

# INSIGHTS

NOVEMBER 2023

## 2024 OUTLOOK: BUSINESS *DISRUPTION* RISKS



### **AI-POWERED THREATS**

New Obstacles  
And Complexities

### **FROM SPECTER TO STRATEGY**

CBRN Challenges  
Unveiled

### **WHY OWN WHEN YOU CAN RENT?**

Transforming Risk  
Management with  
Rent-A-Captive

# Editor's Note



Dear Readers,

In a world where the only constant is change, the need for businesses to be adaptive and resilient has never been more critical. The first article in this issue on business disruption risks outlook for 2024 sheds light on the ever-evolving landscape that companies must navigate. It emphasises the importance of preparedness in the face of unforeseen disruptions, urging businesses to proactively assess and fortify their strategies.

The integration of hackers' tactics with artificial intelligence presents a significant cybersecurity challenge for businesses. As highlighted in the second article, businesses must reevaluate their cybersecurity measures to stay ahead of these evolving risks. The article underscores the imperative for organisations to embrace innovative approaches and technologies to safeguard their digital assets.

While cyberspace has its own set of risks, there is a much larger issue at hand – Chemical, Biological, Radiological, and Nuclear (CBRN) weapons. The third article in this issue highlights the seriousness of this threat by discussing the very real possibility of hazardous CBRN incidents.

The fourth article delves into how Rent-a-Captive (RAC) has redefined the traditional paradigm of risk management. By providing businesses with a flexible and efficient alternative, RAC opens new avenues for organisations to manage and mitigate risks effectively.

As the business landscape continues to evolve, adaptability and foresight become paramount. We invite readers to explore these insights, aiming not just to weather disruptions but to emerge stronger and more resilient in an ever-changing world.

Stay informed. Stay resilient.

  
**Annie Undikai**  
Managing Editor

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## 02 EDITOR'S NOTE

## 04 2024 OUTLOOK: BUSINESS DISRUPTION RISKS

*With the fast-paced and ever-changing business landscape, it's crucial to be prepared for any unforeseen disruptions. Regardless of the industry or size of the company, organisations are confronting a diverse and powerful array of disruptive risks.*

## 11 THE RISE OF AI-POWERED THREATS IN CYBERSECURITY

*As technology continues to evolve, the integration of hackers' tactics with the power of AI presents new obstacles and complexities. To keep up with the changing landscape, it's important for businesses to reevaluate their cybersecurity measures.*

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*The use of CBRN weapons is a major global concern that cannot be ignored. The possibility of hazardous CBRN incidents is very real, and the consequences could be catastrophic not only for people but also for the environment.*

## 19 WHY OWN WHEN YOU CAN RENT?

*For some businesses, the prospect of establishing and maintaining a captive can be overwhelming. But now, with the advent of Rent-A-Captive (RAC), a transformative solution has emerged to address this apprehension and redefine the traditional paradigm of risk management.*

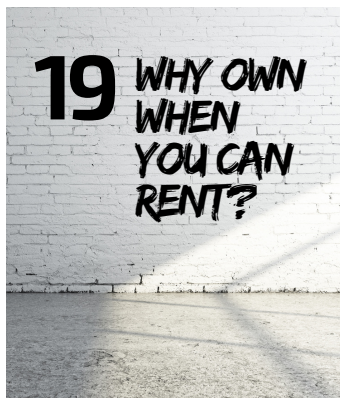
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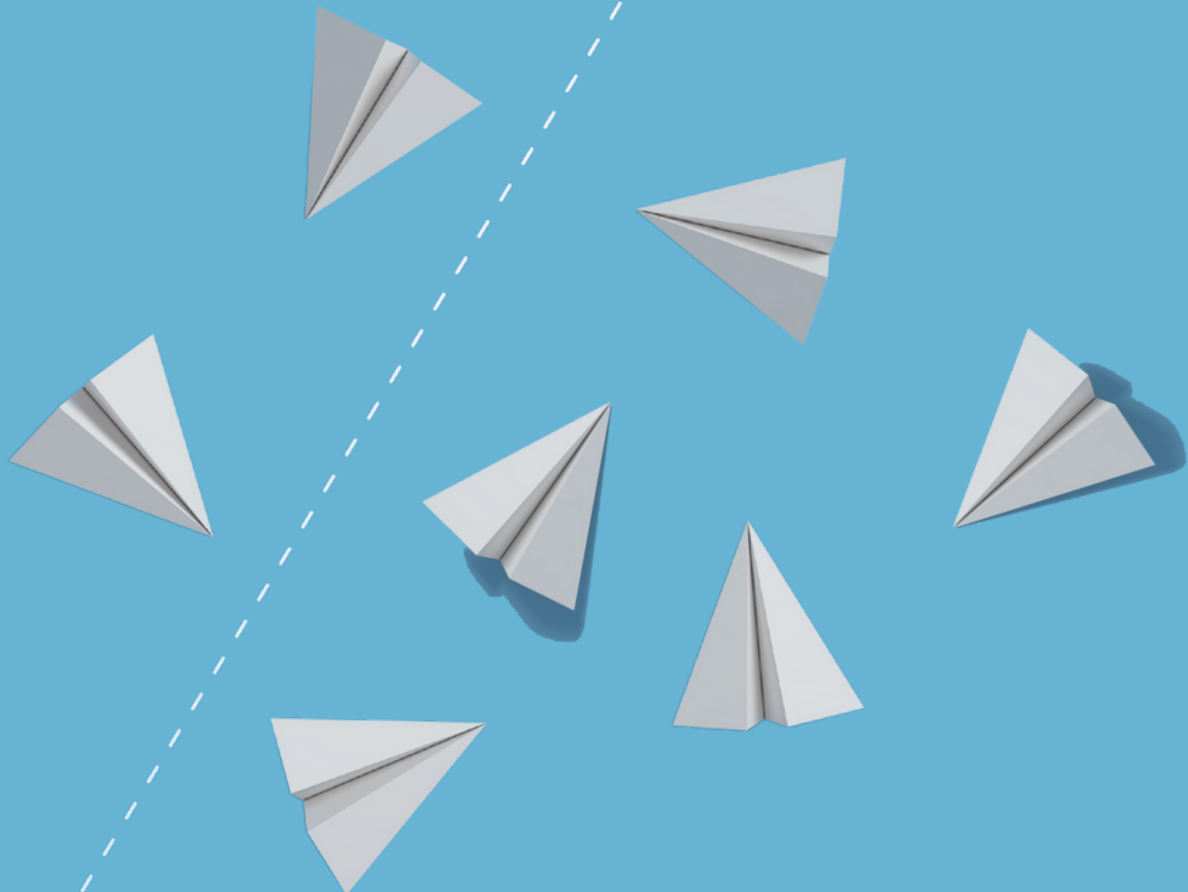
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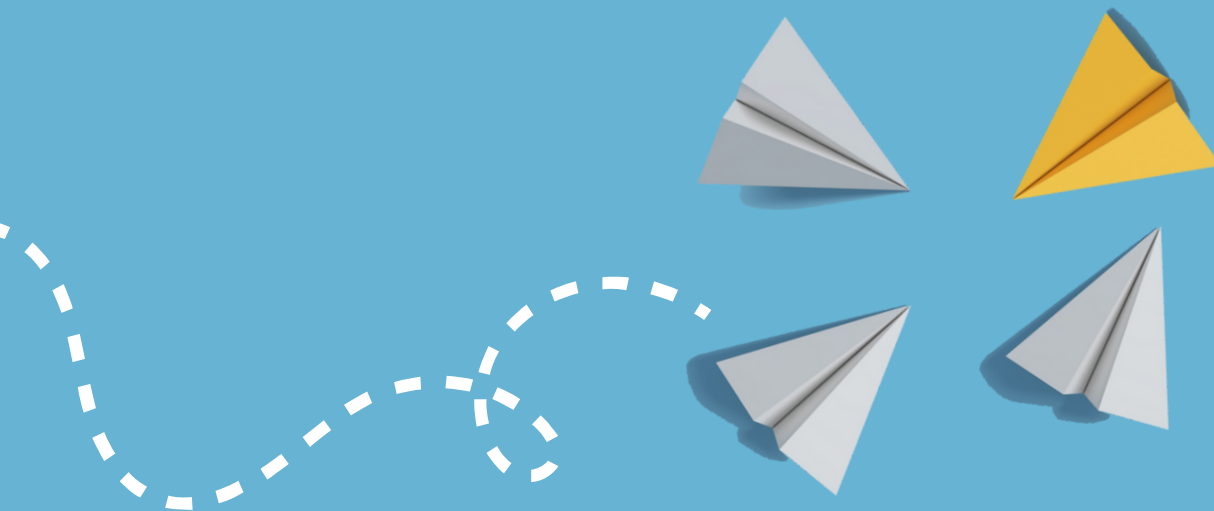
## 19 WHY OWN WHEN YOU CAN RENT?



# 2024 OUTLOOK: BUSINESS *DISRUPTION* RISKS







In the dynamic and ever-shifting terrain of the contemporary business world, the pace of change is relentless, and the likelihood of unforeseen disruptions looms larger than at any other point in history. Organisations, irrespective of their size or industry, find themselves navigating a landscape fraught with diverse and potent disruptive risks. These risks possess the potential to exert a profound and far-reaching impact on the intricate fabric of their operations, revenue streams, and the overarching stability of their business endeavours.

The nature of these disruptive risks is multifaceted, ranging from technological breakthroughs that can swiftly render existing business models obsolete, to geopolitical shifts that have introduced unprecedented uncertainties. Moreover, the interconnectedness of the global economy

exposes businesses to a myriad of external factors, such as geopolitical tensions, economic downturns, and public health crises, all of which can send shockwaves through the business ecosystem. The recent waves of global disruptions, such as the COVID-19 pandemic, have underscored the critical need for businesses to fortify their resilience and contingency plans.

As businesses navigate the complexities of the evolving landscape, staying ahead of the curve in identifying and addressing the most pressing challenges becomes instrumental in ensuring the sustainability and resilience of a company. As we look ahead to 2024, several key business disruption risks loom on the horizon, demanding attention and strategic foresights.

### **Natural Disasters: A Paradigm Shift**

The escalating frequency and intensity of natural disasters vividly illustrate the profound transformations our planet is experiencing. Climate change, fuelled by factors such as population growth, urbanisation, as well as environmental degradation, has intensified the impact of events like hurricanes, earthquakes, and wildfires. In the face of these challenges, businesses find themselves increasingly vulnerable to substantial damage and protracted operational disruptions.

The repercussions of natural disasters extend far beyond the immediate physical destruction they cause. Munich Re's report, highlighting the economic toll of natural disasters, reveals an alarming reality. In the first half of 2023 alone, insurers grappled with a staggering cost of \$43 billion, reflecting the financial burden borne by the industry. The broader economic impact, totalling approximately \$110 billion, underscores the far-reaching consequences that extend well beyond the direct costs of recovery and reconstruction.

Given today's interconnected global landscape, the aftermath of natural disasters is no longer confined to individual businesses. Instead, there exists a ripple effect that can reverberate through entire industries. Supply chain disruptions, infrastructure damage, and regional economic downturns can compound the challenges faced by businesses, creating a complex web of interconnected vulnerabilities.

Recognising the inevitability of natural disasters, businesses must pivot from a reactive stance to a proactive one. Prioritising disaster preparedness and robust business continuity planning is not merely a precautionary measure; it is an imperative for resilience in the face of the unpredictable. Establishing clear protocols for emergency response, ensuring redundant systems and data backups, and fostering a culture of preparedness among employees are crucial components of an effective disaster preparedness strategy.

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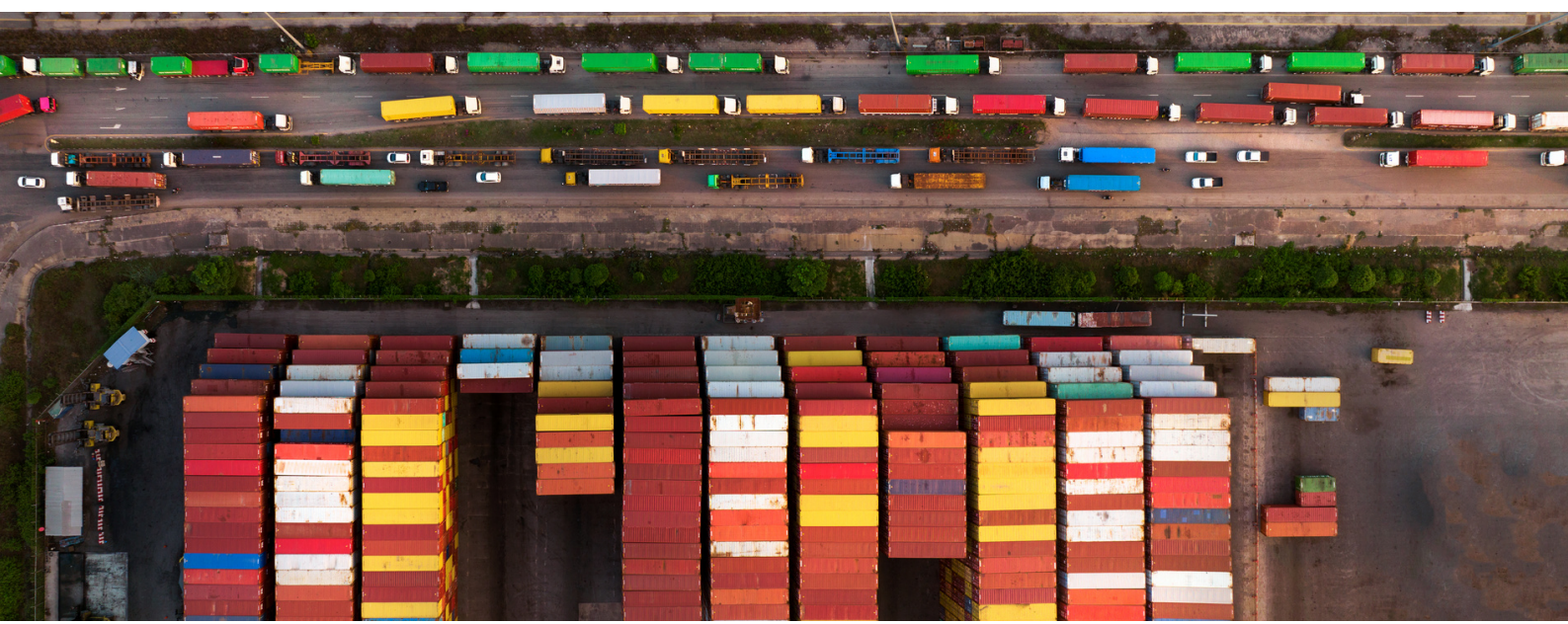
## Global Supply Chain Vulnerabilities

The intricate tapestry of global supply chains renders businesses susceptible to various vulnerabilities stemming from geopolitical tensions, natural disasters, and global events such as pandemics. Such disruptions can severely impede a business's ability to operate efficiently, underscoring the pressing need for strategic preparedness.

The financial ramifications of supply chain disruptions are profound, encompassing lost sales, diminished market share, and the postponement or cancellation of orders and production. In 2024, supply chains face an additional hurdle in the form of rising costs. Inflation, escalating energy prices, and other contributing factors present a formidable challenge to supply chain dynamics. These heightened costs not only jeopardise profitability but also lead to increased prices for consumers and the potential for supply chain shortages.

Relying on a single source can leave businesses vulnerable to disruptions. Hence, implementing a multi-sourcing strategy can provide a buffer against unforeseen challenges. By engaging with multiple suppliers, businesses can distribute risks and enhance their ability to adapt to sudden changes. Additionally, well-defined contractual terms play a crucial role in providing a structured framework that anticipates and addresses sudden changes in pricing dynamics. These contracts serve as a crucial tool for managing uncertainties, offering a level of protection against the financial impact of supply chain disruptions.

In 2024's dynamic landscape, supply chain leaders must stay ahead of trends by monitoring industry developments, technological advancements, and geopolitical shifts. Proactive trend analysis empowers businesses to not only anticipate challenges and opportunities, but also to adjust their strategies, and make informed decisions to enhance the resilience of their supply chains.





### Geopolitical Risks Takes Centre Stage

The World Economic Forum forecasts that geopolitics will be a primary driver of global economic volatility in 2024.<sup>1</sup> This prognosis is underscored by the persistent and escalating geopolitical tensions, which cast a shadow over the economic landscape. Notably, the protracted and complex relationship between the US and China emerges as a focal point, introducing an element of uncertainty that has the potential to reverberate across international markets.

The ongoing geopolitical tensions between these economic powerhouses have far-reaching implications. The trade disputes, technological competition, and diplomatic intricacies between the US and China have created an atmosphere of unpredictability. The ramifications of this strained relationship extend beyond the involved nations, permeating global supply chains and financial markets.

The prolonged war in Ukraine introduces an additional layer of complexity, creating ripples that can extend far beyond the immediate region. The ongoing conflict poses a critical concern for global stability, as businesses grapple with the uncertainties surrounding its trajectory and potential implications for trade, investment, and geopolitical alliances.



Furthermore, the tensions between China and Taiwan add to the geopolitical intricacies, posing risks to global trade and technology markets. The interconnected nature of these sectors means that any disruption in the Taiwan Strait has the potential to reverberate across supply chains, impacting critical industries worldwide. This challenge is exacerbated by the existing tensions between the US and China, as the two economic powerhouses vie for dominance in technology and trade.

<sup>1</sup> <https://www.weforum.org/agenda/2023/09/global-economy-outlook-september-2023-chief-economists-outlook>



**Cyberattacks, in their various forms, present a complex challenge that encompasses disruptions to day-to-day operations, compromising sensitive data, inflicting financial losses, and laying bare vulnerabilities within intricate supply chains.**

### **Cybersecurity Risks: A Growing Menace**

The landscape of cybersecurity is evolving rapidly, and businesses find themselves contending with a multifaceted threat that extends beyond mere data breaches. Cyberattacks, in their various forms, present a complex challenge that encompasses disruptions to day-to-day operations, compromising sensitive data, inflicting financial losses, and laying bare vulnerabilities within intricate supply chains. The aftermath of a cyberattack introduces a cascade of challenges, including the daunting recovery costs, severe reputational damage, and legal consequences that can reverberate for an extended period.

As we delve into the digital era, the magnitude of the cyber threat becomes even more pronounced. Cybersecurity Ventures, a leading authority in the field, projects an alarming trajectory, estimating that the cost of cybercrime will escalate to a staggering \$8 trillion by the end of 2023, with further projections indicating an increase to \$10.5 trillion by 2025.<sup>2</sup> These projections underscore the urgency for businesses to fortify their cybersecurity measures and invest in robust defence mechanisms to safeguard against the rising tide of cyber threats.

<sup>2</sup><https://cybersecurityventures.com/cybercrime-to-cost-the-world-8-trillion-annually-in-2023/>



A notable factor contributing to the escalating threat is the proliferation of artificial intelligence (AI) technology. The advent of AI has ushered in a new era for cyberattacks, characterised by increased frequency and sophistication. Cyber adversaries are leveraging AI to automate and optimise various malicious activities, ranging from reconnaissance and phishing to the delivery of malware.

### **Changing Regulatory Landscape**

The dynamic nature of regulatory landscapes poses a continual challenge for businesses, particularly those entrenched in highly regulated industries. As we stand on the cusp of 2024, it is imperative for businesses to brace themselves for the anticipated impact of regulatory changes that span an array of critical domains. These changes, often driven by evolving societal expectations, technological advancements, or geopolitical shifts; have the potential to reshape the operational landscape for enterprises.

A key area that demands heightened attention is data privacy. The increasing emphasis on safeguarding individuals' privacy in the digital age is prompting changes to regulations in data management. New laws or amendments are reshaping how businesses handle sensitive information, demanding a proactive approach. Non-compliance not only leads to legal consequences but also poses reputational risks in an era where trust and transparency are pivotal.

Environmental regulations are another critical focal point for businesses in 2024. The global emphasis on sustainability is compelling governments to implement strict rules to reduce the environmental impact of business activities. Industries with substantial environmental footprints will face greater compliance requirements and sustainability benchmarks. Adapting to these changes requires a dedication to eco-friendly practices and strategic planning to maintain compliance without compromising operational efficiency.

### **Strategic Resilience**

In the dynamic landscape of 2024, businesses face an ever-evolving array of challenges that necessitate a proactive and strategic approach to mitigate disruption risks. To fortify their positions in an environment rife with uncertainties, companies must prioritise comprehensive risk assessments, robust contingency planning, and a keen awareness of industry trends and global events.

Developing contingency plans is essential to prepare for disruptions. Businesses must formulate actionable plans in response to different scenarios, such as diversifying supply chains, implementing flexible operational models, and enhancing cybersecurity measures. Staying informed about industry trends and global events is also crucial for anticipating potential disruptions, enabling businesses to adapt strategies proactively and ensure agility.

# The Rise of AI-POWERED THREATS in Cybersecurity

Recent reports have unveiled a disconcerting trend in the ever-evolving landscape of cyberthreats — a trend that signifies a significant paradigm shift in the strategies employed by hackers. The integration of artificial intelligence (AI) into their operations marks a pivotal moment, propelling malicious activities beyond the confines of conventional methods. This strategic leap into the realm of AI not only enhances the agility and adaptability of cyber attacks but also ushers in a new era of sophistication, expanding the scale and scope of threats to unprecedented levels. In this era of technological advancement, the fusion of hackers' tactics with the power of AI introduces complexities and challenges that demand a reevaluation of cybersecurity measures.



## Expanding Threat Landscape

As AI continues to expand, so too does the threat landscape. Recent research by Darktrace reveals a staggering 135% increase in "novel social engineering" attacks during the critical months of January to February 2023.<sup>1</sup> This sudden surge in attacks reflects a dynamic shift in strategies, with malicious actors leveraging the capabilities of ChatGPT to generate human-like text and responses, making it an attractive tool for cybercriminals seeking to craft convincing and deceptive messages. This poses an elevated risk to individuals and organisations alike.

The use of Generative Artificial Intelligence (#GenAI) in malware creation presents a substantial challenge for cybersecurity professionals. By harnessing the power of AI, hackers can dynamically alter the malware's code, patterns, and behaviours. Machine learning algorithms within #GenAI-equipped malware actively learn from their environment, constantly refining their tactics to outsmart even the most advanced detection mechanisms. These threats are designed to be highly evasive, capable of slipping through traditional defenses undetected.

Previously considered safe due to their intricacy, languages that were presumed immune to phishing attacks are now fair game for cyber adversaries. Gen AI's adaptability and learning capabilities enable hackers to overcome linguistic complexities, creating phishing content that is not only convincing but also contextually relevant, increasing the likelihood of successful attacks.

The global reach of Gen AI-powered phishing campaigns poses significant challenges for cybersecurity measures. Traditional defence mechanisms designed for specific languages or regions may struggle to keep pace with the dynamic and multilingual nature of these attacks. As hackers exploit the diversity of languages, organisations must adopt advanced and adaptive cybersecurity strategies to thwart these evolving threats effectively.

The 2023 Comcast Business Cybersecurity Threat Report highlights that phishing, aided by Gen AI, remains a prevalent and effective cyber attack. It underscores the need for robust cybersecurity strategies to counteract evolving threats.<sup>2</sup>

<sup>1</sup> <https://securitytoday.com/articles/2023/04/04/generative-ai-changes-everything-you-know-about-email-cyber-attacks.aspx?admgarea=ht.firelifesafety&m=1>

<sup>2</sup> <https://www.csoonline.com/article/651125/emerging-cyber-threats-in-2023-from-ai-to-quantum-to-data-poisoning.html>



Hackers are utilising AI for autonomous decision-making in their attacks. This goes beyond mere analysis of attack strategies as AI empowers hackers to make dynamic, real-time decisions, enhancing the overall agility and adaptability of their tactics. Hackers can also manipulate the data used by AI to learn and make decisions, influencing the course of autonomous actions. This automated decision-making capability poses a formidable challenge to traditional cybersecurity defence.

The scalability afforded by AI represents a double-edged sword. While this brings advantages in terms of efficiency and rapid processing, it magnifies the scale of cyber threats. The integration of AI allows hackers to execute their attacks with unprecedented speed and efficiency. By automating certain aspects of their operations, such as reconnaissance and payload delivery, malicious actors can launch and propagate threats on a scale that was previously unattainable. The speed and scale at which attacks can occur often outpace the reactive capabilities of cybersecurity measures.

### **Three-pronged Approach**

The rise of AI-powered threats in cybersecurity represents a pivotal moment for the insurance industry. As technology advances, so do the risks, necessitating a proactive approach in understanding, assessing, and mitigating these threats.

To effectively assess the risks associated with AI-powered threats, insurers need to work together with cybersecurity experts. By doing so, they can gain a better understanding of the potential impact on businesses and create risk assessment models that take into account the unique characteristics of AI-driven attacks.

Another approach is for the insurance industry to adapt to AI-related risks by offering customised coverage that caters to specific needs. Policies should account for potential business interruptions due to AI-driven cyber attacks, liability concerns stemming from autonomous decisions made by AI systems, and coverage for the theft or compromise of AI models.

Insurers must develop AI-powered cybersecurity solutions that can analyse large datasets in real-time, identify anomalies, and react rapidly to potential threats. These systems are capable of adapting to changes in attack techniques. Moreover, insurers may need to invest in cutting-edge technologies or services that can help them identify and prevent deepfake fraud, such as sophisticated audio and video analysis tools.

These key roles position the insurance industry as a crucial partner in navigating the challenges posed by AI-powered threats, providing businesses with the necessary tools and coverage to thrive in the face of evolving cybersecurity risks.

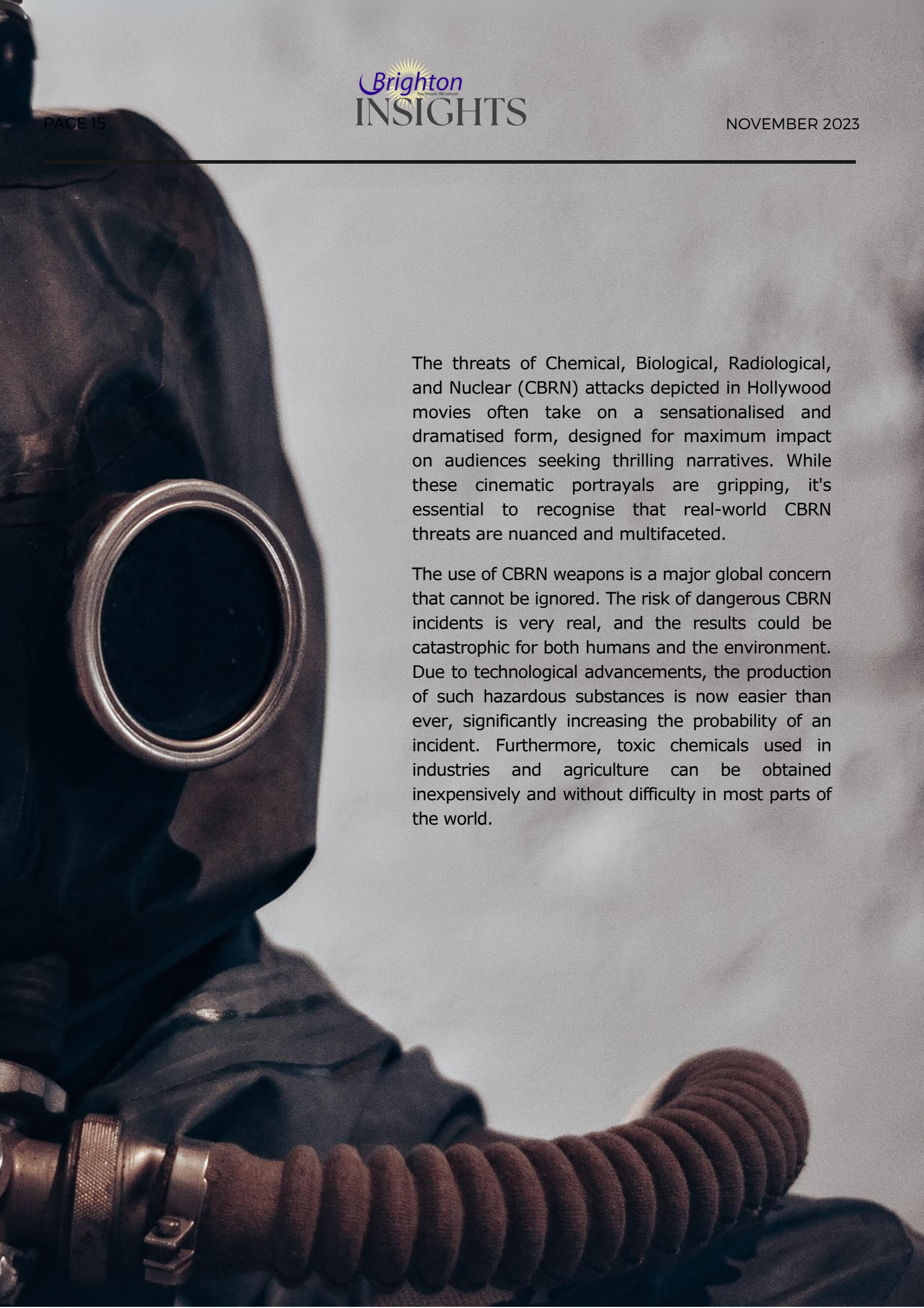


# FROM SPECTER TO STRATEGY

CHEMICAL, BIOLOGICAL,  
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CHALLENGES UNVEILED







The threats of Chemical, Biological, Radiological, and Nuclear (CBRN) attacks depicted in Hollywood movies often take on a sensationalised and dramatised form, designed for maximum impact on audiences seeking thrilling narratives. While these cinematic portrayals are gripping, it's essential to recognise that real-world CBRN threats are nuanced and multifaceted.

The use of CBRN weapons is a major global concern that cannot be ignored. The risk of dangerous CBRN incidents is very real, and the results could be catastrophic for both humans and the environment. Due to technological advancements, the production of such hazardous substances is now easier than ever, significantly increasing the probability of an incident. Furthermore, toxic chemicals used in industries and agriculture can be obtained inexpensively and without difficulty in most parts of the world.

**What Is A CBRN Threat?**

CBRN threat is a term used to describe the use or threat of dangerous weaponry – like corrosive substances, poisons, toxins, biological organisms, and radioactive sources, with the intention to cause harm. The harmful effects of these materials may manifest in numerous ways when inhaled, ingested, or absorbed by the human body.

Hazards posed by these materials vary, but include:

- *Chemical:* The use of toxic industrial chemicals or chemical warfare agents that can cause harm through exposure, ingestion, or inhalation. Examples include nerve agents, blister agents, and toxic industrial chemicals.
- *Biological:* The use of biological agents, such as bacteria, viruses, or toxins, with the intent to harm or cause disease. Biological threats can manifest as infectious diseases, and they may spread through the air, water, or direct contact.
- *Radiological:* Pertains to threats involving ionizing radiation, typically from sources like radioactive materials or devices. Radiological incidents can result from accidental releases, deliberate attacks, or industrial accidents involving radioactive materials.
- *Nuclear:* This encompasses threats related to the use of nuclear materials or devices, including nuclear weapons. Nuclear incidents can lead to devastating explosions, widespread contamination, and long-term environmental and health consequences.

**Diverse Nature of CBRN Threats**

Incidents involving CBRN materials are complex, often with profound implications for public safety, the environment, and global security. Here are some notable incidents that highlight the diverse nature of CBRN threats.

CBRN agents have been increasingly utilised in war and ethnic conflicts as instruments of warfare, terrorism, and assassination. These incidents underscore a deliberate and sinister shift in the conduct of warfare and terrorism, as state and non-state actors alike leverage the devastating potential of CBRN agents to achieve their strategic objectives.

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Non-state actors, including terrorist organisations, have increasingly turned to CBRN agents as tools of asymmetrical warfare. The Tokyo subway sarin gas attack of March 20, 1995, orchestrated by the Aum Shinrikyo cult, stands as a dark chapter in modern terrorism. Seeking to instigate societal chaos and fulfill apocalyptic prophecies, the cult released deadly sarin gas in several Tokyo subway cars during the morning rush hour. The

attack resulted in 13 deaths, over a thousand injuries, and a profound impact on global counter-terrorism efforts. This incident serves as a tragic reminder of the vulnerability of public spaces to unconventional terrorist tactics and the ongoing challenges societies face in mitigating such risks.

The 2001 Anthrax letters incident in the US marked a significant biological threat, unfolding shortly after the September 11 terrorist attacks. In this act of bioterrorism, letters containing anthrax spores were mailed to prominent media outlets and government offices, leading to the deaths of five individuals and the infection of 17 others. The attack instilled widespread fear and highlighted the potential weaponisation of biological agents by terrorists. The subsequent investigation revealed the complexities of identifying the perpetrator and the challenges of responding to bioterrorism.

However, CBRN incidents encompass a broad spectrum of threats that extend beyond intentional acts, encapsulating accidental occurrences that have, at times, resulted in severe consequences. Accidents involving hazardous materials highlight the multifaceted nature of these risks. Industrial mishaps, transportation accidents, and unforeseen events in research and healthcare facilities have underscored the potential for unintended CBRN exposure.



For instance, chemical spills during manufacturing processes, the mishandling of radioactive materials in research laboratories, or transportation accidents involving hazardous substances have led to unintended releases with far-reaching consequences. The repercussions of such accidental incidents emphasise the imperative for comprehensive risk management and emergency response strategies that account for both intentional and unintentional sources of CBRN threats.

The Fukushima Daiichi nuclear disaster in 2011, resulting from an earthquake and tsunami, serves as a crucial illustration of radiological threats within the broader CBRN framework. The release of radioactive materials highlighted the far-reaching consequences of such incidents, emphasising the necessity for stringent safety measures as well as comprehensive risk assessments in addressing the multifaceted challenges posed by CBRN events.

Recognising this broader spectrum of risks is crucial for developing resilient frameworks that can effectively mitigate the impact of CBRN incidents on public safety, the environment, and critical infrastructure.

### **Diverse Nature of CBRN Threats**

The evolution of the insurance industry's perspective on CBRN risks also aligns with broader trends in risk management. As technological advancements, geopolitical shifts, and emerging threats reshape the risk landscape, the ability to differentiate and respond strategically to various risks becomes increasingly critical. Embracing a nuanced approach to CBRN risks positions the insurance industry as a proactive and adaptive force, capable of staying ahead of the curve in an ever-changing risk environment.

By recognising CBRN substances as individual risks, the insurance industry can better appreciate the unique characteristics and challenges associated with each category. Each category presents distinct challenges in terms of prevention, mitigation, and recovery. For instance, biological threats may require a focus on early detection, rapid response, and public health measures.

Moreover, considering CBRN risks individually enables a more precise evaluation of the potential impacts on various industries and geographic regions. Certain sectors may be more susceptible to specific types of CBRN threats, and a targeted approach allows insurers to provide more accurate risk assessments and coverage options.





**WHY OWN  
WHEN YOU  
CAN RENT?**



The prevailing market conditions and the growing trend of higher retentions are driving more businesses to consider captives as a viable alternative for risk financing. This shift is notable, especially among companies that may have overlooked captives in the past due to concerns about their scale.

Captives have established themselves as indispensable instruments, particularly for large corporations seeking precise risk management strategies. These entities serve as sophisticated in-house risk carriers, offering cost control and tailored coverage. For instance, large corporations leverage captives to gain control over the unpredictability of market fluctuations and tailor coverage to their unique needs.

For small businesses, establishing and maintaining their own captives can seem like an intimidating task. The financial and administrative complexities involved can be overwhelming, creating a barrier to entry into the world of captive insurance. The innovative concept of Rent-A-Captive (RAC) has emerged as a transformative solution to bridge this gap and reshape the traditional paradigm of risk management.

### **What is RAC?**

At its core, RAC represents a dynamic shift in how companies can access the benefits of a captive arrangement. In essence, it allows businesses to "rent" the services of a captive insurance company, without having to set up their own captives. This frees them from the





intricacies of ownership and management of a captive while gaining a cost-effective and tailored risk management solution. This concept democratises the advantages of captives, making them accessible to a broader range of businesses, regardless of size.

RAC has become a popular alternative risk-financing method, and is now on par with other options. This is mainly due to the implementation of segregated cell legislation in most captive domiciles. This legal technique permits the RAC facility to separate the assets and liabilities of each insured using the facility.

### **Different RAC Structures**

In a RAC structure, a company acts as the sole registered legal entity providing a captive facility to clients or rentees to meet their insurance requirements. In this arrangement, the RAC company assumes a central role by facilitating risk protection agreements. These agreements are crucial components wherein the RAC company not only safeguards itself but also extends protection to each rentee against the insured risks experiences of other rentees.

A Master Rent-A-Captive (MRAC) is a type of captive insurance structure that operates as a parent company overseeing subsidiary captives. In this arrangement, MRAC provides a platform for multiple subsidiary captives, each serving different clients or business units. The MRAC consolidates resources, allowing its subsidiaries, known as Subsidiary Rent-A-Captives (SRAC) and External Rent-A-Captives (XRAC), to access shared facilities, expertise, and capital. These subsidiary captives, in turn, serve different clients or rentees.

In this structure, the master, SRAC, and XRAC are all recognised as legal entities. Each entity, including the master, operates as a distinct entity with its own assets and liabilities. The MRAC model allows for a centralised approach to risk management, with the master entity overseeing and coordinating the captive activities for itself and its subsidiaries.

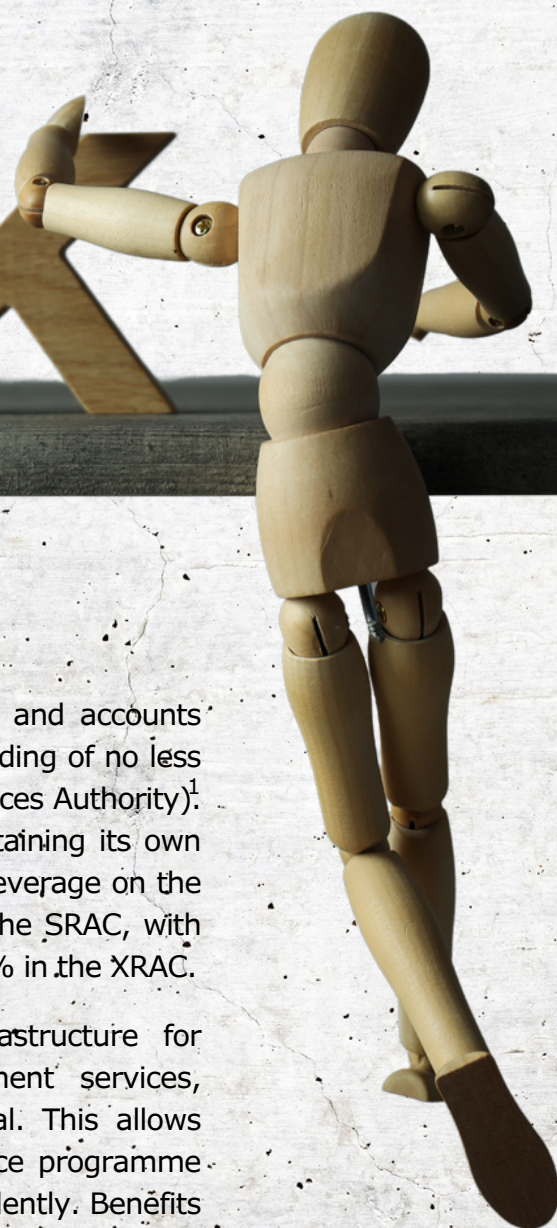
The MRAC structure provides flexibility for businesses to tailor captive insurance solutions to their specific needs and objectives. It also offers a centralised and coordinated approach to risk financing as well as shared risk-bearing capacities.

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**The MRAC structure provides flexibility for businesses to tailor captive insurance solutions to their specific needs and objectives.**



# RISK



A SRAC refers to an entity with separate licenses, assets, and accounts independent of MRAC. However, MRAC maintains a shareholding of no less than 50% in this entity (as defined by Labuan Financial Services Authority)<sup>1</sup>. While SRAC operates with a degree of autonomy, by maintaining its own legal identity and independent operational functions, it can leverage on the working capital of MRAC. In contrast, the XRAC is akin to the SRAC, with the distinction that MRAC retains a shareholding of below 50% in the XRAC.

In both structures, the client rents the captive's infrastructure for insurance purposes, which may include risk management services, underwriting expertise, and access to the captive's capital. This allows them to benefit from the advantages of a captive insurance programme without establishing and managing a captive entity independently. Benefits include customised coverage, potential cost savings, and improved risk management.

The third structure is the Protected Cell Company (PCC) Core, which is a registered legal entity that allocates slots to its subsidiary clients. Each cell functions as an independent entity within the wider PCC structure, ensuring legal insulation of assets and liabilities. Essentially, this design provides a robust legal framework, safeguarding the autonomy and integrity of each Cell, allowing them to operate with a high degree of independence and mitigating the risks associated with shared assets and liabilities.

<sup>1</sup>Guidelines on Captive Insurance Business In Labuan International Business and Financial Centre. Available to download at <https://www.labuanfsa.gov.my/legislation-guidelines/guidelines/insurance>



The PCC Core oversees and coordinates the Cells, allowing them to operate autonomously while benefiting from collective advantages and risk mitigation strategies. This legal separation of assets and liabilities not only enhances overall risk management capabilities, but also provides a secure and well-organised captive insurance arrangement.

### **Considerations**

While the RAC structures offer a valuable alternative to traditional insurance, it requires a nuanced approach to risk management. Businesses should assess their own risk profiles comprehensively and collaborate closely with service providers who possess the expertise to tailor insurance solutions that align with their unique risk landscape. A thorough risk assessment ensures that the RAC structure adequately covers the identified risks, offering genuine value in terms of both cost savings and effective risk mitigation.

Choosing experienced and reputable service providers is a cornerstone of a successful RAC arrangement. These providers play key roles in areas such as underwriting, claims management, and financial oversight. Businesses should thoroughly assess the track record and expertise of prospective service providers, ensuring they have a proven history of managing captives in a manner consistent

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regulatory requirements and industry best practices. Additionally, the service providers should have a deep understanding of the specific industry challenges and risks faced by the business seeking the RAC solution.

The effectiveness of RAC also depends on the alignment of the market conditions and the risk profile of the business. Changes in the economic environment, industry-specific challenges, or emerging risks can impact the viability of this model. Regularly reassessing the business's risk landscape and adjusting the captive insurance strategy accordingly is essential for its continued relevance and effectiveness.