



## **INSURANCE AND REINSURANCE SERIES # 2**

## **COMPLIANCE AND LEGAL FRAMEWORK**

### **Compliance and Legal Framework**

In the first part of the series, we briefly illustrated the growth potential of the insurance and reinsurance business in Labuan and how you can benefit from the special advantages of doing business in the Labuan International Business and Financial Centre (Labuan IBFC). There are, however, several compliance factors and legal provisions that you need to take into account leading up to establishing your insurance and reinsurance company.

If you're a Malaysian insurer, it is vital you ensure that in placing reinsurance, you must accord a great deal of priority in optimising the retention capacity of Malaysian re(insurers). This will be followed by Labuan-based re(insurers) before securing overseas reinsurance support, in your treaty and facultative arrangements. Your company can then proceed to appoint an underwriting manager, licenced in Labuan, to underwrite on your behalf.

### **Cost Savings & Hassle Free**

To save you the cost and hassle of establishing your own insurance and reinsurance office in Labuan, you have Brighton Management Limited to manage it for you. One of the biggest stumbling blocks in growing your new business will inevitably be spiralling costs.

Hence engaging a management firm with state-of-the-art facilities, like Brighton, will give you important financial relief. Dealing with high administration expenses, managing overhead cost, and the headache of high staff turnover will now be a thing of the past.

Brighton's ultimate objective is to free you from being bogged down by these issues via our top notch technical services such as compliance, reporting, accounting, monitoring and reviewing

regulatory changes and the physical presence of your office.

### **Legal Provisions**

For an insurance and insurance related company incorporated in Labuan IBFC, it should be one with a share capital and limited liability. An insurer or reinsurer can also be a branch office of an insurer/reinsurer registered in another location.


The capital requirement for an insurance and insurance related company is RM7.5 million. However, the Labuan Financial Services Authority (Labuan FSA) may require working funds of RM10 million if you're planning to transact reinsurance business.

For a subsidiary the amount required is RM10 million or, its equivalent in any foreign currency. If your plan is to establish a branch office, the working capital required is RM 7.5 million and RM 10 million – or its equivalent in any foreign currency – for insurer and reinsurer respectively.

The working funds must be deposited in a licensed Bank in Labuan IBFC while the surplus of assets over liabilities should be maintained in the books of the office in the Federal Territory of Labuan. And yes, there is an annual licence fee of RM50,000, payable yearly by 15 January.

For a branch office of a foreign company, the annual fee payable is RM 5,300, and RM 2,600 for a subsidiary. A compulsory action that needs to be taken in this process is signing up as a member of the Labuan International Insurance Association for an annual fee of RM2,500.

While we're still on the subject of fees, you can proceed to establish a co-located management office throughout Malaysia for just RM 10,000. As with



all businesses there is the question of having enough assets to cover your liabilities.

For an insurance and reinsurance company in Labuan, the mandatory minimum solvency margins are as follows:

- RM7.5 million and RM10 million for insurer and reinsurer respectively
- For a life insurance business, the requirement is 3% of actuarial valuation of Liabilities
- For a general insurance business, 20% of net premium income is required

***Up next will be a quick look at operating currencies and the key layout details for establishing a Labuan insurance and reinsurance company. Don't miss it!***