



UNDERSTANDING CAPTIVE BETTER

CAPTIVE SERIES # 1

Getting Started

What is Captive?

As a business owner, did you know that you can insure your firm's financial risks on your own?

Indeed, you can do just this and a lot more, with guided help from an expert underwriting and insurance management firm such as Brighton Management Limited.

Business owners can form an insurance company (better known as a captive) to insure their own risks, or more easily termed as a formalised form of self-insurance. In this context, business owners can set up a captive which is wholly owned by themselves for more efficient operational and financial control.

Businesses typically face a number of varied risks in the course of their routine operations and more so when they expand rapidly over different geographical locations – let's take for instance the owner of a company involved in the manufacturing sector.

At a glance, running a business in this sector exposes the owner(s) to a number of key risks which needs to be insured for the sake of business continuity and as a financially prudent measure to mitigate potential losses – the key risks in need of being addressed are among others, people, premises, products and much more.

In essence, captives are self-insurance companies formed to cover practically all types of risks which are usually underwritten by existing licensed insurers. It is also not necessary for a captive to only be formed by large conglomerates as the trend around the world shows that even non-profit organisations can pursue this option.

So how do we get started?

First, let's indulge a little more on the Top 3 must-knows in setting up or operating a captive in Labuan, East Malaysia, which, through the Labuan International and Business Financial Centre (Labuan IBFC), is a jurisdiction for the formation of insurance and insurance related companies:

1 CAPTIVE IS NOT A NEW CONCEPT

Captive insurance companies have existed for more than a century, so technically it is not entirely a new concept albeit the awareness surrounding it being rather exclusive. The first ever captive insurance company in the world was set up in Bermuda in the year 1962. So as a business owner, move out of your fear as the captive is a tried and tested risk management tool and our experts are here to guide you every step of the way.

2 REGULATED BY LABUAN FINANCIAL SERVICES AUTHORITY

Once set up, a captive company operates under the purview of a regulator, very much like how commercial insurers in Malaysia are regulated by Bank Negara Malaysia. In the case of a captive based in Labuan, they fall under the Labuan Financial Services & Securities Act 2010 (LFSSA) which fully governs their operations led by the Labuan Financial Services Authority.

Among the major Malaysian Captive companies established in Labuan are Energas Insurance (L) Ltd. for Petronas, KLK Assurance (Labuan) Limited for KLK, Sime Darby Insurance Pte Ltd for Sime Darby and, Airasia Corporate Services Limited for Air Asia.

3 MINIMUM REQUIREMENTS

The LFSSA provides for the establishment of pure captive, association captive, rent-a-captive and protected cell companies while the minimum capital requirement/working fund or its equivalent in any foreign currency are as follows:

Pure Captive	RM300,000
Rent-a-Captive/Master Rent-a-Captive/Protected Cell	RM500,000

Working funds refers to the surplus of assets over liabilities to be maintained in the books of its office in the Federal Territory of Labuan at all times.