



LABUAN INTERNATIONAL BUSINESS AND FINANCIAL CENTRE

MARKET REPORT 2023

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Introduction

A Recap of 2023: The Path to Recovery

The year 2023 saw a modest growth in the global economy and a gradual recovery across markets from the challenges posed by COVID-19 pandemic in the prior years. Overall, the economic recovery was described as somewhat fragile due to concerns arising from lingering effects of the Russia-Ukraine conflicts to supply chain, commodity pricing aside from international security, and rising inflation rate. In response, proactive measures were undertaken which include tighter monetary policies to rein in inflationary pressures, fiscal interventions to reduce public sector deficits, and review of supply management to enhance food security. These efforts had attributed to a sustained economic recovery momentum in 2023.

Despite the uncertain economic headwinds, the Asia-Pacific region fared well for the year. According to the report by International Monetary Fund¹, the region is forecasted to record a GDP growth of 4.6% in 2023, reflecting a respectable increase from the 3.9% growth of the prior year. Closer to home, Asia's economic vibrancy was evident from the improved level of private consumption, regulatory enhancements and surged in fintech investments, as well as greater acceptance of blockchain applications. In the wake of these developments, intensified efforts have been seen across the Asian markets with regard to:

- Addressing the financial inclusion needs of the underserved and unserved segments;
- Driving the sustainability agenda as pertinent social and economic focus by the region; and
- Resolving the high level of under-or-uninsured perils, particularly in the Southeast Asian markets, which are exacerbated by high exposures to climate disasters and limited supply of viable commercial insurance covers.

Appreciating the criticality of these developmental needs, a set of key strategic measures had been developed in response to them within the Labuan IBFC Strategic Roadmap 2022-2026 (Strategic Roadmap). Specifically, the Strategic Roadmap was aimed to tailor-make the Centre's existing niche offerings comprising international Islamic finance solutions, digital financial services, and captive structures to Asia's emerging economic demands as aforementioned. Coming into the third year since its rollout, the Strategic Roadmap has made great progress with noteworthy milestones:

(i) Pioneering Islamic Digital Financial Innovation

- The Islamic Digital Asset Centre (IDAC) initiative, launched in October 2022, gelling Malaysia's Islamic finance with cutting-edge blockchain and smart contract

technology to facilitate fundraising via virtual listings of Shariah-compliant Securities Token (RAMZ). RAMZ aims to attract a diverse range of investors, offering a new asset class to meet the pecuniary needs and investment appetites of issuers and subscribers.

- Labuan FSA had provided business guidance on possible permutations that RAMZ can be structured applying different Shariah principles to meet varying business needs. In 2023, four RAMZ were listed on Labuan exchanges, valued at USD50 million pioneering world's first Shariah-compliant securities token.

LABUAN ISLAMIC FINANCE – DIGITAL, INNOVATIVE & BORDERLESS

Emerging technologies harnessed within a regulated environment, are driving innovation in Labuan's Islamic finance.

An ESG fundraising for electric vehicle technology R&D.

Tokenisation of a sukuk enabled seamless digital access to institutional Islamic products and expand global market reach.

Aligns with Labuan IBFC's Sustainability Initiatives & Social Finance agenda in promoting financial inclusion.

¹ IMF Report on "Challenges To Sustaining Growth And Disinflation", October 2023

Introduction

(ii) Accelerating Labuan Captive Development

- Labuan captive segment has been riding on an outstanding growth track by capturing Asia’s growing demand for a cost-efficient, alternative risk management solution. This is evident from the captive premium growth of 8% per annum since 2019. This is also reflected by the eight new captives licensed in 2023.
- As one of the leading captive markets in the region, its key attraction lies in its well-regulated environment with risk-based and fit-for-purpose requirements. This confers appropriate business flexibility and secures confidence for business owners to establish Labuan captive setups.
- In 2023, Labuan FSA had made enhancements to the captive business requirements, which include broadening the range of captive structures and the scope of insurable risks that can be underwritten.

LABUAN CAPTIVE AS AN INTERNATIONAL DOMICILE OF CHOICE

Labuan ranked among the top ten global captive centres for growth, alongside renowned centres in the World Domicile Update by Captive Review in 2023.

Labuan IBFC was conferred with the “Highly Commended Award for International Captive Domicile” by the European Captive Review Awards 2023.

In tandem with the business optimism induced by the Strategic Roadmap’s initiatives, growing market vibrancy was seen across businesses evidencing Labuan IBFC’s continued international prominence in 2023. Business growth in terms of volume and new entrants was apparent in the core segments such as banking, insurance and trust company sectors. In fact, the overall financial sector recorded a total of 880 approvals and licensed financial institutions to-date which represents a sizeable asset volume of USD83.3 billion, a slight increase from last year’s volume of USD81.6 billion. In terms of overall incorporations, new Labuan company registrations continued with a positive growth of 8%, riding on the region’s recovery momentum.

The Labuan IBFC’s business-conducive market is well-supported by a set of comprehensive and modern laws and regulations, alongside the presence of professional market intermediaries with international affiliation. These are some of the key selling points of the Centre which are highlighted to prospects in numerous market outreach programmes undertaken to-date. These marketing promotions include proprietary events and roadshows across major cities in Asia and beyond, as well as participation in international conferences to elevate the Centre’s visibility. Collaboration with Labuan FSA’s marketing arm and the market players further boosted the prominence of Labuan IBFC’s value propositions in terms of unique structure and product offerings as well as new business opportunities.

With the constantly changing global regulations and market needs, it remains imperative for Labuan IBFC to be agile and adaptive. The Centre continued to promote market growth penetration and expansion through new and refined business policies. Key regulatory enhancements continued to be pursued in order to ensure that the market is sufficiently resilient against external shocks and emerging risks, particularly from the rapidly expanding digital financial businesses. Market conduct regulations were also strengthened to ensure digital players continuously uphold professionalism and responsibilities by safeguarding clients’ interests in their virtual dealings. To ensure market compliance, proactive supervisory monitoring was undertaken throughout the year which included direct engagements with the financial institutions and stress testing simulations.

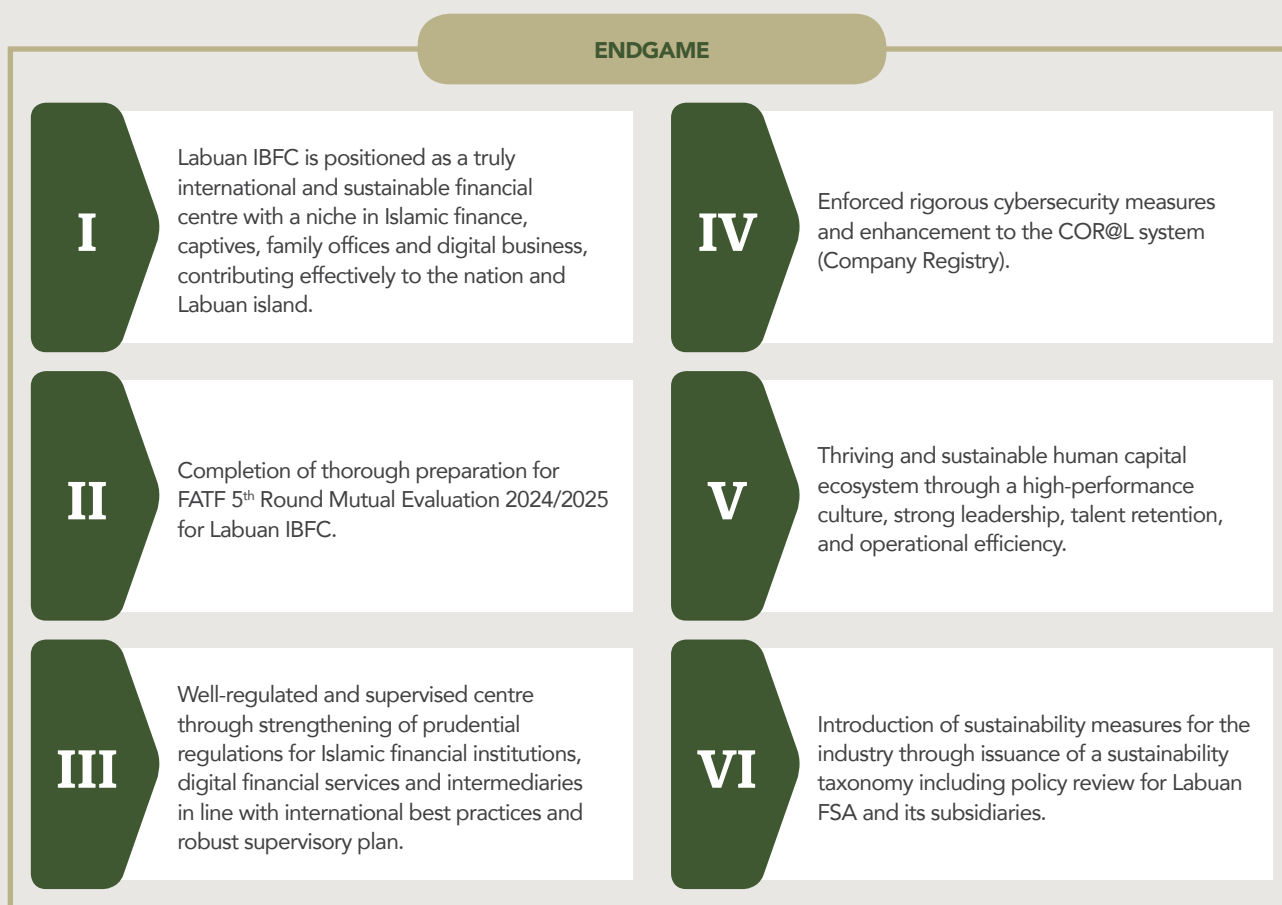
While there has been great progress in enhancing Labuan IBFC’s legal and regulatory requirements to be aligned with international standards, the momentum is continued with modernisation of the AML/CFT regulatory framework and market practices. This would continue to be a prioritised commitment to ensure Labuan IBFC is positively rated when it participates in international assessments. For the forthcoming Financial Action Task Force Mutual Evaluation on Malaysia scheduled for 2024/2025, Labuan FSA is committed to achieving all the identified action plans mandated by the National Coordination Committee to Counter Money Laundering (NCC).

Introduction

What is Ahead of 2024

The global outlook for 2024 is projected to sustain a moderate growth pace, albeit with some uncertainties. Heightened geopolitical risks from major economies with the resultant potential for volatility, continue to be variables in the international business landscape. Despite these external headwinds, greater collaboration between Labuan FSA and domestic agencies is expected to germinate new business opportunities through creative use of Labuan IBFC’s unique structures. Labuan IBFC is also poised to become Asia’s Islamic finance hub for blockchain business applications as the IDAC initiatives expands and more digital Shariah-compliant initiatives are pursued.

As Labuan FSA embarks on the third year of the Strategic Roadmap, our focus on sustaining the growth momentum of Labuan IBFC is centred on six key initiatives that serve as guiding principles, shaping our strategic direction and aspirations for 2024:



Labuan FSA will continue to support the existing Labuan players and collaborate closely with the key stakeholders in advancing towards achieving the outcome in the Strategic Roadmap.

Market Highlights for 2023



COMPANIES

8%

Increase in New Incorporations



BANKING

322.5%

Hike in Profitability



INSURANCE

67%

Increase in Underwriting Margin



TRUST COMPANIES

325.2%

Significant Increase in Profitability



FINANCIAL EXCHANGE

221%

Growth in Asset



CAPTIVES

9.4%

Growth in Total Gross Premiums

An all-time high premium volume recorded since the prior five years



ISLAMIC FINANCE

4 RAMZ valued

USD50 Million

listed on Labuan Exchanges

Companies



4,788

OPERATING
COMPANIES

In 2023, the global economic landscape witnessed an upturn, marked by gradual business recovery across various sectors. This was attributed to the various supportive government policies to bolster the pace of post-pandemic economic recovery, allowing businesses to resume operations and grow with greater certainty. Furthermore, cross-border cooperation fostered resilience in supply chains, mitigating disruptions and facilitating smoother international commerce.

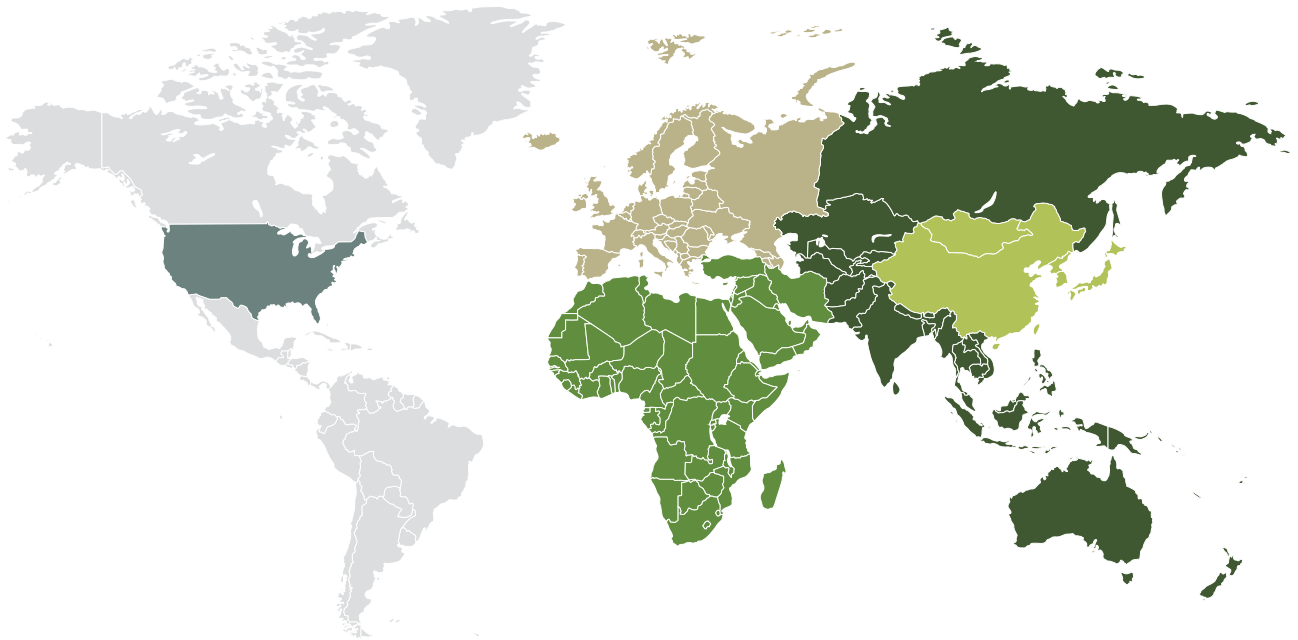
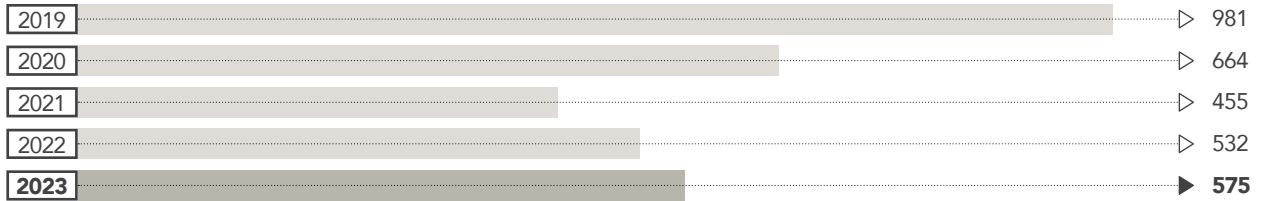
Fueled by these dynamics, new company incorporations continued to register growth of 8% in 2023 contributed by:

» New incorporations from Asia-Pacific region grew by **14.9%**.

» Aside from Malaysia, incorporations of Asian origins were mainly from Singapore, Indonesia, India and Pakistan.

Companies

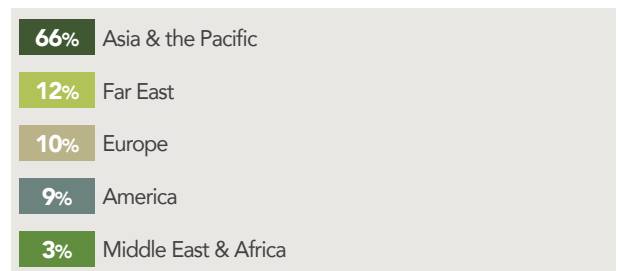
New Incorporations



New Companies by Region



Total Operating Companies by Region



- More than 60% of the total Labuan companies originated from the Asia-Pacific region. The remaining are from the Far East (12%), Europe (10%), America (9%) and Middle East & Africa (3%).
- The total number of operating companies remained stable at 4,788, comprising:
 - 2,764 engaged in diverse business activities, encompassing licensed activities, backroom, agency and management services, manufacturing, IT and telecommunication as well as engineering;
 - 1,767 were non-trading companies or investment holding vehicles; and
 - 257 were a combination of trading and non-trading companies.

Banking



72

NUMBER OF BANKS

» 38

Commercial Banks

» 34

Investment Banks

The year 2023 was a promising period for global banking overall amidst rising interest rates that boosted profits in a more supportive credit environment. A favourable business setting seems to have returned to the industry despite some parts of the economies continued to experience isolated banking challenges which required government intervention. Rising consumer expectations, innovative new entrants and emerging digital and technological advancement have pressured the incumbent traditional banks to bring meaningful innovation to their established businesses.

The Labuan banking industry had demonstrated a commendable performance in 2023. The approval of four new investment bank licences marked a continued expansion of the Labuan banking industry, bringing the total number of banks to 72. Amongst the new approvals, one bank originates from Dubai, while another hails from the Pacific region, Vanuatu.

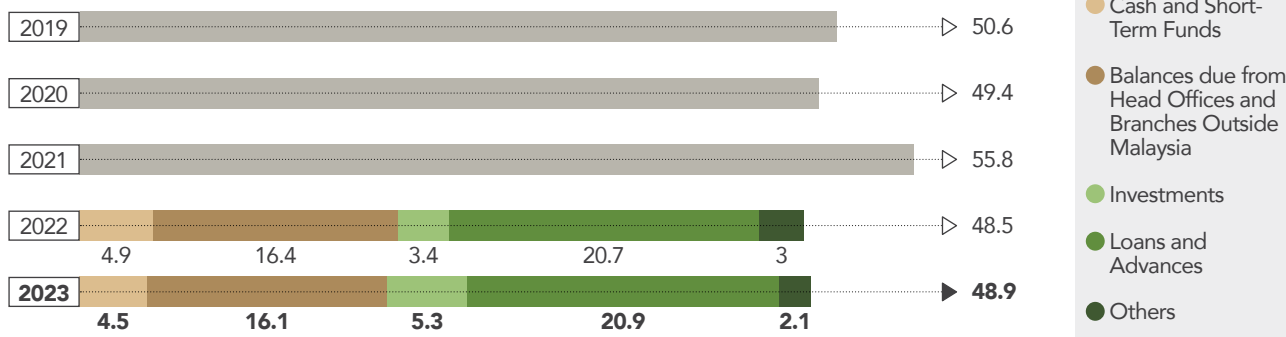
Banking

This demonstrates Labuan IBFC's commitment to capitalise on opportunities beyond the boundaries of the Asian region. By expanding into these key markets in the Middle East and the Pacific region, Labuan IBFC seeks to fortify its global presence by attracting a broader client base and leveraging on their established network. This market expansion marks a significant milestone in Labuan IBFC's endeavour towards augmenting its market presence.

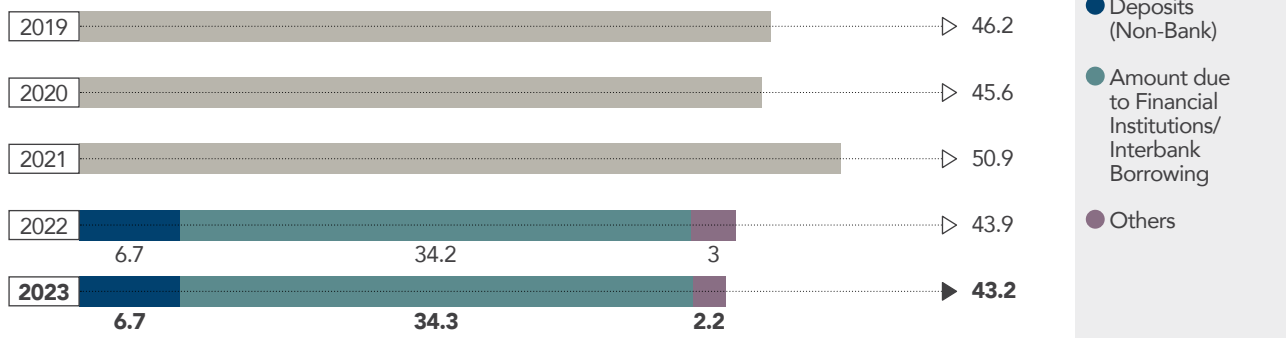
In 2023, the banking industry showed a robust financial performance, characterised by steady growth in financing and a profitability hike balanced underpinned by prudent asset management practices as well as a strong capital adequacy ratio. This reflected the industry's increased financial capabilities, especially in the light of it being the largest financial sector in the Centre that strongly supports the island's development through economic spin-offs.

Total Assets and Total Liabilities

TOTAL ASSETS (USD Billion)



TOTAL LIABILITIES (USD Billion)



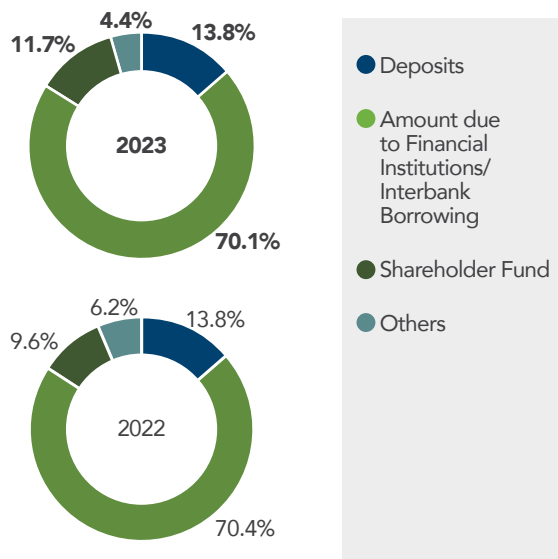
- Total assets increased by 0.8% to USD48.9 billion, mainly attributed to higher investment in debt instruments. Balances due from financial institutions/interbank placements remained stable in line with heightened funding costs due to global interest rate hike.
- Interbank placement assets remained crucial as a means of diversifying funding sources by Labuan banks. Notwithstanding this, the component reduced by 1.7% as a result of banks' prudent liquidity risk management to ensure effective asset allocation and market volatility is appropriately addressed.
- Interbank borrowing continued to be the largest component of banking liabilities, contributing 79.3% of the total. Such borrowings were relied upon for short term funds sources as part of the banks' liquidity management. In addition, deposits and amount due to financial institutions/interbank borrowing remained stable, which constituted 94.9% of the liabilities.

Banking

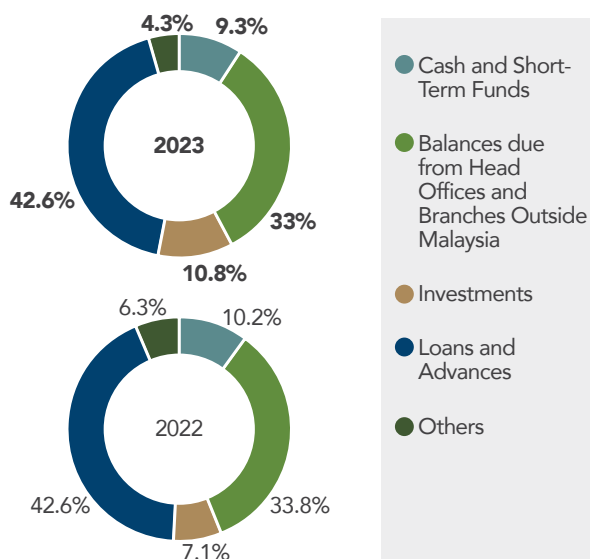
Sources and Uses

- Borrowings from head offices and financial institutions remained as the main sources of funding for Labuan banks amounting to 70.1% (USD34.3 billion) of the total.
- In terms of uses of funds, bulk were utilised for financing as well as interbank placements; which constituted 42.6% and 33% of the funds, respectively.

SOURCES OF FUND

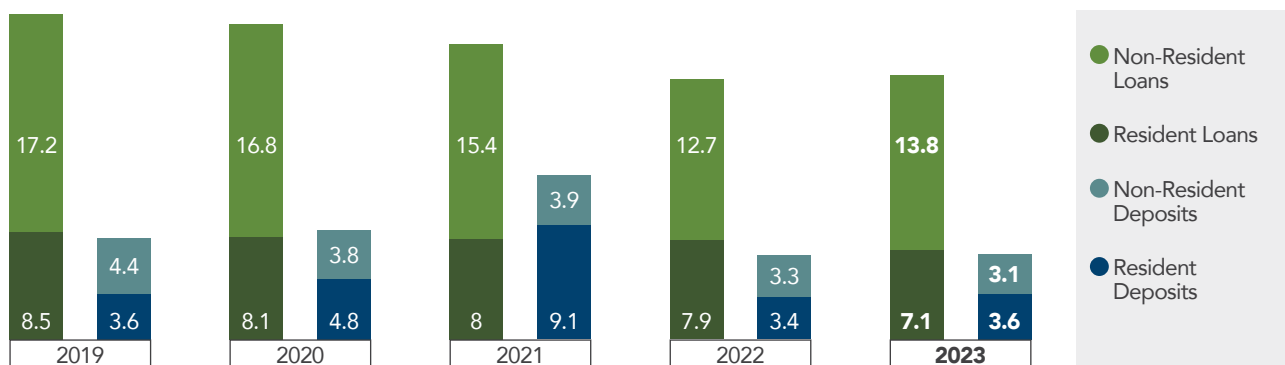


USES OF FUND



Loans and Deposits

TOTAL LOANS AND DEPOSITS (USD Billion)

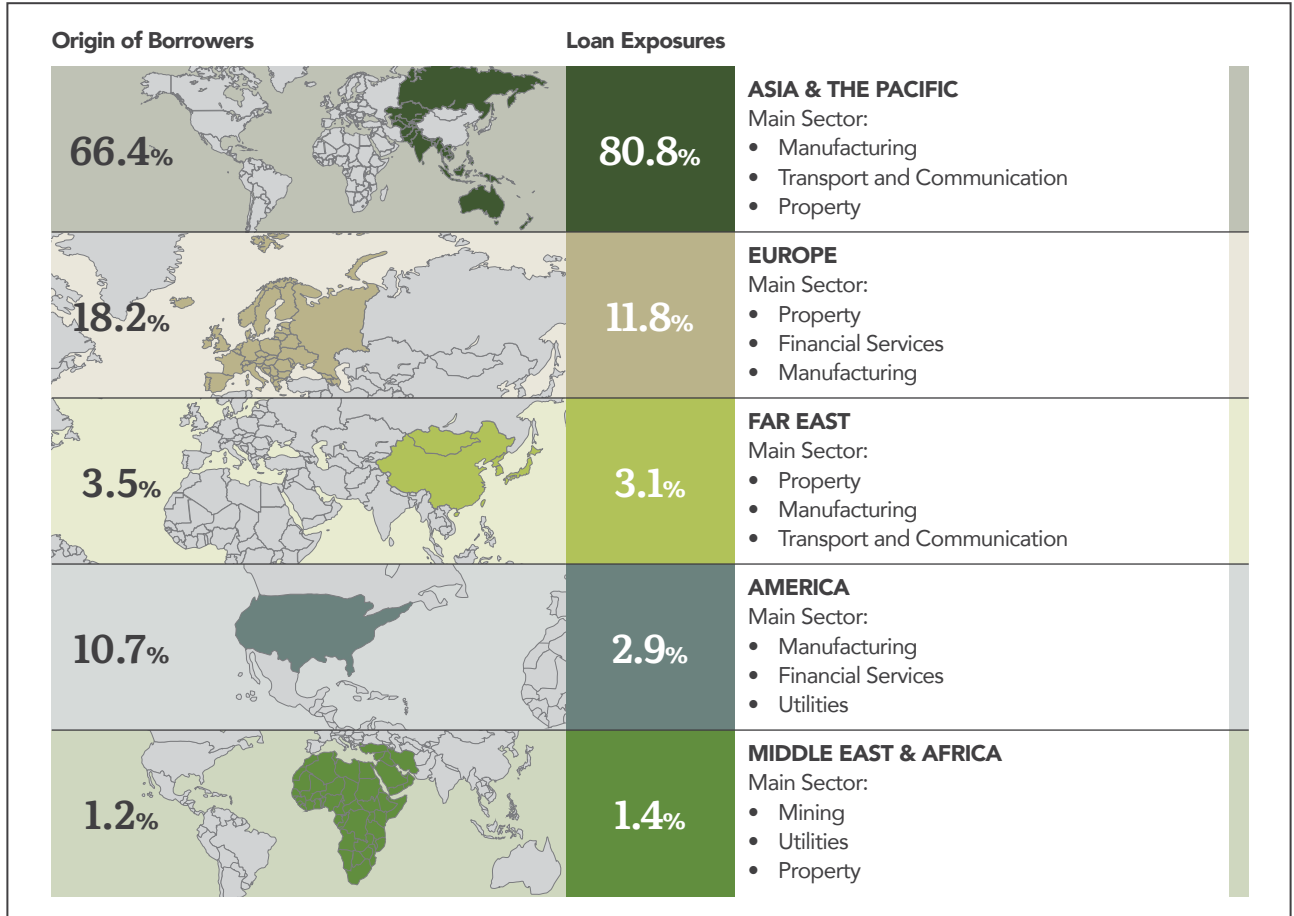


- The total loan portfolios increased marginally to USD20.9 billion mainly due to new resident loans. The financing was relatively low reflecting banks' cautionary appetite for lending in the wake of slow economic recovery and business volatility especially within Asia.
- The total customer deposits remained modest at USD6.7 billion. Resident depositors constituted the majority share with 53.4% (USD3.6 billion), primarily from the oil and gas sector. With the rapid expansion of new Labuan entities entering into the Centre, there is a huge hike in demands for deposit placement amongst Labuan banks, particularly those undertake innovative digital financial businesses. It is foreseen that this opportunity will be leveraged on either by existing banks' more pragmatic deposit taking strategies or new banking entrants which intend to capitalise on the Centre's expanding market volume.

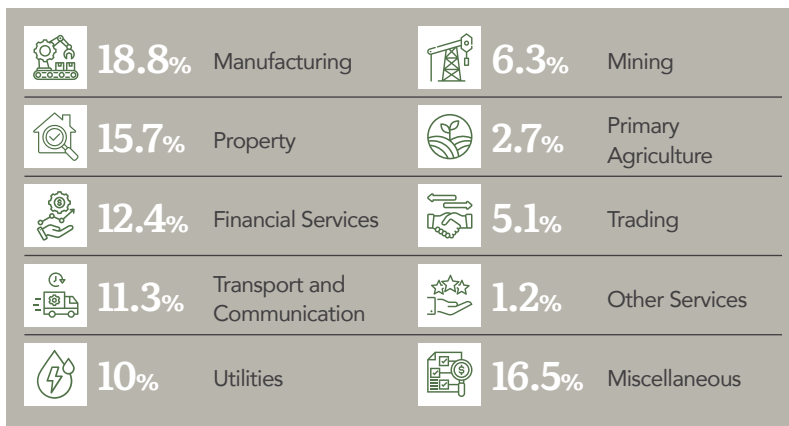
Banking

Loan Portfolios

BY REGION



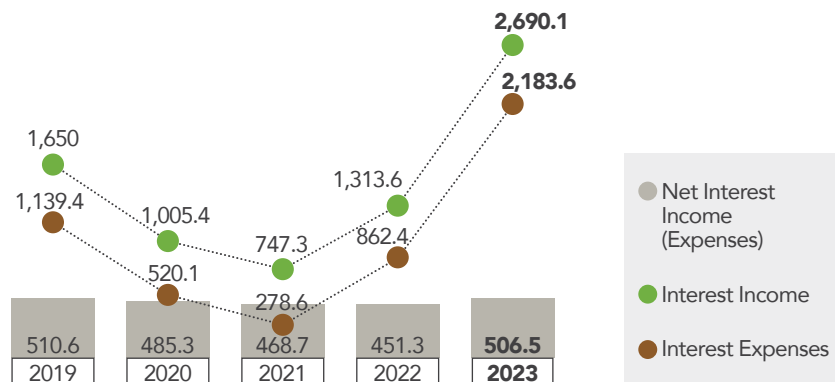
BY SECTOR



- In terms of loan exposures across regions, Labuan banks' financing continued to focus on primary real sectors within Asia-Pacific region.
- Nearly half of Labuan financing volume (46.9%) was channelled to manufacturing, property and financial services.
- Labuan banks will continue to accommodate the financing demands in order to facilitate the region's economic recovery.

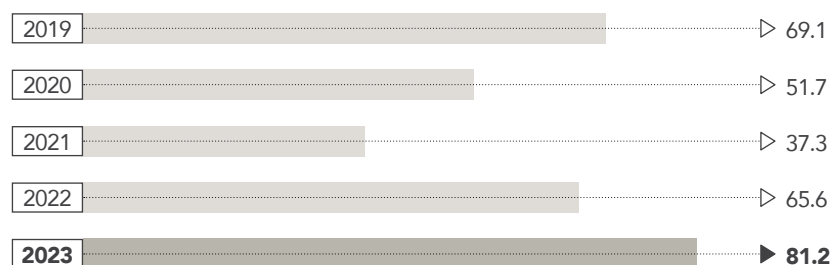
Banking

INTEREST INCOME AND INTEREST EXPENSES (USD Million)



- Interest income, although offset by corresponding interest expense cost, had surged more than doubled. This favourable growth had led to an expanded net interest income which grew by 12.2% to USD506.5 million – reversing the declining trend from 2019 to 2022.
- The increasing trend in interest expenses in borrowing can be attributed to interest rate spikes, changes in interbank borrowing terms, and reduction in interbank placements.
- Interest Expense to Interest Income ratio remained high during the period under review, hovering between 65.6% and 81.2%.

INTEREST EXPENSES TO INTEREST INCOME RATIO (%)



NON-INTEREST INCOME (USD Million)

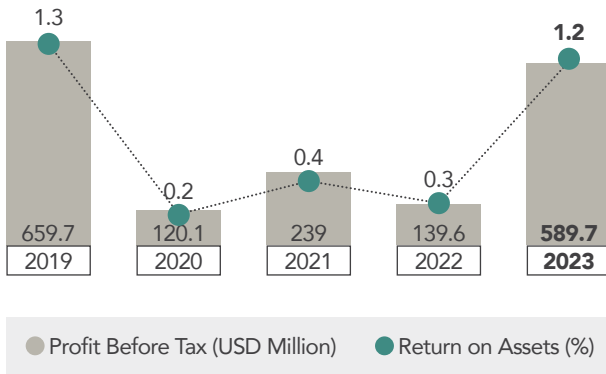
Market Share	Description	Amount	Growth
100%	Total Non-Interest Income	560	-21.6%
16.7%	Impairment Reversals	93.6	-43.5%
58.9%	Gains on Financial Instruments	329.5	-34%
14.6%	Fee and Commission Income	81.7	-9.3%
9.7%	Others	54.5	-235.2%
0.1%	Dividend Income	0.7	444.1%

NON-INTEREST EXPENSES (USD Million)

Market Share	Description	Amount	Growth
100%	Total Non-Interest Expenses	476.8	-53.6%
44.7%	Losses on Financial Instruments	213	-61.7%
23%	Impairment Losses	109.9	-65.4%
10.3%	Others	49.2	9.8%
16.1%	Administration Costs	76.6	-0.5%
5.9%	External Services Arrangement Costs	28.1	-8.7%

Banking

PROFITABILITY (USD Million)

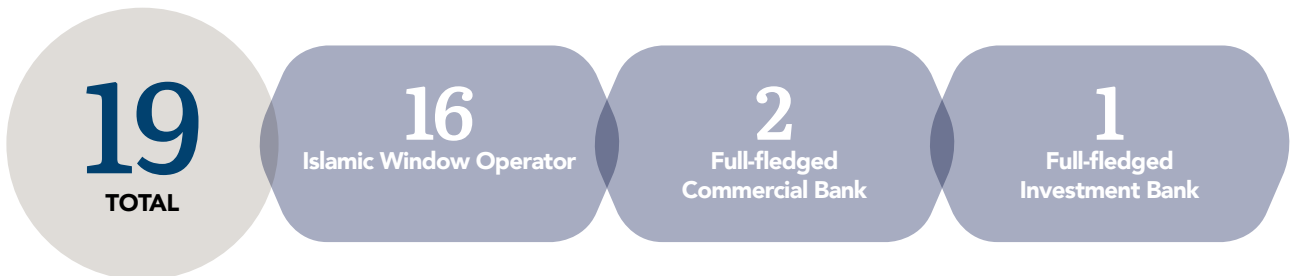


- The banking industry’s profitability rose significantly by more than three-fold to USD589.7 million, surpassing those of the past three years:
 - The profitability hike was largely driven by the surge in interest income, fuelled by the favourable environment characterised by higher rate of interest; and
 - The banks capitalised on the positive market conditions clearly reflects the industry’s strategic financial management in weathering the regional business climate.
- Return on Assets was four times higher at 1.2%.

Islamic Banking

The Islamic banking sector showed a moderation in its assets, mainly due to decreased financing activities and settlements by resident borrowers. This observation shows the high potential for Labuan Islamic banking to grow in view of the refreshed interest in Islamic finance within Asia and beyond.

NUMBER OF OPERATORS



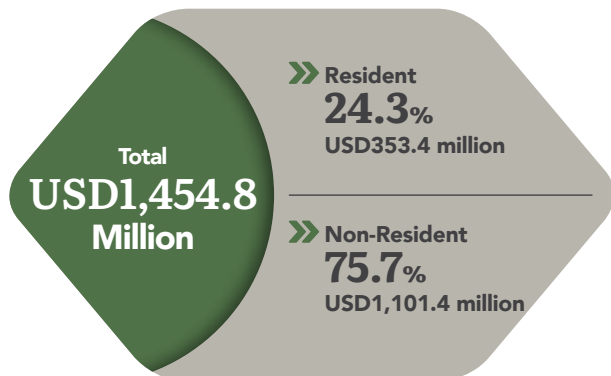
TOTAL ISLAMIC ASSETS (USD Billion)



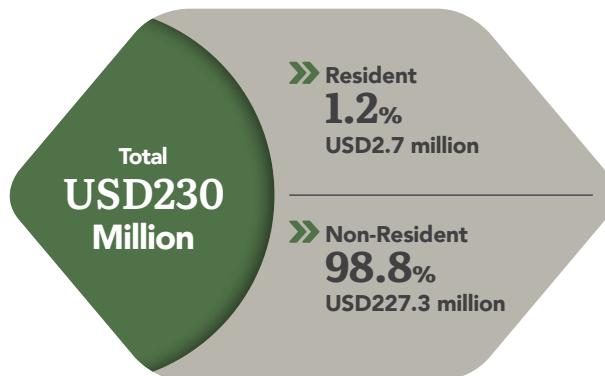
- The decline in Islamic assets to USD1.6 billion was mainly contributed by Islamic windows, which accounted for 3.3% of total industry’s assets.

Banking

FINANCING










DEPOSITS



- The Islamic banking financing decreased by 31.1% due to settlements by non-resident borrowings. In terms of overall Labuan financing, Islamic banking contribution moderated to 3.2% relative to that in the prior year's 3%.
- In contrast, Islamic deposits nearly doubled to reach USD230 million, attributable to non-resident depositors. Such encouraging market performance could be supported by greater awareness in the unique features of Islamic banking offerings and favourable interest rate environment.
- Riding on this positive outlook, Labuan Islamic banking would continue to attract Asia's funds with innovative Shariah-compliant financial solutions into the Centre.

MARKET SHARE BY SECTOR

 54.6% Financial Services	 2.1% Utilities
 10% Primary Agriculture	 1.6% Transport and Communication
 24.1% Property	 2.1% Trading
 5.5% Mining	

- In terms of financing by sectors, Labuan Islamic banks' financing is primarily concentrated in financial services. As Islamic and sustainable finance are on the rise, therein lies the untapped potential to expand Islamic finance into non-financial sectors, providing them with an alternative solution to conventional banking.

Reinforcing Cyber Resiliency Within Labuan IBFC

With the incessant waves of digitisation over the recent years, the global financial landscape has undergone profound transformation. This is further propelled by the increased digital consumerism with preference for convenient access to innovative financial solutions at a click. This transformative tide, which has reshaped the industry, has been further intensified by the unprecedented COVID-19 pandemic which impeded the reach to traditional financial services. As financial institutions adapt to the fast-changing business environment, the synergy between digital advancements and changing consumer behaviours continues to drive the way financial services are conceptualised, delivered and experienced by consumers. However, innovations, while seen favourably as transformative change for the better, also usher in formidable challenges in the form of cyber threats and disruption risks.



COST OF CYBERCRIME

USD10.5 Trillion

According to Steve Morgan, Founder of Cybersecurity Ventures, the global annual cost of cybercrime is predicted to reach USD9.5 trillion in 2024. By 2025, cybercrime is projected to cost the world USD10.5 trillion.

The statistics presented in the 2023 Official Cybercrime Report by Cybersecurity Ventures reflected the escalating cyber risks expected over the next two years. With this in mind, regulatory framework has become more crucial especially in tackling and addressing disruptive digital innovation and cyber threats which can destabilise the financial market. More importantly, the digital regulations need to be sufficiently robust and future-proof to ensure a stable ecosystem whilst promoting a sustainable, business-pragmatic environment.



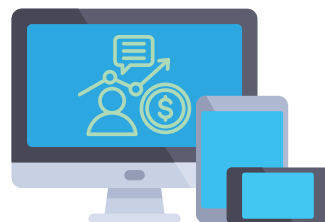
160%

Triple-digit growth in Labuan Digital Financial Services since 2021



Emergence of new virtual assets (VA) traded in the region necessitates for greater risk mitigation and safeguarding

- Exchange between VA & fiat currencies
- Exchange between VA & VA



Observations: The Labuan IBFC Digital Frontier

The rapid growth of Labuan's digital financial services (Labuan DFS) is akin to that of the Asian trends, which showed significant upward trend since 2020. This business surge prompted a concerted effort to modernise the Labuan digital regulations since 2021 as new Labuan DFS were permitted to operate in the Centre. This was driven by the increased demands for digital solutions by discerning consumers accentuated by the pandemic's effects on traditional financial market. The evolution of Labuan digital regulations stems from forming foundational building blocks to instituting more sophisticated requirements. This is to ensure that the markets are guided by fit-for-purpose regulatory framework which addresses the emerging risks and concerns as the Labuan DFS sector grows in size and complexity as reflected in Diagram I.



Diagram I: Charting the Trajectory of Labuan Digital Regulations

Recognising the importance for agility in policy making, Labuan FSA has structured the digital regulations to allow for a phased-in implementation. This is to ensure that focus is given to address priority areas with the implementation of critical policies to prevent instability in the Centre's DFS sector. The end game is to inculcate a sound and supportive ecosystem across digital financial businesses as well as to build institutional resilience to address emerging cyber threats. An overview of the digital regulatory development over the years is outlined in Diagram II.

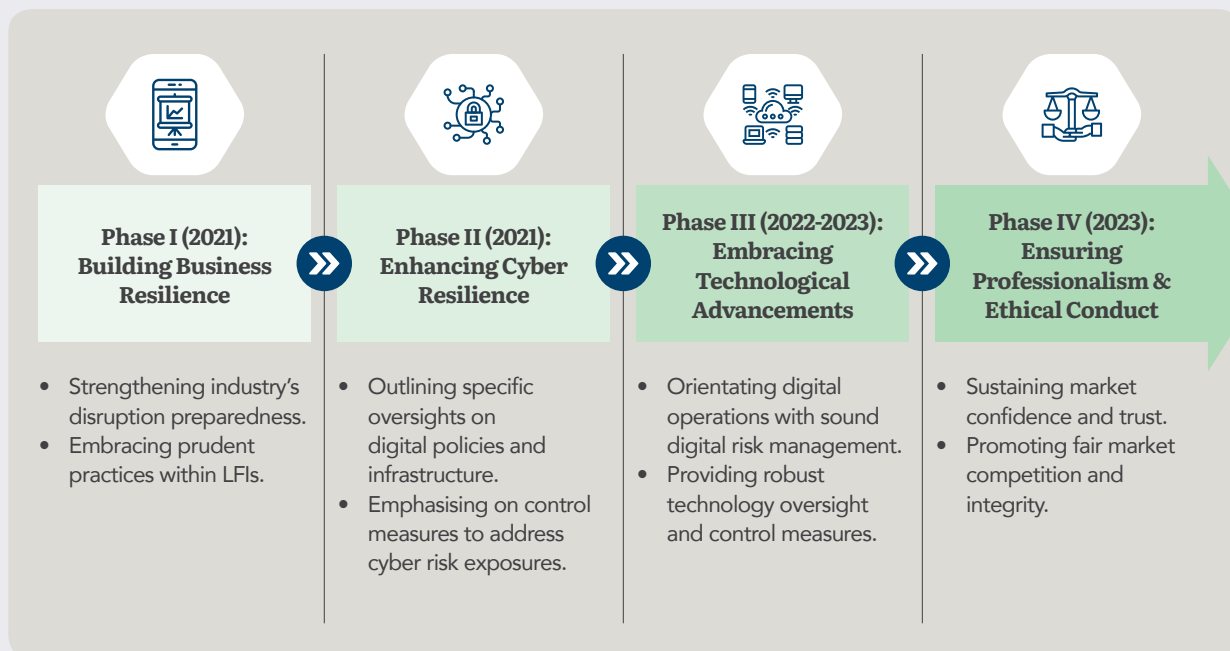


Diagram II: Overview of the Digital Regulatory Framework in Labuan IBFC

Reinforcing Cyber Resiliency Within Labuan IBFC

Phase I (2021): Building Business Resilience



The initial phase in 2021 was to focus on instilling operational resilience amongst the DFS providers. This is to strengthen Labuan financial institutions (LFIs) against disruptions including those arising from cyber-related vulnerabilities by:

- Addressing market practices disparity through prudent business continuity regulation;
- Strengthening industry's disruption preparedness to mitigate emerging risks brought by the COVID-19 pandemic; and
- Embracing prudent practices within LFIs' operations to acclimatise to post-pandemic business environment.

Phase II (2021): Enhancing Cyber Resilience



Under Phase II, emphasis is given towards strengthening LFIs' cyber resilience through enhanced governance and digital risk management practices. This entails the adoption of a systematic and consistent approach by LFIs through:

- Governance by outlining specific oversights on digital policies and infrastructure; and
- Comprehensive Enterprise Risk Management by emphasising on control measures to address cyber risk exposures.

Phase III (2022-2023): Embracing Technological Advancements



The Phase III regulations were concentrated on elevating market practices for LFIs to have effective internal policies and risk management controls on new technology management. This is to ensure that the Labuan DFS remains at the forefront of digital innovation without compromising their operational stability and system security through:

- Orientating LFI's digital financial business operations premised on a set of sound digital risk management policies and practices; and
- Providing parameters for robust technology oversight and proactive control measures that focus on LFIs' technology risk management.

Phase IV (2023): Ensuring Professionalism & Ethical Conduct



The fast-growing Labuan DFS necessitated timely regulatory intervention to safeguard and maintain market orderliness. This is achieved through:

- Sustaining market confidence on Labuan DFS professionals and their service delivery;
- Promoting fair market principles to foster healthy competition amongst LFIs offering DFS;
- Upholding market integrity by mandating LFIs to effect rigorous market surveillance measures against market manipulation and frauds; and
- Implementing relevant digital policies and procedures for LFIs to timely address any market conduct issues vis-à-vis their clients that they serve.

Moving Forward

To provide stewardship to the fast-growing midshore Centre, Labuan FSA is unwavering in its commitment to develop and effect pre-emptive regulations which emphasise on institutional self-compliance and the highest level of professionalism. As Labuan digital landscape evolves, so will Labuan's regulatory initiatives to ensure ongoing relevancy. The new and incoming regulations will be aimed at keeping abreast with new technologies, business innovations, as well as safeguarding the integrity of the Labuan's financial system to address any emerging concerns. Notwithstanding this, Labuan FSA endeavours to create and continuously enhance regulatory ecosystem that gels in prudential requirements with business pragmatism in order to sustain Labuan IBFC as the DFS centre of choice for Asia.

Insurance



235

NUMBER OF INSURERS
AND INTERMEDIARIES

» 132
Insurers

» 103
Intermediaries

The Labuan IBFC has grown in prominence as an expanding insurance market in Asia, which hosts 153 insurers and intermediaries affiliated with multinational insurance groups originating from outside Malaysia. These international entities constitute 65% of the total market players in Labuan IBFC. In terms of market offerings, the Centre offers a wide range of insurance solutions ranging from direct insurance covers, reinsurance protection to innovative risk transfer vehicles in the form of private captives. This is complemented by a complete ecosystem to support insurance businesses comprising broking intermediation as well as technical and backroom processing support.

In terms of market size, Labuan insurance volume had grown by an average of 11.2% over the last three years. In 2023, the Labuan insurance market continued to expand by recording a historic high premium and impressive bottom-line performance. Despite major catastrophes which impacted the global insurance during the year such as the Turkiye Earthquake and Typhoon Doksuri, the sector remained financially robust and resilient. The rigorous regulatory efforts to develop and effect a risk-based capital framework suited for the Centre through the Insurance Capital Adequacy Framework (ICAF) have provided insurers with the needed financial buffers and an advanced risk management approach to better weather external adversities.

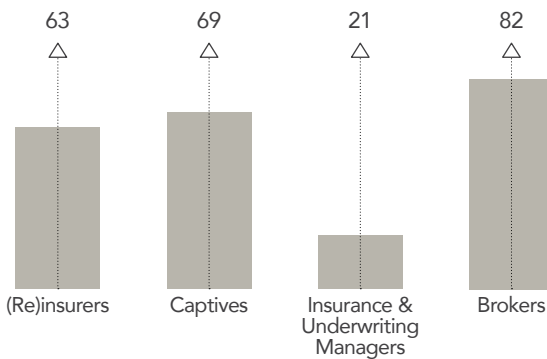
Insurance

Labuan’s regulatory advancements during the year also included the introduction of innovative elements for captive business and improved market conduct expectations in relation to general reinsurance arrangement. These measures are anticipated to further fuel greater demand for Labuan self-insurance solutions and reinsurance placement. With a conducive regulatory environment and proactive efforts to meet the evolving market needs, Labuan insurance industry is poised to maintain its positive growth trajectory.

TOTAL NUMBER OF INSURERS AND INTERMEDIARIES

235

- The total number of approved Labuan insurers and insurance intermediaries grew by 2.2% to 235.

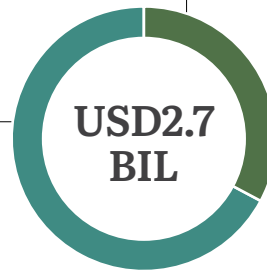


* Lloyd’s Syndicate is licensed as underwriting manager

TOTAL LABUAN INSURANCE MARKET GROSS PREMIUMS/CONTRIBUTIONS

67.2%
USD1.8 BIL

32.8%
USD0.9 BIL

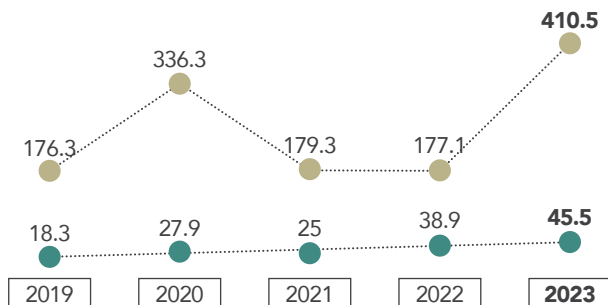


- General (Re)insurance and (Re)takaful
- Life (Re)insurance and Family (Re)takaful

- The combined gross premium/contribution income of the insurance and takaful industry recorded a growth of 19% to reach USD2.7 billion.
- The life and family sector emerged as the primary driver of premium/contribution growth with a significant increase of 57.7%, whereas the general sector experienced a more modest growth of 6.3%.
- The general sector’s total gross premiums/contributions in 2023 surpassed that of 2012 to record a new high of USD1.8 billion. Direct insurance and captive segments were the contributory sectors with a combined premium growth of 19.5% during the year.

TOTAL INDUSTRY PROFITABILITY

Profitability (USD Million)



Insurers

51.8%	Captives
39.5%	General
8.6%	Life & Family
0.02%	Lloyd’s Syndicates

Intermediaries

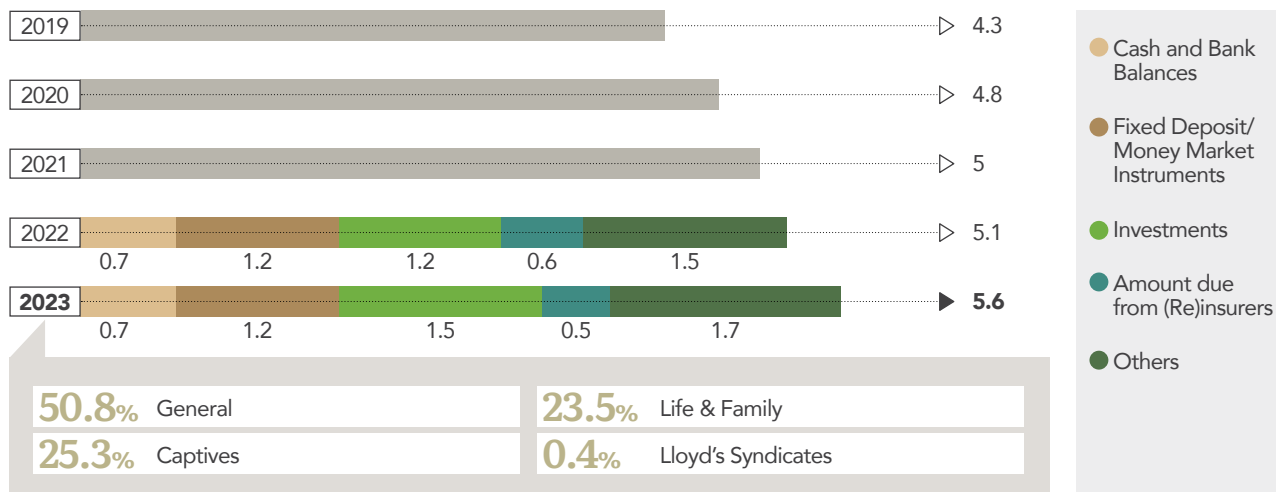
96.1%	Brokers
3.9%	Insurance & Underwriting Managers

- The profitability of (re)insurance sector including (re)takaful business grew more than two-fold to reach USD410.5 million, mainly contributed by the general segment’s improved underwriting and investment performance.
- Concurrently, the insurance intermediation’s profits showed an encouraging 17.1% growth amounting to USD45.5 million, primarily driven by higher brokerage fees earned.

Insurance

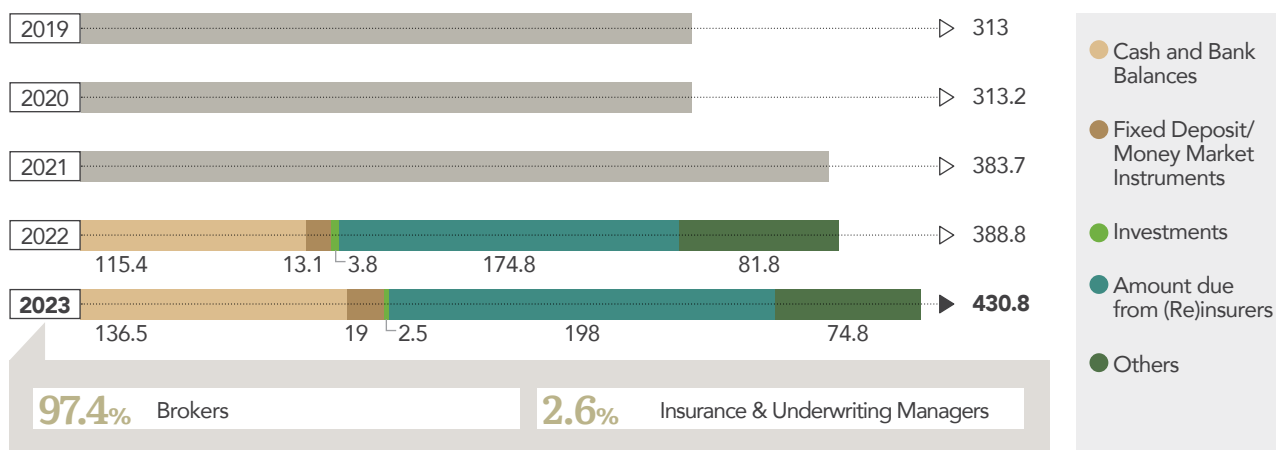
TOTAL INDUSTRY ASSETS

Assets of Insurers (USD Billion)



- The total assets of insurers inflated by 9.6% to USD5.6 billion, primarily attributable to more investments in corporate and debt instruments driven by positive interest rate climate, similarly observed in the Labuan banking industry.
- In 2023, the composition of Labuan insurance assets had shifted with a reduction of cash and deposits from 37% to 32.9%; whilst investments expanded from 23% to 27.2% as compared to the previous year.

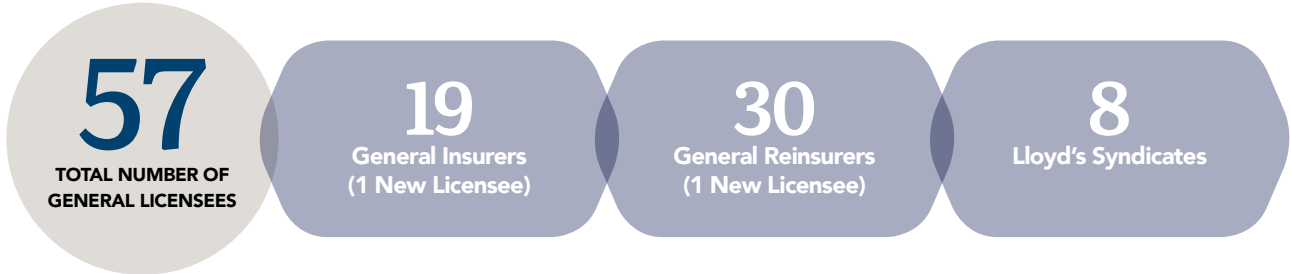
Assets of Insurance Intermediaries (USD Million)



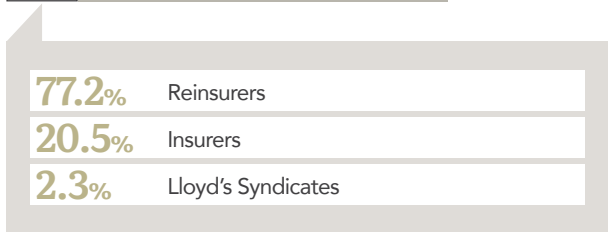
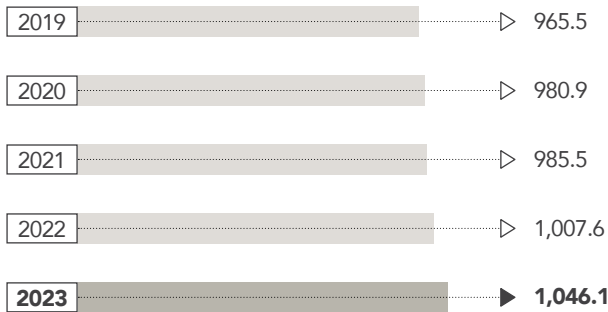
- Consistent with the growth observed in insurers, the total assets of insurance intermediaries grew by 10.8% to USD430.8 million.
- Notwithstanding this, the factors influencing asset growth differ with a greater cash and deposit allocation of 36.1% (2022: 33%), along with increased amounts due from (re)insurers (2023: 46%, 2022: 44.9%).

Insurance

General Insurance Business

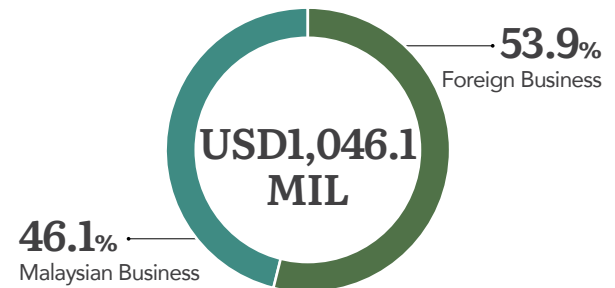
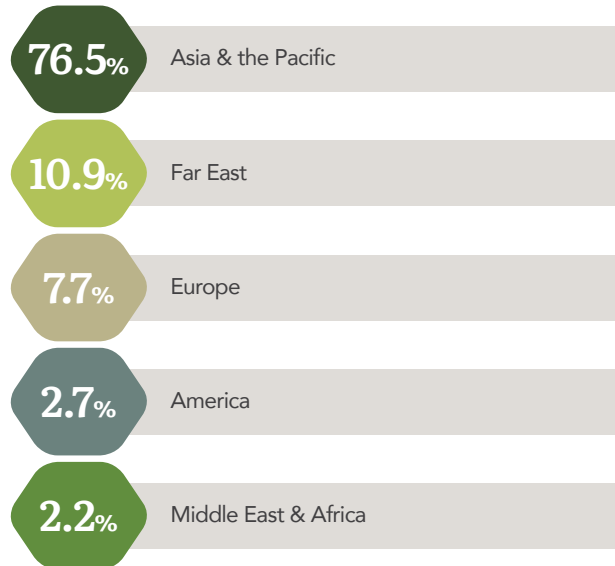


Total Gross Premiums (USD Million)



- The gross premiums for general (re)insurance business in 2023 grew by 3.8% to USD1 billion.
- Direct insurance achieved an impressive premium growth of 63.3% during the year.
- Reinsurance and Lloyd's Syndicate premiums slightly moderated by about 5%, and the former remained as the largest insurance segment.

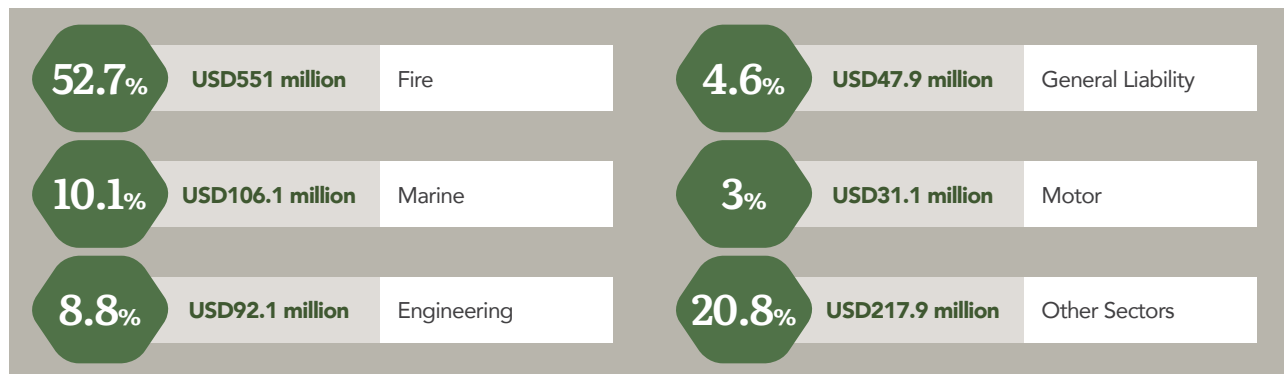
Distribution of Gross Premiums



- Foreign business recorded a larger market share with insurance risks underwritten primarily from the Asia-Pacific markets and the Far East region. This constituted 53.9% of the industry's gross premiums (2022: 56.1%), amounting to USD564.3 million.

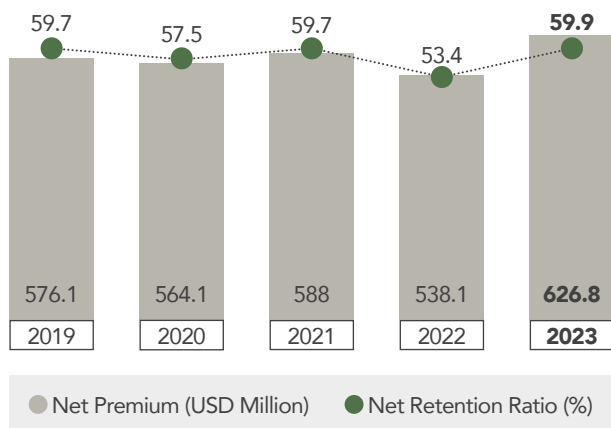
Insurance

Market Portfolio Component



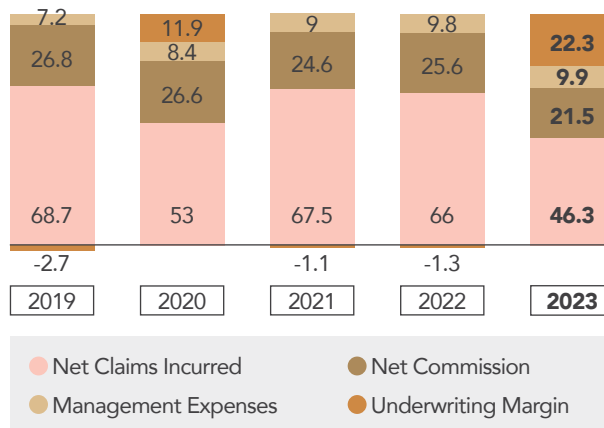
- Fire, marine, engineering, general liability and motor remained the top five classes of business underwritten by the general insurance industry, collectively accounted for 79.2% market share (2022: 77.8%).
- Among these, only the marine and general liability sectors experienced a reduction in gross premiums of 8.2% and 3.6%, respectively.

Retention Level



- The net retention ratio of the industry rose to 59.9%, sustained by the higher retention for Malaysian and foreign businesses underwritten.
- In terms of business lines, higher retention was observed across fire, marine, motor and other classes during the year reflecting a higher preference for the Centre as capacity provider in supporting the demand from Asia's international insurance business.
- The motor business line continued to capture the highest net retention reflecting an average of 81.4% since 2021.

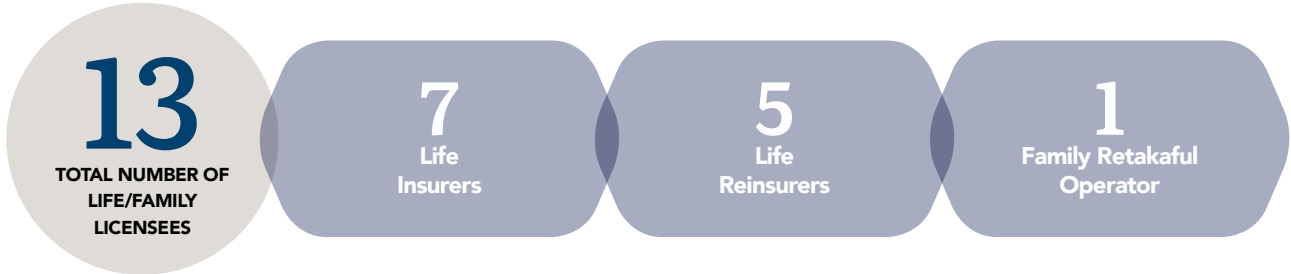
Underwriting Performance (As Proportion of Earned Premium) (%)



- In 2023, the industry recovered from an underwriting loss to record a multifold profit growth to reach USD146.6 million. This reflected a shift from the preceding two years as both had shown average underwriting losses of around USD6.7 million post-pandemic.
- The U-shape underwriting trending was mainly contributed by two factors:
 - Increased premium income earned of USD131.3 million had inflated by industry's topline performance as well as higher business retention during the year, and
 - Favourable claim experience improved significantly by 12.2% to USD304.8 million mainly due to decline in fire claims arising from Malaysian business portfolio.

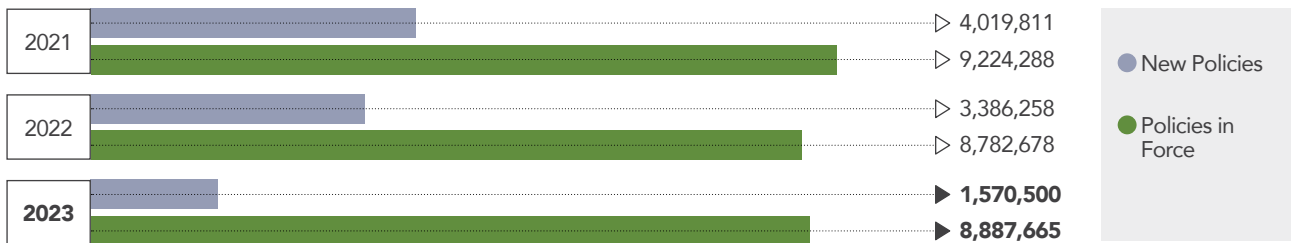
Insurance

Life Insurance and Family Takaful Business

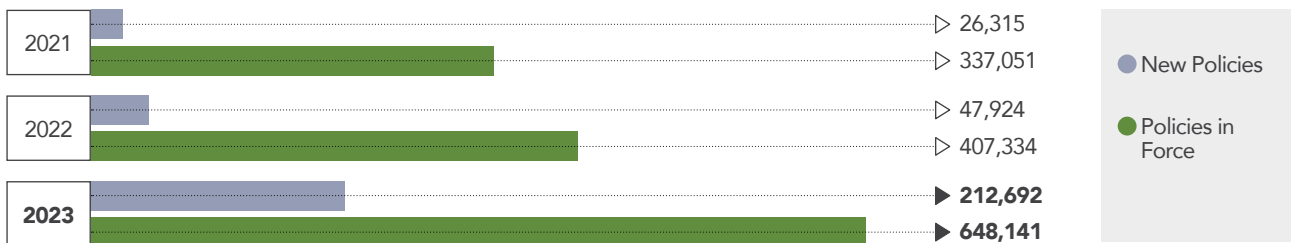


Labuan life and family takaful offerings have garnered growing demands over time comprising traditional life policies, investment-linked products, and annuities. In terms of portfolio composition, the former two products represent the largest segments combined.

No. of Ordinary Life Policies



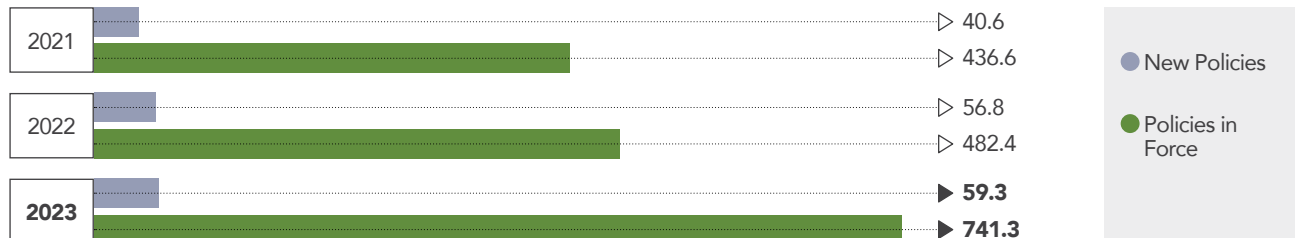
No. of Investment-linked Policies



- The total new investment-linked policies issued grew more than fourfold to record 212,692 policies, correlating with renewed optimism in financial investments and improving capital market performance.
- New business for ordinary life products showed a contrasting trend with lower policies recorded. The dampened demands for traditional life covers are likely to be attributed to the lacklustre trend of household disposable income in tandem with the slow economic recovery around the region post-pandemic.

Insurance

Premiums/Contributions of Ordinary Life Policies (USD Million)



Premiums/Contributions of Investment-linked Policies (USD Million)



- Despite the divergent trends in policies issued, both products exhibited upward trajectory in terms of premiums/contributions underwritten as well as sums assured. This clearly depicts the growth potentials in the Centre’s life and family solutions which can further ride on improving policyholders’ confidence as economic recovery momentum grows over time.

Sum Insured of Ordinary Life Policies (USD Billion)



Sum Insured of Investment-linked Policies (USD Billion)

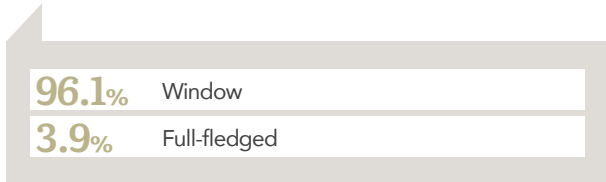
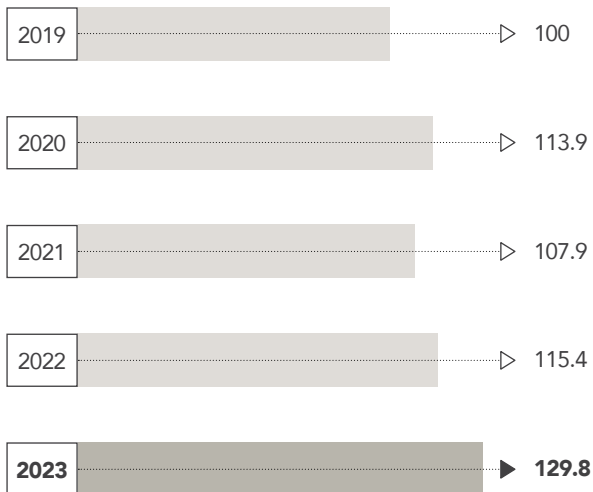


Insurance

General Takaful Business

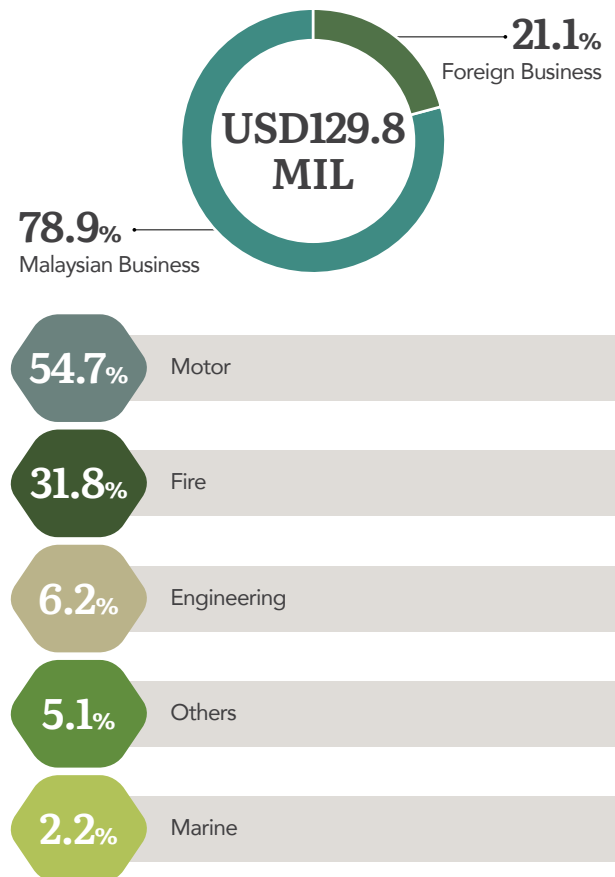


Total Gross Contributions (USD Million)



- The total gross contributions underwritten by general (re)takaful sector grew by 12.5% to USD129.8 million.
- The net retention of the sector remained high at 95.6%.

Distribution of Gross Contributions



- Gross contributions by the sector were from the Asia-Pacific as well as the Middle East regions.
- Motor business garnered the largest market share of 54.7% (USD71 million). The segment continued to show expansion with 27.9% contribution growth in 2023.

Insurance

Captive Business



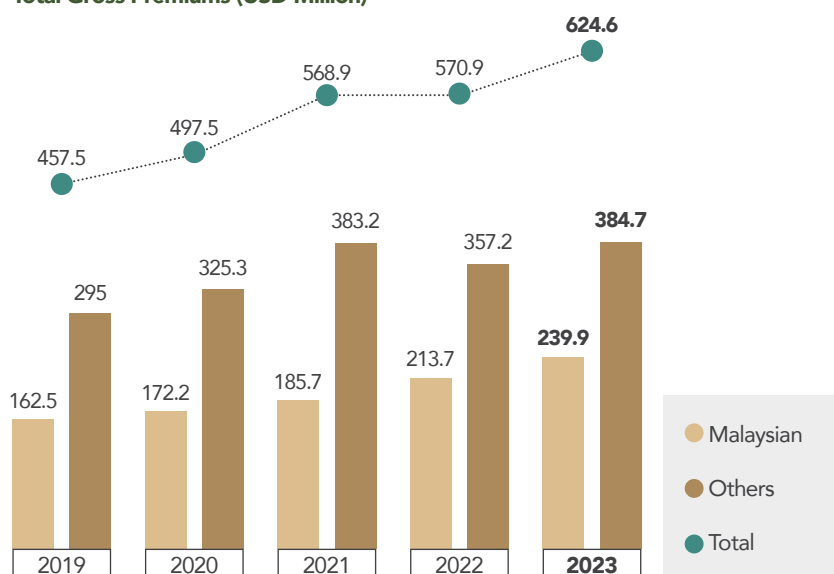
Labuan IBFC continued to attract the establishment of new captives with its range of different captive structures available for businesses seeking alternative risk management solutions especially in the face of hardening insurance market. To intensify captive business development momentum, Labuan FSA refined the captive market requirements by issuing a set of comprehensive omnibus regulations for the sector. This includes:

- The expansion of insurable risks that can be underwritten by Labuan captives;
- New structures for rental captives; and
- Enhanced procedures for the establishment of new cells for Protective Cell Companies (PCCs).

These enhancements are intended to modernise the requisite requirements for captive and to broaden the range of captive structures offered by the Centre.

In tandem with the sector’s positive outlook, eight new captives had been set up during the year, bringing the total number to 69. Most of these were established by small and medium enterprises to underwrite comprehensive general and contractual liability as well as cyber risks. Two of the new captives were association captives which were established to underwrite their members’ risks. In addition, PCCs are gaining traction during the year with three new setups approved, and three new cells were established.

Total Gross Premiums (USD Million)

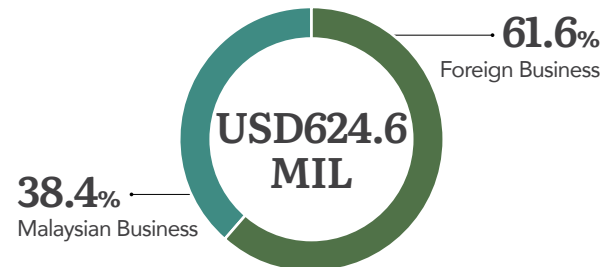
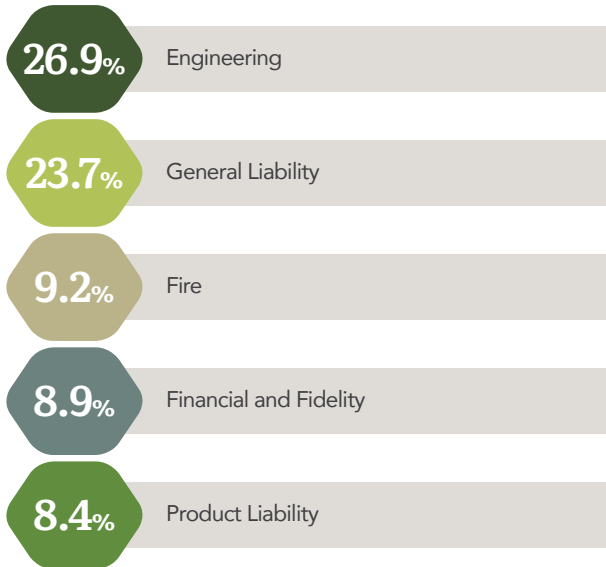


- In 2023, Labuan captive business maintained its upward trajectory with a 9.4% growth in total gross premiums to USD624.6 million – an all-time high premium volume recorded since the prior five years.
- Labuan captive premium volume had grown to contribute 34.7% of the total general industry premiums. Premium growth was mainly driven by fire, liability, industrial special risks and fidelity business lines.
- The net retention of captives remained high in the range of 64% to 70% over the 2019-2023 period.

Insurance

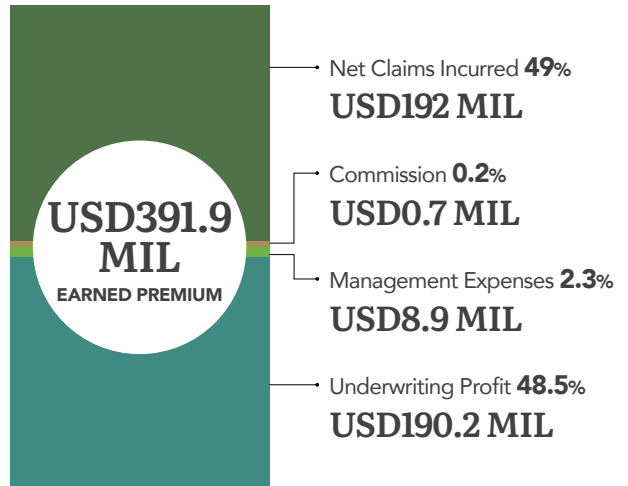
Distribution of Gross Premiums

Top 5 Classes of Business Underwritten



- Labuan captive business underwrites mainly Asian-related risks predominantly from the Indonesian and Japanese markets.
- The businesses underwritten by Labuan captives continued to focus on engineering and general liability segments with a combined gross premiums of USD315.9 million.

Underwriting Performance (As a Proportion of Earned Premium)



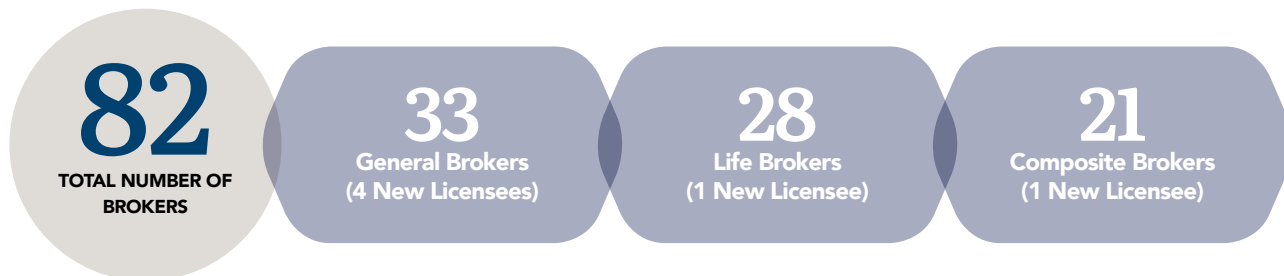
- The captives' underwriting ratio improved from 46.7% to 48.5%, due to higher earned premiums and increased net commission income.



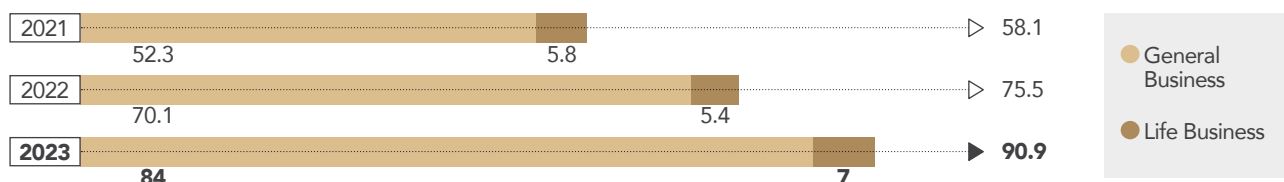
- Labuan IBFC continued to capture international recognition through the conferment of the *Highly Commended Award for International Captive Domicile* by the European Captive Review Awards 2023.

Insurance

Insurance Broking Business



Brokerage Fees (USD Million)



- The Labuan brokerage fees earned experienced a 20.4% growth to USD90.9 million, in tandem with the positive growth reflected particularly in the general segments of both insurance and takaful market.
- In terms of broking business composition:
 - General reinsurance broking contributed 78.1% of the total brokerage income;
 - 7.5% were related to life insurance broking; and
 - General retakaful windows accounted for 8.3% of the total.

Premium Placements (USD Million)



PREMIUM OF USD1,247 Million

<p>97% General Business</p> <ul style="list-style-type: none"> → 57.5% Malaysian Business → 42.5% Foreign Business 	<p>3% Life Business</p> <ul style="list-style-type: none"> → 49.3% Malaysian Business → 50.7% Foreign Business
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Placed with (Re)insurers in:

- 18.2% Labuan
- 36.4% Malaysia
- 45.4% Others

- In 2023, total premium transacted through Labuan insurance brokers moderated by 4.2% to USD1,247 million.
- In terms of premiums placement:
 - General reinsurance business comprised 77% of the total premiums placed;
 - General retakaful windows represented 17.6% of the total premiums placement by Labuan insurance brokers; and
 - More than half of the Labuan brokerage volume relates to Malaysia portfolio and were mostly channelled to international (re)insurers and (re)takaful operators.

Capital Market



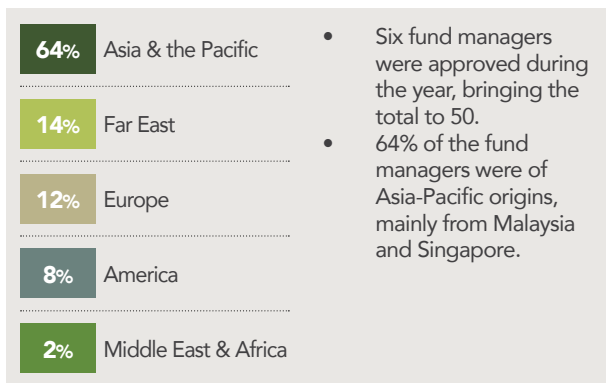
With the emergence of alternative financing solutions globally, there has been an expanded interest in the Labuan capital market offerings particularly digital-based fundraising since 2020. The Centre’s dual financial system offerings, comprising conventional and Islamic finance, enrich Labuan IBFC’s appeal to a diverse spectrum of investors and international business prospects. Labuan capital market has great potential for further growth, especially with the emergence of more digital financial services in the Centre.

Number of Intermediaries

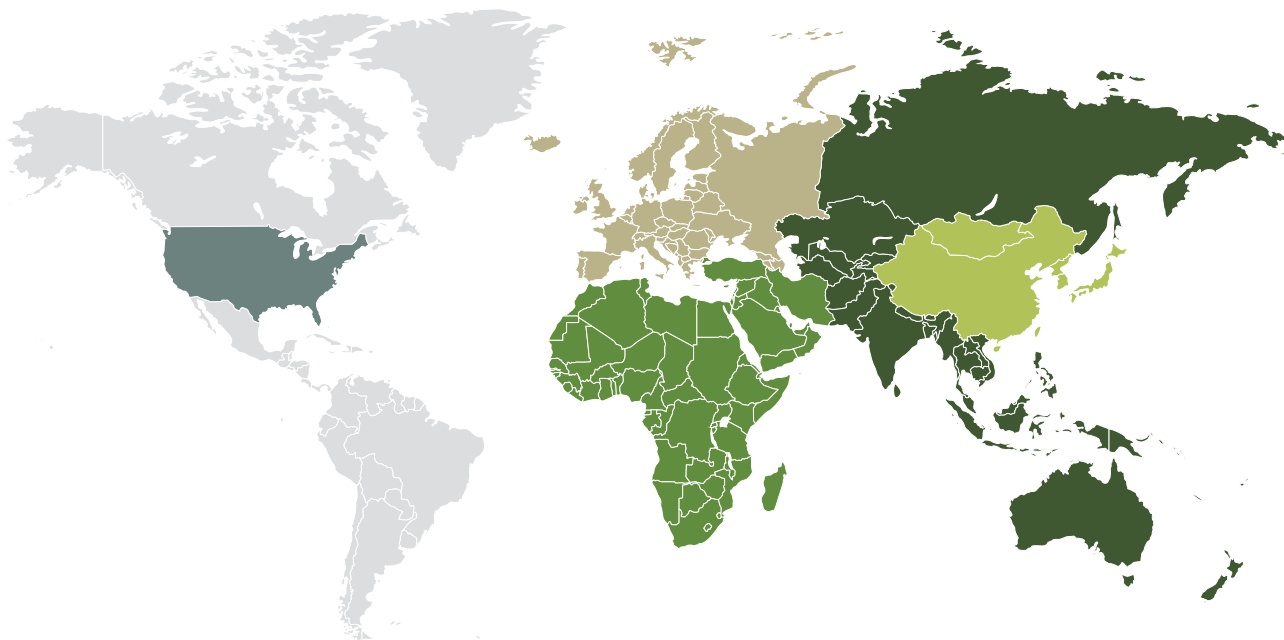


Capital Market

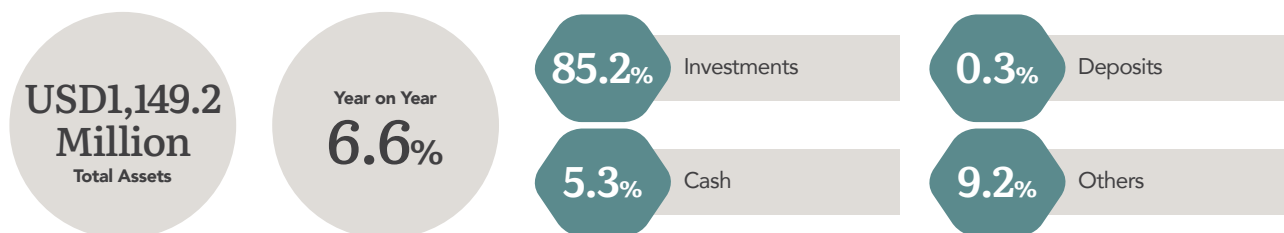
The Origin of Fund Managers



The Origin of Securities Licensees



Assets Under Management by Fund Managers

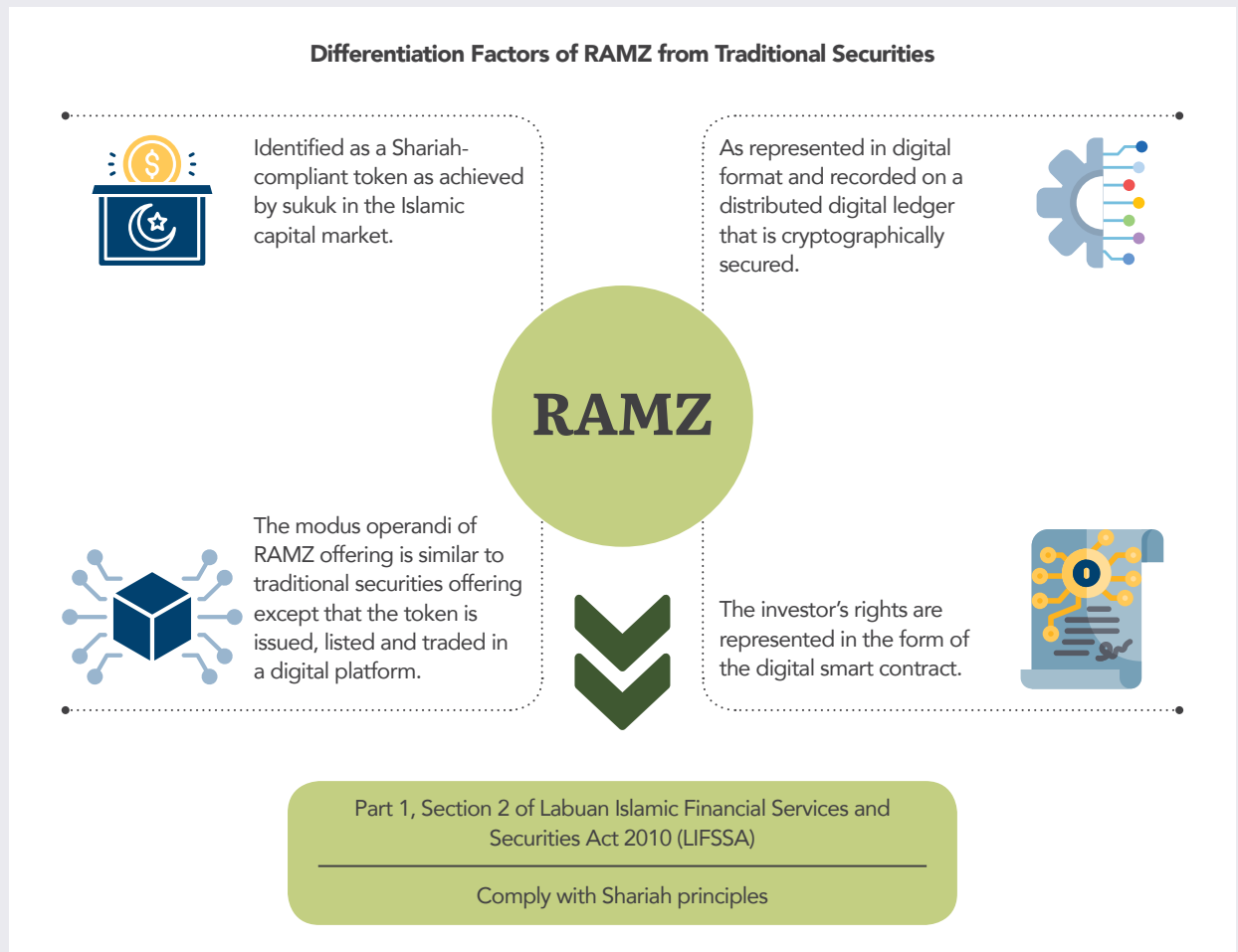


- Total assets under management for the sector grew by 6.6% to USD1,149.2 million.
- Fund managers subscribed 58.1% of the fund issuance from Asia-Pacific region.

RAMZ – Next Phase of Islamic Capital Market Instrument

Taking cognisance from the rapid technology innovation, Labuan IBFC has rolled out the Islamic Digital Asset Centre (IDAC) in 2022. This was aimed at creating a new business opportunity for Labuan IBFC players through the adoption of digital solutions in their international Islamic financial offerings. IDAC offers a suitable platform for Shariah-compliant digital solutions to further complement the Centre’s robust regulatory ecosystem that facilitates and confers greater diversity regarding Shariah-based solutions.

One of IDAC initiatives is the introduction of an Islamic digital asset termed as RAMZ, derived from an Arabic term which means token. RAMZ has the characteristic of securities as defined under Part 1, Section 2 of Labuan Islamic Financial Services and Securities Act 2010 (LIFSSA) and complies with Shariah principles.



RAMZ Tokenisation

Under IDAC, RAMZ is poised to be the new asset class for investment in the global Islamic financial market. Unlike traditional assets, RAMZ:

- 1 Enables mass participation of investment via its fractional ownership and low-cost fees of investment;
- 2 Enables existing assets such as sukuk to be tokenised as RAMZ, allowing retail participation in the sukuk market; and
- 3 Enables full proof of ownership for investors on the underlying assets whilst the Labuan exchanges provide the corresponding liquidity via trading in the latter. As the exchanges are under Labuan FSA's regulatory purview, investors are assured of RAMZ's credibility and authenticity.

A RAMZ tokenisation is subject to the following requirements:

- i. The core business activities of the RAMZ issuer must be Shariah-compliant;
- ii. The underlying assets backed by the RAMZ must be valuable and permissible from Shariah point of view and in existence at the time of tokenisation. The assets must also be identifiable with regard to their essences, quantities and values. Additionally, the assets must be owned and in possession of the RAMZ issuer; and
- iii. Other Shariah principles and operational requirements are set by the appointed Shariah Adviser to the Labuan digital exchanges from time to time.

Details of RAMZ offering can be referred to in the Guidance Note on the Shariah-compliant Securities Token (RAMZ) issued by Labuan FSA in December 2023.

As of December 2023, there have been a few listings of RAMZ via Labuan digital exchanges with the cumulated amount of USD50 million. The following are the details of some of the RAMZ listed on Labuan digital exchanges:

- I. One of the Labuan digital exchanges has listed the world's first institutional tokenised sukuk backed by a sovereign-linked instrument namely, International Islamic Liquidity Management Corporation (IILM),

opening up access to a short term A-1 rated sukuk for global institutions and their clients. This tokenisation exercise is the world's first digitisation of an institutionally issued sukuk and is expected to revolutionise the Islamic investment landscape by providing investors access to Shariah-compliant high-quality liquid assets.

- II. An Australian company has listed its RAMZ on a Labuan digital exchange in October 2023, marking the first RAMZ listed in Labuan IBFC. The company produced electric vehicle (EV) battery, which has won the Guinness World Record in November 2015 for the Greatest Distance travelled by an Electric Bus (non-solar) on a single electric charge – 1,018 KMs. Apart from being the world first RAMZ listed, this listing has marked the world's First Solid-state Battery EV company to commercialise its EV. The listing also supported Labuan IBFC's agenda towards sustainability financing.

IDAC 2.0

Starting 2024, IDAC 2.0 will be focusing on connecting the global Muslim communities closely via digital investment and trade. RAMZ will be extended to sovereign nations to raise funds either through tokenisation of their national assets or sovereign sukuk issued by respective jurisdictions. In addition, Ummah linked companies (ULCs) established in Labuan IBFC may be issuing and investing in RAMZ in their daily operations. These ULCs can utilise RAMZ as a channel to support their Islamic social finance activities to the global Muslim communities such as savings for hajj and pension or payments of zakat and wakaf (endowment).

In support of the IDAC initiatives, the Malaysian Government in its 2024 budget, has granted a five-year zero tax for activities that are related to IDAC such as digital banks and exchanges, RAMZ and ULCs. These initiatives will augment the Islamic finance activities in Labuan IBFC, particularly the digital activities.

Digital Financial Services



The pace of digital technology adoption continued to intensify as the pandemic crisis recedes. People grew accustomed to the convenience of digital transactions from mobile banking to cryptocurrency platforms. Digital solutions offered unparalleled convenience, accessibility and seamlessness. The realisation of these benefits offered by technology in financial management and transactions further fuelled the shift of customer preferences towards digitalisation.

The adoption of digital assets has grown rapidly in recent years with tokenisation emerging as an important market for fund managers. The increasing appetite for and familiarity with digital assets among investors have boosted demands for alternative financial instruments. By leveraging on blockchain technology which enables seamless creation and transfer of tokens across different markets, transcending geographical boundaries - ultimately reducing complexity in financial transactions and processes as well as promoting borderless fundraising.

Labuan FSA has been cognisant of this digital boom and ensured proper regulation and ecosystem are adequate to support the digital-related initiatives in Labuan IBFC and to maintain the soundness and viability of digital financial business operations. In response to the escalating digitalisation requirements and challenges, Labuan FSA had issued the following guidelines:

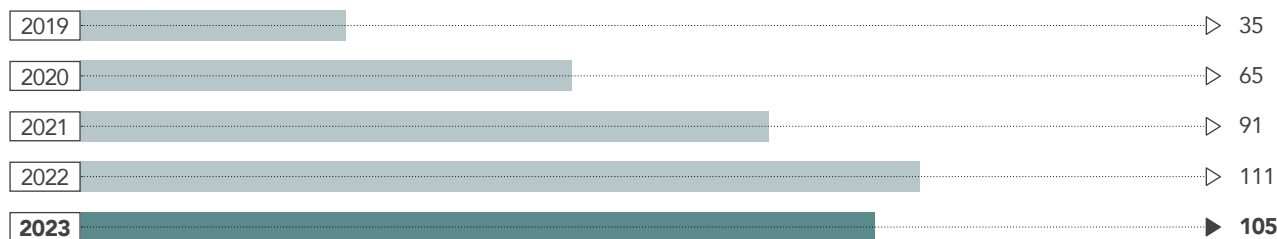
- Guidelines on Labuan Securities Token Offering to facilitate the issuance or offering of securities token as a method of raising funds in Labuan IBFC;
- Guidelines on Technology Management provide the minimum requirements to be adhered to by financial intermediaries that undertake digital financial services (DFS) in Labuan IBFC; and
- Guidelines on Market Conduct for Labuan Digital Financial Intermediaries provide the minimum requirements on market conduct practices to enhance market integrity and confidence.

Digital Financial Services

Digital Financial Institutions, Intermediaries and Platforms

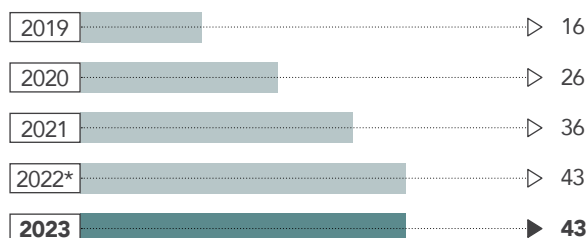


TOTAL DIGITAL FINANCIAL SERVICES PROVIDERS

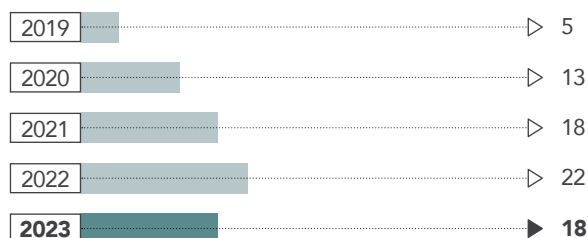


Money Broking and Credit Tokens Business

NUMBER OF MONEY BROKERS



NUMBER OF CREDIT TOKENS



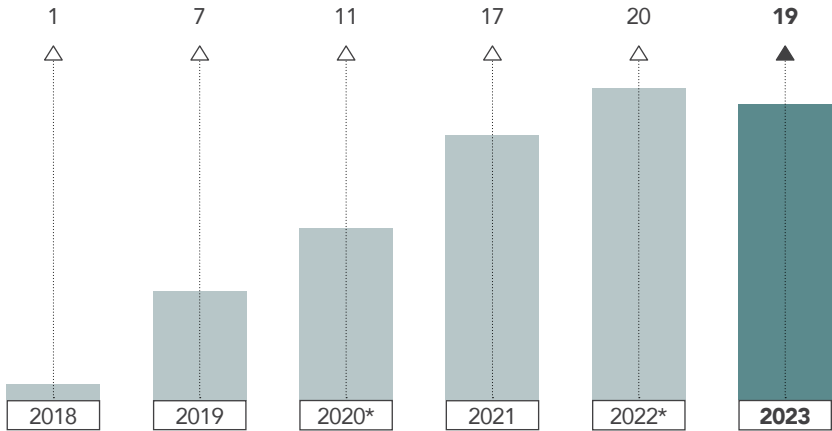
* Restated

- Two new money brokers were approved in 2023, bringing the total number of approved money brokers that carry out DFS-related business to 43.
- One new credit token licence was approved to issue asset-backed tokens, bringing the total number of credit token companies under DFS sector to 18.
- Majority of credit token companies are involved in tokenisation of asset-backed securities.

Digital Financial Services

Payment System Operators

NUMBER OF PAYMENT SYSTEMS



- One new payment system operator (PSO) was approved to carry out business, bringing the total number of PSOs to 19.
- Majority of the PSOs are offering e-wallet payment services.

* Restated

Financial Exchange

Despite challenges posed by economic uncertainties due to high inflation, liquidity tightening and rising geopolitical risk, fundraising exercise remained high across various sectors and regions. Fuelled by a combination of innovative approaches, investor confidence, and a growing appetite for diverse investment opportunities; fundraising activities in Labuan IBFC are gaining in momentum.

In 2023, there were four exchanges operating. The sector’s assets experienced a significant growth of 220.9% to record USD23 million in total assets.

During the year, four Securities Token Offerings (STOs) were listed in the Labuan exchanges. These STOs are Shariah-compliant securities (RAMZ) comprising:

- The tokenisation and subsequent listing of IILM FDR tokens, representing the underlying sukuk issued by the International Islamic Liquidity Management Corporation with a volume of USD42 million.
- A secondary listing was related to fundraising for investments in electric vehicle technology amounting to USD8 million.

Unravelling the Digital Potentials of Cryptocurrencies

Introduction





The realm of cryptocurrencies (interchangeably referred to as “digital currencies”), once regarded as a peripheral forex subject has become more prominent globally in the international finance landscape. Since its inception in 2009, the crypto-landscape has grown exponentially to encompass thousands of different cryptocurrencies, propelling these digital currencies as a prominent development for businesses and regulators alike. As of January 2022, the total market capitalisation surpassed USD2 trillion, with Bitcoin constituting approximately 40% of this value. Daily trading volumes consistently reached hundreds of billions of dollars, underlining the rapid growth and escalating significance of cryptocurrencies in the global financial landscape.

To balance investor protection with fostering innovation, varying regulatory approaches were seen across markets - with some wholeheartedly embracing the digital currencies as part of financial innovation, while others

adopting a more cautionary stance, upholding consumer protection and market stability against cryptocurrencies’ potential threats.

Understanding and Decoding Digital Currencies

Labuan IBFC has taken a visionary step towards future-proofing its financial offerings through its dual fiat-digital offering to align itself with the growing techno-savvy businesses of today. This innovative approach offers investors the vast option in dealing with either traditional fiat currencies or digital currencies according to their pecuniary needs. By integrating the stability of fiat with the efficiency of digital transactions, Labuan IBFC has been positioning itself as a forward-thinking financial hub, catering to the diverse and evolving requirements of modern businesses. This dual offering also underscores its commitment to staying at the forefront of financial innovation in Asia.

	STABLECOIN	TRADITIONAL CRYPTOCURRENCIES
 VOLATILITY	Relatively low	Relatively High
 MONETARY POLICY	Similar to fiat currencies or assets such as precious metals	Determined by the blockchain protocol
 ASSET BACKING	Backed by assets in reserves or algorithmically	Not backed by any physical commodity or metal
 BROAD AUTHORITY	Most stablecoins are controlled by a central entity	Most cryptocurrencies aim to be decentralised


Since the introduction of Bitcoin in 2009 as the pioneering cryptocurrency, this digital asset class has undergone a significant evolution. Cryptocurrencies now have matured into a diverse ecosystem of digital currencies, offering a range of functionalities beyond mere speculation. Simultaneously, stablecoins, backed by assets like fiat currencies, commodities, or cryptocurrencies, have emerged as preferred alternatives to traditional volatile cryptocurrencies. Since their 2014 inception, they have gained momentum for combining blockchain's speed and security with stability, achieved through mechanisms like asset reserves or smart contracts. Offering a universal currency for global transactions, stablecoins enhance accessibility and streamline transaction processes.

Unravelling the Digital Potentials of Cryptocurrencies


TYPE OF STABLECOINS

 **Fiat-backed**
Value pegged directly with a Fiat Currency like the USD.

- Known as fiat-collateralised stablecoins.
- Investors provide fiat currency as collateral for the equivalent stablecoin amount.

 **Non-collateralised or Algorithmic**
Value is calculated based on a smart contract algorithm.

- Derive their value from a smart contract algorithm akin to national fiat currencies issued by central banks.
- The algorithm adjusts stablecoin supply based on the pegged fiat currency, decreasing or increasing supply depending on price fluctuations.

 **Cryptocurrency-backed**
Value is generated using Cryptocurrency as collateral.


- Derive value from cryptocurrency collateral, such as Ethereum or Bitcoin, provided by investors.
- To counter crypto-volatility, these stablecoins are pegged at a 2:1 ration to fiat currency, with each stablecoin backed by two units of fiat.

 **Commodity-collateralised**
Value is associated with commodities like real estate/precious metals.

- Derive their value from tangible assets such as real estate or precious metals.
- Due to their link to appreciating tangible assets, stablecoins are highly favoured among investors.

Navigating an Evolving Regulatory Framework Presents Opportunities for Innovation and Investment


Regulatory approach for digital currencies vary across jurisdictions based on their economic appetite and prudential stance. In some countries, they are subject to strict regulations, while others have yet to establish a clear legal framework.

 The United States established regulatory frameworks for cryptocurrencies and stablecoins through the Securities and Exchange Commission (SEC) and the Commodity Futures Trading Commission (CFTC).

- SEC categorises certain cryptocurrencies as securities, subjecting them to relevant securities laws while the CFTC oversees cryptocurrencies identified as commodities.

 The European Union has implemented the Markets in Crypto-Assets (MiCA) regulation to establish a unified regulatory structure for cryptocurrencies and stablecoins among member states.

 In Asia, Japan and South Korea have enacted regulations to safeguard investors and ensure the smooth operation of cryptocurrency exchanges.

 China has adopted a stricter stance, prohibiting cryptocurrency mining and trading domestically.

Several key trends have emerged in recent years that are shaping the regulatory framework for cryptocurrencies, for example:

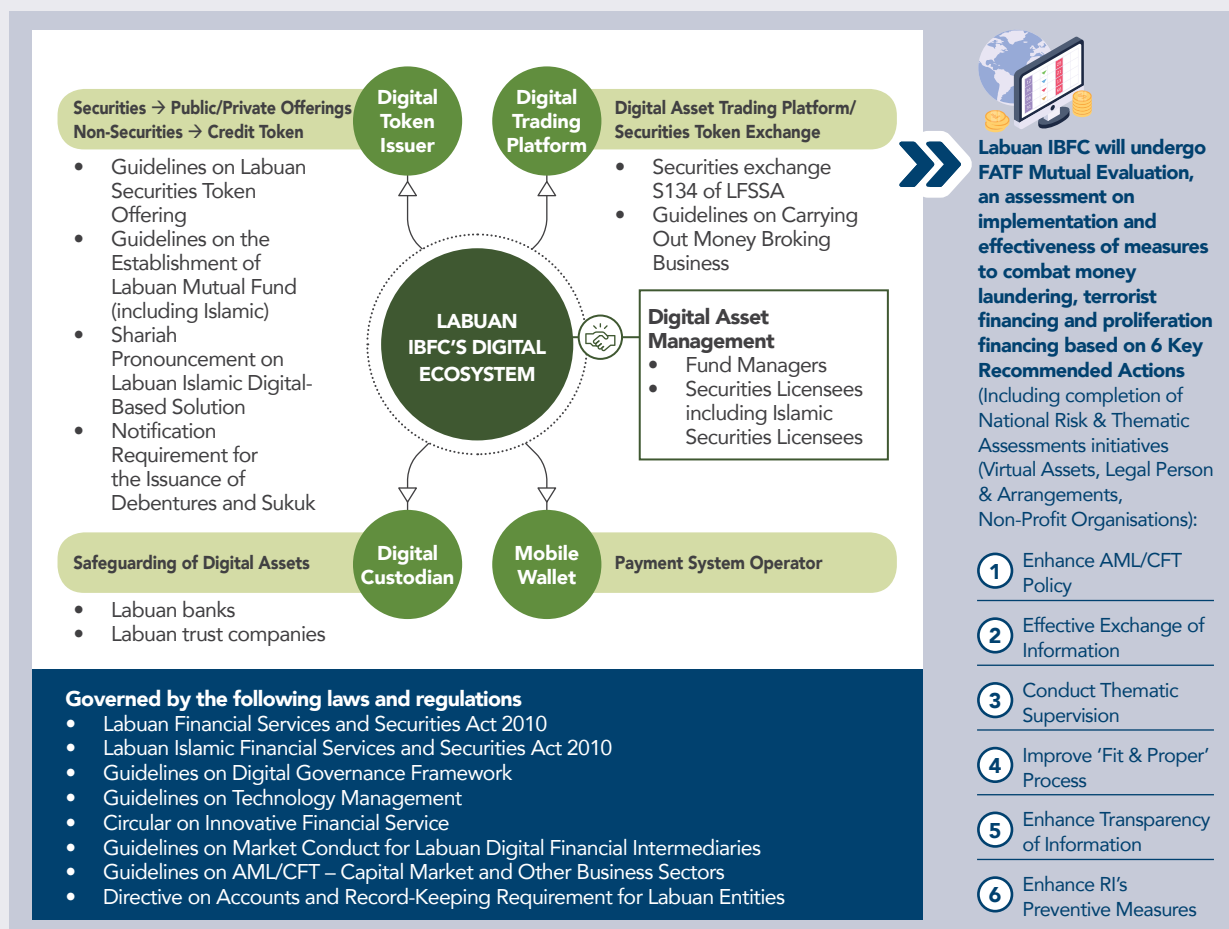
1. **Licensing Requirements for Cryptocurrency Exchanges:** Many countries have started imposing licensing requirements on cryptocurrency exchanges to ensure compliance with anti-money laundering (AML) and know your customer (KYC) regulations. These requirements aim to enhance transparency, security, and accountability within the cryptocurrency ecosystem.
2. **Taxation Policies for Crypto Transactions:** Tax authorities are increasingly focusing on developing clear guidelines for taxing cryptocurrency transactions. The taxation of cryptocurrencies varies from country to country, with some treating them as commodities, while others classify them as currencies or assets subject to capital gains tax.
3. **Guidelines for Initial Coin Offerings (ICOs):** Initial coin offerings have been a popular fundraising method in the cryptocurrency space, but they have also raised concerns about investor protection and regulatory oversight. Regulatory bodies are issuing guidelines to regulate ICOs, including requirements for disclosure, registration, and investor accreditation.

4. Emerging International Regulatory Standards:

Emerging crypto standards from major international standard-setting bodies reflect concerted efforts to establish a regulatory framework balancing innovation with consumer protection and financial stability in the evolving crypto landscape. For instance, Basel III proposes new capital requirements for banks involved in crypto assets, recognising associated risks; IOSCO focuses on guidelines for securities regulators overseeing crypto asset trading platforms, aimed at investor protection and market integrity; and

FATF provides guidance for countries on regulating virtual asset service providers (VASPs) to curb money laundering and terrorist financing.

Navigating through this digital revolution, Labuan IBFC has become a distinctive market of choice for digital financial business since 2017 particularly for digital currencies trading within Southeast Asia. To ensure the orderly development of this emerging sector, Labuan IBFC has been releasing requisite digital regulations so as to proactively foster healthy innovation while abiding prudential as well as anti-money laundering requirements.



Way Forward

The challenges and prospects presented by this market are poised to significantly influence the future of finance and the global economy. Labuan FSA recognises the pivotal role of balanced regulatory decisions in shaping the future of the cryptocurrency landscape to foster innovation and structured development growth within this dynamic financial environment. In alignment with the focus on agility in policy making, Labuan FSA's strategic approach to digital regulations, as outlined in the article "Reinforcing Cyber Resiliency within Labuan IBFC", emphasises the phased-in implementation of critical policies to safeguard the stability of the Centre's DFS sector. In conclusion, as the digital currency landscape continues to evolve, it is imperative for digital brokers to uphold professional responsibility in the crypto trading they facilitate. Safeguarding clients' interests amidst varying risks and features of digital currencies is not merely a regulatory requirement but a fundamental ethical obligation. By prioritising transparency, robust risk management practices, and ongoing education for both clients and industry professionals, digital brokers can foster a more secure and resilient ecosystem for all participants in the dynamic world of cryptocurrency trading.

Trust Companies



69

NUMBER OF TRUST COMPANIES

>> 40

Full-fledged

>> 26

Managed

>> 3

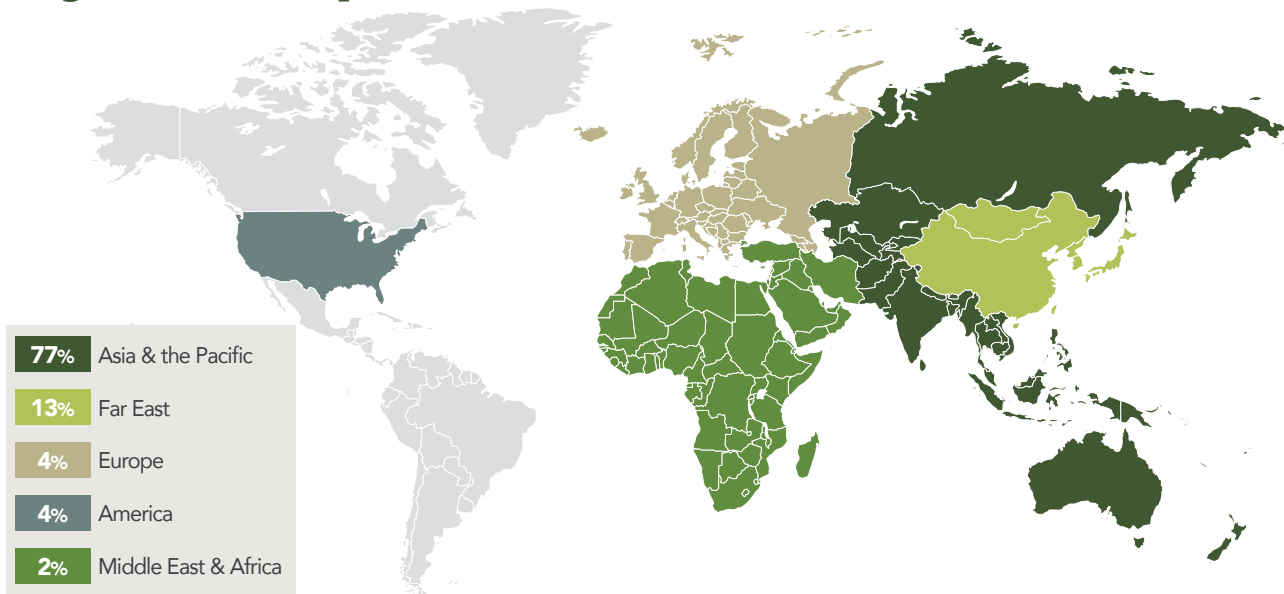
Private

Labuan trust companies (LTCs) serve as an important role within the Centre, both as professional frontliners as well as key service providers for Labuan entities. They are relied upon as a regulatory bridge between the market players and Labuan FSA particularly for incorporation, registrations and licensing applications. LTCs also provide other ancillary services ranging from corporate secretarial services, custodianship and trusteeship to more intricate roles in supporting Labuan wealth preservation structures such as family offices, trusts and foundations.

Recognising LTCs as the primary market intermediary and serving as the focal point of contact for Labuan entities, regulatory efforts continued to strengthen their market conduct requirements, specifically with regard to handling of client money. These new requirements were intended to enhance existing safeguards for clients' funds managed by LTCs when discharging their fiduciary duties.

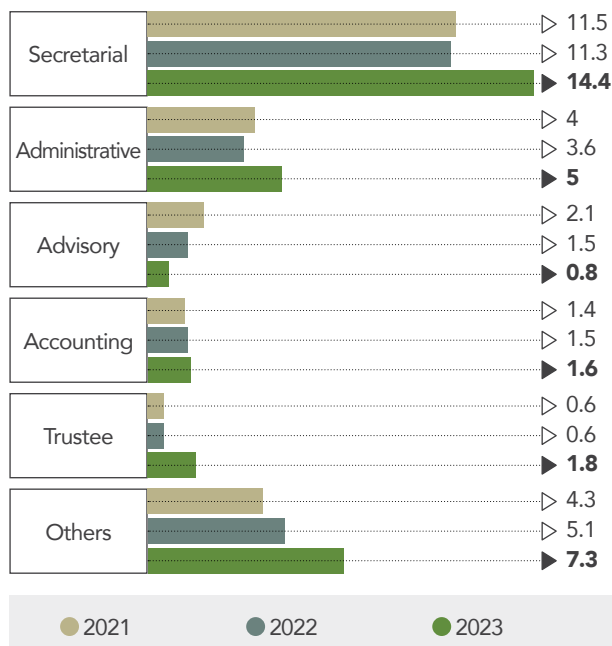
Trust Companies

Origin of Trust Companies



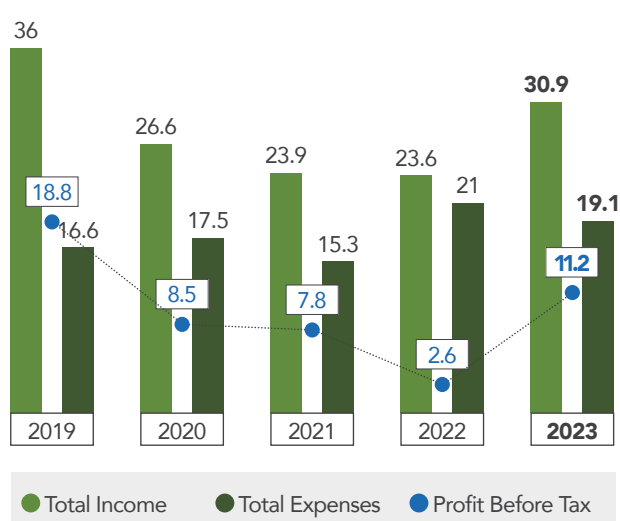
- In 2023, the total number of LTCs grew by 1.5% to 69 with five new entrants.
- The trust company sector hosted mainly LTCs of the Asia-Pacific origins and the Far East region.

Source of Income (USD Million)



- The total income of the sector showed a hike of 30.9% to USD30.9 million, mainly contributed by higher fee income from secretarial and administrative services.

Profitability (USD Million)



- The industry's profitability made a remarkable turnaround with more than threefold increase to USD11.2 million in 2023.
- This was primarily driven by a substantial total income growth by 30.9% and reduction in total expenses by 8.8% resulting mainly from decreasing bad and doubtful debts.

Wealth Management



In the post-pandemic era, the debilitating effects of economic slowdown have started to subside as markets across the globe gradually regain momentum. The trajectory of High-Net-Worth Individuals (HNWIs) in between 2020 and 2021 exhibited a downward trend, predominantly pinned onto the reverberations of the COVID-19 pandemic. In the global arena, 2022 experienced the highest decline of HNWIs wealth and population in a decade, dropping by 3.6% and 3.3%¹, respectively, as compared to that of the previous year. Additionally, the net global household wealth recorded the first fall² since the global financial crisis of 2008. However, cautionary optimism remained prevalent colouring the appetite for estate planning and wealth preservation.

The pandemic has also prompted some HNWIs to explore options for global mobility and alternative residency or citizenship through investment programmes. This trend reflects a desire for geographic diversification, access to healthcare and education, and enhanced lifestyle opportunities, despite the decreasing number in HNWIs population. There are some countries that have introduced several incentives to attract affluent families to set up family offices within the jurisdiction.

Family offices, which are predominantly focused on the overall stewardship and preservation of generational wealth, are undergoing a transformative evolution. From real estate management to private ventures spanning geographic and sectoral boundaries, family offices are expanding their reach in the global wealth management space. For Labuan IBFC, it is only natural for family offices to thrive in the Centre as they would have access to a wide array of wealth management solutions that can be utilised to meet any pecuniary wealth management needs.

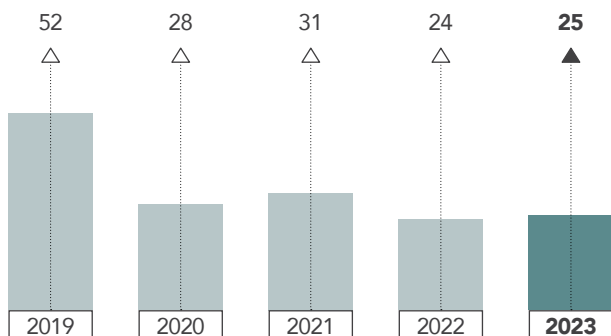
¹ World Wealth Report 2023 by Capgemini

² Credit Suisse Global Wealth Report

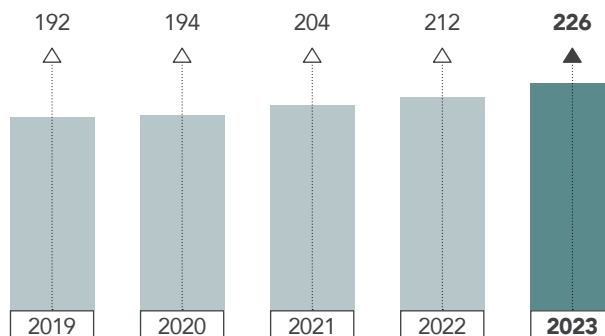
Wealth Management

Foundations

New Registrations

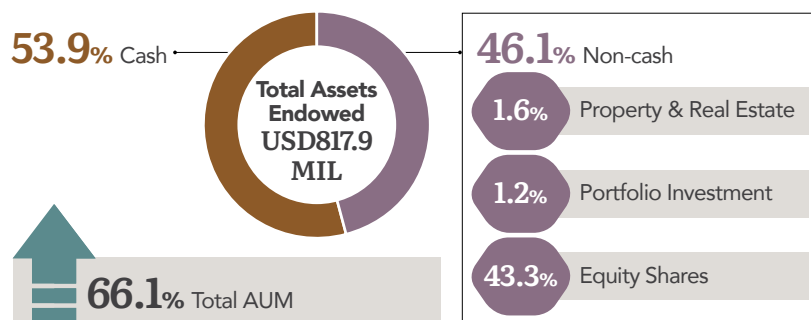


Total Foundations



- There were 25 new foundations established:
 - 24 non-charitable foundations were primarily established to focus on property management; and
 - One charitable foundation was formed for the purpose of promoting green environment.
- The total number of foundations increased by 6.6% in 2023 which comprised:
 - 219 conventional vehicles; and
 - 7 Shariah-compliant vehicles.

Foundations: Total Assets Endowment (USD Million)



- In terms of asset volume, the sector’s assets under management increased significantly to USD817.9 million, reflecting a major growth of 66.1% from the prior year. The Centre’s foundations continued to be sought after as the wealth management vehicle of choice particularly for the Asian affluent.
- In relation to the composition of the assets managed by the foundations, cash holdings remained as the preferred form of endowments.

Trusts

Registered Trust: Assets Under Management



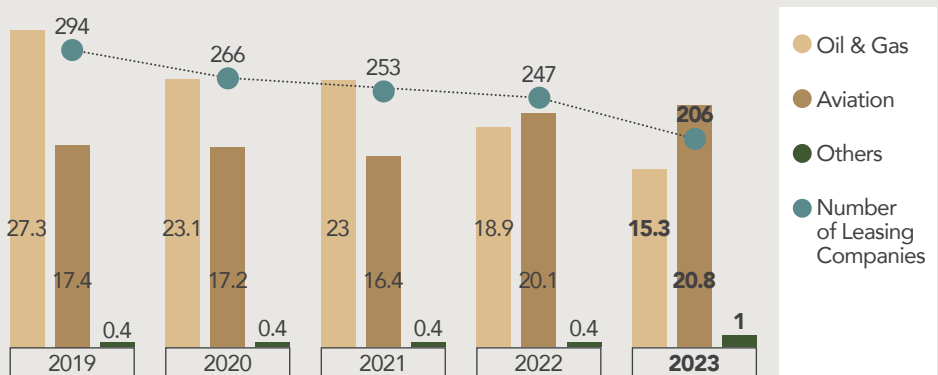
- Currently, there are 11 trusts registered consisting of mainly purpose trusts.
- Assets held in trusts were USD190.5 million comprising mainly properties.

Leasing



Despite the economic slowdown in 2020-2022, the Labuan leasing sector rebounded in 2023, driven by increased demand particularly from the aviation leasing sector. This is fuelled by the spike in tourism sector across the globe as air travels becomes the norm again as markets emerged from the previous pandemic restrictions imposed by authorities.

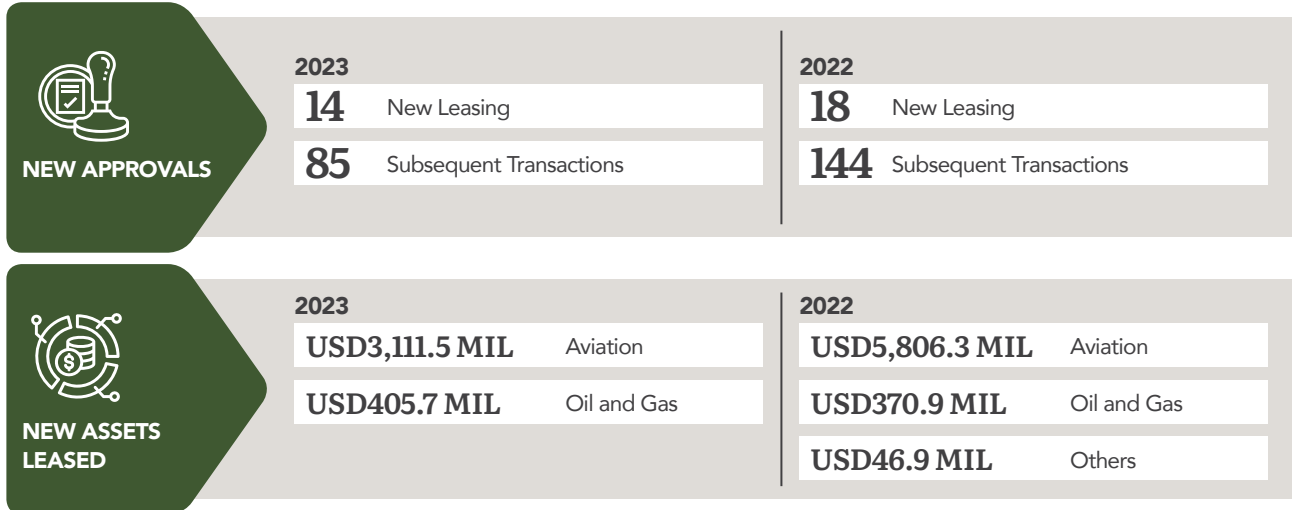
TOTAL COMPANIES AND LEASED ASSETS BY SECTOR (USD Billion)



- The business focus of the total 206 Labuan leasing companies were in relation to:
 - Oil and gas sector (140 companies);
 - Aviation sector (47 companies); and
 - Other sectors (19 companies).
- The number of leasing companies declined from 2022 due to business surrendering, mainly by those involved in oil and gas leasing contracts which have been completed.
- The cumulative value of assets leased moderated by 5.8% to USD37.1 billion.

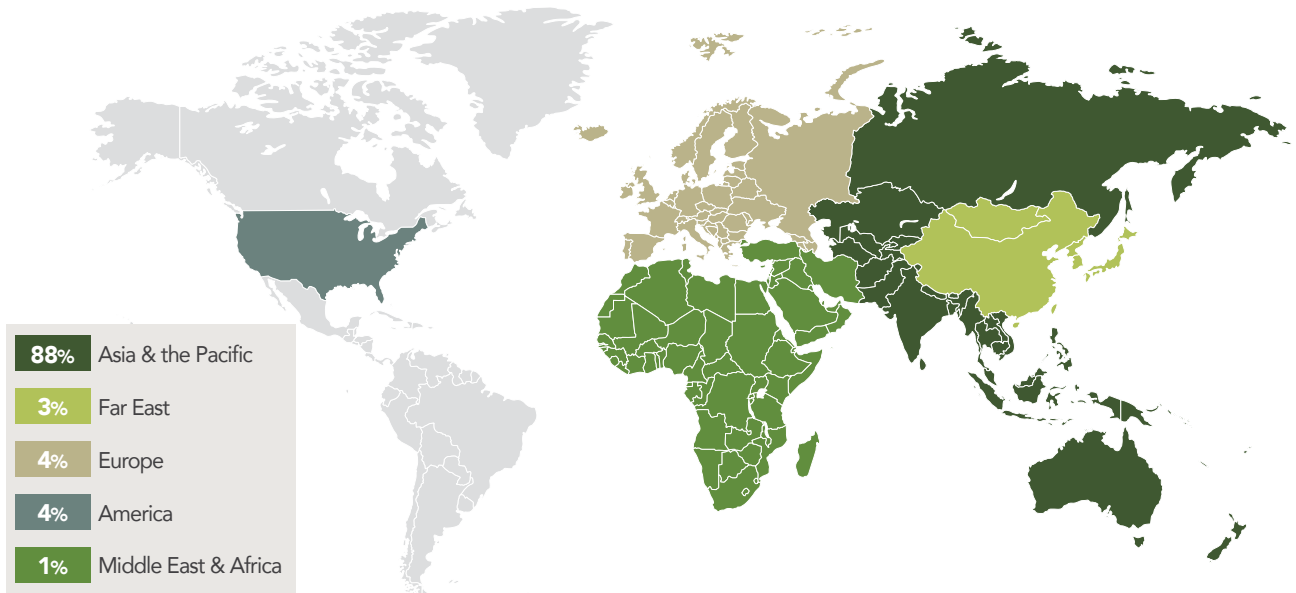
Leasing

Number of New Approvals and New Leased Assets



- During the year, 85 subsequent leasing transactions were approved whilst 14 new licences were issued for new leasing applicants.
- In 2023, aviation leasing continued to expand with eight new entrants and 71 subsequent leasing transactions. The latter transactions contributed a substantial 83.5% of the year’s total subsequent leasing transactions.

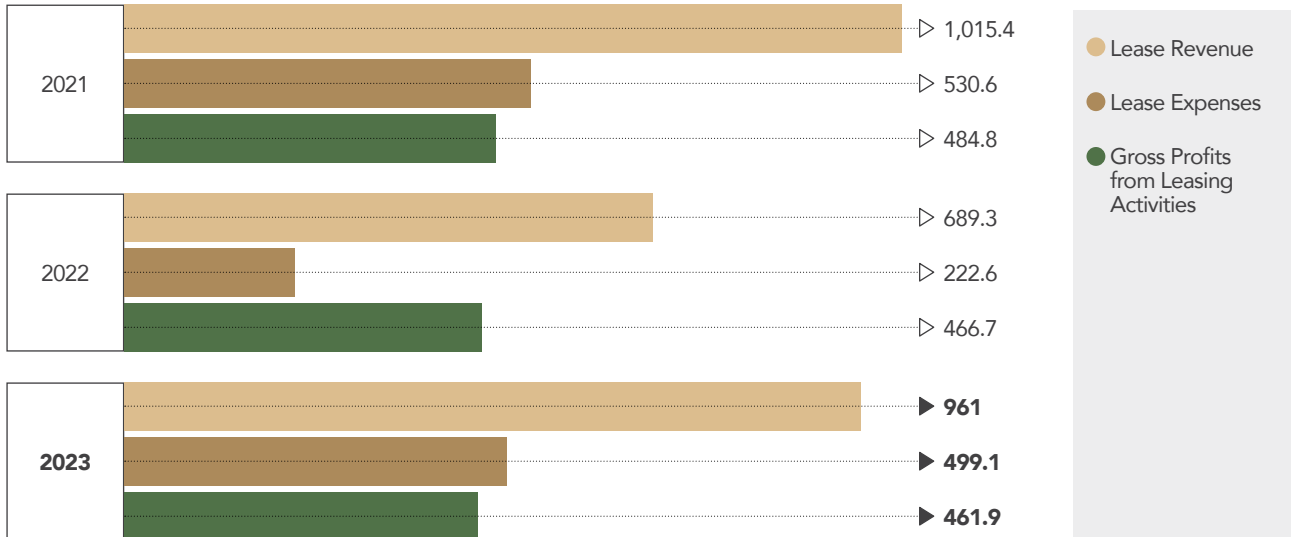
The Origin of Leasing Companies



- In terms of business ownership, 88% of the Labuan leasing companies were from the Asia-Pacific region. The remaining 12% were from various regions mainly from Europe, America and Caribbean markets.

Leasing

Profitability (USD Million)



- The Labuan leasing topline performance showed significant revenue improvement in 2023 with 39.4% growth to record USD961 million.
- However, the revenue growth was offset by higher expenses which resulted in a moderated profitability of USD461.9 million.





Accelerating Labuan IBFC’s Sustainability Maturity

Conceptualising Sustainability

The disruption brought about by the pandemic recently is an urgent call for countries across the globe to transition into a sustainable economy. As this global move gathers momentum and response to climate change risks becomes more dire; regulators have started to introduce requirements which focused on long-term sustainability. This is to preserve and enhance market efficiency and economic prosperity; both for the immediate and longer-term horizon.

The financial sector, in general, and financial institutions (FIs), specifically, are key movers and shakers of an economy which can create and push for sustainability impetus within a particular market. In fact, the international commitments from the Paris Agreement have exerted mounting pressures for FIs to integrate sustainability principles into their decision-making processes and practices in the international business landscape. As a result of the enactment of the Paris Agreement, countries undertook serious efforts to

address climate change to better manage its effects. These initiatives include rendering of enhanced technical support to developing countries which are initiating sustainability efforts. In addition, the establishment of The Network for Greening the Financial System (NGFS) was a similar effort aimed at fostering cross-border collaborations amongst member central banks and supervisory authorities. The NGFS enables sharing of best practices and methodologies on sustainability policy which would promote the integration of climate-related considerations into FIs’ decision-making.

In other ways, FIs can improve their risk management, increase competitiveness, and achieve long-term financial success, by embracing sustainable practices and business models. As depicted in Diagram I, these practices are built upon three-pronged sustainability foundations - the environmental, social, and economic pillars which are intended to:

- Benefit and preserve the current circumstances; and
- Ensure a meaningful and resilient legacy for generations to come.



Diagram I: Sustainability Pillars

Regulations are integral to building up the transparency and integrity of a sustainable finance market. This would not only boost investor confidence but also provide greater transparency on fundamental standards to be adhered by the market. It enables better tracking and measurement of sustainable finance flows to avoid and prevent greenwashing malpractices. The role of sustainable finance is crucial to drive a more sustainable and equitable economy by mobilising capital towards investments that generate both financial returns and positive environmental and social impact. On this note, the Environmental, Social and Governance (ESG) perspective is a typical framework in developing a sustainable financial ecosystem. It serves as a cornerstone of ethical conduct by instilling transparency, accountability, and resilience within a financial market.

Accelerating Labuan IBFC’s Sustainability Maturity

The Asian Sustainability Agenda

With the growing sustainability drive across the globe, the same wave has also swept across Asia, particularly with ASEAN countries beginning to effect comprehensive sustainability initiatives within their respective markets. Diagram II provides an insight into the ASEAN initiatives on sustainable practices which are progressing at varying speeds and momentum:

ESG Policy Framework

- The Philippines shows the highest value in adopting the Policy Framework despite its vulnerability to climate risks due to its geographical location.
- Malaysia, Indonesia and Singapore have also solidified their position by committing towards achieving a low-carbon and climate-resilient economy.

ESG Investment Framework

- The Philippines, Singapore and Malaysia are the top three in performing the ESG Investment Framework.
- In December 2023, the Monetary Authority of Singapore launched the Singapore-Asia Taxonomy for Sustainable Finance, the first taxonomy to pioneer the concept of a 'transition' category tailored to the needs of the Asian region.

The Report is conducted between October 2022 and June 2023 and was measured using a checklist approach which consists of the following:

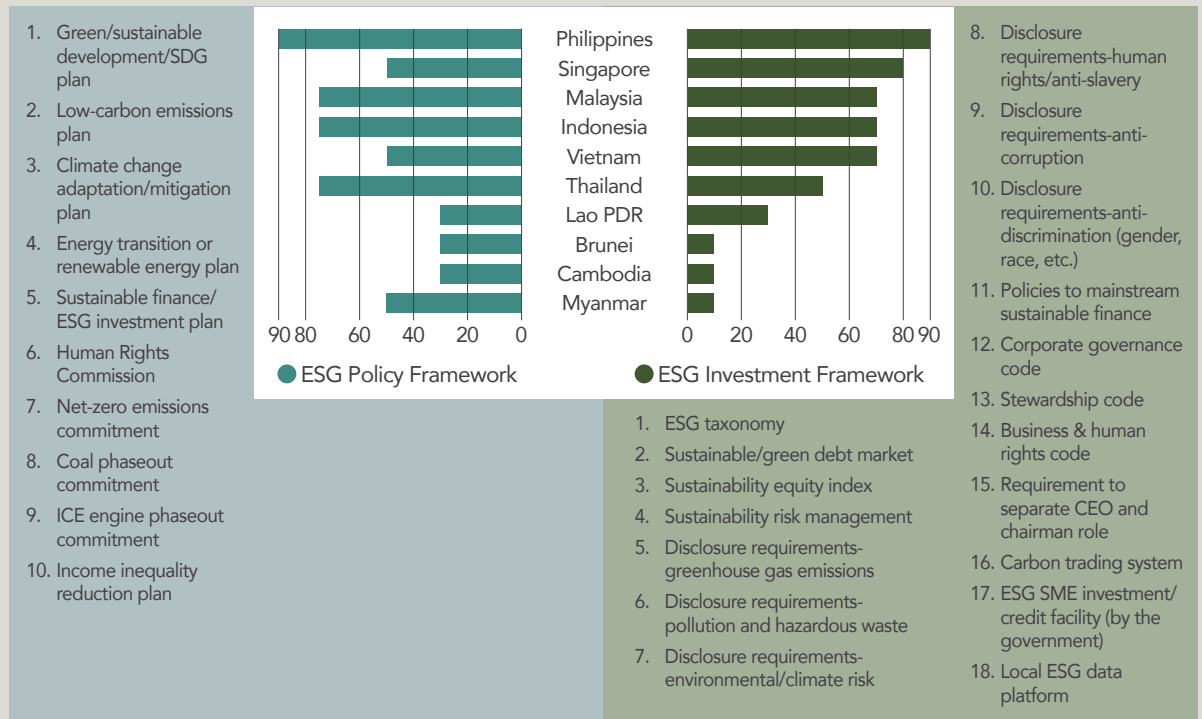


Diagram II: ASEAN Initiatives on Sustainable Practices¹

¹ Modified from the ESG Practices in ASEAN and Korea: Pathways towards sustainability, 2023

In the world of sustainability, one word that has dominated a lot of conversations is taxonomy. In simple terms, taxonomy is a dictionary of sustainable activities. It is designed to steer companies as they adapt their business strategies to climate change, as well as classify their activities based on their environmental performance. Taxonomies serve as foundational frameworks by facilitating investors and FIs to identify and evaluate sustainable investments more easily.

The European Commission has published its Sustainable Finance Taxonomy, serving as a significant reference point for other taxonomies. In ASEAN, Malaysia was the first country to publish a taxonomy in 2021 followed by the ASEAN Taxonomy Version 1.



Sustainable Finance Taxonomy: Regulation 2020/852, June 2020
ASEAN Taxonomy Version 1, November 2021
ASEAN Taxonomy Version 2, March 2023

Diagram III illustrates the flavour of sustainability taxonomy adopted across the ASEAN region:



Diagram III: Taxonomies Development in ASEAN Countries

Accelerating Labuan IBFC’s Sustainability Maturity

Kickstarting with Labuan IBFC’s Sustainability Taxonomy

As a midshore centre within the region, Labuan IBFC has a role to play to intermediate, grow and promote a sustainable financial market alongside the broader Asia’s sustainability agenda. It is indispensable for the Centre to fulfil the Asia ESG needs and support Malaysia’s sustainability game plan. This will confer opportunities for the Centre to refine its reputation as a market that promotes long-term viability, and contributes towards national and regional sustainability goals. In this regard, Labuan FSA is guided by two main thrusts as outlined in Diagram IV:

- Firstly, fostering ESG Market Enablers; and
- Secondly, inculcating ESG cultures and best practices.



Diagram IV: ESG Initiatives for Labuan IBFC

To kick-start the sustainability culture within the Centre, Labuan FSA has issued the Sustainability Taxonomy to the market for their feedback aimed at providing Labuan financial institutions (LFIs) with the means of identifying and classifying activities that are deemed as “green” or “green-transitioning”. The operational mechanism of the Sustainability Taxonomy involves classifying economic activities based on their environmental and societal impact. It lays out the parameters for LFIs to identify and develop innovative and sustainable financial products and instruments, and align LFIs’ decision-making towards green or sustainable goals. The assessment steps under the proposed Labuan IBFC’s Sustainability Taxonomy are reflected in Diagram V:

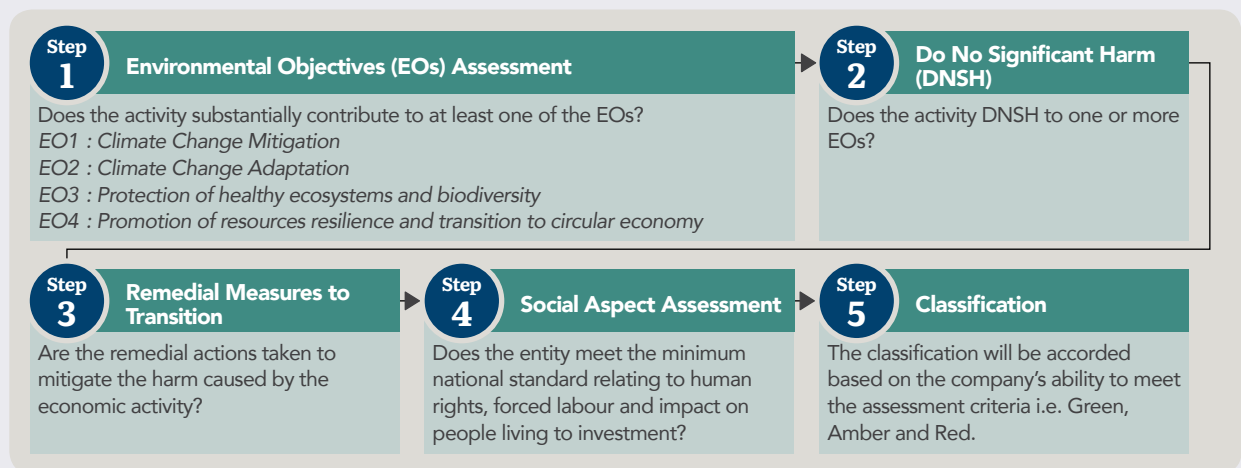


Diagram V: Sustainability Taxonomy Assessment

There are three levels of economic activity classification provided under the Sustainability Taxonomy. The criteria for each category are elaborated under Diagram VI as follows:

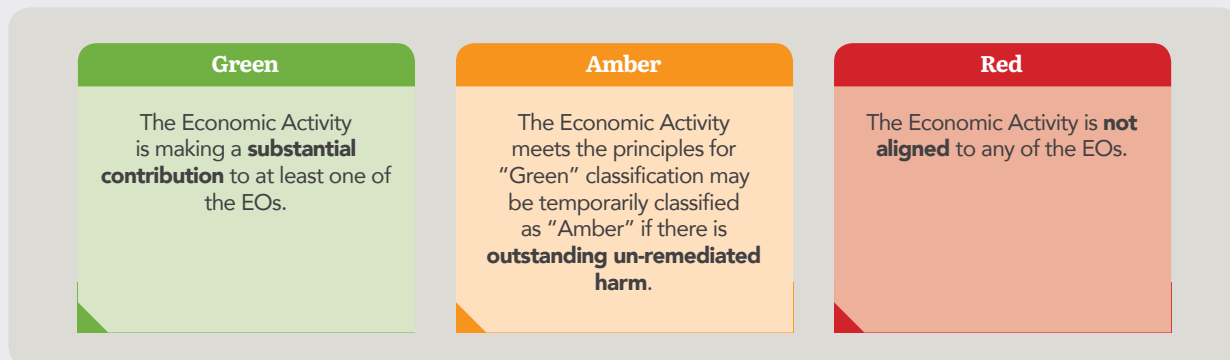


Diagram VI: Color-coded classification of economic activities

Striding Forward

Sustainability is vital as financial institutions are expected to operate in an ethical and sustainable manner, and consumers have been increasingly demanding sustainable financial products and services. By embracing sustainable practices and investing in sustainable business models, LFIs can reap the benefits through:



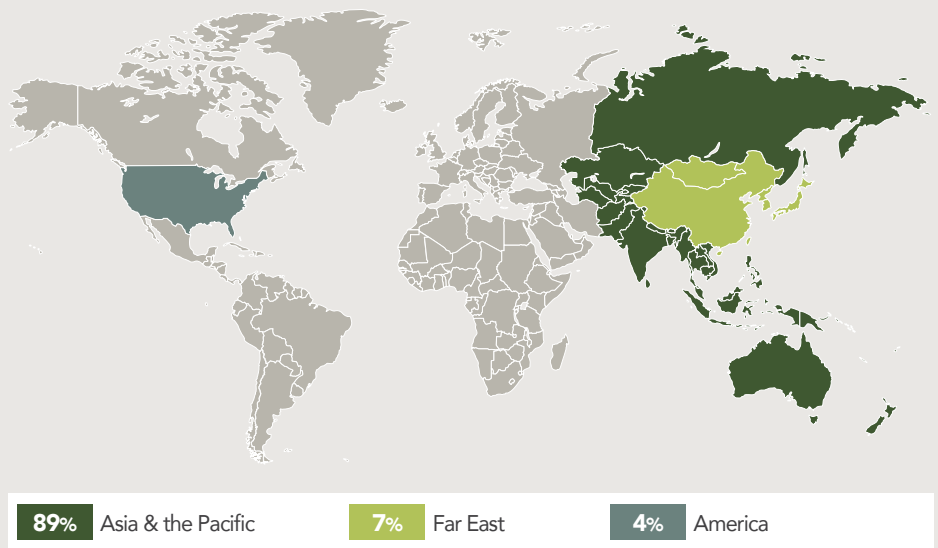
Labuan FSA is committed to creating a sustainable midshore market that promotes embedment of ESG principles into Labuan FIs' business activities. In transforming the Centre into a sustainability hub, several key initiatives will be rolled out through close collaboration with the Labuan financial industry and other key stakeholders for capacity building and policy implementation. With a conducive ecosystem, Labuan IBFC has and will continue to attract investors, financial institutions, and businesses, especially within Asia.

International Commodity Trading



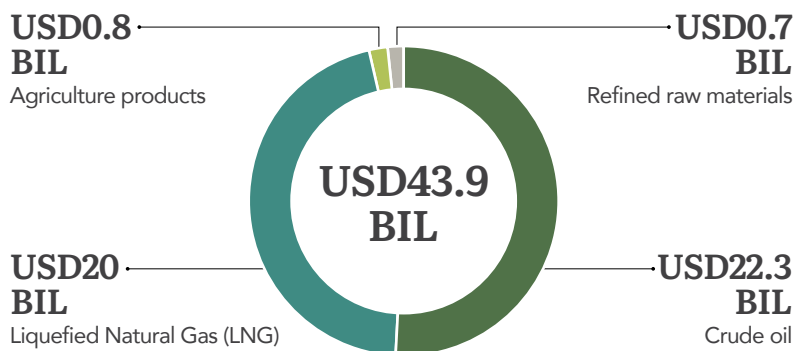
In 2023, nine new Labuan international commodity trading companies (LITCs) were granted approval to carry on international commodity trading business, bringing the total number of LITCs to 44. In terms of geographical distribution, the LITCs were mostly of Asia-Pacific origins, mainly from Malaysia and Singapore.

The Origin of LITCs



International Commodity Trading

Commodities Traded by Types

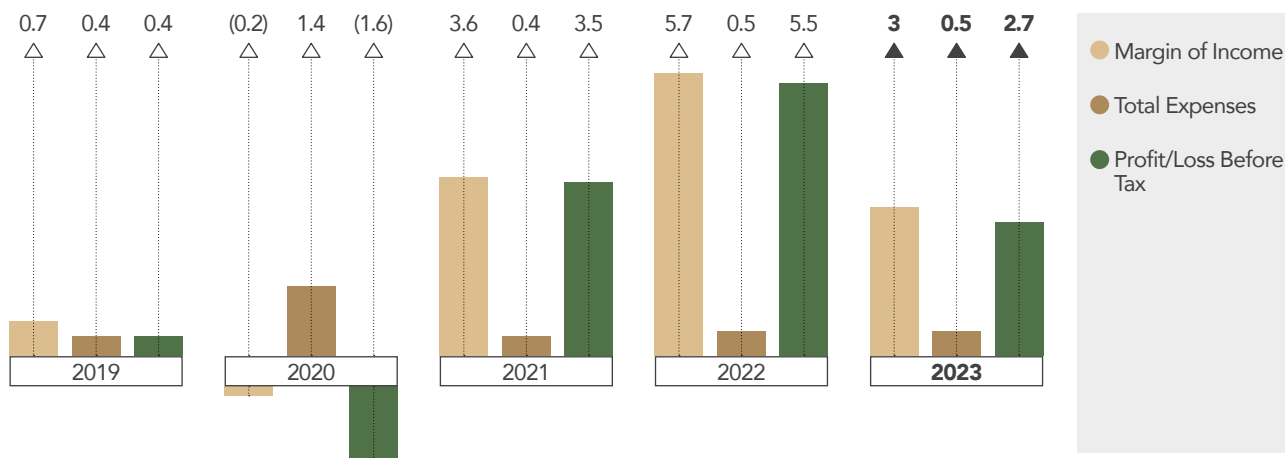


- The total revenue for trading activities declined by 14.5% to USD43.9 billion resulting in a moderated margin of income of USD3 billion. This is mainly attributable to the shrinkage in physical trading value of petroleum and petroleum-related commodities due to the volatility in oil and gas global market. These dynamics were the result of heightened geopolitical tensions in Russia and Ukraine.

AMOUNT TRADED FROM MAJOR COMMODITIES	Crude Oil		Liquefied Natural Gas (LNG)	
	Volume (Million)		Volume (Million)	
	2023	2022	2023	2022
	318.6	289.8	37.3	29.7
Value (USD Billion)		Value (USD Billion)		
2023	2022	2023	2022	
22.3	23.3	20	23.7	

- The total expenditures incurred by the sector slightly inflated to USD517 million.
- In tandem with overall performance, the profit before tax also decreased by 51.1% to USD2.7 billion (2022: USD5.5 billion).

Profitability (USD Billion)

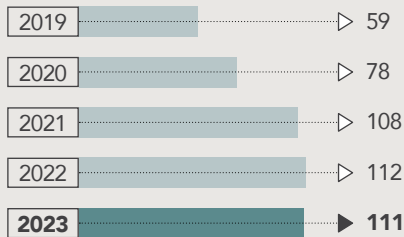


Other Market Intermediaries



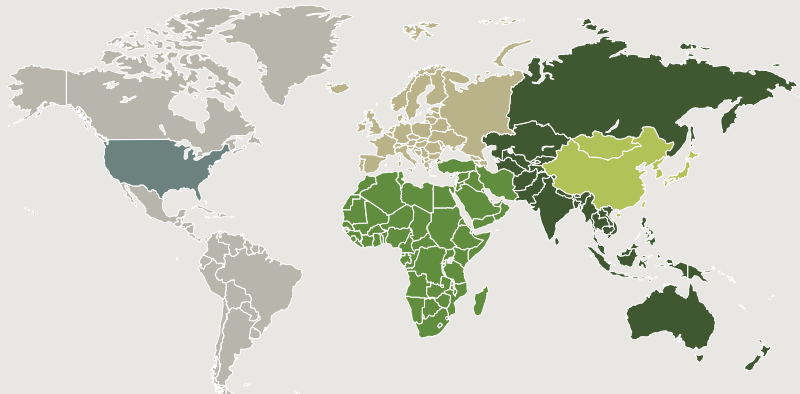
Money Broking

TOTAL NUMBER OF MONEY BROKERS



- During the year, eight money brokers were approved to carry out conventional money broking business, bringing the total number of approved conventional money brokers to 68.

The Origin of Money Brokers

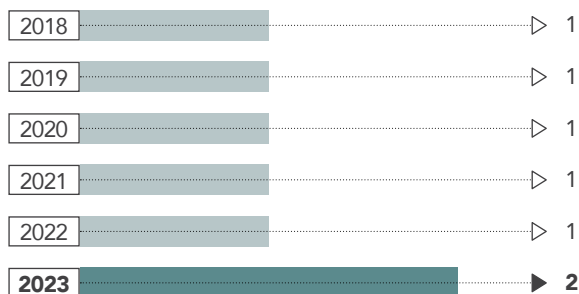


- In terms of geographical distribution, 45% of the Labuan money brokers originated from the Asia-Pacific region which includes Singapore, India, Vietnam, Indonesia and Malaysia.

Other Market Intermediaries

Credit Token Business

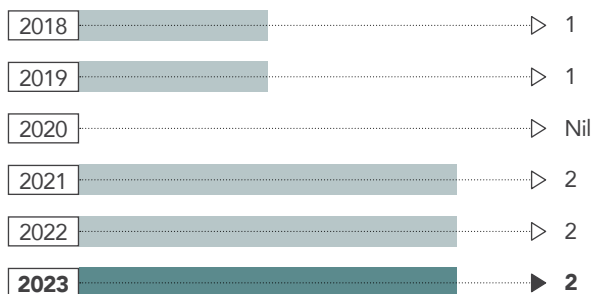
TOTAL NUMBER OF CREDIT TOKEN ISSUERS



- During the year, one new credit token licence was approved for e-token issuance to be used as intra-group payment mechanism. In 2023, there were two operating credit token issuers.

Payment System Operator

TOTAL NUMBER OF PAYMENT SYSTEM OPERATORS

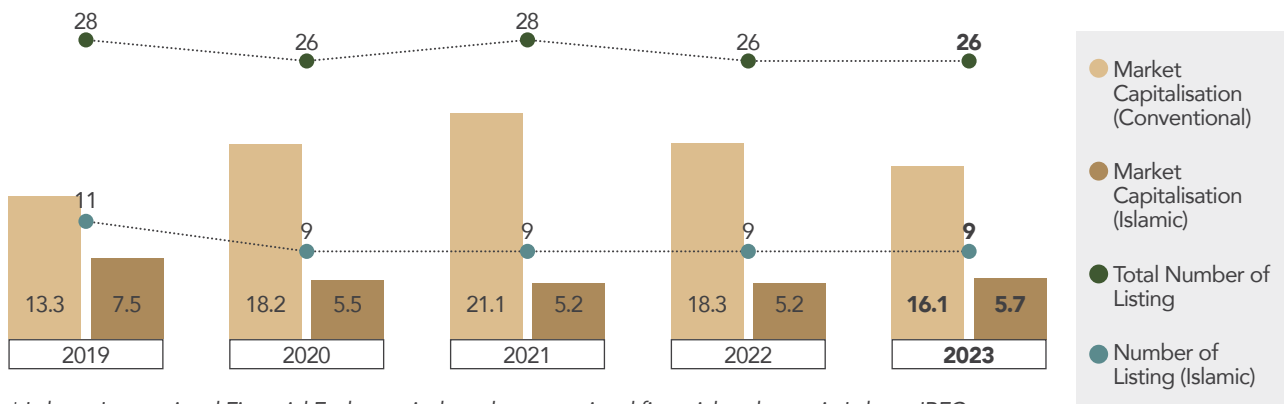


- In 2023, there were two payment system operators in operation undertaking fund clearing and settlement.

Financial Exchange

- In 2023, the sole conventional Labuan financial exchange* recorded two new listings with market capitalisation of USD1.5 billion. Two instruments were delisted from the exchange upon maturity, bringing the total number of active listings to 26.
- The total market capitalisation stood at USD21.7 billion which moderated by 7.7% from its 2022 level. In terms of instruments listed, conventional listings accounted for USD16.1 billion, while Islamic security listing recorded an amount of USD5.7 billion for the year.

NUMBER OF LISTINGS AND MARKET CAPITALISATION (USD Billion)



* Labuan International Financial Exchange is the sole conventional financial exchange in Labuan IBFC

Smart Partnership for the Greater Good of Labuan IBFC

After three decades since its inception, Labuan IBFC has become an important hub in connecting diverse economies across Asia and beyond. Bolstered by a comprehensive legislative framework and cohesive regulations aligned with the prevailing international standards, Labuan has grown into a vibrant international financial centre catering to the diverse demands of global businesses.

As the sole regulatory authority of Labuan IBFC, Labuan FSA has actively spearheaded the cross-border collaboration with peer regulatory bodies and agencies to foster closer cooperation in key areas particularly in regulatory development, supervisory and enforcement cooperation, exchange of information as well as business development. This strategic drive is clearly reflected by the 51 Memorandum of Understanding (MoUs) and Multi-lateral agreements entered since 2010 with international and domestic counterparts.

Labuan is part of Malaysia and the Labuan IBFC has been playing an important role in complementing the national economy. Malaysia has also been forging in numerous

strategic partnerships with regional countries, aiming to foster relationships, promote and boost digital economy developments. One notable initiative is the BIMP-EAGA which was formed by Brunei Darussalam, Indonesia, Malaysia and the Philippines, which established the growth area to shift economic activities from resource extraction to higher levels of processing and value-added production that adopt clean and green technologies. This initiative provides an opportunity for Labuan IBFC to leverage on and address the business needs of the BIMP-EAGA market.

Expanding Business Borders: Target Sectors Poised for Growth

Labuan is located strategically in the BIMP-EAGA West Borneo Economic Corridors. The developmental focus for this corridor emphasises light manufacturing, palm oil and wood-based processing, alongside tourism, which positions the corridor as a potential financial hub.

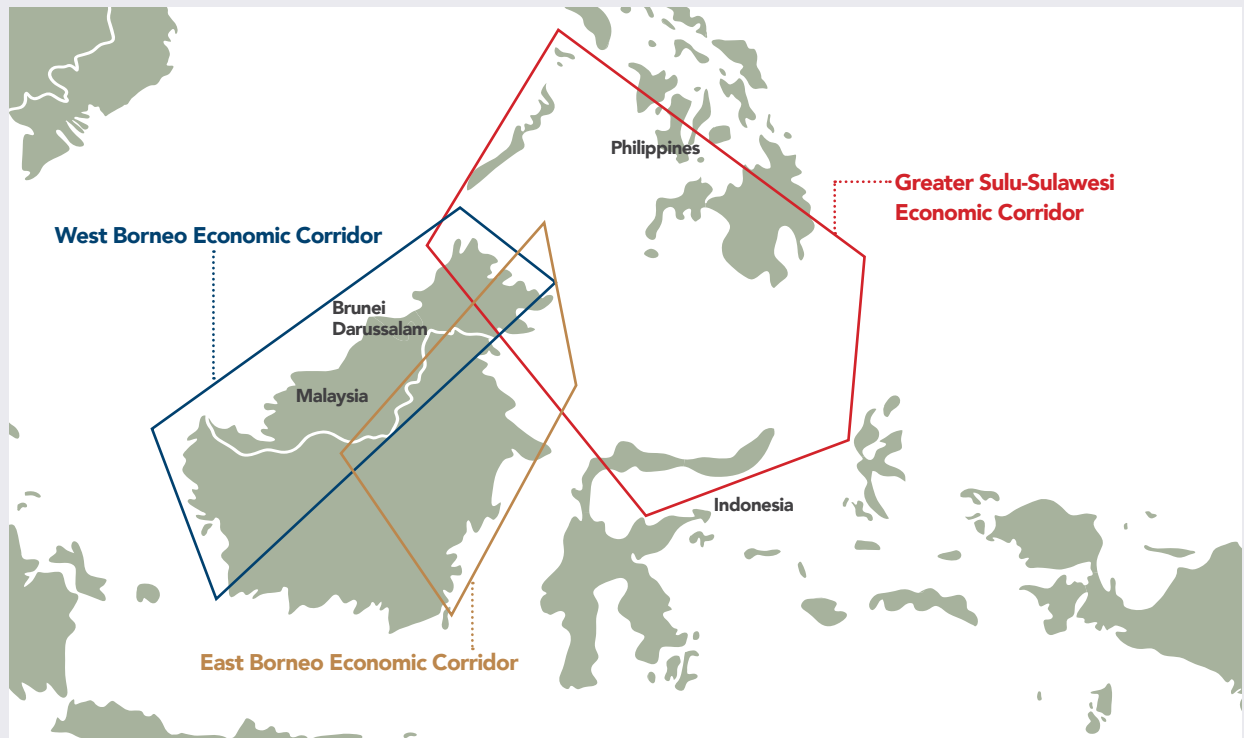


Diagram 1: Map of BIMP-EAGA Economic Corridors
 Source: BIMP-EAGA. 2012. BIMP-EAGA Implementation Blueprint 2012-2016

Playing an intermediation role to facilitate trade, investments and financial capital flows into the region - Labuan IBFC can lead the zone corridor as a renowned and established financial hub. With a complete suite of innovative financial structures and solutions, effective regulatory standards as well as a facilitative business environment, Labuan IBFC is well-positioned to cater and elevate the trade level in BIMP-EAGA. This may be explored through the adoption of blockchain technology in trading activities that digitalise transactions, supports and complements the BIMP-EAGA Vision 2025: R.I.S.E to narrow the development gaps in the following areas:

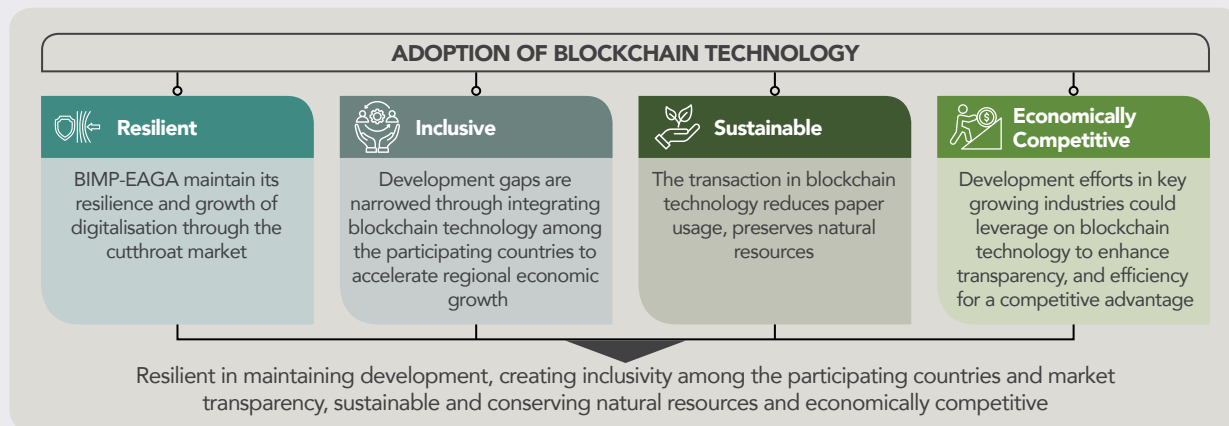


Diagram II: Adoption of Blockchain Technology to Complement BIMP-EAGA Vision 2025: R.I.S.E

As the members of BIMP-EAGA are also part of the Association of South East Asian Nations (ASEAN), this creates greater potential for Labuan IBFC to bloom in this region. ASEAN has launched the world's first region-wide Digital Economy Framework Agreement (DEFA) in September 2023 to accelerate ASEAN's transformation into a leading digital economy that cultivates greater digital cooperation and is expected to add up to USD2 trillion to the regional digital economy by 2030. Aside from BIMP-EAGA and ASEAN, Malaysia is also committed in participating in the Comprehensive and Progressive Agreement for the Trans-Pacific Partnership (CPTPP) as a means for regional economic integration since 2022. Through the Financial Services Chapter in CPTPP agreement, Malaysia has partnership potential with other countries via Labuan IBFC.

Catalysing Growth and Development through Labuan IBFC

Labuan IBFC is geared towards providing bespoke innovative solutions for the growing financial needs of business within BIMP-EAGA region and CPTPP partners. Such areas in particular include Islamic financial services, digital financial offerings, protected cell companies as well as alternative risk transfers such as captive structures.

- a) Islamic Digital Financial Hub for fund raising and investment through the Labuan Islamic Digital Asset Centre (IDAC). The IDAC initiative which was launched on 4 October 2022, is a digital gateway intended for Labuan to be the fund raising and investment hub for Asia's Shariah-compliant digital space. Through IDAC,

investors can raise funds and invest in RAMZ, an Islamic digital asset in the mode of security token offering - to innovate digital products and infrastructure for the global benefits, with a niche in ESG and Shariah-compliant activities.

Premised on the above, the Government has announced in Budget 2024 on the tax exemption for five years for Labuan entities conducting Islamic finance activities starting from the year of assessment 2024 to enhance Labuan's position as an Islamic finance hub.

- b) Protected Cell Company (PCC) can be ingeniously established for diverse objectives, ranging from safeguarding distinct investments and overseeing disparate business lines, to effectively segregate risks associated with various activities, which is well suited for investment and wealth management purposes.
- c) Captive insurance/takaful, an alternative risk management strategy that involves the creation of an insurance company or a takaful operator by a parent company, to provide coverage exclusively for its own and related-party risks. This approach allows companies to have more control over their insurance programmes and tailor them to their specific needs such as covering natural disasters and food security risk.

In summary, Labuan IBFC can serve as a catalyst for growth and development within the region by leveraging on its expertise in financial services and regulatory support. This can attract investments, promote cross-border trade, and enhance financial inclusion, ultimately contributing to the region's shared prosperity and economic integration.

Performance Indicators

Key indicators for the major financial sectors of Labuan IBFC

	2021	2022	2023
Profitability (USD Million)	4,361.6	6,106	3,989.9
Growth (%)	449.7	40	-34.7
Total assets (USD Million)	90,180.7	81,640	83,279.6
Growth (%)	13.9	-9.5	2
Return on assets (%)	4.8	7.5	4.8
Employment	3,915	4,224	4,368
Growth (%)	6.3	7.9	3.4

For 2023, the industry's aggregate profitability was impacted by the global oil price volatility as experienced by certain sectors of Labuan IBFC.

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