THE CONNECTED RISK JOURNEY IN SELF-INSURANCE

7 SEPTEMBER 2023

SIME DARBY CONVENTION CENTRE, MALAYSIA

#ACC2023 #LABUANIBFC

THE ASIAN
CAPTIVE
CONFERENCE
2023

THE ASIAN CAPTIVE CONFERENCE 2023

THE CONNECTED RISK JOURNEY IN SELF-INSURANCE: UNDERSTANDING WHAT IT MEANS

Oliver Schofield

Head of Captive and Alternative Risk Transfer,
Principal Re Limited

PrincipalRe Limited

The connected risk journey in self-insurance: creative and current opportunities for captives.

Oliver Schofield
Head of Captive & Alternative Risk Transfer, Principal Re Limited

What is connected risk?

PrincipalRe Limited

- Risks that manifest due to other risks existing
  - 2023 actual examples

Pandemic after-effects	• Carbon emissions have climbed as post pandemic global economy fires back up • Climate change threat exacerbated
Food and energy have become weaponised by the war in Europe	• Food crisis: impact on grain • Sending inflation to soaring levels, globalising the cost-of-living crisis and fuelling social unrest
Shift in monetary policy	• Marks end of access to cheap debt – vast ramifications for governments, companies, individuals, widening inequality within and between countries

- Identifying the links between these risks helps us to understand the whole risk picture and is the first step in building solutions to mitigate their impacts

Key source documents:
World Economic Forum Global Risks Perception Survey 2022-2023 and World Economic Forum The Global Risks Report 2023 18th Edition

Today's crises
Fertile ground for connected risk

PrincipalRe Limited

Cost of living*

Energy costs

Food supplies, costs

Interstate conflict*

Failure of climate change adaptation*

Connected risk review - impact on businesses:

Profitability

Staff well-being & productivity

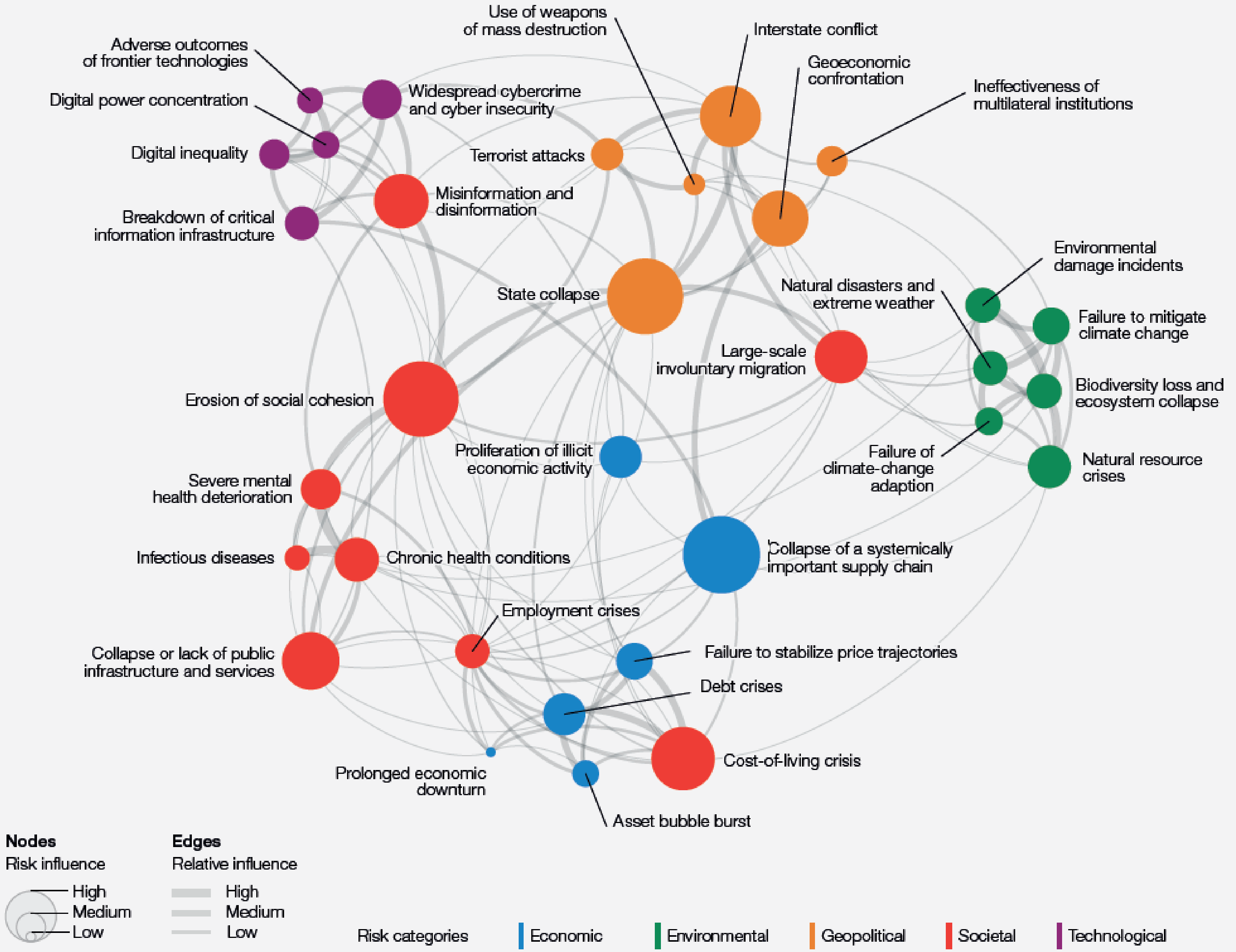
Cost and availability of raw materials

Sales slow-down

Impact of conflicts

Inflationary pressures on global insurance market

Key source documents:
World Economic Forum Global Risks Perception Survey 2022-2023 and World Economic Forum The Global Risks Report 2023 18th Edition

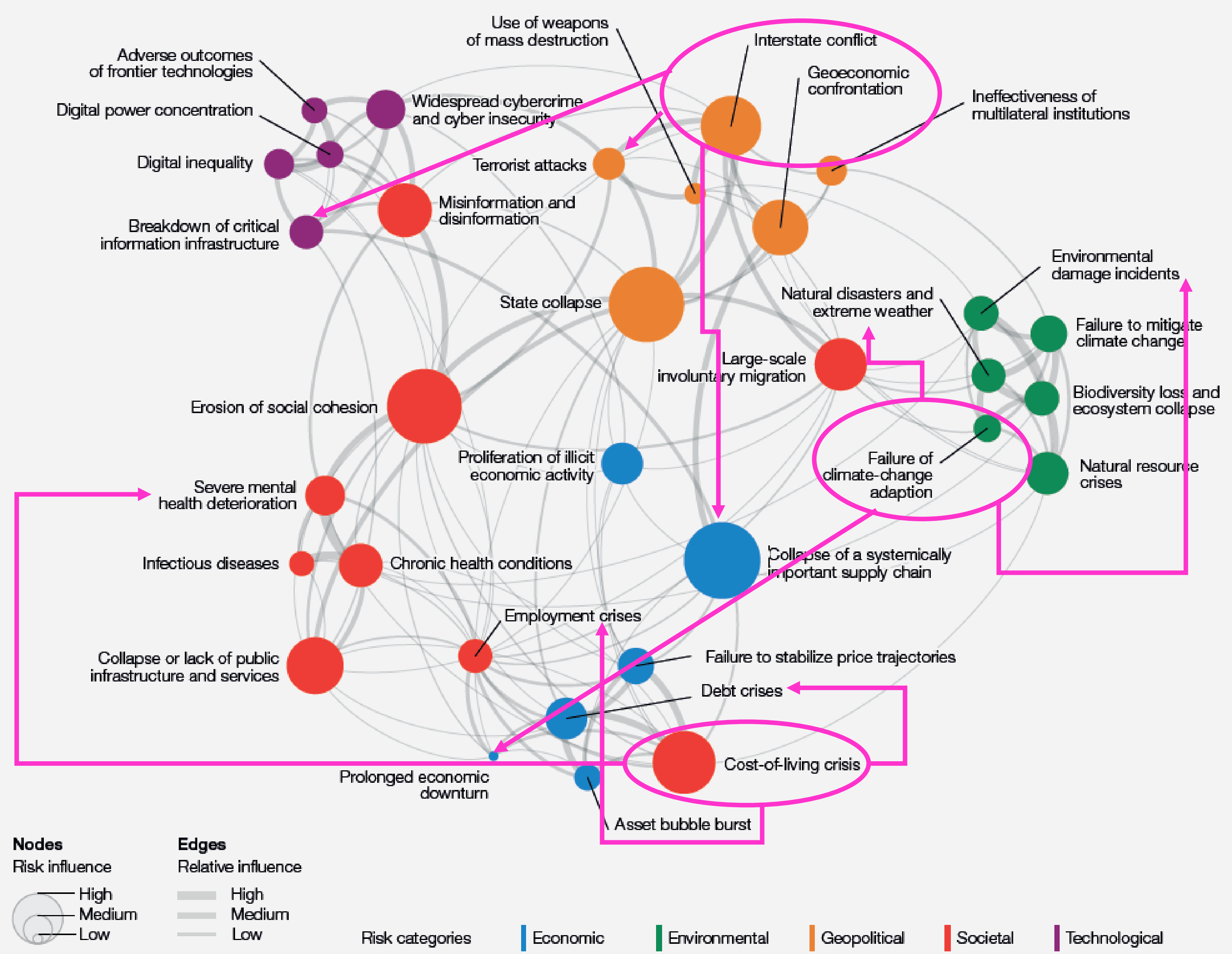


Source

World Economic Forum, Global Risks Perception Survey 2022-2023.

PrincipalRe Limited

Finding the connections



Source

World Economic Forum, Global Risks Perception Survey 2022-2023.

PrincipalRe Limited

Finding the connections

Interstate conflict

Systemic supply chain collapse

Terrorist attacks

Critical information breakdown

Cost of living crises

Debt crises

Employment crises

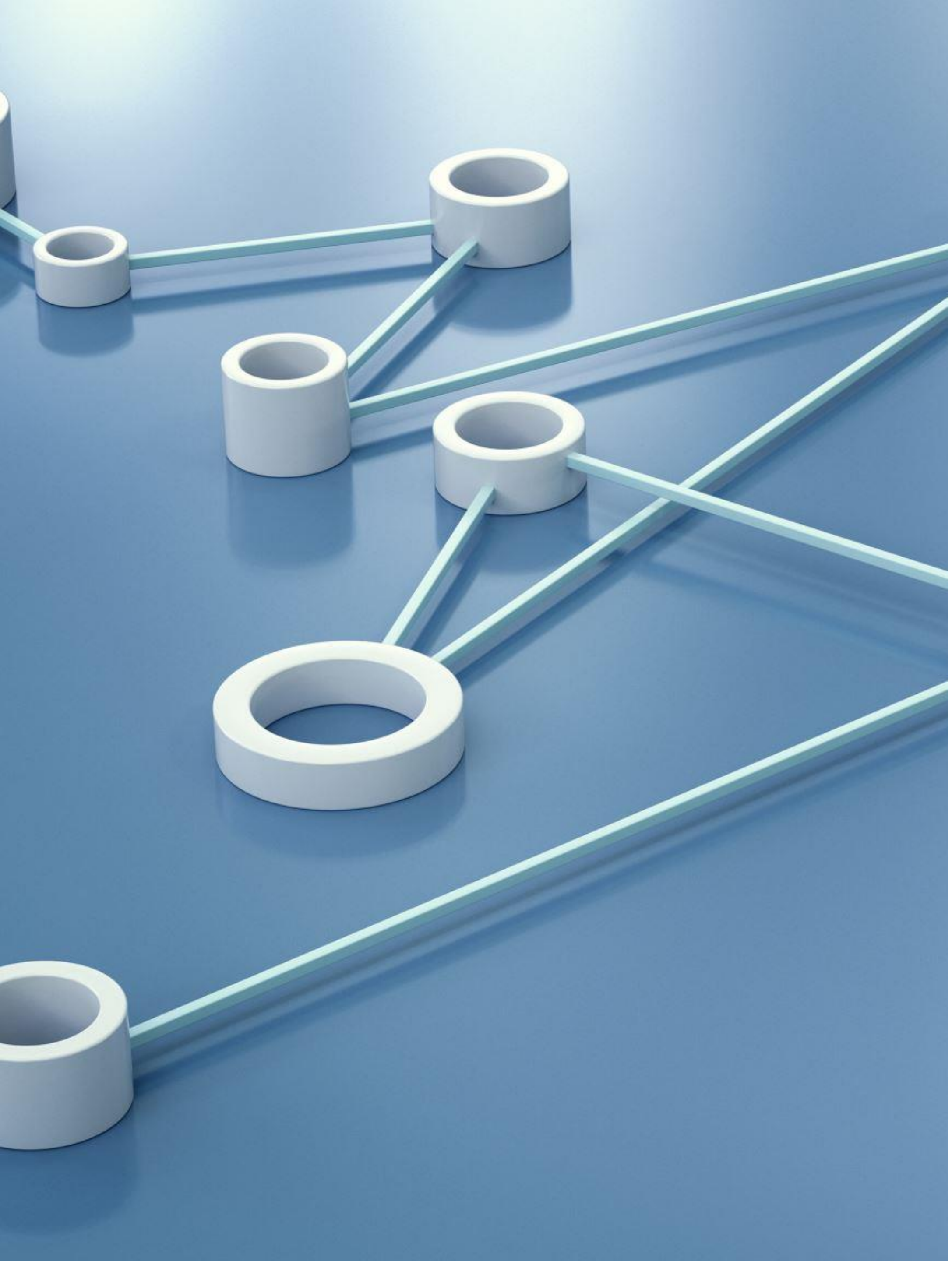
Mental health, staff wellbeing

Failure of climate change adaptation

Natural disasters and extreme weather

Environmental damage incidents

Prolonged economic downturn



PrincipalRe Limited

Role of a captive in self-insured connected risk

- Build an insurance programme using the captive's financial strength
- Protect against identified, uninsurable connected risks
- Reduce the sudden financial impact to balance sheet
- Provide stakeholders (employees, customers, shareholders) with confidence and reassurance
- Provides business with stability and longevity

How to embed connected risks within a captive

PrincipalRe Limited

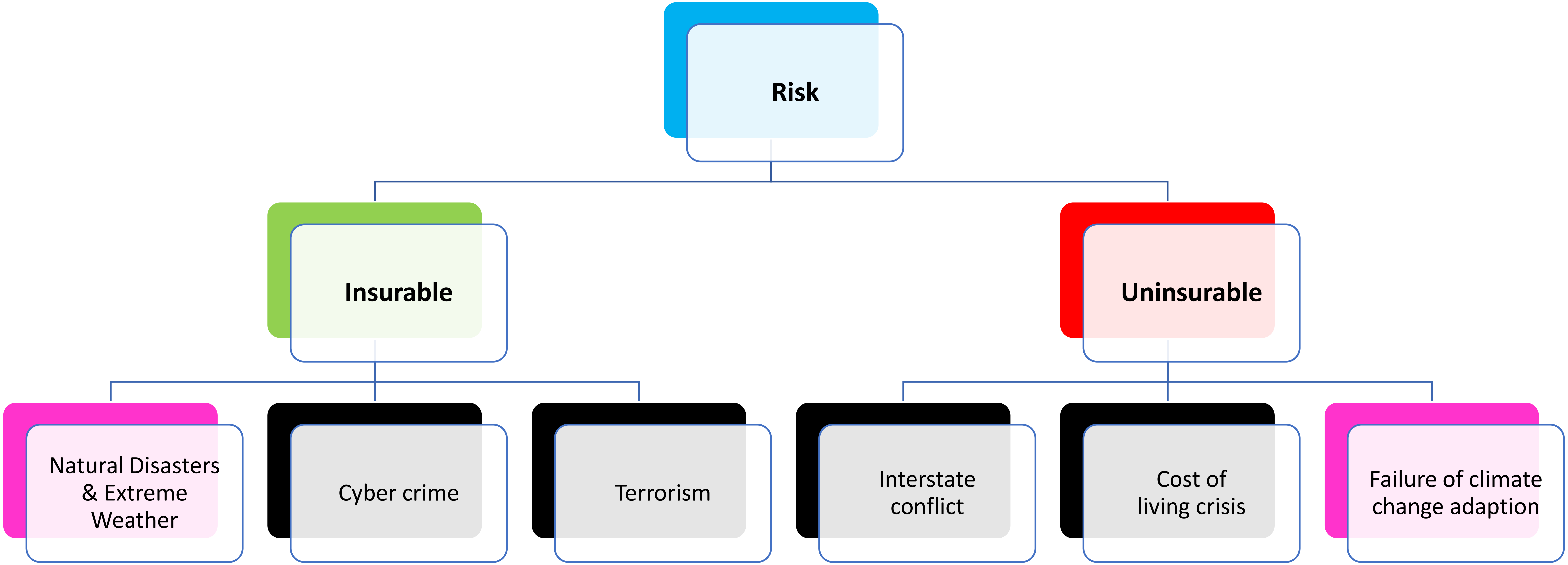
Identification

Quantification

Purpose

Identification – risk mapping

PrincipalRe Limited



Quantification

- Understanding the financial exposures
- Scenario analyses of historic events and their impacts on industry in general
  - E.g. Turkish earthquake impact on business, staff, suppliers
  - A “what-if” analysis
- Agree financial impact

Purpose (examples)
Agree coverages, determine triggers

Systemic supply chain failure: indemnification and protection for non-damage supply chain losses not available in conventional market

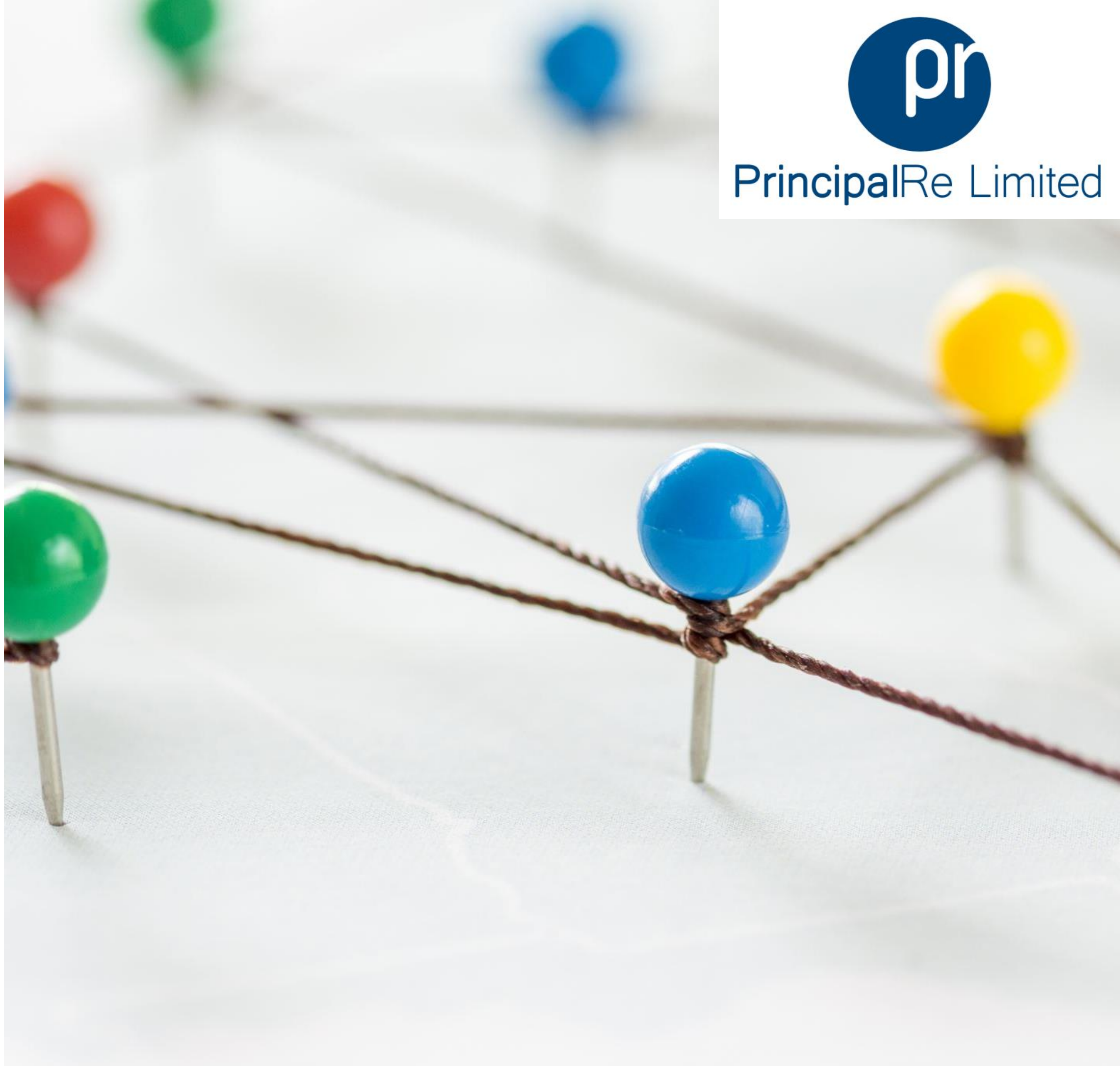
Interstate conflict:
increased cost of working for business units

Failure of climate change adaptation:
philanthropic disaster relief for communities where corporate operates

Cost of living crisis:
broad cover for employee benefits including staff well-being, mental health

Conclusion

- “The world is in a state of flux” – still and will always be
- The perceived fears arising from the negative consequences of connected risk can be mitigated and monetised by expert, creative use of captives
- This will deliver certainty, stability and longevity for corporates and their employees



PrincipalRe Limited

The connected risk journey in self-insurance: creative and current opportunities for captives.

Oliver Schofield
Head of Captive & Alternative Risk Transfer, Principal Re Limited

THE ASIAN CAPTIVE CONFERENCE 2023

IFRS 17: WHAT DOES IT MEAN FOR CAPTIVES?

Harun @Kannan Rajagopal

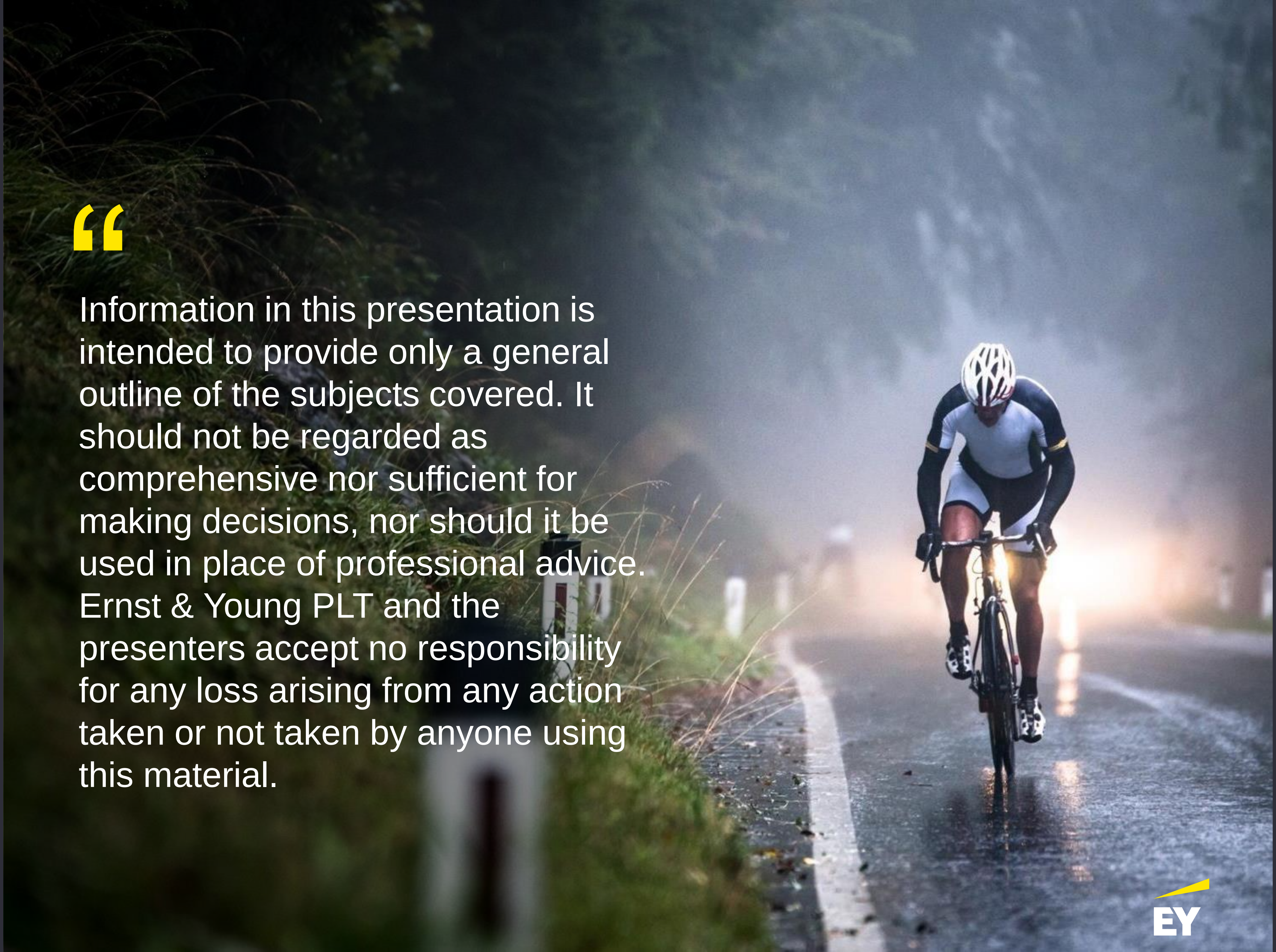
Partner, Financial Services,
Ernst & Young PLT

IFRS 17 *Insurance Contracts*

IFRS 17: What Does it Mean for Captives?

7 September 2023

EY
Building a better working world

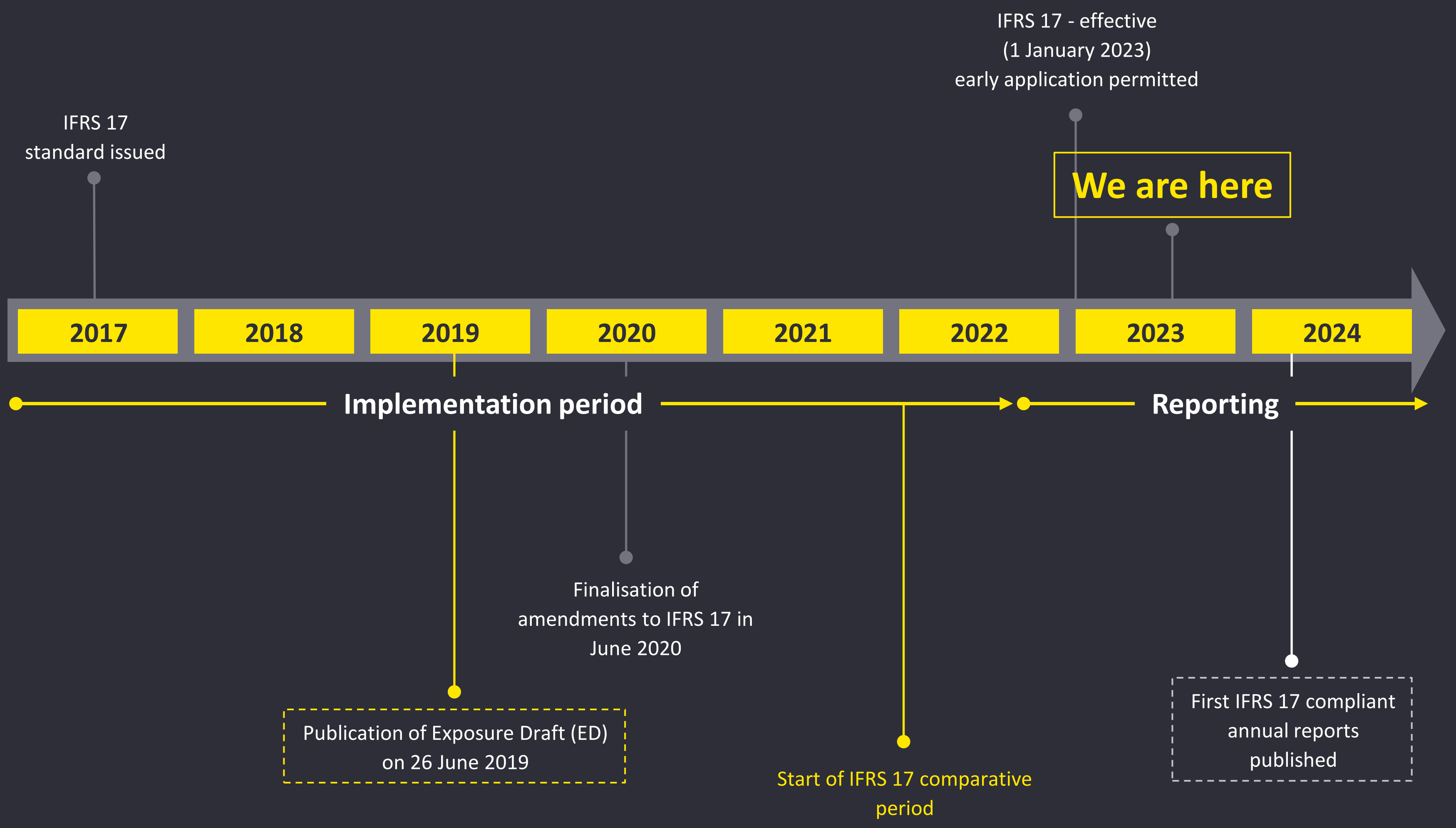


“

Information in this presentation is intended to provide only a general outline of the subjects covered. It should not be regarded as comprehensive nor sufficient for making decisions, nor should it be used in place of professional advice. Ernst & Young PLT and the presenters accept no responsibility for any loss arising from any action taken or not taken by anyone using this material.

EY

IASB update – IFRS 17 timeline



IFRS 17 – A consistent framework

03
Integration of time value of money

02
Assumptions used in the valuation reflect the characteristics of the insurance contract

04
Underwriting revenue and expenses are recognized over time

01
Up-to-date market-consistent information of obligations including value of options and guarantees

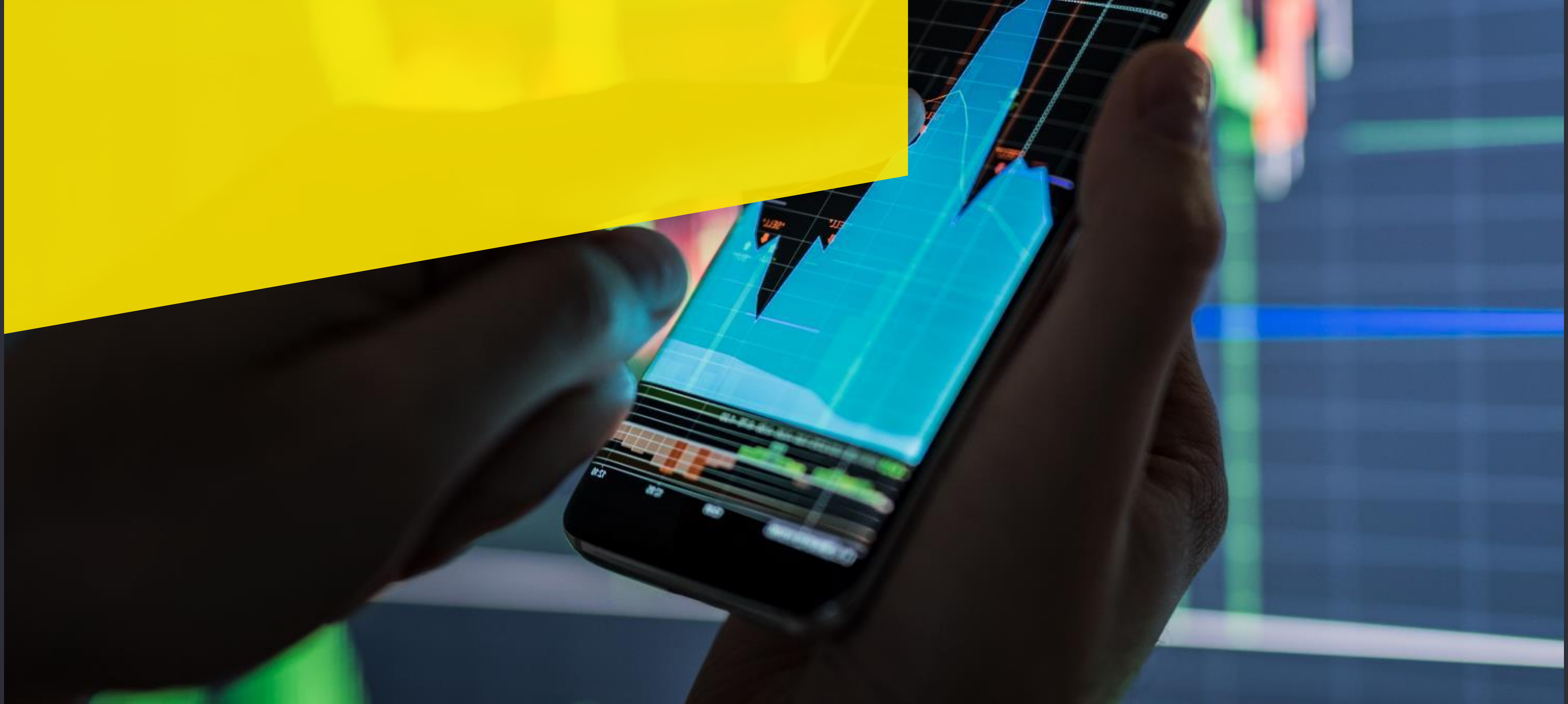
05
Separate information about investment and underwriting performance

Key impacts

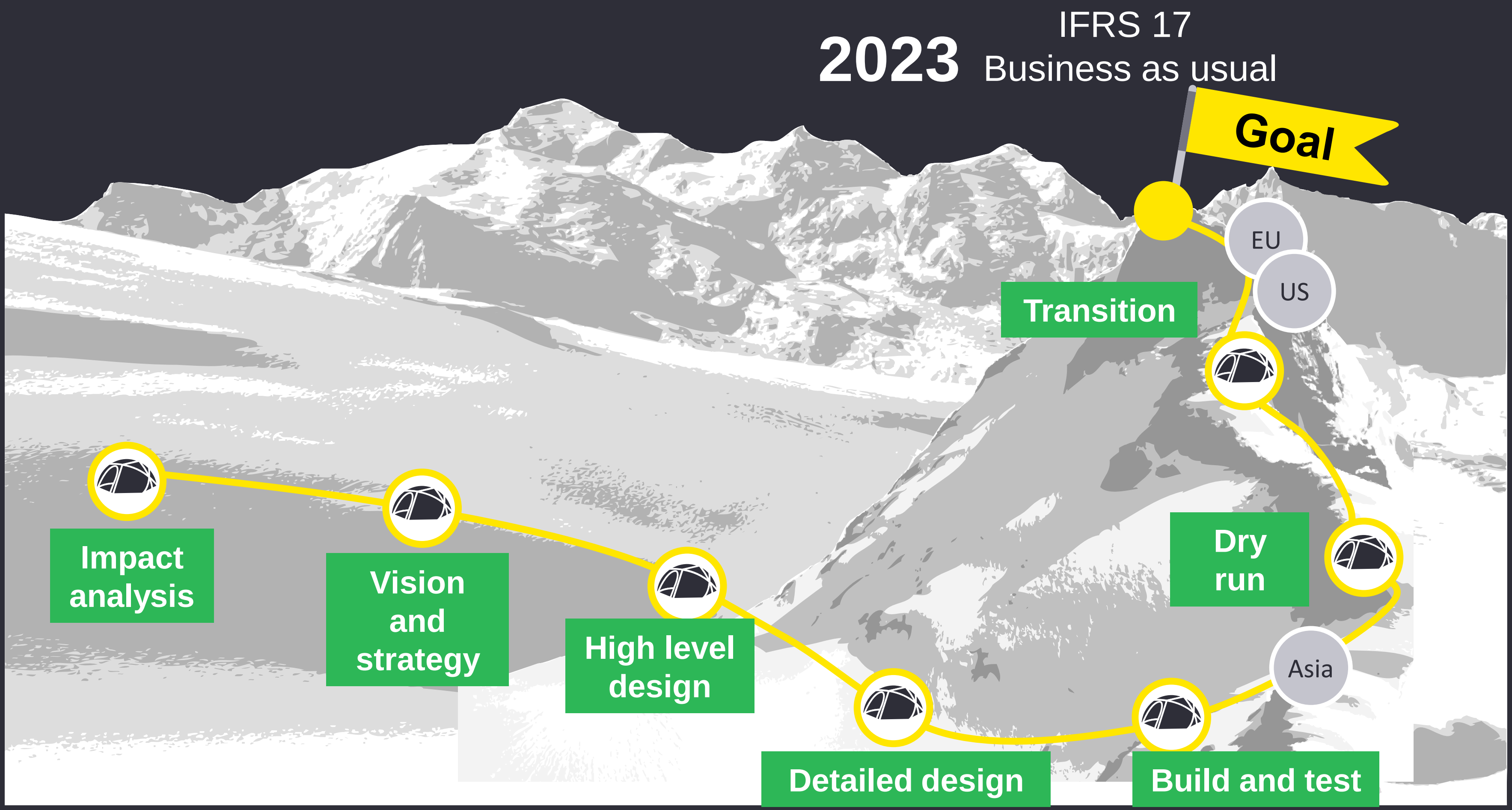
- New perspective for analysts and users
- KPIs / financial metrics will change
- New data, systems, process and control demands
- Opportunities for streamlining and greater efficiency
- Scarce resources under pressure
- Clearer picture of profit drivers

Industry updates

What has been happening in the industry?



Overview of status of IFRS 17 implementation programs



What will change with IFRS 17?

Income Statement - Current
Source of earnings difficult to identify

Current	20xx
Gross earned premiums	x
Earned premiums ceded to reinsurers	(x)
Net earned premiums	**x**
Investment income	x
Fair value gains and losses	x
Other revenue	**x**
Gross benefits and claims paid	(x)
Claims ceded to reinsurers	x
Gross change in contract liabilities	(x)
Change in contract liabilities ceded to reinsurers	x
Net benefits and claims	**(x)**
Fees and commission expense	(x)
Management expenses	(x)
Other expenses	**(x)**
Profit before taxation	**x**
Taxation	(x)
Net profit for the year	**x**
Other comprehensive income	x
Total comprehensive income	**x**

Cash based and includes collection of deposits - inconsistent with other industries

Includes repayment of deposits and confusing adjustment that incorporates multiple factors

Include those that are attributable to insurance and those that are not. Inconsistent measurement reduces comparability

Income Statement - Current vs IFRS 17
Separation of underwriting and investment / finance results

Current	20xx
Gross earned premiums	x
Earned premiums ceded to reinsurers	(x)
Net earned premiums	**x**
Investment income	x
Fair value gains and losses	x
Other revenue	**x**
Gross benefits and claims paid	(x)
Claims ceded to reinsurers	x
Gross change in contract liabilities	(x)
Change in contract liabilities ceded to reinsurers	x
Net benefits and claims	**(x)**
Fees and commission expense	(x)
Management expenses	(x)
Other expenses	**(x)**
Profit before taxation	**x**
Taxation	(x)
Net profit for the year	**x**
Other comprehensive income	x
Total comprehensive income	**x**

IFRS 17	20xx
Insurance revenue	x
Insurance service expenses	(x)
Net expenses from reinsurance contracts held	(x)
Insurance service result	**x**
Net investment income	x
Finance expenses from insurance contracts issued	(x)
Finance income from reinsurance contracts held	x
Net investment result	**(x)**
Other income	x
Other expenses	(x)
Profit before taxation	**x**
Taxation	(x)
Net profit for the year	**x**
Other comprehensive income	(x)
Total comprehensive income	**x**

Income Statement - Current vs IFRS 17
Expenses that are directly attributable to the portfolios

Current	20xx
Gross earned premiums	x
Earned premiums ceded to reinsurers	(x)
Net earned premiums	**x**
Investment income	x
Fair value gains and losses	x
Other revenue	**x**
Gross benefits and claims paid	(x)
Claims ceded to reinsurers	x
Gross change in contract liabilities	(x)
Change in contract liabilities ceded to reinsurers	x
Net benefits and claims	**(x)**
Fees and commission expense	(x)
Management expenses	(x)
Other expenses	**(x)**
Profit before taxation	**x**
Taxation	(x)
Net profit for the year	**x**
Other comprehensive income	x
Total comprehensive income	**x**

IFRS 17	20xx
Insurance revenue	x
Insurance service expenses	(x)
Net expenses from reinsurance contracts held	(x)
Insurance service result	**x**
Net investment income	x
Finance expenses from insurance contracts issued	(x)
Finance income from reinsurance contracts held	x
Net investment result	**(x)**
Other income	x
Other expenses	(x)
Profit before taxation	**x**
Taxation	(x)
Net profit for the year	**x**
Other comprehensive income	(x)
Total comprehensive income	**x**

Income Statement - Current vs IFRS 17
Effect of changes in discount rates and other financial risks

Current	20xx
Gross earned premiums	x
Earned premiums ceded to reinsurers	(x)
Net earned premiums	**x**
Investment income	x
Fair value gains and losses	x
Other revenue	**x**
Gross benefits and claims paid	(x)
Claims ceded to reinsurers	x
Gross change in contract liabilities	(x)
Change in contract liabilities ceded to reinsurers	x
Net benefits and claims	**(x)**
Fees and commission expense	(x)
Management expenses	(x)
Other expenses	**(x)**
Profit before taxation	**x**
Taxation	(x)
Net profit for the year	**x**
Other comprehensive income	x
Total comprehensive income	**x**

IFRS 17	20xx
Insurance revenue	x
Insurance service expenses	(x)
Net expenses from reinsurance contracts held	(x)
Insurance service result	**x**
Net investment income	x
Finance expenses from insurance contracts issued	(x)
Finance income from reinsurance contracts held	x
Net investment result	**(x)**
Other income	x
Other expenses	(x)
Profit before taxation	**x**
Taxation	(x)
Net profit for the year	**x**
Other comprehensive income	(x)
Total comprehensive income	**x**

Income statement and balance sheet

Income Statement - IFRS 17
Comparability and Consistency

Non-insurance company	20xx
Revenue	x
Cost of sales	(x)
Gross profit	**x**
Other operating income	x
Selling and distribution expenses	(x)
Administrative expenses	(x)
Other operating expenses	(x)
Operating profit	**x**
Finance income	x
Finance expenses	(x)
Other income	x
Other expenses	(x)
Profit before taxation	**x**
Taxation	(x)
Net profit for the year	**x**
Other comprehensive income	x
Total comprehensive income	**x**

Insurance company (IFRS 17)	20xx
Insurance revenue	x
Insurance service expenses	(x)
Net expenses from reinsurance contracts held	(x)
Insurance service result	**x**
Net investment income	x
Finance expenses from insurance contracts issued	(x)
Finance income from reinsurance contracts held	x
Net investment result	**(x)**
Other income	x
Other expenses	(x)
Profit before taxation	**x**
Taxation	(x)
Net profit for the year	**x**
Other comprehensive income	(x)
Total comprehensive income	**x**

Income Statement - IFRS 17
Mapping to IFRS 17 Presentation

Current	20xx
Gross earned premiums	x
Earned premiums ceded to reinsurers	(x)
Net earned premiums	**x**
Investment income	x
Fair value gains and losses	x
Other revenue	**x**
Gross benefits and claims paid	(x)
Claims ceded to reinsurers	x
Gross change in contract liabilities	(x)
Change in contract liabilities ceded to reinsurers	x
Net benefits and claims	**(x)**
Fees and commission expense	(x)
Management expenses	(x)
Other expenses	**(x)**
Profit before taxation	**x**
Taxation	(x)
Net profit for the year	**x**
Other comprehensive income	x
Total comprehensive income	**x**

IFRS 17	20xx
Insurance revenue	x
Insurance service expenses	(x)
Net expenses from reinsurance contracts held	(x)
Insurance service result	**x**
Net investment income	x
Finance expenses from insurance contracts issued	(x)
Finance income from reinsurance contracts held	x
Net investment result	**(x)**
Other income	x
Other expenses	(x)
Profit before taxation	**x**
Taxation	(x)
Net profit for the year	**x**
Other comprehensive income	(x)
Total comprehensive income	**x**

Balance Sheet – IFRS 17
Mapping to IFRS 17 Presentation

Current	20xx
Assets:	
Investments	x
Deferred acquisition cost	x
Reinsurance assets	x
Insurance receivables	x
Other receivables	x
Total assets	x
Equity:	
Share capital	x
Retained earnings	x
Other reserves	x
Total equity	x
Liabilities:	
Insurance contract liabilities	x
Insurance payables	x
Other payables	x
Total liabilities	x
Total equity and liabilities	x

IFRS 17	20xx
Assets:	
Investments	x
Reinsurance contract assets	x
Other receivables	x
Total assets	x
Equity:	
Share capital	x
Retained earnings	x
Other reserves	x
Total equity	x
Liabilities:	
Insurance contract liabilities	x
Other payables	x
Total liabilities	x
Total equity and liabilities	x

What are the requirements under IFRS 17?

The critical IFRS 17 components

Define the accounting policy

- Definition and scope
- Separation
- Recognition
- Level of aggregation

Measurement and actuarial model / integrated solution

- Measurement model
- Expected cash flows
- Attributable expense
- Discount rate
- Time value of options and guarantees
- Risk adjustment for non-financial risk
- Contractual service margin (CSM)

- Measurement
- Initial / subsequent measurement
- Onerous contract
- Reinsurance

Transition, presentation and disclosure

- Transition
- Disclosure
- IFRS 9 / 17 interactions
- Presentation
- Investor story

EY

IFRS 17: Measuring insurance liabilities

IFRS 17	20xx
Assets:	
Investments	x
Reinsurance contract assets	x
Other receivables	x
Total assets	x
Equity:	
Share capital	x
Retained earnings	x
Other reserves	x
Total equity	x
Liabilities:	
Insurance contract liabilities	x
Other payables	x
Total liabilities	x
Total equity and liabilities	x

PV of future cash flows
Current

+

Risk adjustment
Current

+

Unearned profit
Non-current

=

IFRS 17 liability

The three measurement models

General Measurement Model ("GMM")

- Also known as the Building Block Approach ("BBA")
- Default valuation approach
- Insurance contract valued using fulfilment cash flows – the present value of expected future cash flows, plus a risk adjustment
- Offset by the contractual service margin which represents unearned profit the insurer recognizes as it provides services under the contract

Premium Allocation Approach ("PAA")

- Optional simplified approach for contracts with a duration of one year or less, or where it is a reasonable approximation to the GMM
- Many non-life, and some life, insurance contracts are expected to meet these criteria
- Insurance contract valued as a pre-claims coverage liability and an incurred claims liability
- Similar approach to existing non-life insurance contract measurement

Variable Fee Approach ("VFA")

- Applies to participating contracts, as defined by three criteria, based on policyholders having a significant share in the profit from a clearly identified pool of underlying items
- Insurance contract liability based on the obligation for the entity to pay the policyholder an amount equal to the value of the underlying items, net of a consideration charged for the contract – a 'variable fee'

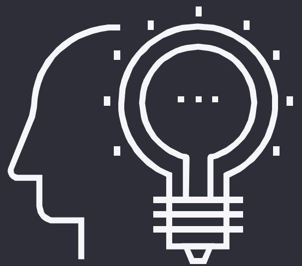
IFRS 17 in a nutshell

Profit

Before and after IFRS 17 remains the same

Business vs. accounting

Accounting should not drive how you do business



Product design and understanding

A thorough understanding is required

IFRS 17 - What does it mean for Captives?

How will captives be affected?

If a captive insurance company currently applies IFRS 4, it is likely that it issues insurance contracts that fall within the scope of IFRS 17.

All captive insurance companies that prepare financial statements according to IFRS will be affected by IFRS 17.

Additionally, if a captive does not report under IFRS but its parent company does, the captive may be obligated to conduct IFRS 17 valuations for consolidation purposes.

IFRS 17 introduces three measurement models for valuing insurance contracts:

1. General Measurement Model (GMM): This is the default measurement model, which outlines the recognition and subsequent measurement of insurance contract assets and liabilities at contract inception and in subsequent reporting periods.

2. Premium Allocation Approach (PAA): This offers a simplified method to measure a group of insurance contracts that meet specific qualifying criteria as defined in IFRS 17.

3. Variable Fee Approach (VFA): This is a variation of the GMM designed to accommodate the particularities of participatory contracts. It is unlikely that captives will need to utilize this method.

Accounting for captives in the financial statements

Impact on primary financial statements	Likely accounting before IFRS 17 adoption	Accounting after IFRS 17 adoption
Income statement	IFRS 4: • Premium • Claims • Expenses IFRS 9 (alternative): • Fair value gain/loss • Investment income	Have to apply IFRS 17: • Insurance revenue • Insurance service expense IFRS 17 numbers have to be presented gross of reinsurance held and separated for each portfolio.
Balance sheet	IFRS 4: • Insurance asset • Insurance liability IFRS 9 (alternative): • Investment in cell captive (financial asset at fair value)	Have to apply IFRS 17: • Insurance asset/liability • (original cash outflow plus/minus insurance result) IFRS 17 numbers have to be presented gross of reinsurance held and separated for each portfolio.

EY | Assurance | Tax | Transactions | Advisory

About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. For more information about our organization, please visit ey.com.

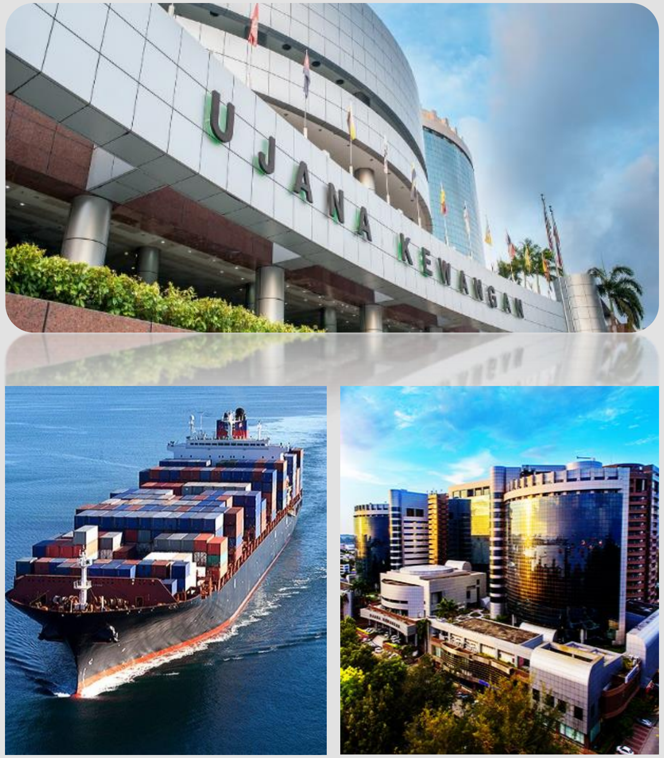
ED None

ey.com/my

THE ASIAN CAPTIVE CONFERENCE 2023

AGILITY AMIDST CHALLENGES: LABUAN IBFC UNVEILS REVISED CAPTIVE INSURANCE GUIDELINES

Doreen Fadli
Head of Business Policy,
Labuan Financial Services Authority



Labuan FSA
Financial Services Authority

THE ASIAN CAPTIVE CONFERENCE 2023

Agility Amidst Challenges: Labuan IBFC Unveils Revised Captive Insurance Guidelines

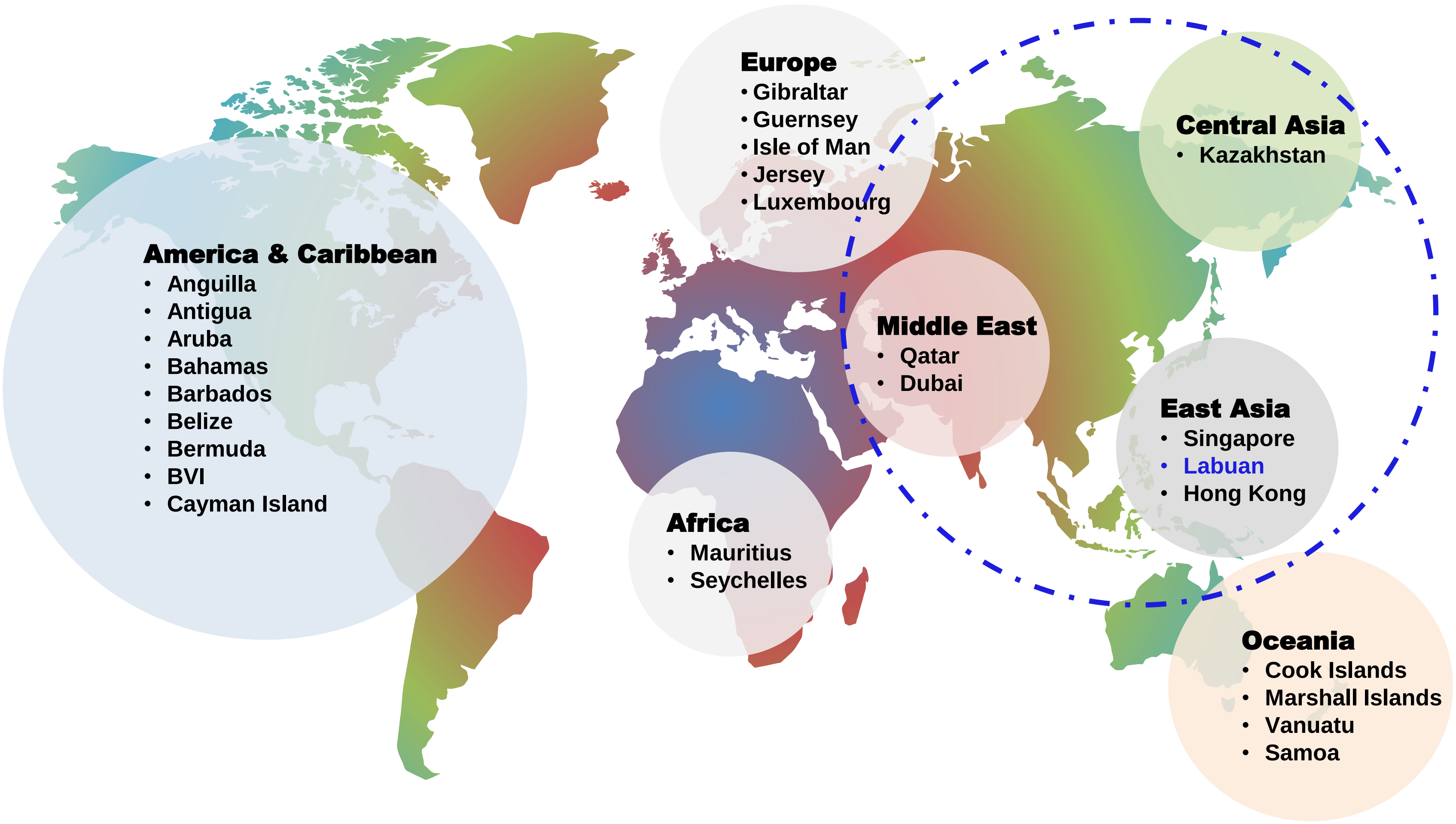
7 September 2023

SPEAKER
Doreen Fadli
Head Of Business & Tax Development
Business Development & Innovation Department

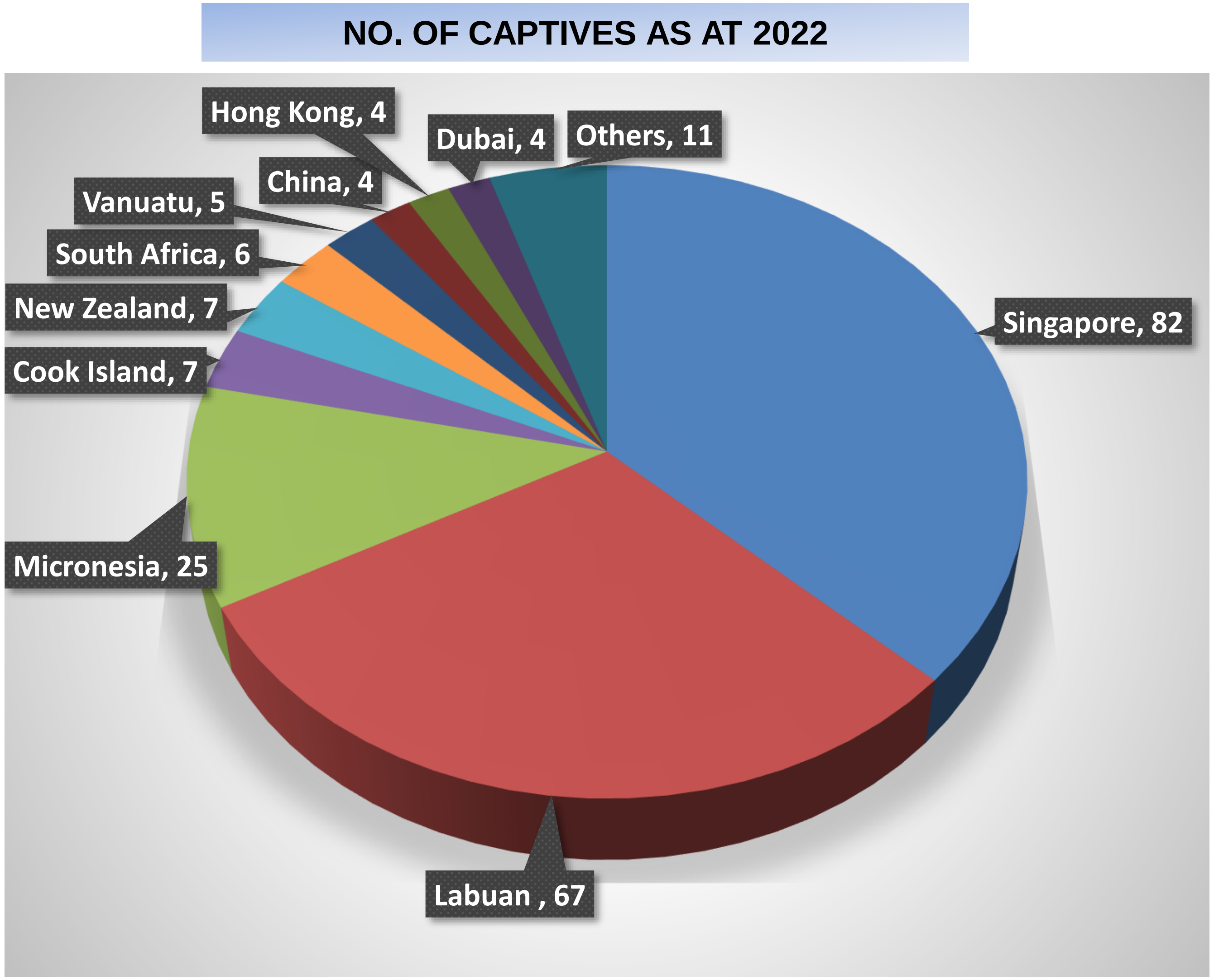
OVERVIEW OF

CAPTIVE INSURANCE BUSINESS IN LABUAN IBFC

Labuan IBFC is **strategically** located in the heart of Asia Pacific



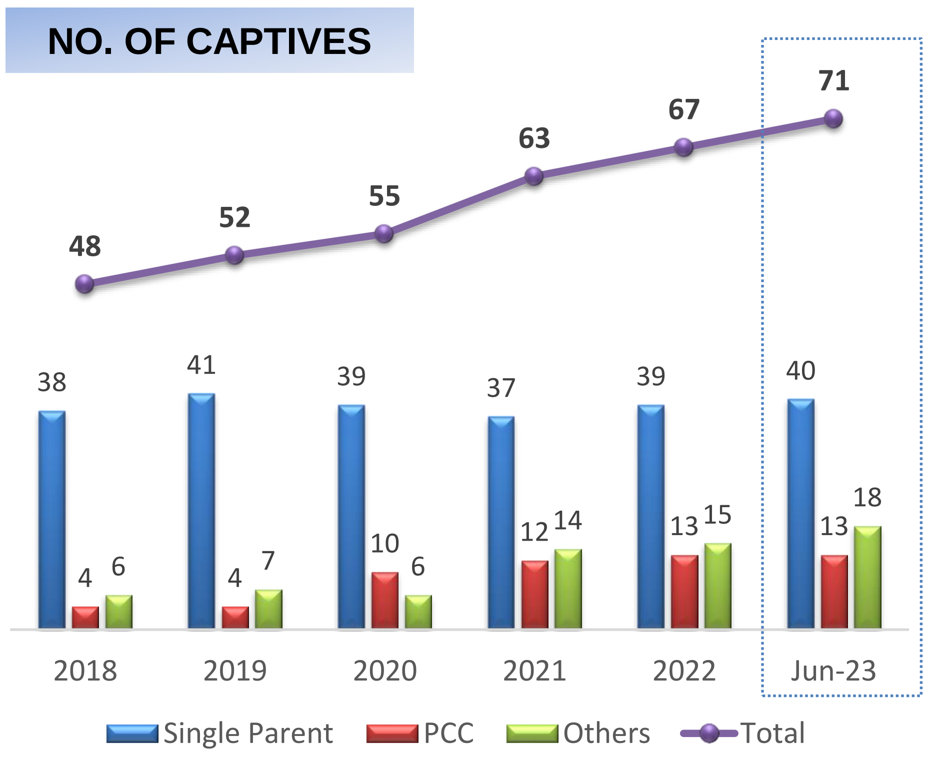
Labuan IBFC vis-à-vis Asia-Pacific (APAC) and Middle-East and Africa (MEA)



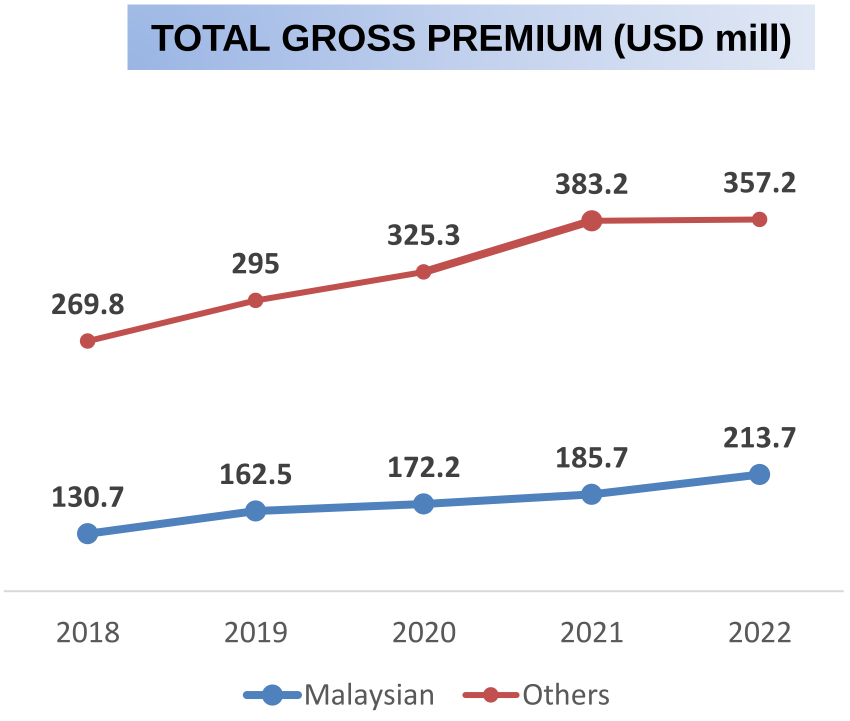
… Labuan is progressively catching up, remains the domicile of choice after Singapore…

Source: Captive review, World Domicile Update 2023

Labuan captive insurance market



… Progressively showing upward trend in new captive formation over the past five years …



.. Majority of the total gross premiums for captive insurance business were derived from international markets …

REVISED GUIDELINES ON CAPTIVE INSURANCE BUSINESS IN LABUAN INTERNATIONAL BUSINESS AND FINANCIAL CENTRE

Why review the Guidelines?

- Rationalising the Labuan captive framework is part of Labuan FSA's initiatives under Labuan IBFC's Strategic Roadmap 2022-2026 in intensifying Labuan insurance market growth in the Labuan IBFC
- Provide avenue for the industry to be more innovative in dealing with current global risks
- Enhance the roles and responsibilities of Master Rent-A-Captive and Protected Cell Company in providing their services effectively and efficiently

Objectives of the review

1. Provide clarity on rental captive structures i.e. Master Rent-A-Captive (MRAC), Subsidiary Rent-A-Captive (SRAC), External rent-a-captive (XRAC) and Protected Cell Companies (PCC)

2. Expand the type of insurable risks

3. Specify the roles and responsibilities of MRAC, PCC and Intermediary-owned captive

4. Enhance operational requirements for Labuan captives

Key enhancements made to the Guidelines

1 Type of captives

Labuan captive insurance business means Labuan insurance business where the insured is:

(i) **a related corporation** which refers to related companies as defined under section 4 of Labuan Companies Act 1990;

(ii) **an associate corporation** refers to "associate" definition under the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB); or

(iii) **any other person in respect of whom the Labuan captive insurer is authorised by the Authority** to provide insurance or reinsurance means any other person as approved by Labuan FSA.

(Para 5.0)

- *The definition of Labuan captive insurance business is rephrased in accordance with section 101 of Labuan Financial Services and Securities Act 2010 and have been clarified further for better clarity and understanding.*
- *Type of captive structures are listed in Appendix I and Appendix II of the Guidelines.*

Key enhancements made to the Guidelines

2 Introduction of new captive structures

a) **External rent-a-captive (XRAC)** is an entity with separate licenses, assets and accounts but at the same time using the working capital of MRAC with less than 50% shareholding by MRAC.

(Appendix II)

- *The features of XRAC is similar to Subsidiary Rent-A-Captive (SRAC), where the Master Rent-A-Captive (MRAC) is providing captive facilities and services to both XRAC and SRAC.*
- *The only distinction between XRAC and SRAC is that MRAC owns less than half of XRAC's shares.*

b) **Agency/Intermediary-owned captive** is owned by one or more independent insurance intermediaries e.g. insurance managers, underwriting managers or insurance brokers to write high-quality risks that the agents control so the agents can participate in the profits generated by the business.

(Appendix II)

This type of captive is introduced to promote insurance intermediaries to own a PCC or MRAC and then rent it out to other parties that seek small initial captives setup.

Key enhancements made to the Guidelines

3 Inclusion of indirect insurable interests risks

Labuan captive insurer may underwrite indirect insurable interest risks.

(Para 6.4)

- *Labuan captives are permitted to underwrite indirect insurable interest risks with an indirect interest in the proceeds of the policy, of which in most cases the captive will require the use of a fronting insurer.*
- *The inclusion is in line with practice of other jurisdictions that allow indirect insurable interest risks as part of captive insurance business.*
- *With the expansion of insurable risks under Labuan captives, this will further support the Labuan insurance industry growth in Labuan IBFC.*

Key enhancements made to the Guidelines

4 Roles and responsibilities of Board and the Senior Management of MRAC and PCC

The Board and the Senior Management of MRAC and PCC is required to:

(i) provide and maintain the minimum paid up capital/working fund for MRAC and PCC;

(ii) ensure SRAC, XRAC or cell of the PCC comply with solvency requirement and any other applicable requirements;

(iii) ensure SRAC, XRAC or cell of the PCC underwrites its own group or related parties' insurable risks; and

(iv) undertake appropriate assessment with regard to the change of cell owner and ensure the risks underwritten under the cell are still within its own group or related parties' insurable risks.

(Para 8.1)

- ***MRAC*** *is responsible in managing SRAC and XRAC. In addition to providing captive facilities, MRAC is required to ensure the SRAC and XRAC are undertaking their businesses in accordance with rules and regulations in Labuan IBFC.*
- ***PCC*** *is responsible in managing the cell(s) established under the PCC. With the fomalisation of cell establishment via notification to Labuan FSA, the PCC's responsibilities have increased and it is important for the PCC to perform its duty with prudence and diligence.*

Key enhancements made to the Guidelines

5 Roles and responsibilities of intermediary-owned captive

For intermediary-owned SRAC, XRAC or PCC, the managers i.e. MRAC or PCC shall ensure proper policies and controls are in place to manage all potential conflicts of interest faced by the managers and other related parties in the structure. Depending on the structure, Labuan FSA may require additional controls or disclosure to be put in place to ensure transparency and fairness is maintained for the clients.

(Para 8.3)

- *The insurance intermediaries are required to ensure fair treatment on all rental captives under their care.*
- *Nevertheless, all Labuan insurance entities are required to adhere to and be guided by the market conduct requirements as stipulated under the Guidelines On Market Conduct For Labuan Insurance And Insurance-related Companies.*

Key enhancements made to the Guidelines

6 PCC - Cell establishment

To establish a cell, a PCC must:

(i) notify Labuan FSA for establishment of a cell by submitting a duly completed notification form with the relevant supporting documents as stipulated in the form of Notification for Establishment of Cell by the Protected Cell Company Undertaking Labuan Captive Insurance/ Captive Takaful Business which is downloadable at www.labuanfsa.gov.my. The notification form shall be submitted within seven (7) days before commencement of the cell together with a payment of the cell's annual fee;

(ii) have a set of proper internal policies and procedures with regard to criteria and processes for on boarding of a cell which include but not limited to requirements under paragraph 4.1 above;

(iii) conduct due diligence on the cell's applicant;

(iv) ensure the cell underwrites its own group or related parties' insurable risks; and

(v) notify Labuan FSA within seven (7) days after the change of cell owner together with a revised notification form. The change of cell owner is limited to changes within the group structure and does not affect the current insurable risks.

(Para 8.2)

- *In 2021, Labuan FSA has given a temporary regulatory relief to allow Labuan PCC to notify Labuan FSA within 14 days after the establishment of its cell(s) as part of Labuan FSA's initiatives to facilitate the business operations of Labuan IBFC's players which will end by 31 December 2023.*
- *With the issuance of the Guidelines, establishment of cell via notification within 7 days before commencement of the cell will be implemented starting from 1 January 2024.*
- *Nevertheless, Labuan FSA has the right to suspend the operations of the cell or the PCC should there be any breach of any requirements in the Guidelines.*

Key enhancements made to the Guidelines

7 PCC – Permissible activities

For PCC captive, the cell of a PCC may conduct either general or life insurance business in a separate cell under the same PCC. Additional conditions will be imposed to the PCC captive and dedicated cell to ensure there is no co-mingling of funds between the life and general business under the PCC.

(Para 6.2)

- *The same cell of a Labuan PCC shall not conduct both general and life insurance business in one cell.*
- *A Labuan PCC may establish a separate cell that conducts general insurance business or life insurance business, separately.*

Key enhancements made to the Guidelines

8 Enhanced operational requirements – SRAC vs XRAC

a) The SRAC may appoint its director or any other person including Principal Officer (PO) of MRAC as its PO. Nevertheless, XRAC is required to appoint its own PO.

(Para 7.5)

b) All Labuan captive insurers are required to be members of Labuan International Insurance Association (LIIA). However, the SRAC may need not be a member of LIIA and its membership may be represented by its MRAC.

(Para 7.7)

In consideration that SRAC is a related company to MRAC, there are some flexibilities awarded to SRAC as compared to XRAC in terms of PO appointment and LIIA membership.

Thank You

www.labuanfsa.gov.my

THE ASIAN CAPTIVE CONFERENCE 2023

CAPTIVE 101

Idzuddin Zakaria

General Manager, Business Development & Marketing,
Etiqa Offshore Insurance (L) Ltd

THE ASIAN CAPTIVE CONFERENCE 2023

ADVANCED CAPTIVE

Michael Dunsire

Regional Director - Captive & Insurance Management APAC, AON

AON

BETTER INFORMED
BETTER ADVISED
BETTER DECISIONS

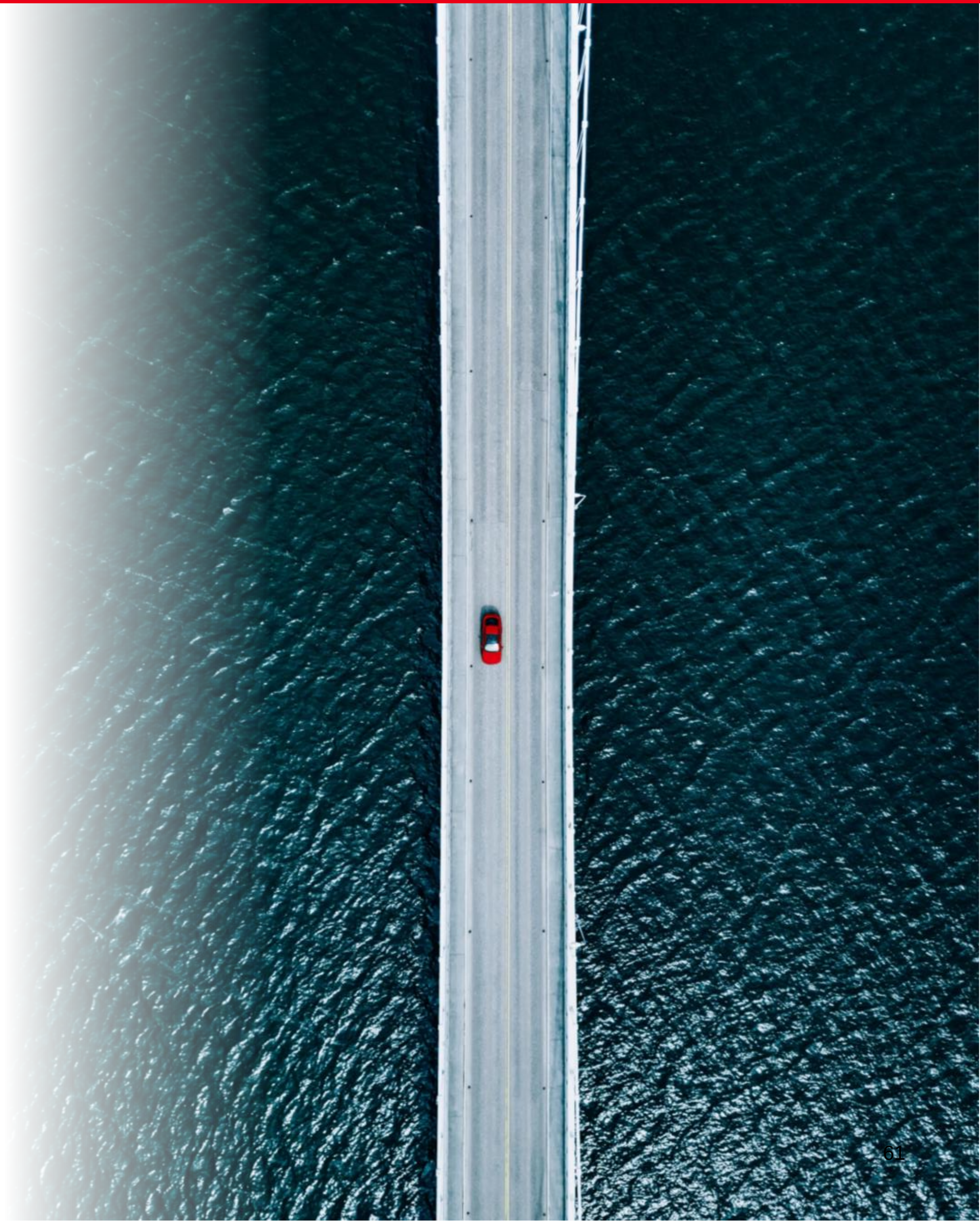
Asia Captive Conference September 7th 2023
Advanced Captive Stream 2

Presented by Michael Dunsire,
(Regional Director APAC Insurance
and Captive Management).

Agenda

1 | Key Factors in ensuring the long term success of a captive

2 | Uniqueness of Cell Structures & their uses



Key Factors in the Long Term Success of a Captive

1. ROBUST INITIAL FEASIBILITY STUDY

2. LOW PREMIUM TO LIMIT RATIO & ADEQUATE CAPITALISATION

3. DYNAMIC VERSUS STATIC ANNUAL REVIEW OF THE CAPTIVE RETENTION AND REINSURANCE PROGRAMMES

4. RISK DIVERSIFICATION

5. OTHER FACTORS

1. Robust Initial Feasibility Study

A captive feasibility review should provide the answers to key questions including:

- What is your risk bearing capacity?
- What are the optimal retention levels on a total cost of risk basis (TCOR) including reinsurance programme?
- Will a captive deliver value?
- How a captive should be structured?
- What risks should the captive write i.e. qualitative and quantitative analysis?
- Where it will be located and how it should be operated?
- What is the recommended future strategy and how should any changes be implemented?

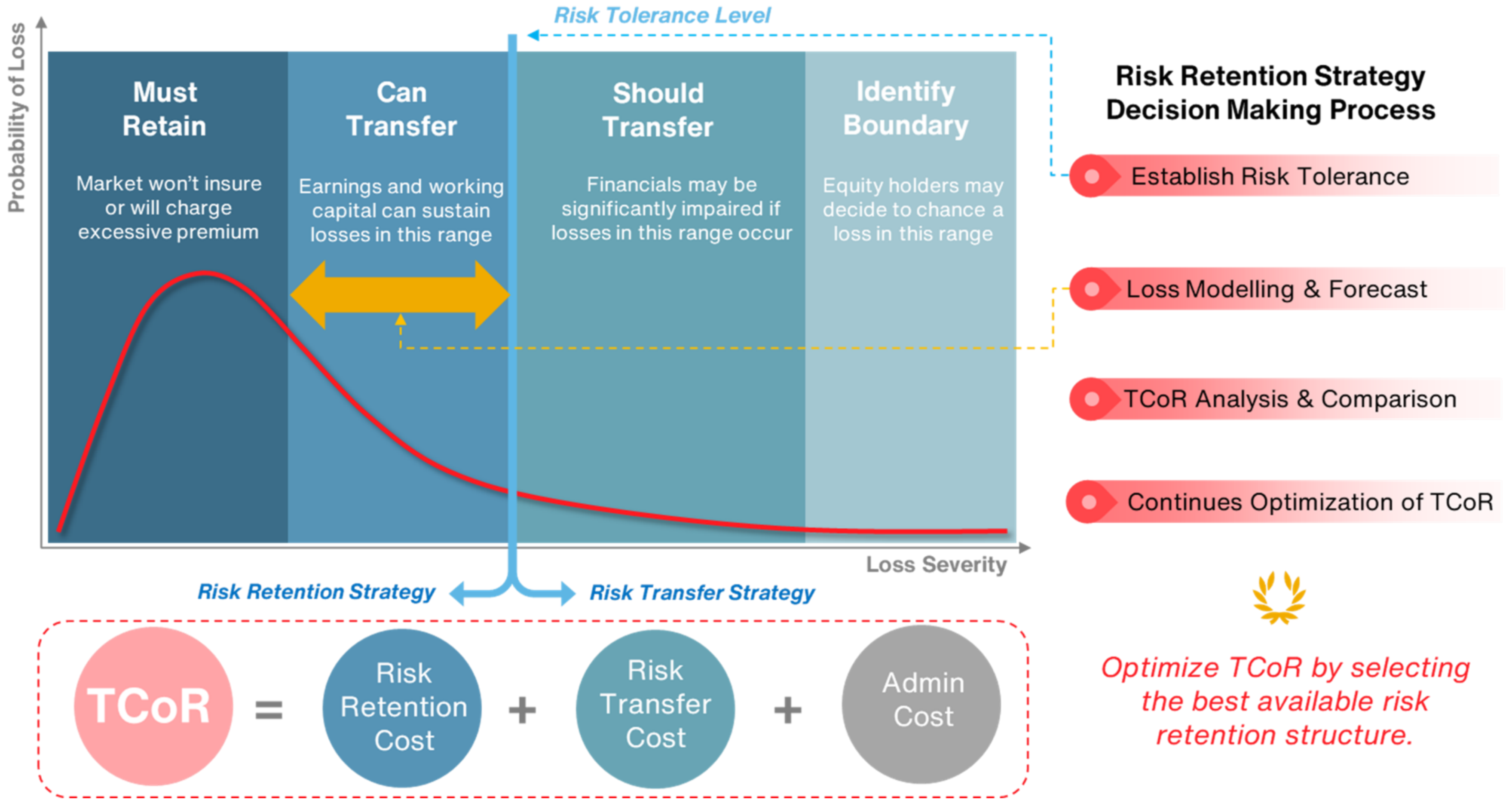
The main objectives of a Feasibility Study are to achieve:

- Optimized Total Cost of Risk by applying the best risk retention / transfer strategy.
- Maximum value to the group and business units through the captive strategy.
- Efficient usage of the captive and its capital.
- A defined, forward-looking captive strategy for the medium term.

2. Low Premium to Limit Ratios

- Ideal multiples around 3-5 but can be up to 10 x
- Ideally 1 x full loss limit should be covered by captive capital + small premium multiple
- Reinsurance Programme and pricing also critical in setting the correct captive retention limit level.

3. Dynamic Annual Review of Captive Retention Levels: TCOR



Aon RFDP methodology

Data Input

1. Adjust historical claims experience costs so that all claims are restated to values as if they were to occur in the prospective policy, for example, by developing claims to ultimate and applying inflation.

2. Frequency and severity distributions are derived to fit adjusted data.

   Losses are split into two groups for modelling purposes - attritional losses and large losses.

3. Model results are based on 100k simulations of possible loss outcomes for the prospective policy year.

4. Simulated losses are passed through current insurance program to understand the retained losses at the long term average and various percentiles.

5. Simulated losses are passed through alternative program options. The long term average and volatility of these options can then be compared to the current program.

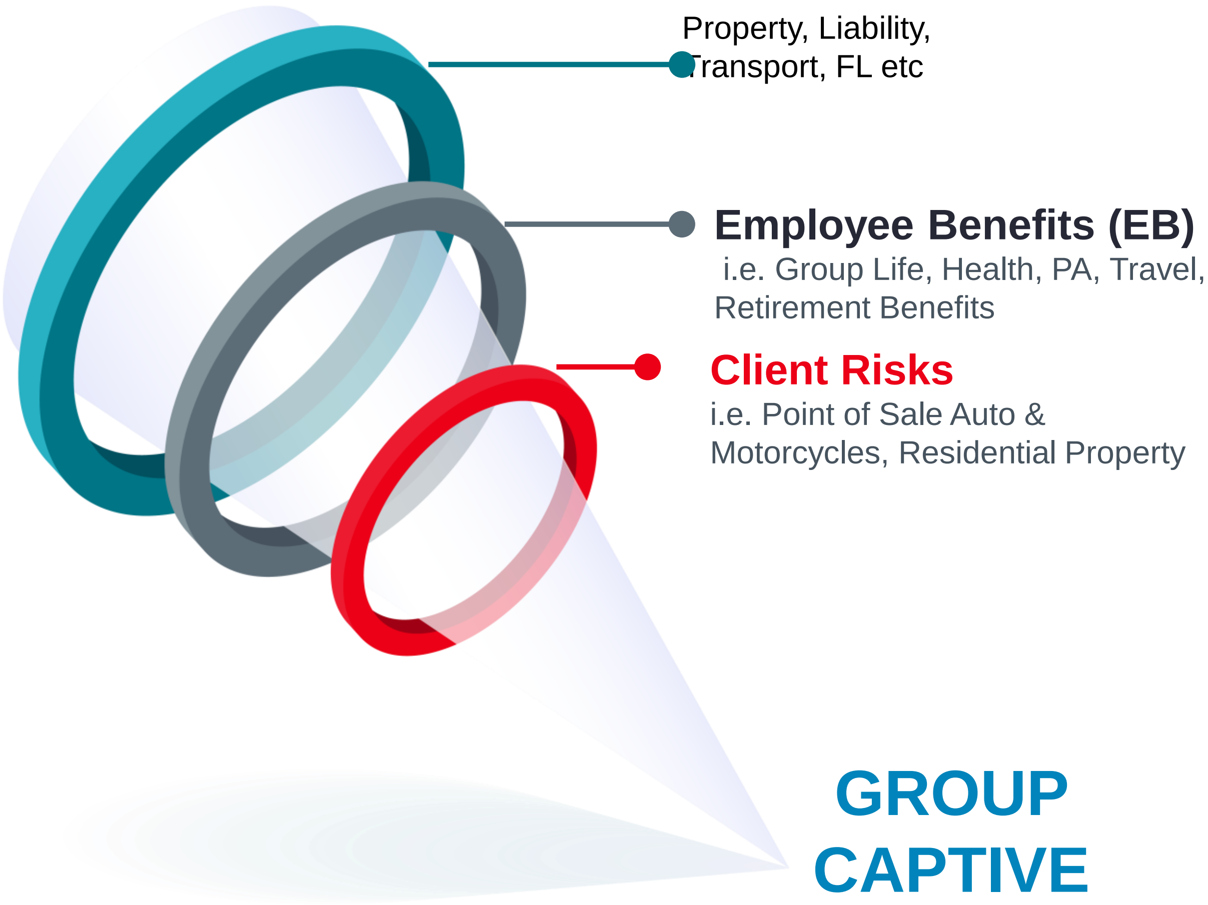
6. Modelled options are reviewed for suitability to bring to market in the context of risk appetite and market conditions.

7. Market premium quotes are overlayed over suitable modelled options to understand the Total Cost of Risk (TCoR)

2023 renewal strategy is developed and programs are placed in the market.

4. Risk Diversification

Group Activities



Pooling lines of insurance business can create diversification benefits, inherent risk spread, cost savings through innovative cover forms including greater risk retention capacity.

5. Other Factors

- For Property & Other Risks: adequate risk engineering and loss prevention/risk management measures operating in tandem with captive.

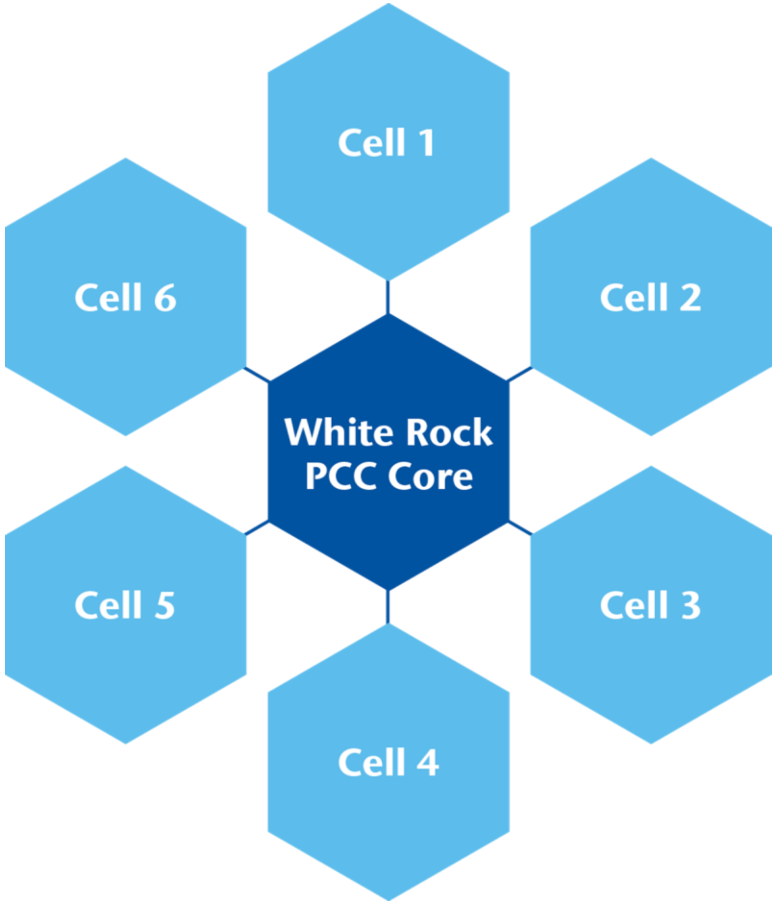
- Use of the Captive for non –tax **risk management and profit centre purposes** primarily.

- Good Corporate Governance – structure of board with adequately qualified staff ie. typically insurance manager & treasurer or CFO of parent including locally domiciled director.

Uniqueness of Cell Structures and their Use

Uniqueness of Cell Structures and their Uses

- A Protected Cell Company (PCC) is a single legal entity that is made up of the Core or non-Cellular part and an unlimited number of Cells.
- The Cell does not have a separate legal personality. The assets and liabilities of each Cell are segregated from the assets and liabilities of every other Cell and from the assets and liabilities of the Core.
- The Cell may be authorised to write insurance and/or reinsurance business while the Core may or may not be authorised to write insurance and/or reinsurance business.
- Cells offer a convenient way of acquiring a dedicated space on an already active insurance platform.



Main PCC Domiciles

Main Captive Jurisdictions with PCC Legislation

Guernsey
Bermuda
Cayman Islands (SAC)
Vermont
Rhode Island
Illinois
South Carolina
Washington DC
Isle of Man
Malta
Gibraltar
Mauritius
Labuan*

*Labuan - only PCC domicile in Asia.

Uniqueness of Cell Structures and their Uses

Key Benefits

- Lower capital requirement (much)
- Suitable for various sized companies
- Efficient use of management time and resources; do not require ownership in an entity sense; no requirement for parent company executives to attend board meetings
- Speed in entry and exit; quicker to set up and less expensive to exit than a captive
- Lower operating costs; fixed costs of the PCC , e.g. audit fees, directors' remuneration etc are spread across the cells and therefore become diluted

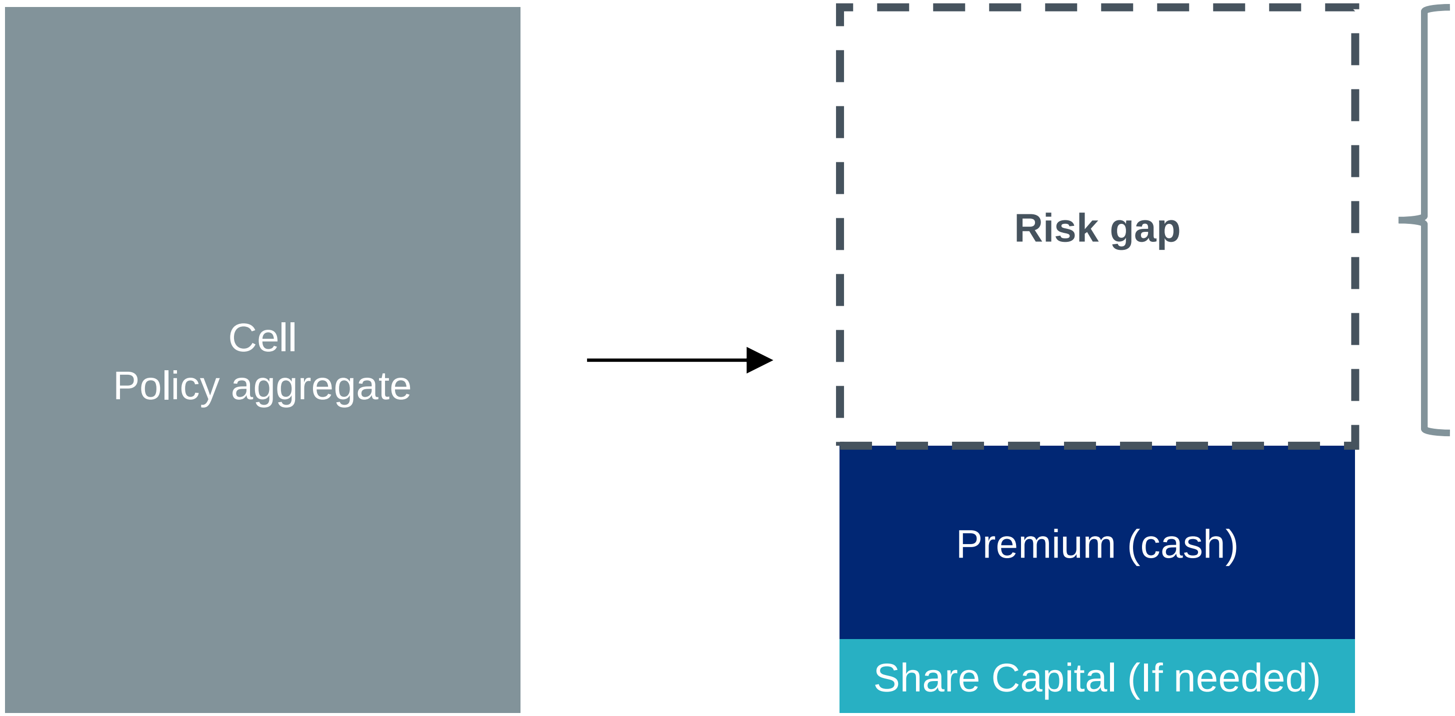
Key Considerations

- The use of a protected cell is problematic for long tail insurance classes.
- A cell can't usually operate with a risk gap – in a simplified way a risk gap can be considered as the difference between its premium income and the total aggregate exposure (the policy limit). The risk gap can be closed by:
    - Reinsurance
    - Capital
    - Letters of credit
    - Or a qualifying bank guarantee

Uniqueness of Cell Structures and their Use

The Risk Gap

Cell must always be fully collateralized by client up to the value of the policy aggregate(s)



Preferred risk gap instruments:

- Retained earnings
- Letters of Credit
- Additional paid share capital
- Surety Bonds
- Reinsurance trusts
- Funds Withheld

Uses of a PCC 1)

Retention Cells compared to a traditional captive: Interim Solution or for SME Companies

Advantages

- ✓ Reasonable speed to set up and exit
- ✓ Lower management time and operational expense than a captive
- ✓ Corporate governance and compliance is responsibility of the Core, not the Cell
- ✓ Risks can be incubated and then eventually be novated into a standalone captive company

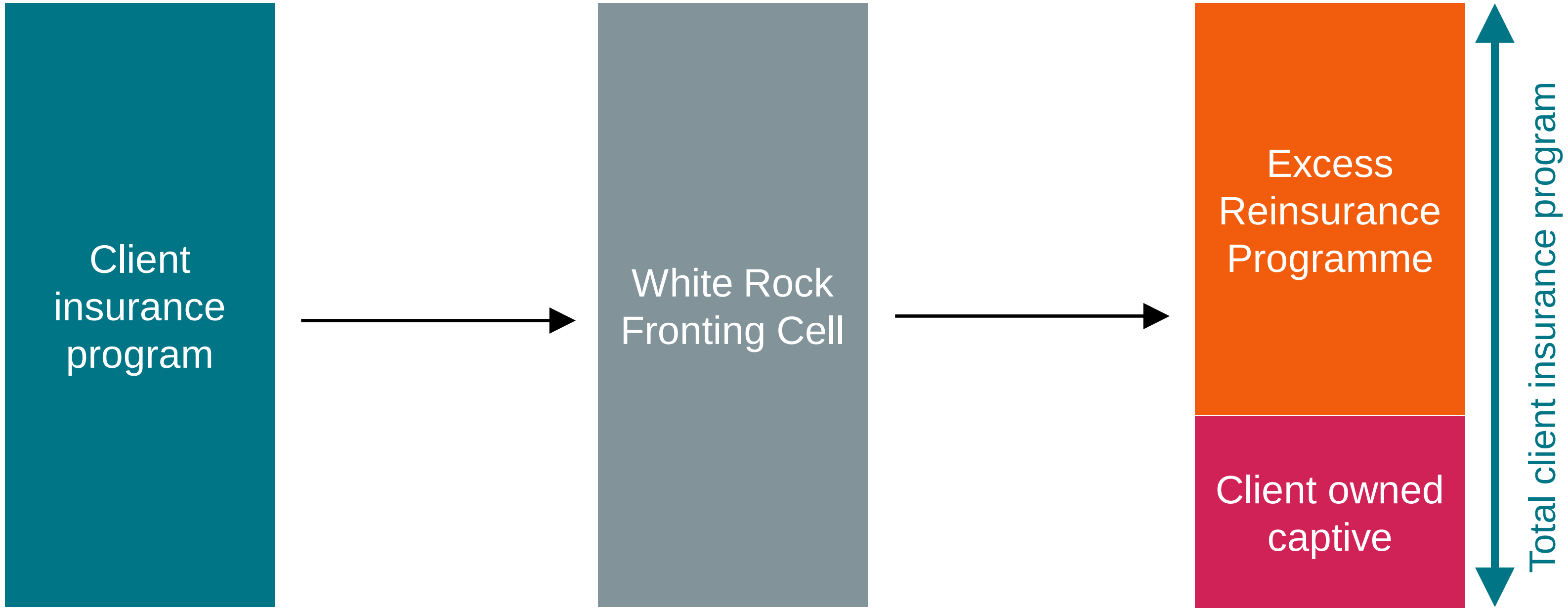
Considerations

- Potential loss of flexibility due to certain PCC owner underwriting and investment restrictions and mandatory clauses
- Although regulatory capital requirement is likely to be less than for a captive, the risk gap must always be fully collateralized
- Potential for stacking and trapping of collateral where expired policies cannot be closed/commuted
- PCC owner clauses might not be acceptable to policy recipient

Uses of a PCC 2): As a Fronting Vehicle (in Europe)

Fronting / reinsurance market access

Example of a Cell used to front a captive and market layered reinsurance program



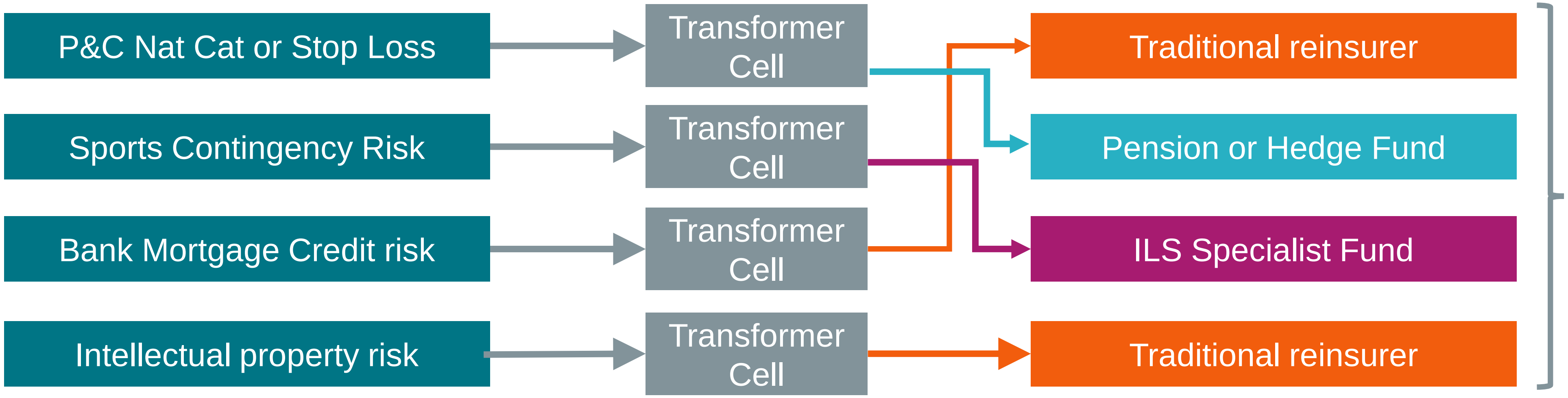
Fronting Cell participation can limited to individual layers of the insurance program (as opposed to the entire program as presented)

- Client utilizes an Aon owned Cell to front some or all of the program
- Cell can be reinsured by a combination of client owned captive and/or reinsurers
- Reinsuring captive **<u>must</u>** be managed by Aon and/or reinsurance **<u>must</u>** be placed by Aon
- Reinsurers (excl., captive) must be approved per Aon's Market Security listing

Uses of a PCC 3): Risk Transformation in ILS

Cells can be used to connect traditional insurance risk to non traditional capacity providers (and vice versa)

Examples Client risks **Example Capacity providers**



There are numerous other examples of risk transformation and those shown here are for example purposes only

- Transformer Cell must be fully collateralized by ‘hard’ assets (i.e. Cash or LoC)
- In certain structures a Special Purpose Vehicle might also be required in front of the Transformer Cell

Uses of a PCC 3) cont : Risk Transformation in ILS

Risk Transformation

Advantages

- ✓ Connects traditional insurance risks with non-traditional capital providers
- ✓ Connects non-traditional insurable risks with traditional reinsurance markets
- ✓ Flexibility to write (re)insurance business in non-traditional formats (i.e. derivatives)
- ✓ Once deal is in place, minimal servicing is required

Considerations

- Each Cell must be fully collateralized in its own right with no possibility of leverage
- Potential for stacking and trapping of collateral where expired transactions cannot be closed/commuted
- Can be costly to implement (management time, legal review etc)
- Long lead times for new types of transactions

Uses of a PCC 4)

And Lastly:

- PCC’s can and are often run by insurance broking companies (such as Aon via White Rock)

- Similarly Banking and Financial Institutions can use such PCC structures to offer cells to:
    - Their own corporate clients or SME clients
    - Institutional investors or
    - UHNWI clients in the case of large insured assets or as investors in ILS

Q&A

Thank you

Appendices

BETTER INFORMED
BETTER ADVISED
BETTER DECISIONS

Introducing Aon Captive & Insurance Management

500
employees

Across
20
offices

~1,200 client insurance entities

US$45B in gross written premium

US$17B
insurance-linked securities assets under management

IN SINGAPORE:

15
professionals

32
client insurance entities

REFERENCES:

Rio Tinto Ltd
Mr Patrick Walker
Global Head of Group Risk Finance

Orica Ltd
Mr Peter Sterry
Global Head of Insurance

PANEL DISCUSSION
PARAMETRIC INSURANCE: IS IT A CAPTIVATING TOOL IN ACHIEVING ESG GOALS?

THE ASIAN CAPTIVE CONFERENCE 2023

Luke Harrison

Marine Charbonnier

Jeffrey Khoo

Steve Tunstall

XL Insurance

Can Captives contribute to ESG goals?

Marine CHARBONNIER
Head of Underwriting, Captives and Facultatives, APAC & Europe

CAPTIVES

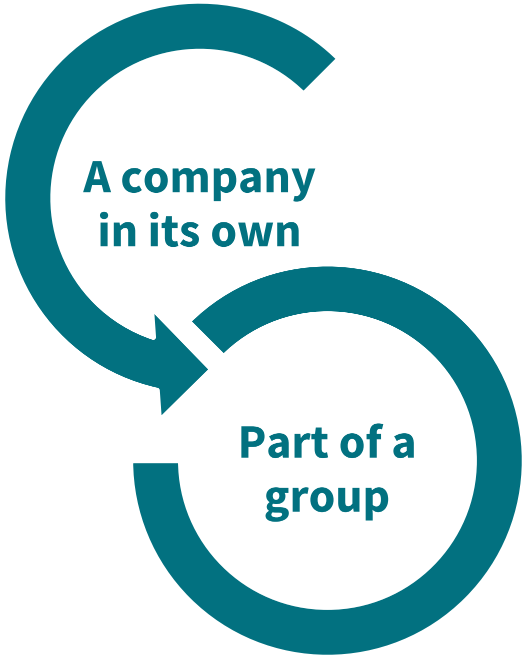
Reminder

- **Who are they?**
  - Insurance or Reinsurance companies,
  - part of the Insurance industry,
  - Licensed, Regulated,
  - Fully owned subsidiaries that insure and/or reinsure the risks of its parent organization

- **What for? Mainly to:**
  - Reduce the Group total cost of risk
  - Smooth premiums / conditions volatility to all subsidiaries over years
  - Enlarge coverages
  - Consolidate Risk Management

Optimize by combining the insurance markets and the captives

Consequently a captive is:



ESG

What does it mean today?

A FRAMEWORK TO EVALUATE THE IMPACT OF OPERATIONS AND OUTPUT OF AN ORGANIZATION ON PEOPLE, PROSPERITY AND PLANET…

THE 3 PILARS ARE

ENVIRONMENT

The company / group's practices that impact the environment such as:

- Greenhouse gas emission, water consumption
- Resource use

SOCIAL

The company / group's practices that impact society:

- Human rights
- Diversity and inclusion
- And working conditions

GOVERNANCE

The company / group's governance structure:

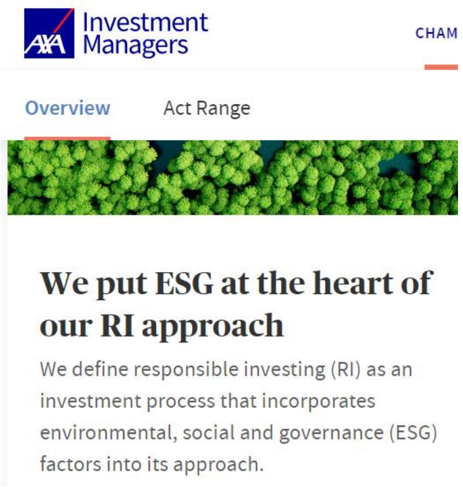
- Transparency
- And accountability of its leaders

ESG

Where we are today?

- **Pressure from:**
  - governments
  - regulators
  - investors
  - customers
  - employees
  - activists

to address these ESG factors :



In January 2023, the European Union adopted the Corporate Sustainability Reporting Directive (CSRD), which requires EU and non-EU companies with activities in the EU to file annual sustainability reports alongside their financial statements. These reports must be prepared in accordance with European Sustainability Reporting Standards (ESRS).

On July 31, 2023, the European Commission adopted the first set of ESRS. The ESRS soon will become law and will apply directly in all 27 EU member states, but not in the UK. Companies will need to report in compliance with these new ESRS as early as the 2024 reporting period.The standards are notable for their breadth and granularity, going well beyond the reporting requirements in other mandatory and voluntary ESG reporting frameworks. It is clear that companies in scope need to start getting ready to report to these new ESRS now.For further details on the companies covered by the CSRD, see Cooley's related October 2022 client alert.

CAPTIVES AND ESG

Example of questions raised…

Is my captive concerned by the 3 pillars?

Can we insure ESG risks?

HOW can a captive help support ESG strategy of the parent?

What kind of impacts / trends are we expecting?

WHY does it make sense to use our captive?

Are there specific **regulations** for captives?

CAPTIVES AND ESG

Key focuses

ENVIRONMENTAL

- Understanding
- Underwriting
- Protecting
- Supporting resilience
- Investing…

SOCIAL

- Enhancing DEI strategy
- Writing Employee Benefit for harmonization of benefit coverages
- Protecting the Suppliers…

GOVERNANCE

- Facilitating regulatory compliance
- Supporting and actively participating in the Group Risk Management
- Enhancing the group’s risk profile…

CAPTIVES AND ESG

Example of answers

TODAY… **AND TOMORROW ?**

More and more ESG regulations including for captives

- More and more important agenda item for CAPTIVE boards
- Help to secure reinsurance capacity
- Support to understand our ESG risk
- Incubate new and emerging risks
- Harmonize benefit coverages
- Address gaps, exclusions, third party coverages
- Access to capacities able to accept (parametric…)
- Fund targeted mitigation and adaptation initiatives
- Enlarge solutions for the value chain through affinity programs
- Sign up the United Nations' Principles for Sustainable Insurance

CAPTIVES AND ESG

Some good practices!

PSI only the start of ESG journey for International SOS captive

By Richard Cutcher – June 26, 2023

Becoming a signatory of the United Nations' Principles for Sustainable Insurance (PSI) should only be the start of the captive journey in contributing to the group's ESG objectives, according to Franck Baron, group deputy director of risk management and insurance at International SOS.

Sonepar is dedicated to building more resilient, inclusive, and sustainable communities and economies.

We are thus proud to become a member of the UN Principles for Sustainable Insurance initiative (the second captive to date), which serves as a global framework for the insurance industry to address environmental, social and governance risks and opportunities.

"Being a member of the PSI initiative reinforces our position as a leading pioneer of the energy transition, by leveraging risk management & insurance and operating with complete integrity," François BEAUME, VP Risks and Insurance, Sonepar.

Find out more about the PSI: unepfi.org/psi

United Nations Environment Programme Finance Initiative (UNEP FI) #Sonepar #PoweredByDifference #SustainableInsurance #SustainableFinance #ESG #CSR

CAPTIVE REVIEW

NEWS | FEATURES | EVENT

Tuesday, February 21, 2023 Mark Richardson

Captive owner Q&A: Gabriele Frea, Enel Insurance

Tags: captive owner, Enel Insurance, energy, ESG, Gabriele Frea

Enel Insurance has been a leading light in how captives can serve a real purpose improving the sustainability practices of an organisation. Enel was the first captive to sign up to the United Nations' Principles for Sustainable Insurance, but they're not stopping there, as Gabriele Frea, chairman of the supervisory board at Enel Insurance, explained in this interview with Captive Review.

UN environment programme | finance initiative

About Us | Our Members | Finance Industry | Key Themes | Regions

Gaviota Re S.A

Gaviota Re, S.A.

Insurance Luxembourg

Industry:	Insurance
Date joined UNEP FI:	12 December, 2022
Initiatives:	Principles for Sustainable Insurance

Brief Overview of the Organisation

Gaviota Re S.A. (hereafter GAVIOTA) is a reinsurance company, 100% Repsol, S.A. (hereafter REPSOL) subsidiary, which pro management and insurance products and services, at market prices to its parent company, its subsidiaries and affiliates.

panyUrn=urn%3...

sonepar
Powered by Difference

Sustainable Insurance

"Being a member of the PSI initiative reinforces our position as a leading pioneer of the energy transition, by leveraging risk management & insurance and operating with complete integrity."

François Beaume
VP Risks and Insurance

THE CONNECTED RISK JOURNEY IN SELF-INSURANCE

7 SEPTEMBER 2023

SIME DARBY CONVENTION CENTRE, MALAYSIA

#ACC2023 #LABUANIBFC

THE ASIAN CAPTIVE CONFERENCE 2023