

Brighton NEWSLETTER

You insure, We ensure

Editor's Note

As we round up 2021, it leaves us with bitter-sweet memories when running a flashback. The first half of the year loomed under the gloom of the severe losses caused by the COVID-19 pandemic.

As the situation started to look up and look better in the second half of the year, new variants of COVID-19 emerged and threatened to reduce vaccine effectiveness; with the latest being the Omicron strain.

In a world where uncertainty is the new norm, risk management is a critical science for all businesses. As companies learn to move away from just surviving, the need to adopt a more strategy risk management approach is critical more than ever.

Self-insurance vehicles such as captives have become an attractive risk management option for a growing number and type of companies.

As the only jurisdiction in Asia to offer both conventional and Shariah-compliant protected cell companies, Labuan IBFC has carved prominence as a captive domicile hub.

Wrapping up the year on a positive note, we wish everyone their best health and the best in 2022 and the years to come. Happy holidays!

Annie Undikai,
Managing Director

Evolving Role of Self-Insurance In Strategic Risk Management

In today's rapidly changing world, companies are increasingly facing risks that are not only complex in nature but unique to their business. This has forced them to explore alternative ways of transferring such risks in a cost effective and efficient manner. As a result, self-insurance – an alternative risk finance mechanism, has gained attention as the go-to solution.

By adopting this strategic risk management approach, companies are able to determine their total risk exposure more accurately, and allowing them to finance their risks based on the needs of the business or the idiosyncratic demands of the risk being mitigated. Self-Insurance is suitable not only for big corporations but also medium- and small sized businesses, including entities such as associations, where there are advantages and cost-efficiency to be gained in the pooling of risks.



Why self insurance? The impact of the pandemic, against the backdrop of a hardening market and emerging risks, have placed resiliency at the core of business operations and strategies. Following these structural changes, companies are leveraging on alternative risk transfer solutions as they find ways to mitigate corporate risks more efficiently and effectively. This is where the concept of self-insurance is proving its worth, with a notable interest in captives from existing and prospective owners.

Captives as self insurance vehicles have become an increasingly important component of the risk management and risk financing strategy. A captive can offer more premium stability, an improved risk management strategy, access to reinsurance, as well as cost savings.

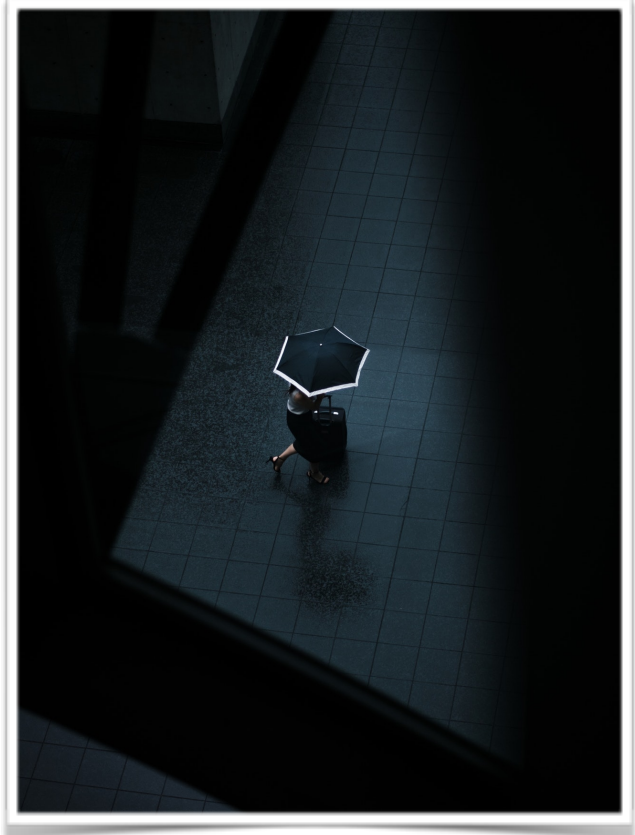
Business interruptions and economic distress caused by the pandemic, forced companies to stop and review their risk management approach and strategy. As a result, businesses are using their captives more strategically, with many using existing captives for different lines or limits of coverage. For example, the hardening market conditions have prompted companies to include coverages that were traditionally not provided by captives such as directors' and officers' (D&O) liability.

The pandemic is stark reminder that the impact of a black swan event on business can be pervasive and long-tailed at the same time. Hence, it underscores the need for businesses to consider self-insurance, such as captives; as part of their overall corporate risk management strategy, rather than as a separate entity.

The pandemic has also brought emerging risks, such as cyber risks, climate change, supply chain risks and data breach; very much into focus. Emerging risks, which are characterised by lack of historical data, have dissuaded commercial insurers from pricing coverage competitively.

As companies grapple with the changing dynamics of the traditional insurance marketplace, using captives as self insurance vehicles to access the reinsurance market is their best option.

Managing through the pandemic in the current market conditions require forward thinking in risk management. This is why self-insurance is gaining more recognition and are now at the heart of risk management strategy.



The Rise of Shariah-Compliant Captives

Once reserved for big corporations, captive insurance has gained popularity by small to midsize businesses as a cost-efficient way to manage their complex and unique risks. The long-term economic impact of COVID-19 is likely to strengthen the case for captive insurance solutions for businesses. Similarly, the Shariah-compliant captive market is also beginning to gain traction.

By definition, captive insurance is a risk financing mechanism in which a company insures itself against future losses. Taking this definition, a Shariah-compliant captive manages the underwriting risks and risk financing strategy in accordance with Shariah principles.

In a Shariah-compliant captive model, the following criteria must be fulfilled:

1. Risk transfer from the parent to the captive company must be Shariah-compliant.
2. All investment activities undertaken by the Shariah-compliant captive must be in accordance with Shariah principles.
3. Contract entered by the parent company and the captive company must be Shariah-compliant.

Hence, a Shariah-compliant captive is fundamentally similar to a conventional captive's risk

management tool except that its operations must be managed in a Shariah-compliant manner in its entirety.

With captives gaining widespread acceptance around the world, Labuan IBFC is the leading jurisdiction in Asia for captive formations, including Shariah-compliant captives. To date, Labuan IBFC is the only jurisdiction in Asia to offer both conventional and Shariah-compliant protected cell companies, thus making Labuan a key player in the global Islamic captive insurance sector.

Labuan IBFC was recently named International Domicile of the Year 2021 at the European Captive Review Awards for its well-regulated and extensive range of captive structures, proportionality in regulations as well as its wide and deep reinsurance marketplace for captives to thrive.



The Growing Importance of Labuan IBFC To The Malaysian & Asian Economy



Regarded as one of the world's fastest growing mid-shore and financial centres in Asia, Labuan IBFC continues to play an important role in the development of Malaysia as well as the region.

Its intermediation role in facilitating trade, investments, credit and financial capacity flows into Malaysia has invariably contributed to the country's economic growth. It is estimated that in 2019 and 2020, the economic contribution of Labuan IBFC to Malaysia amounted to almost RM4.6 billion,¹ largely in terms of fiscal collection, local spending by the players in Labuan, and dividends repatriated onshore.

Labuan IBFC also contributed more than 60% to the gross domestic product (GDP) of Labuan in 2021, thus making Labuan IBFC not only the largest contributor to the island's total GDP but serves as its key growth engine. With the introduction of economic substance requirement, this has contributed to an increase in local spending and spurred other economic spin-offs in the island such as additional manpower and increase in demand for office spaces.

Labuan IBFC's increasing important role in Asia is evident by the growing number of foreign entities incorporated in the jurisdiction, with Asia Pacific and the Far East accounting for 70% of the businesses here. This clearly demonstrates Labuan IBFC's success as an outward-looking centre that facilitates international business.

Despite the challenging economic and business conditions brought about by the COVID-19 pandemic, Labuan IBFC continues to remain resilient with businesses operating in the jurisdiction remained largely stable and growing. Home to more than 5,000 active entities; which include 70 banks, 232 insurance and insurance-related entities, 65 trust companies and other business sectors; Labuan IBFC has gained growing prominence as a regional financial hub by facilitating intra-Asian trade, investments and asset intermediation.

¹ <https://www.dailyexpress.com.my/news/180945/labuan-ibfc-contributes-rm4-6b-to-coffer/>

Labuan FSA Celebrates 25th Anniversary

The year 2021 marks Labuan FSA, the regulatory body for the Labuan International Business and Financial Centre (Labuan IBFC), 25th anniversary. Since its establishment in 1996, Labuan FSA has played a strategic and important role in the growth and development of Labuan IBFC.

The regulator has continued to enhance its regulatory and supervisory framework to create a more enabling and competitive environment in line with international standards.



In his welcoming remarks during the Labuan FSA 25th Anniversary Commemorative Coin Launch; Nik Mohamed Din Bin Nik Musa, the Director-General of Labuan FSA, said the regulator is committed “to continue ensuring the availability of a wide array of financial products and services to position Labuan as an important intermediation centre in Asia.”¹ He further added that the aim is to ensure Labuan IBFC remains ready to compete and complement more effectively in the international financial landscape.

In this regards, the regulator is at the crossroad of charting a new chapter for Labuan IBFC, which will be based on sustainability, relevancy and market certainty. This will be enabled by digital technology and fuelled by innovation. He added that, “the pandemic has put us on a new norm in the ways of doing business. It has forced us to think outside the box in search for newer and better ways.”

In the space of digital innovation, Labuan FSA has already taken a progressive stance in enabling innovative digital business to take root in Labuan IBFC. These businesses range from financial services such as digital banking and insurtech to digital intermediaries such as crypto trading platforms, tokenised issuers, digital asset exchanges and payment gateway approvals. In its commitment to adopt a facilitative approach in catering for emerging business technologies, Labuan FSA has launched the digital governance and cyber resilience framework, which outlines the regulatory requirements on digital governance to be observed by Labuan financial institutions. The guidelines, which will come into effect on 1 January 2022, comprise of six principles including digital governance oversight, cyber risk management, management of digital services offered by Labuan financial institutions, external service arrangement, maintenance and review, and awareness and training.

¹ <https://www.labuanfsa.gov.my/general-info/media/welcome-speech-by-mr-nik-mohamed-din-bin-nik-musa-at-the-labuan-fsa-25th-anniversary-commemorative-coin-launch>



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***MERRY CHRISTMAS
&
HAPPY NEW YEAR***

**May this Christmas be bright and
cheerful, and may the New Year
begin on a prosperous note!**

**From
Management & Staff, Brighton Group Limited**