Labuan IBFC's 25th Anniversary

ASEAN ROADSHOW 2015

KUALA LUMPUR • MANILA • BANGKOK • JAKARTA • SINGAPORE • HONG KONG

TUESDAY, 4 AUGUST 2015

JAKARTA

Labuan IBFC

International Business and Financial Centre, Malaysia

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MANAGING CORPORATE RISKS VIA CAPTIVES

Anthony Egerton

Principal Officer

HUNTINGTON UNDERWRITING LIMITED

Definition

"an insurance or reinsurance entity created and owned, directly or indirectly, by one or more industrial, commercial or financial entities, the purpose of which is to provide insurance or reinsurance cover for risks of the entity or entities to which it belongs, or for entities connected to those entities and only a small part if any of its risk exposure is related to providing insurance or reinsurance to other parties"

Issues Paper On The Regulation And Supervision Of Captive Insurance Companies
International Association Of Insurance Supervisors ("IAIS") - October 2006

What is a Captive Insurer?

- Essentially, a wholly-owned insurance company that insures the assets, liabilities and other risks of its parent company
- Usually located in a jurisdiction where taxation, solvency and reporting requirements less onerous
- Often managed by specialist companies that act as accountants and administrators
- However, much of the decision-making around
  - how the risk is retained by the subsidiary company and
  - how much is transferred to the conventional insurance market

  is undertaken by the parent company
- 75% of the world's Fortune 500 companies are parent owners of captive insurance companies
- Total captive premium income exceeds US$14 billion with more than 5,000 captives established worldwide

Types of Captive Insurance Company

- Pure captives
  - single parent companies writing only the risks of their owner and/or affiliates
- Group and/or association captives
  - multi-owned insurance companies writing only the risks of their owners and/or affiliates, usually within a specific trade or activity
- Rental captives
  - insurers specifically formed to provide captive facilities to unrelated bodies for a fee
  - used by entities that prefer not to form their own dedicated captive
- Diversified captives
  - captives writing a limited proportion of unrelated business in addition to the risks of their owner and/or affiliates
  - some jurisdictions consider that an insurance company writing any unrelated party business cannot be classified as a captive

Why form a Captive

- Increased awareness and implementation of risk management practices
- Stable and lower insurance prices
- Better reinsurance access and terms
- Cash flow
- Tax mitigation
- Placement of specialised risks
- Communication
- Customisation
- Control of cover and cost of multi-national programmes

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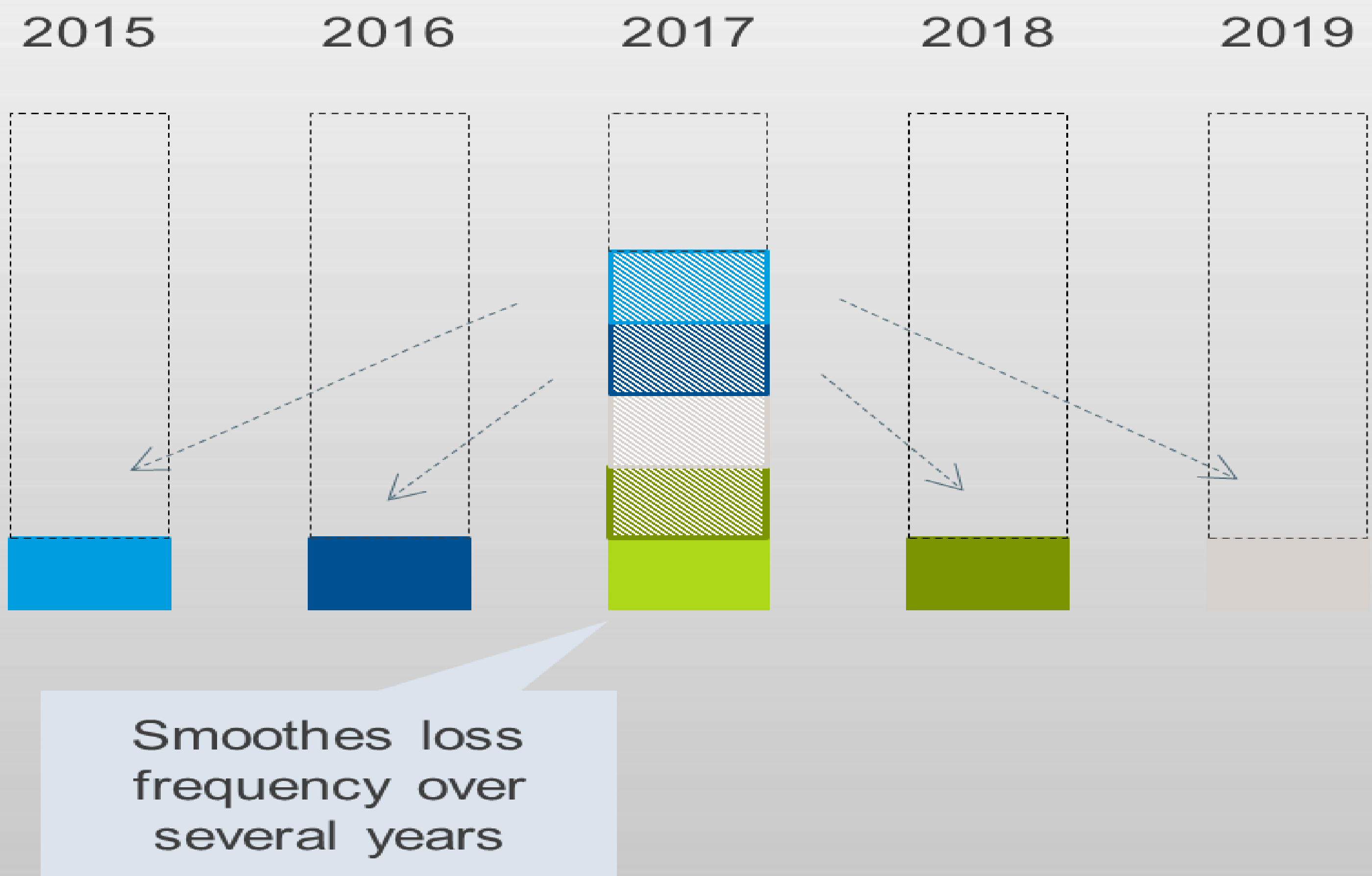
How to form a Captive

1. Undertake feasibility study
2. Analyse loss profile
3. Application of captive licence to regulator
4. Register a company using a Trust Company or Company Registrar
5. Appoint a captive insurance managemen t company/ licensed underwritin g manager
6. Appoint at least a Director and a Company Secretary
7. Upon obtaining license, underwrite business and pay annual captive licence fee

Practical Issues

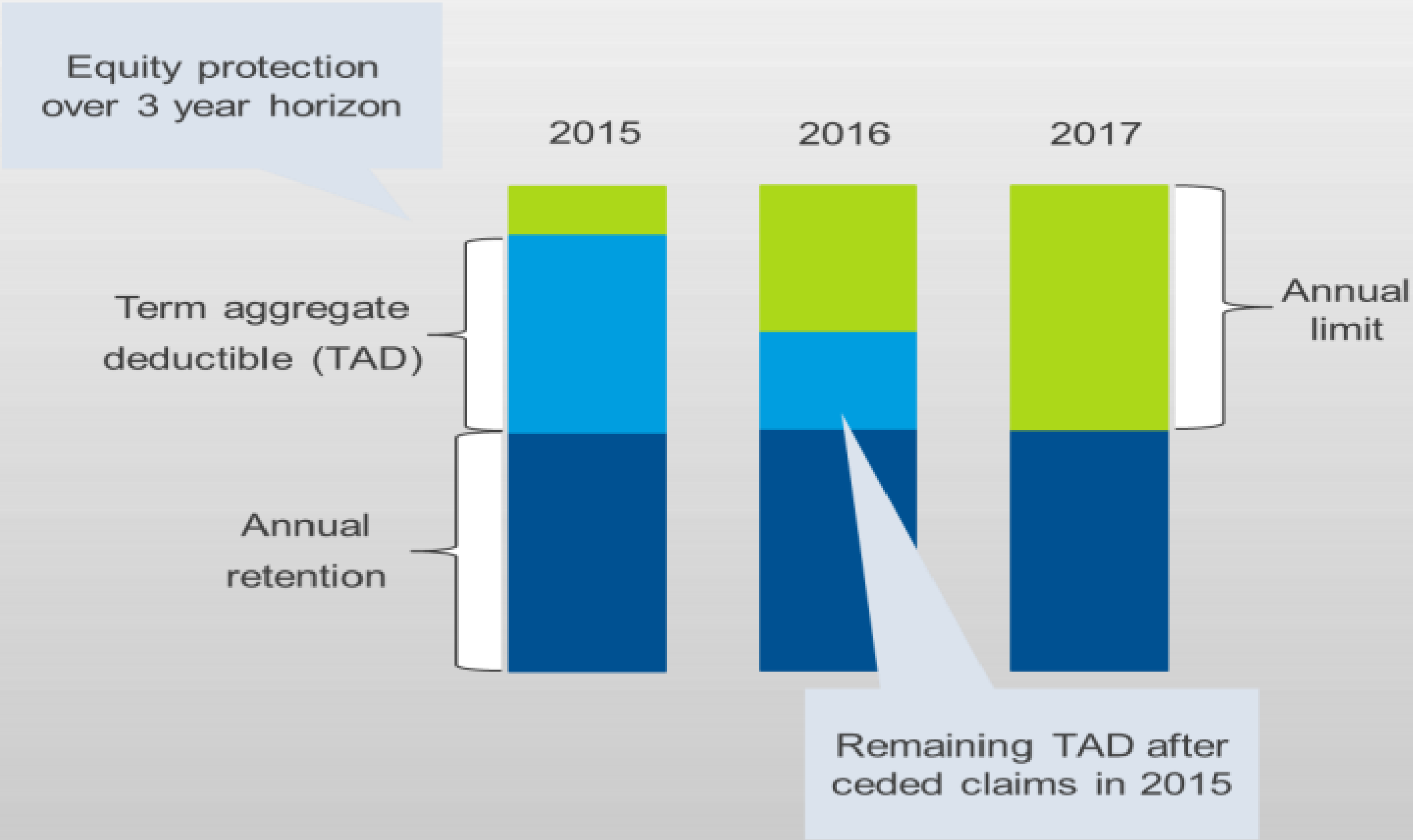
- Fronting company will need to be appointed to issue onshore local insurance policies
- OJK limitations on international reinsurance
- Satisfactory financial strength rating may be required by fronting company to avoid risk based capital charges
- Suitable reinsurance programme will need to be placed
    - conventional quota share and/or excess of loss
    - structured programme

Reinsurance – Spread Loss



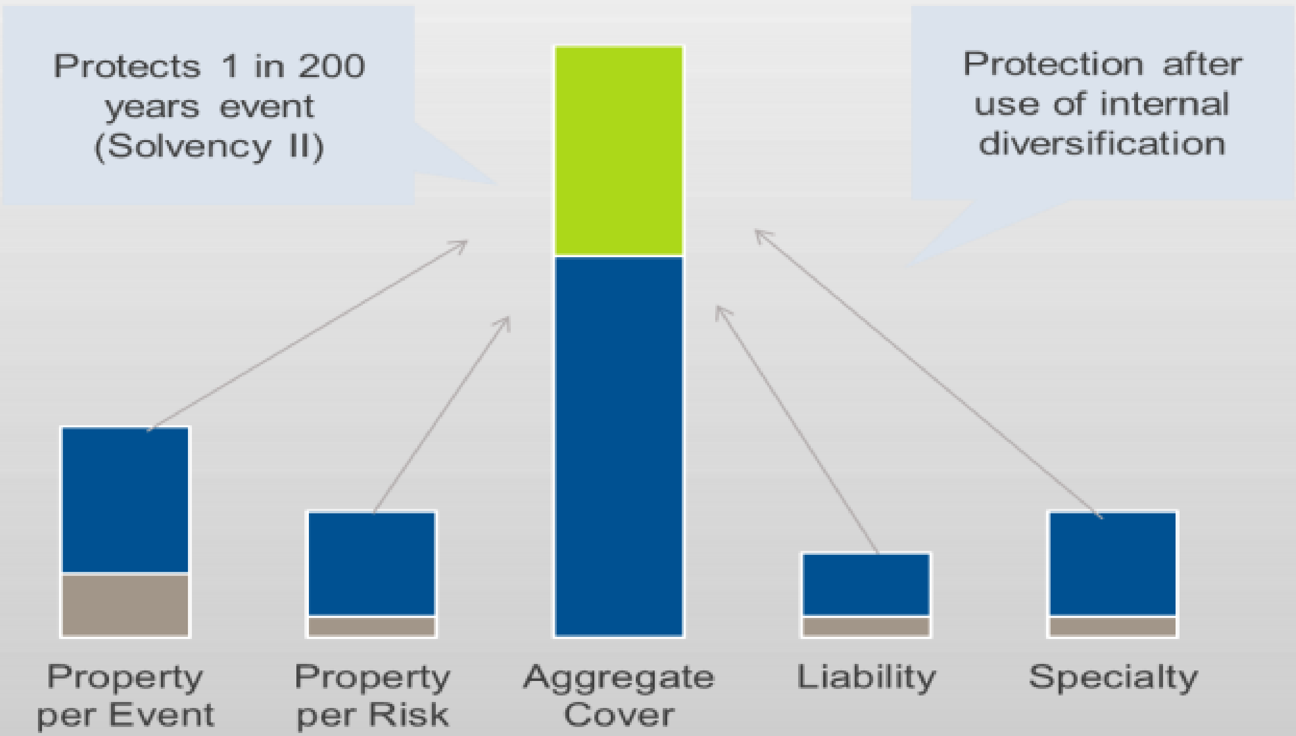
Source: Hannover Ruck SE's Advanced Solutions Group

Reinsurance – Multi-Year Stop Loss



Source: Hannover Ruck SE's Advanced Solutions Group

Reinsurance – Aggregate Cover



Source: Hannover Ruck SE‘s Advanced Solutions Group

Petronas|Energas Example

- Petronas, the Malaysian national integrated energy company, had spent RM1.3billion in premiums for period from 1997 to 2004 with claims of RM460million, i.e. a loss ratio (claim/premium) of only 35%
- Many of Petronas risks were unique in Malaysia thus
  - Creating problems in equitably rating the risks by Malaysian Market
  - Substantial percentage of risk being reinsured abroad
  - Outflow of premium overseas
- Petronas was becoming increasingly international in its operations
  - Significant portion of premiums flow into international market
  - Little/no prospect of premium being repatriated to the Malaysian market
- Volatility of energy (oil and gas) insurance market expected to continue
  - Impact premium level
  - Impact retention level of PETRONAS Group’s insurance programme

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Energas Fundamentals

- A wholly owned subsidiary of Petroliam Nasional Berhad (Petronas)
- Incorporation Date: 24th March 2005
- Commenced Operation: 1st April 2005
- Commenced Underwriting: 1st April 2006
- Authorised Paid-Up Capital: USD10.5million

Energas Core Principles

- Operates as a single parent captive
- Underwrites a global portfolio of business for Petronas Group of Companies operations in which it has direct or indirect interest
- Participation is up to the Petronas Group of Companies' interest
- Retains a primary layer risk (limit varies according to risk categories) above operating company deductibles and protects its aggregate loss exposure through special reinsurance protection
- Does not underwrite unrelated third party risks, construction and long tail liability business except on selective basis

AM Best Affirms Ratings of Energas

SINGAPORE - MARCH 26, 2015

“A.M. Best has affirmed the financial strength rating of A (Excellent) and the issuer credit rating of "a" of Energas Insurance (L) Limited (Energas) (Malaysia). The outlook for both ratings is stable.

Energas' ratings reflect its strong capitalization, comprehensive reinsurance protection and role as the sole captive insurance carrier for its ultimate parent, Petroliam Nasional Berhad (Petronas), an integrated global oil and gas company. Full profit retention in the absence of dividend payments to Petronas has enabled Energas to grow its capital favorably since inception.

Energas' financial performance is underpinned by its low operating cost structure and consistent investment profits.

Energas has a large investment portfolio comprising of solely cash and cash equivalents, providing a high level of liquidity and minimum investment risk exposure. Its comprehensive reinsurance program from a panel of high quality reinsurers limits Energas' aggregate loss exposure.

Offsetting rating factors include claims volatility from a narrow scope of assumed risk and increased event retention, especially as premium rates in its main engineering line remain soft while insured values are increasing.

Energas is well-positioned at its current rating level. Negative rating actions may arise from a material deterioration of Energas' risk-adjusted capitalization due to a material repatriation of capital.”

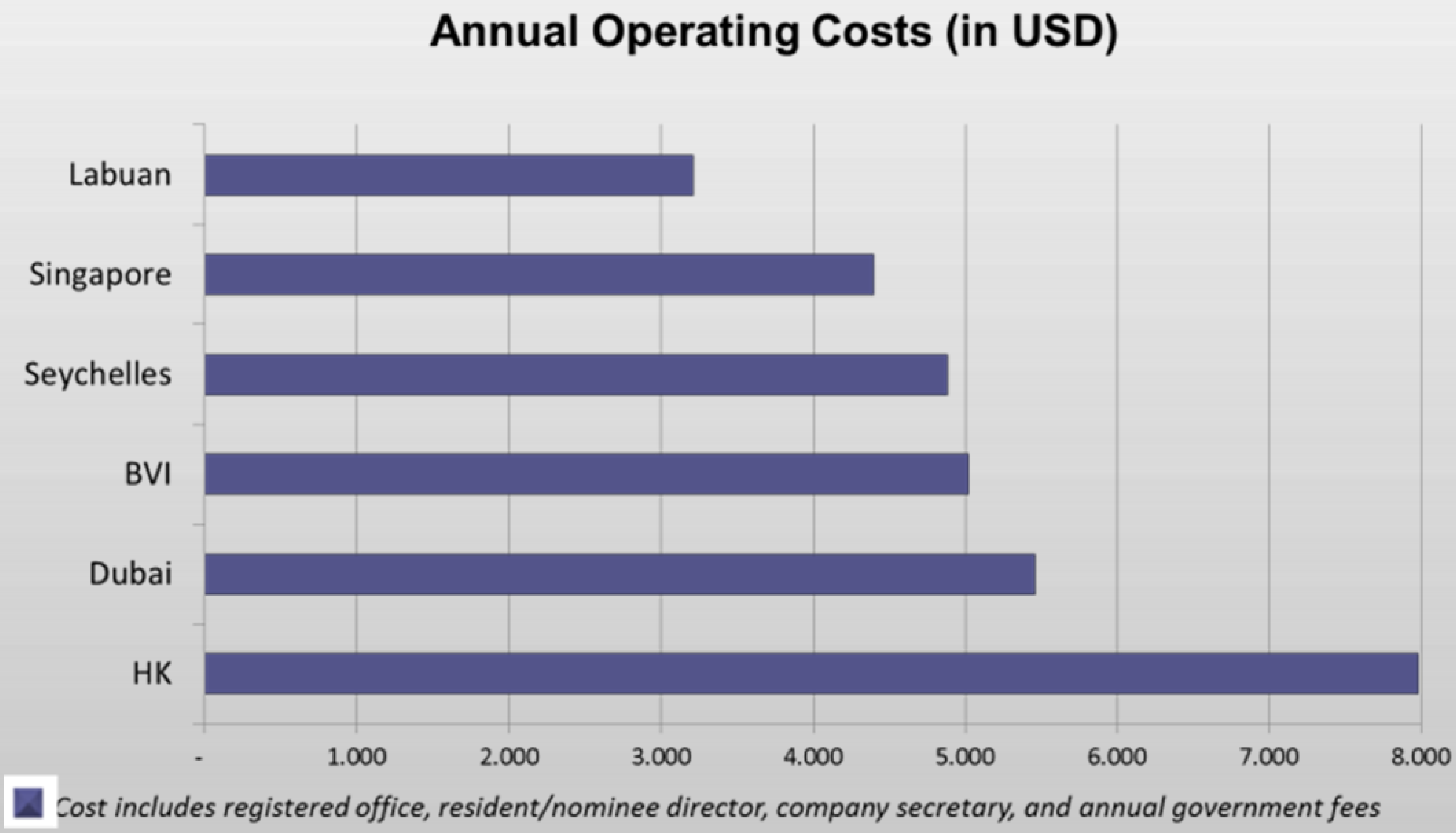
Labuan IBFC as a Domicile

- Cost Efficient and easy for “substance” to be established
- Enjoys access to Malaysia’s more than 70 DTAs
- Offers a comprehensive range of sophisticated structures, both conventional and shariah-compliant
- “Abstract Labuan” where investors/companies can set-up a Labuan company and conduct legitimate offshore business anywhere in the world
- Has a business friendly regulatory environment with a modern and well-developed infrastructure

Labuan IBFC as an Insurance Centre

	As at December 2014
Total No. of Insurance Licence	209
No. of Captives (Including PCCs)	40
No. of Underwriting Managers	21
No. of Insurance Managers	3
Total Assets (USD'm)	3,859.7
Total Gross Premiums (USD'm)	1,427.2

Cost Efficiency



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Why Labuan IBFC

Cost-effective approach
Low operational costs in the jurisdiction without sacrificing quality with access to Expertise in the insurance industry and world class infrastructure

Competitive advantage
With potential growth in Asian multinationals and increased awareness and better risk management, more companies and 'THINKING CAPTIVE'

Leading jurisdiction in Islamic Finance
Introduction of Shariah compliant captives to take advantage of the global retakaful market and world's first comprehensive omnibus legislation governing Islamic Finance products and services

Flexibility through co-location
Attractive alternative for Labuan Insurance and Takaful licensees to establish Offices in Peninsular Malaysia to leverage of infrastructure, facilities and human capital

Thank You

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