labuan International Insurance Association (LIIA).
- The LIIA was registered with the Registrar of Societies on 25th May 1998. The objective for which the association is established are:-
  - To obtain and represent the views of the membership and to represent these views to the Labuan FSA
  - To promote and represent the interests of the membership by only means and methods consistent with the laws of the Labuan International Business Financial Centre.
  - To take note of all events, statements and expressions of opinion affecting the membership to advise it thereon and to represent its interests by expression of views thereon on its behalf
  - To work in conjunction with any legal body or any chamber or committee or commission appointed or to be appointed for the consideration, framing, amendment or alteration of any law relating to insurance



Labuan International Insurance Association



# Brighton Management Limited

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Established in 2005, Brighton Management Limited (Brighton) is licensed as a Labuan Underwriting Manager and Insurance Manager. Brighton provides insurance management services to all types of insurance and insurance-related entities licensed in Labuan.

Brighton Group works with professional advisors and other service providers (both onshore and offshore) to design programmes to meet client's specific needs. Services provided includes:

- core compliance
- feasibility studies
- company licensing
- bookkeeping and accounting
- administrating office operations including payroll
- coordinating of service from other service providers, including auditors, actuaries, lawyers and trust companies
- issuing policies and reinsurance treaties
- handling of claims
- assisting in reinsurance placement
- advising on tax matters and submission of tax returns to Inland Revenue
- arranging for work permits
- provision of Serviced Office



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