



INSURANCE AND REINSURANCE SERIES # 1

ESTABLISHING A LABUAN INSURANCE & REINSURANCE COMPANY

The growth of the Captive Insurance market has often dominated the insurance scene in Labuan and this trend is expected to continue with Labuan IBFC firmly focused on strengthening its presence in Asia's Captive market. But the ascendancy of the insurance and reinsurance business has relatively flown under the radar.

In April 2017, at the presentation and briefing on the Labuan Financial Services Authority (Labuan FSA) Annual Report 2016, it was reported that Labuan's insurance industry registered positive growth the year before, with insurance and reinsurance businesses recording an increase in gross written premium of 3.3% to US\$ 1.4 billion.

Bank Negara Malaysia's (BNM) Governor Datuk Muhammad Ibrahim also expressed his optimism at the event saying, "in an environment of volatile oil prices, the insurers and reinsurers successfully shifted focus from engineering and marine classes that correlate to oil price developments, towards other specialised lines."

If your business goal in Labuan is to establish an insurance and reinsurance company, this is indeed great news and should give you lots of optimism to push on with your plans. An insurance and reinsurance company in Labuan IBFC is governed by the Financial Services & Securities Act 2010 (LFSSA 2010 or the Act) Part vii, which you are required to adhere to strictly.

Special Advantages of Labuan IBFC

One of the biggest and, arguably, most important advantage of obtaining an insurance and reinsurance licence in Labuan IBFC is gaining access to permitted Malaysian risks – including

marine, aviation and transit (subject to approval from BNM) – and reinsurance of Malaysian businesses as having an office in Kuala Lumpur but without requirement to comply with detailed regulations governing businesses in Malaysia.

You can transact general insurance or life insurance and carry out reinsurance of the domestic insurance business. This includes the reinsurance of domestic insurance businesses transacted in Ringgit Malaysia. However, no composite licence will be issued in Labuan IBFC and the reinsurer is only allowed to transact in the reinsurance business. If you are a Malaysian insurer, there is an incentive for engaging Labuan based entities for your reinsurance needs.

Premiums ceded to reinsurers, licensed under the LFSSA 2010, are 100% tax deductible. Before getting to this point, however, you must first comply with the Risk Based Capital Framework that defines your qualification as a reinsurer, which begins with being licensed under the Act. With this comes the requirement of a binding guarantee from your parent company or head office for full support to your business in the event of any financial difficulties.

Your parent company or head office too has its share of conditions to meet, starting with the most fundamental requirement of being licensed under the Act. It must also carry a financial strength rating of at least an A or its equivalent, which is accorded by a recognised rating agency in Malaysia or an international one.

Establishing A Takaful And Retakaful Division

Establishing a Takaful and ReTakaful division will help further accelerate your business and meet market demands on a greater scale. Labuan IBFC's mature, pragmatic, and business-friendly environment allows you to establish a Takaful and Retakaful division without the need for a separate licence. However, a minimum seed capital of RMI million, or its equivalent in foreign currency, must be in place as funding of the division.

This fund will be treated separately from the net-working funds at the company level, utilised for insurance and reinsurance businesses under LFSSA, that are not Shariah compliant. As an existing LFSSA licensed insurer and reinsurer, with plans to pursue Takaful and Retakaful activities, funds from the aforementioned non-shariah compliant businesses can be channelled as 'seed capital' to the division for the following purposes:

- ➔ to commence business of the Takaful and Retakaful Division
- ➔ to pay underwriting deficits or other forms of payment that are shariah compliant as advised by the Shariah Supervisory Council

Upcoming articles will shed light on a few more advantages, legal provisions and key layouts for establishing an insurance and reinsurance company in Labuan. Stay Tuned!