

**CLARIFICATION NOTE FOR DIRECTIVE ON MINIMUM CAPITAL
REQUIREMENT BY LABUAN LICENSED ENTITIES**

1.0 Preamble

1.1 This note is issued to clarify on the minimum capital requirements and solvency requirements for insurance licensees as specified under the Directive on Minimum Capital Requirement by Labuan Licensed Entities (the “Directive”) issued on 5 October 2015.

2.0 Clarification

2.1 Please be informed that paragraphs 4.1(B)(i) and 4.1(B)(ii) of the Directive shall be replaced by and read as follows:

Labuan LEs		Minimum Capital and Capital Adequacy/Solvency Requirements	
		Subsidiary	Branch
B.	Insurance licensees		
(i)	Labuan general/life insurer (including general/family takaful operator)	a) paid-up capital of RM7.5 million unimpaired by losses; and b) <u>General Insurer/Takaful Operator</u> RM7.5 million or 20% of net premium/contribution income of the preceding year, whichever is greater. <u>Life Insurer/Family Takaful Operator</u> RM7.5 million or 3% of the latest actuarial valuation of life insurance/family takaful liabilities , whichever is greater.	a) a surplus of assets over liabilities of RM7.5 million⁴ unimpaired by losses; and b) <u>General Insurer/Takaful Operator</u> RM7.5 million or 20% of net premium/contribution income of the preceding year, whichever is greater. <u>Life Insurer/Family Takaful Operator</u> RM7.5 million or 3% of the latest actuarial valuation of life insurance/family takaful liabilities , whichever is greater.

⁴ The surplus of assets is to be maintained by the branch licensee in the books of its office in Labuan.

Labuan LEs		Minimum Capital and Capital Adequacy/Solvency Requirements	
		Subsidiary	Branch
(ii)	Labuan composite insurer	a) paid-up capital of RM10 million unimpaired by losses; and b) RM7.5 million or aggregate of 20% of net premium income of the preceding year and 3% of the latest actuarial valuation of life insurance liabilities , whichever is greater.	a) a surplus of assets over liabilities of RM10 million⁴ unimpaired by losses; and b) RM7.5 million or aggregate of 20% of net premium income of the preceding year and 3% of the latest actuarial valuation of life insurance liabilities , whichever is greater.
(iii)	Labuan reinsurer <i>(including retakaful operator)</i>	a) paid-up capital of RM10 million unimpaired by losses; and b) <u>General Reinsurer/Retakaful Operator</u> RM10 million or 20% of net premium/contribution income of the preceding year, whichever is greater. <u>Life Reinsurer/Family Retakaful Operator</u> RM10 million or 3% of the latest actuarial valuation of life insurance/family takaful liabilities , whichever is greater.	a) a surplus of assets over liabilities of RM10 million⁴ unimpaired by losses; and b) <u>General Reinsurer/Retakaful Operator</u> RM10 million or 20% of net premium/contribution income of the preceding year, whichever is greater. <u>Life Reinsurer/Family Retakaful Operator</u> RM10 million or 3% of the latest actuarial valuation of life insurance/family takaful liabilities , whichever is greater.

2.2 Following the above rectifications, paragraphs 4.1(B)(iii) and 4.1(B)(iv) of the Directive shall now read as paragraphs 4.1(B)(iv) and 4.1(B)(v), respectively.

Labuan Financial Services Authority
13 October 2015

183/2015/ALL

**FREQUENTLY-ASKED QUESTIONS
CLARIFICATION NOTE AND DIRECTIVE ON MINIMUM CAPITAL REQUIREMENT
BY LABUAN LICENSED ENTITIES**

A. DEFINITION

1. How would the “capital requirement” and “capital adequacy” be applied to the banking and insurance licensees of subsidiary and branch set-ups?

For illustration purposes, below are the required capital requirements (including capital adequacy) for banking and insurance licensees of “subsidiary and branch” set-ups:

Banking Licensees		Minimum Paid-up Capital	Risk Weighted Capital Ratio*
Entry /Licensing	Subsidiary	✓	
	Branch		
On-Going	Subsidiary		✓
	Branch		✓

Insurance Licensees		Minimum Paid-up Capital	Minimum Working Funds	Margin of Solvency*
Entry / Licensing	Subsidiary	✓		
	Branch		✓	
On-Going	Subsidiary			✓
	Branch			✓

Note:

* prescribed under the Directive on Minimum Capital Requirement and Clarification Note issued on 5 October 2015 and 13 October 2015, respectively

2. What does “unimpaired by losses” mean?

The term “unimpaired by losses” means that the paid-up capital amount and/or working funds shall be maintained at all times and shall not be impaired by any losses. In the event it is impaired, further capital injection is required to restore it to the required level.

B. CAPITAL REQUIREMENTS

I. Banks

3. Is there a requirement for working funds for branches of banking licensees?

For Labuan bank of branch set-up, the working funds requirement is not applicable currently.

4. How would the risk weighted capital ratio for branches be reported to Labuan FSA?

For Labuan bank of branch set-up, the risk weighted capital ratio shall be maintained at all times, as specified by Labuan FSA, which is computed and consolidated at the head office's level. In terms of reporting, the branches are not required to submit any statistical reporting pertaining to their consolidated risk weighted capital ratio to Labuan FSA.

II. (Re)insurers

5. For a composite reinsurer writing both general and life insurance, does the actuarial valuation of general insurance liabilities be included in determining the minimum solvency margin?

No, the *Guidelines on Application for Licence - Labuan Insurance and Insurance Related Activities* issued on 30 August 2001 stipulates the minimum solvency margin requirement. However, this requirement is currently under review and will be enhanced as part of the Insurance Capital Adequacy Framework (ICAF) in the near future.

6. How will the valuation methodology of insurance liabilities (general and life) as stipulated under Guidelines on Valuation Basis for Liabilities of Labuan General Insurance Business and Guidelines on Valuation Basis for Liabilities of Labuan Life Insurance Business (the Guidelines) issued on 1 September 2015 be included in the solvency computation?

In terms of the solvency surplus, it would take into account the total insurance liabilities derived in the manner determined by the Guidelines. The Guidelines will come into effect from financial year beginning on or after 1 July 2016.

III. Others

7. Is the capital requirement under paragraph 4.1(C)(i) of the Directive applicable to Lloyd's Syndicates licensed as a Labuan Underwriting Manager?

No. The capital requirement for Lloyd's Syndicates is or will be subjected to a specific licensing condition(s) as prescribed by Labuan FSA.

8. Is the capital requirement under paragraph 4.1(D)(i) of the Directive applicable to Labuan managed trust company and Labuan private trust company?

No. The capital requirement is not applicable to Labuan managed trust company and Labuan private trust company as there is no minimum paid-up capital requirements imposed on them.

9. Is the capital requirement under paragraph 4.1(D)(i) of the Directive applicable to Labuan leasing company?

No. The capital requirement is not applicable to Labuan leasing companies as the entry requirements are provided in the Guidelines on the Establishment and Operations of Labuan Leasing Business issued on 1 August 2013.

C. GENERAL

10. In the case of capital of the Labuan LE that has reached a level below the prescribed minimum due to exchange rate fluctuation, is additional capital injection needed?

Yes. If the capital level falls below the prescribed level due to exchange rate, the Labuan LE concerned would need to inject capital to address the shortfall accordingly.

11. When is the effective date of the Directive?

As the Directive is a reminder and an iteration of the minimum capital/solvency requirements of the various Guidelines issued by Labuan FSA in the past, the requirements are already in effect when the Directive was issued.