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# Brighton NEWSLETTER

You insure, We ensure

## Editor's Note

We are now living in a world that requires us to make radical adjustments to our lives and priorities.

Businesses are forced to acclimatise to a new normal – one that demands different responses and approaches. For the insurance industry, digital transformation and business resilience on a global scale are some of the defining new normal for the industry.

But one key take away from the multiple crises the world is experiencing is that trust is fundamental.

At Brighton, credibility and working in the clients' best interest are the two key dimensions of trust that we have refined over the years. Despite these uncertain times we will continue to provide you with the quality service you have come to depend on from us.

Until the next issue, please take care of yourself and those around you, and stay safe!

**Annie Undikai,**
**Managing Director**

## Defining A New Normal In The Insurance Industry

In the face of the disruptions caused by COVID-19, one thing that is prevalent is our ability to change quickly, be creative and adapt to a new normal. Many companies realised that their business-as-usual approach was not an option during the pandemic as COVID-19 radically disrupted every element of business.  And in its wake, had shaken up the the social, political, economic and business landscape.

Without a doubt the pandemic has altered the way we approach life – social distancing, fervent hand-washing, and wearing protective masks in public have become the new normal. But how has it impacted the way insurance companies operate? What will be the new normal for the insurance industry post COVID-19?


It's important to understand what this "new normal" is in order to gain perspective and to understand where the industry is headed.

The sudden economic shift from physical to digital sparked by the pandemic saw significant changes in how companies interact with consumers as well as the way they operate. This shift has, in many ways, forced businesses to rethink their strategies to continue operating in the new normal. However, many believe that the changes we are experiencing is just the tip of the iceberg at this point in time.

What is evident is that digital transformation is no longer an optional idea but a requirement for business survival in the new normal. In the insurance industry, digital transformation will affect all aspects of business from underwriting to claims processing. Post COVID-19, Artificial Intelligence, blockchain and robotic process automation will no longer be a nice-to-have option. On the contrary, these  will be strong pillars of any insurance company's overall business strategy moving forward. With the pandemic reshaping human behaviour and with consumers preference leaning on a more digital-led recovery, the new normal for the insurance industry will be one where technology and protection come together as a complete solution.

Business continuity plan (BCP) and disaster management planning has taken on a new meaning in this era of the new normal and has become one of the most pressing topics that companies would have to revisit. Although many companies have realised the importance of BCP even before this pandemic shook the world, the global disruptions caused by COVID-19 have stress tested BCP beyond its pre-set parameters.[1]

Prior to COVID-19, BCP was focused on resuming business after a single, short to medium term major disaster such as earthquake, cyberattack and major fire.  By design BCP was based on the premise that companies would return to its pre-incident normal in the medium term. In the new normal, however, a new approach to BCP is needed – one which should reflect a longer-term beyond the immediate crisis and through recovery.

[1] EY. 2020. *COVID-19: Adapting to the new normal.* Available at https://assets.ey.com/content/dam/ey-sites/ey-com/en_in/topics/insurance/covid-19-adapting-to-the-new-normal.pdf?download

# Protected Cell Company: An Alternative Risk Management Tool

Protected cell company (PCC) is widely regarded as a go-to-solution for a myriad of different uses, not just within the insurance sector but also other parts of the international financial services industry, including wealth management and investment fund structuring.

A PCC is essentially a limited liability company that is structured to form cells where each business entity is legally segregated from all other incorporated cells in the PCC. Hence, PCC allows for the segregation of risks, assets and liabilities of different cells under a shared structure. Since each cell is separated by both statute and agreements (from each other and the core), creditors for a particular cell effectively only have access to the assets within that cell.

Once established, a PCC can also form cells for third parties with each cell can be used for multiple purposes including writing third party risks, as captive risk financing tools or for profit optimization. Given the segregation of assets and liabilities features offered by a PCC, the parent company can write different lines of business through each cell whilst insurance managers can set up their own PCCs to 'rent' cells to different clients.

**Key Benefits and Uses**

PCC offers all the benefits of a captive, but without the same level of financial commitment and associated costs. Hence, they are set up by multinationals and smaller companies for various reasons with the primary motive would be reduction in the costs of operating a cell compared to a stand-alone captive. Cells may also be incorporated to address special circumstances such as a one-off financing situation such as gaining access to a reinsurance market that they may otherwise have no access to or to segregate a certain type of risk.

In recent times, there have been a surge in interest among smaller and midsize companies or companies with a lower cost of risk, and those who are not in a position to set up their own captives; to establish their own dedicated captive vehicle (or "cell") without substantial additional investment. PCC is also ideal for companies that are required to segregate risks associated with a joint venture, a special project or a strategic alliance; or segregation by regulated and non-regulated business.

In Labuan IBFC, PCC was first introduced in 2010 in line with the enactment of the amended legislation, Labuan Companies Act 1990 (LCA 1990). The jurisdiction offers both conventional and Shariah-compliant PCC. Under the Labuan Financial Services and Securities Act 2010 and Labuan Islamic Financial Services and Securities Act 2010 (for Shariah-compliant PCCs), a Labuan PCC is allowed to undertake captive insurance or mutual funds activities (including captive takaful and Islamic mutual funds).

## Labuan IBFC Driving Captives Growth in Asia

According to the recently released Labuan IBFC Market Report 2019, Labuan IBFC maintains its leading position as the domicile of choice for captive insurance business after establishing itself as the fastest growing captive domicile in Asia for new captive establishment. Labuan IBFC is the second largest captive market in Asia with 52 captives with 5 new captives formed in 2019.

The steady overall year-on-year upward trend in captive adoption depicts a greater awareness of the role of captives as well as the jurisdiction's ability to continue to attract these risk management vehicles.

In 2019, the total gross premiums for captive insurance business reported an increase of 14.2% to US$457.5 million. More than 60% of total premiums originated from international markets, of which 58.2% were from Asia and The Pacific region.

In terms of premium growth, the Engineering and Other Classes dominated the captive business with 27.1% and 61.7% market share, respectively.

Home to 219 insurance and insurance related companies, Labuan IBFC provides an ideal ecosystem for captive formation as well as management. On the whole, the future remains bright for the captive insurance market in Labuan IBFC. Evidence of growth in recent years suggests that this trend is highly likely to continue.

Source: Labuan IBFC Market Report 2019. Available at https://www.labuanibfc.com/clients/Labuan_IBFC_78C2F-F81-703A-4CAA-8926-A348A3C91057/contentms/img/resource_centre/publication/download/2020/Market%20Report%202019_FinalV_27052020.pdf

## Labuan Insurance Sector Posts Positive Growth in 2019

2019 had been a year of sustained growth for Labuan IBFC. Key business sectors recorded positive growth with heightened level of innovation in business ventures. This is in line with the progressive shift towards more digital-based financial business in the jurisdiction.

Labuan IBFC continues to grow its insurance sector. As reported by the Labuan IBFC Market Report 2019, the Labuan insurance sector recorded a modest positive growth in 2019. This is in tandem with the low interest rate environment in the Asian region.

Despite modest growth, the insurance sector registered higher profitability performance in 2019. Profitability grew by 43.7% to US$190.5 million mainly due to improved underwriting performance and better cost management. Total gross premiums were transacted at US$1.5 billion with 89% of the total premiums originating from the Asian market.

In 2019, total capitalisation of the Labuan insurance industry strengthened by 4.4% to US$726.8 million. Parallel with the increase in total capitalisation, the total assets increased by 9.8% to US$4.7 billion. This was mainly attributable to higher investment in fixed deposits and money market instruments.

# A Snapshot of Insurance Industry Performance 2019 in Labuan IBFC

**219**

Total number of insurance & insurance related entities

Total premiums

**US$1.5 bln**

72.5% of premiums are from Asia & The Pacific

**43.7%**

Increase in profitability

Assets grew by 9.8% to

**US$4.7 bln**

attributable mainly to higher investment in fixed deposits and money market instruments

**52**

Total number of captives

Premiums of captive business increased by

**14.2%**

to US$57.5 mln, which accounts for 30% market share

**US$758.9 mln**

Total premium placements by the Labuan insurance brokers

**US$100.6 mln**

Total gross contributions in re(takaful) business

Source: Labuan IBFC Market Report 2019

# Finalisation of the Insurance Capital Adequacy Framework (ICAF) Postpone to 2021

The Labuan FSA has announced their decision to postpone the finalisation of the Insurance Capital Adequacy Framework (ICAF) to 2021. With this postponement, a parallel run implementation is now targeted in 2022 with full implementation of ICAF is now expected by the year 2023. This decision was announced during the LIIA-LFSA meeting held recently.

Th ICAF was developed and to be finalised in two phases with full implementation initially targeted in 2018 for Insurance ICAF and 2019 for Takaful ICAF. Phase 1 involved the harmonisation of assets and liabilities requirements, whilst Phase 2 focused on strengthening capital buffer.

The transition towards a risk-based capital approach from the Margin of Solvency requirements via the ICAF, reflects Labuan IBFC's endeavour to enhance the market capitalisation of the insurance sector and to further strengthen insurance regulations in the jurisdiction.

# Guidelines on External Service Arrangements for Labuan Financial Institutions

In light of the growing reliant on service providers for activities that are critical to the overall viability of the licensed financial institutions, Labuan FSA issued the Guidelines on External Service Arrangements (ESAs) for Labuan Financial Institutions (LFIs) in April this year.

The Guidelines are expected to serve as best practices in managing risks arising from ESAs as they set out the requirements for LFIs when implementing, or renewing any external services arrangements.

Under the Guidelines, LFIs are required to maintain a complete register of ESAs, and maintain appropriate internal governance and risk frameworks, including data protection and confidentiality as well as business continuity plan. LFIs are also required to submit statistical reporting on information of all material ESA and non-material ESA under the Statistical Management System (SMS). These requirements are essential to ensure that Labuan FSA continues to carry out effective supervisory oversight over LFIs in relation to the activities undertaken via ESAs.

Labuan FSA provides a transition period for all existing ESAs to comply with the new Guidelines upon expiry of the existing contracts or by 1 January 2023, whichever is earlier. However, early adoption of the Guidelines are allowed.