THE ASIAN CAPTIVE CONFERENCE 2022

EMBRACING CHANGE AND ACCELERATING GROWTH:
THE WAY FORWARD FOR SELF-INSURANCE

18 AUGUST 2022

SIME DARBY CONVENTION CENTRE, MALAYSIA

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THE ASIAN CAPTIVE CONFERENCE 2022

A CLOSER LOOK AT GLOBAL TRENDS IN CAPTIVE INSURANCE

Rob Curtis
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A Closer Look at Global Trends in Captive Insurance

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Asian Captive Conference
Kuala Lumpur
18 August 2022

Agenda

- The current global trends impacting Captives
- A closer look at the impact of global trends for Captives - at the business level
- Key takeaways
- For further information - a closer look at some Asia-Pacific markets

The current global trends impacting Captives

Post-COVID Drivers of Complexity and Change Affecting Captive Insurers Across all Regions

Drivers affecting how captive insurers need to adapt to the changing environment

- The need to plan and demonstrate responses to extreme and adverse scenarios and stresses
- Globalisation/ regionalisation of insurance firms and their products
- Legislative and political pressures on the industry and its products
- Mega change - environmental – climate risk, emerging risks and other external events
- Mega change - demographics and society – the great resignation, increased life expectancy, wealth expectations, social media
- Market volatility and global economic difficulties/inflation/recession
- Changing external financial metrics e.g. IFRS Phase II, MCEV, Economic Capital by which firms are assessed
- Rapid technology change – always an opportunity and an enabler for improvement?
- Regulatory change and evolving expectations, push for cross-border harmonisation
- Inefficient legacy systems and operational/control processes
- Low consumer trust and satisfaction with the industry
- Raised market expectations for better governance and fewer surprises
- Raised expectations and standards for risk-based capital and performance management
- A focus on costs vs benefits – are risk management and compliance adding value?
- Changing consumer expectations and attitudes (improved information, choice, product suitability)
- Business models are under examination – are they ft for today, tomorrow?
- IAIS changes – an immediate raising of the bar, or more ‘evolutionary’?

Global Trends in Insurance – similar impact for Captives

Pressures of Market Changes Playing Out Differently in Key Markets

Regulatory reform	Europe	North America	Asia Pacific	Regulatory drivers
Risk & Capital	3	3	4	Most challenging for mid to large tier insurers
Liquidity	3	3	3	Greater focus will occur
Systemic risk	3	3	3	Significant burdens for G-SIIs & D-SIIs could arise
Supervision	4	4	4	Major changes in focus and structure
Governance	5	4	3	Embedding renewed accountabilities is a challenge
Remuneration	3	3	5	Challenge will be to retain talent
Customer treatment	4	3	2	Increasing prominence on the regulatory agenda
Investments	4	4	4	Continued focus on prudent person
Accounting and disclosure	5	5	5	Significant changes with knock-on impacts for capital

** Key: 5 = significant pressure 3 = moderate pressure 1 = low pressure.*

Given Developments in the Industry – Key Trends for Captive Insurers to Be Aware

- Strategic change.
- Product development strategy and process.
- Changing customer distribution and conduct models.

- Impact of new risk requirements on capital assessments.
- Enhanced modelling and stress testing.
- Risk reporting and management driving data & MI change.

- TOM for delivering new reporting requirements.
- Enhanced board reporting.
- “Fit for purpose” governance arrangements.
- Improved, integrated control frameworks.
- Balance sheet management.
- Cost optimisation.

- Interpretation and focus for practical application of rules.
- Greater need to develop stronger and ongoing relationships given move to require more data.
- Increased challenges in communicating risk and capital change programmes across different markets.

- Harmonisation of regulatory, risk and financial reporting.
- Interpretation and application of rules with accounting impact.
- Ongoing assurance on effectiveness of compliance with existing and emerging rules.

- Systems enhancements to meet requirements.
- Model development to cope with new information requirements.

- Identify and plan for tax implications of legal entity change.
- Design of compliant remuneration structures.
- Impacts of proposed levies/transaction tasks.
- Need to change HR strategies to recruit and retain new suite of skilled professionals.

Regulatory Developments in Most Asia Pacific Markets Progressively Aligning to Common Global Standards

Trend Continuing from Formulaic to Risk-based Capital and Risk Management

Formulaic

No risk weighting

Formulaic risk-based

Asset/liability risk weights/ stress tests

Many international RBC regimes

Integrated risk and capital regimes

Point in time model, submitted annually and used as a guideline to set capital

Governance and risk regime

Full internal model regime

Risk modelling and data quality

Economic balance sheet

Risk organisation

Model governance and validation

Embedding and business use

Group and Solo

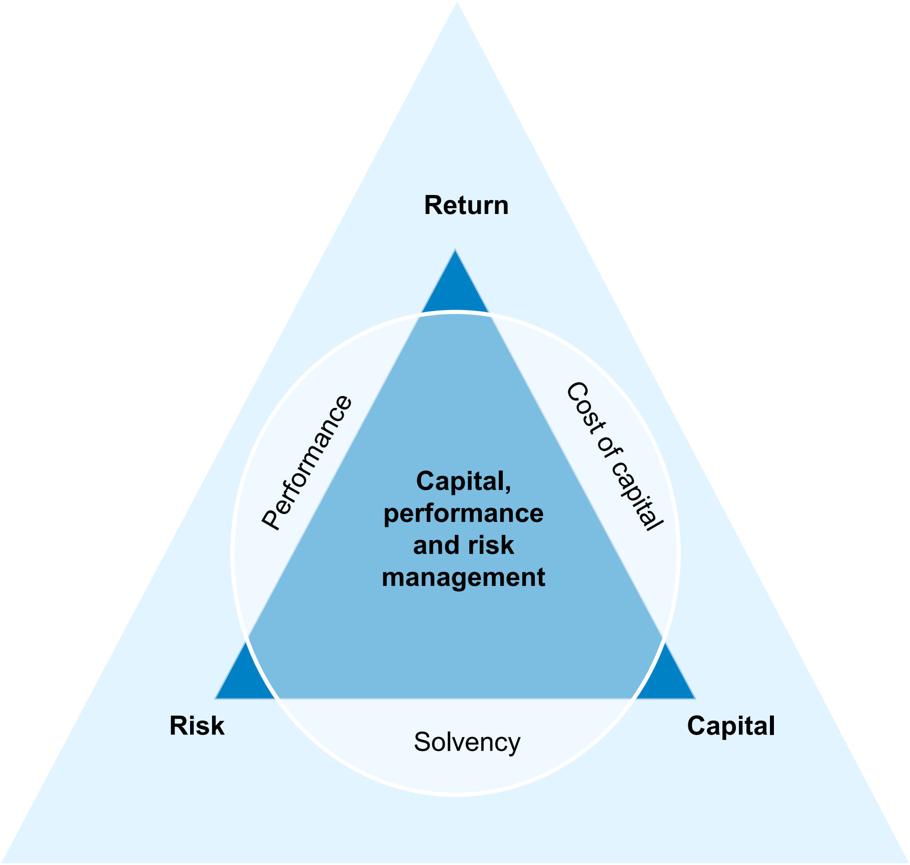
Model approved to calculate real-time capital

Risk-based capital regimes take many and different forms – from risk weighted formulaic solvency calculations through to full risk-based supervision and approved internal models impacting captives

Captives Uniquely Placed to Capitalise Upon the ERM and Capital Interaction Trends

Understanding ERM/Capital Interactions

- Global risk requirements fundamentally require firms to understand how much capital they think they need to adequately meet their obligations.
- Captives will also need to demonstrate that they have met their regulatory requirements over the year and what process they have used to ensure such requirements have been met.
- Other significant issues which captives need to ensure are:
  - Can the continue to best optimize capital in the future?
  - Do they properly understand their emerging risks?
  - Have they involved the right people internally to undertake this increased need for awareness and usage for risk management?
  - Have they considered the global tax environment and implications properly?
  - Do they have the right policy support and regulatory incentives?



Significant synergies exist for captives between the ERM process and the risk and capital management system

Captives will also need to understand the other major global trend - ESG developments

The consideration of environmental, social and governance factors alongside financial considerations

Environmental factors relating to resource use, pollution, climate risk, energy use, waste management, and other physical environmental challenges and opportunities

Social factors relating to how a company interacts with the communities it operates in, its suppliers, employees, and broader stakeholders

Governance factors relating to procedures and processes according to which a company is directed and controlled

Importance of ESG Factors are on the Rise

AM Best has explicitly integrated consideration of ESG factors alongside traditional financial factors into its credit rating methodology.

Best's Credit Rating Methodology (BCRM)

Balance Sheet Strength

- Climate risk
- ESG integration in investing activities
- Stranded assets

Operating Performance

- Social inflation
- ESG-related litigation
- Impact of ESG integration on profitability

Business Profile

- Underwriting exclusions
- Changing demographics
- Data privacy
- Reputational risk

Enterprise Risk Management

- Corporate governance
- Stress testing
- Financial and non-financial risks

- ESG factors, where material and relevant, may impact any one, or several building blocks
- Impact of ESG is viewed purely from an analytical perspective: focusing on the impact on the credit rating
- No judgement is made on the ethical value of ESG activities, or ESG credentials of the company

Global Trends Will Continue to Provide Opportunities for Captives

PROCESS DESIGN & EFFECTIVENESS

- Development of multi-disciplinary processes and integration
- Metrics – frequency and capability
- Robustness – ability to re-run the process post material changes
- Demonstrating embedding of the risk and capital management frameworks

ARTICULATING THE FUTURE RISK PROFILE

- Demonstrating how the risk profile is evolving
- Solvency projections
- Strategy and Business Plan linkages
- Changes to correlations
- Stress tests and Sensitivity analysis
- Emerging risks

Global trend for captives to be true value-adding services

RISK COMPONENT DEVELOPMENT

- Ensuring ESG and emerging risks are adequately captured and incorporated:
  - Strategy, climate risk, capital structure, underwriting, investments, ERM, regulation
  - Infrastructure considerations: adequacy of systems, processes and controls; back book analysis

RISK, CAPITAL & GOVERNANCE COMMUNICATION/ DISCLOSURES

- Meeting the expectations of investors and external stakeholder (including ratings agencies)
- Opportunity to differentiate by exceeding minimum compliance
- Credit for good risk and capital management

A closer look at the impact of global trends for Captives - at the business level

Global Trends: Risk & Capital Changes Will Drive Structural Change and Could Make Insurance More Costly, Providing Ongoing Opportunities for Captives

Changing regulation

- More and better-quality capital likely to arise as requirements by many supervisors change.
- Supervisors allowing internal models for regulatory capital purposes increases pressure on modelling capabilities.
- Introduction of internal models will ensure greater attention and focus on economic capital.
- Definition of what constitutes BBB calibrations and appropriate level of policyholder protection still an issue.
- Most Asian jurisdictions likely to revise their local capital requirements to be consistent with new ICS.
- Risk requirements such as the ORSA focus will require increased resources and skills.
- Increased expectation from regulators concerning governance and MI of risk and capital positions.

What does it mean for insurers

Capital constraints will drive business strategy, overall and at the margin:

- Cost of doing business could increase:
  - Tighter criteria of qualifying capital.
  - Total balance sheet approach needed.
  - Increased capital requirements for ICS purposes.
  - Uncertainty how regulators will treat these new minimums and apply increased prudential margins.
  - Transferability and fungibility of capital key issues.
- Impact on core insurance activities
  - New business opportunities could become harder.
  - Some insurers will likely face pressure to merge or leave the market place.
  - Concern of regulatory impacts on competition.
  - Increased risk and reporting analysis needed.

Opportunities for captives

- Impact of risk and capital management changes to:
  - Existing business.
  - New business.
  - Pricing models.
  - Capital planning and management.
  - Data and systems needed for robust real time measurement.
  - Business to grow, divest, restructure.
  - Targets to meet new requirements.

Global Trends: Changing Investment Conditions…

Changing regulation

- Tightening central bank policy is pushing up interest rates and causing unrealised loses.
- Significant changes to asset requirements will lead to considerably more demands on the quality of investment portfolio management.
- Prudent person principles likely to extend beyond EU – e.g. now introduced in Hong Kong.
- Major improvements required for management of investments given new stress and reverse stress testing requirements.
- Diversification of asset portfolio to receive greater regulatory scrutiny.
- Renewed focus on asset-liability management by supervisors will increase need for insurer sophistication.
- Investments in off-balance sheet vehicles, implicit obligations of support, un-hedged derivatives or structured credit activities to continue to receive increased attention from regulators.

What does it mean for insurers

- Uncertain economic outlook is pressuring credit spreads and equity valuations.
- Recessions may lead to increased defaults for lower-rated/non-rated debt.
- 'Flight to safety' has resulted in a sell-off of emerging market bonds during H1 2022.
- Commodity price shocks have created volatility across asset classes.
- Insurers likely to reduce their exposures to certain asset categories and ensure an appropriate balance such as corporate bonds and sovereign debt.
- Better risk management techniques and tools will be required particularly concerning asset-liability management.
- Attractiveness of complex/structured products could wane due to higher capital and liquidity costs.
- For insurance groups, the inherent investment risk at the insurance legal entity level and overall risk exposures at an aggregated level across the group will require increased attention.

Opportunities for captives

- Ability to manage the impact of changes on investment strategy given increased regulatory attention to off-balance sheet and non-regulated activities.
- Portfolio management strategies able to properly take account of the changes in risk profile and capital.
- Systems and data capable of satisfying new reporting and supervisory information requirements.
- New cost structures can be timely built-in to pricing and business models.
- Risk management processes can meet renewed regulatory scrutiny.
- Models can be quickly validated and assessed for 'readiness' to factor in new requirements if required.

Global Trends: Liquidity Changes Give Rise to Greater Focus

Changing regulation

- Move to prudent person principle:
  - Liquidity management given greater focus.
  - New stress and reverse stress testing requirements across Asia.
- Improved measurement, management, monitoring of liquidity, including scenario testing required.
- Some supervisors may push for local liquidity self-sufficiency.
- Greater questioning by regulators on reliance of credit rating agencies in assessing counterparty risk exposures.

What does it mean for insurers

Ensuring adequate returns will impact earning strategies – greater focus will be on cash-flow performance:

- Asset-Liability Management expectations will be greater requiring increased sophistication.
- Increased reliance on insurer's own investment strategies will require an appropriate justification in view of the company's own risk profile, risk tolerance and overall financial objectives.
- Larger amounts of liquid assets may have to be in low risk return assets.
- Supervisory expectations of better liquidity analysis and reporting, regular stress testing adds strain on systems and resources.

Opportunities for captives

- Dynamic liquidity planning, governance and modelling.
- Systems data and management reporting adequate to comply.
- Intimate knowledge of appropriate stress testing and need for additional data.
- Ability to develop communication plans for new requirements.
- Able to appreciate the implications for pricing, funding and regulatory ratios within the business.
- Sufficient awareness of investment guarantees and embedded options contained in contracts.

Global Trends: Governance, ESG and Remuneration – Increasing Expectations and Demands…

Changing regulation

- Principles of good governance not changed, but renewed emphasis by supervisors and enhanced focus on risk – especially ESG.
- Emphasis on quality and challenge of Board, requirements for independent risk committee.
- More prominence and independence for CRO and other key risk functions such as Actuarial.
- Effective internal controls, support timely measurement, management, monitoring of risk.
- Increased reporting expectations, especially concerning the quality and extent of MI.
- Risk-based remuneration, including deferred and non cash compensation and increased disclosure.

What does it mean for insurers

- Challenge to up-skill board and re-engineer governance processes.
- Increased focus will be required on ESG impacts.
- Increased accountabilities for key function holder positions – especially CRO, CFO and Head of Actuarial.
- Possibility of internal controls subject to greater requirements.
- Increasing supervisory on-site reviews focussing on the extent and appropriateness of the governance and internal control environment – increased demand for adequate documentation of processes and procedures.
- Divergence in stringency of applying high-level principles between jurisdictions.
- Ability to attract talent critical given increased complexities and demands of new requirements – different skill sets needed.

Opportunities for captives

- Efficiency of a ‘three lines of defence’ model.
- Ability to be more agile in response to ESG risks.
- Governance structures reviewed to be fit-for-purpose for compliance with principles.
- Roles and responsibilities are clear between key function holders.
- Agile to fulfil requirements to up-skill the board and senior management and demonstrate capability.
- Able to quickly have the appropriate culture and ethical framework to suit the organization.
- Readiness to demonstrate and attest to effective internal controls, e.g. over risk and capital integration.
- MI is sufficient to meet new information requirements of board and risk committee.

Global Trends: Systemic Risk – Part of the Bigger Picture…

Changing regulation

Numerous proposals to reduce risk of systemic failure.

- Main tools proposed:
  - Even more and better quality capital and risk focus, potentially higher requirements for systemically relevant firms.
  - Greater regulatory focus on non-insurance activities.
  - Enhancement of resolution and insolvency regimes, including mandatory Resolution and Recovery Plans (RRPs).
  - Enhanced supervisory scrutiny generally.
  - Potential structural change – e.g. enforced divestment, restrictions on growth.
  - Additional levies for size and risk still possible at the local level.
  - Agencies tasked with systemic oversight.

What does it mean for insurers

- Distinction between ‘global’ and ‘local’ systemically important firms raises likelihood of un-level playing field.
- Added cost of additional requirements will force reassessment of business lines, models, and geographies.
- Maintaining RRPs will be costly, and drive restructuring.
- Systemically important firms will face multiple supervisory agendas – pressure on insurer resources to provide information and maintain relationships.
- Questions over investor appetite and return requirements for increased regulation.

Opportunities for captives

- Better understanding of which aspects of the business may be systemically important.
- Meeting multiple regulatory demands likely to be low.
- Ongoing requirements to maintain living wills should be less onerous.
- Better able to fully appreciate and understand the degree of counterparty risk inherent in the business via reinsurance arrangements.
- Non-regulated entities conducting business which could pose a risk to the group known and understood.
- Extent of non-insurance business activities currently being conducted known and appropriately accounted.

Global Trends: Supervision – Applying the Rules of the Game

Changing regulation

- Increased supervisory intensity.
- Expanded scope of supervision to capture more market participants.
- Bolstering supervisory colleges for cross border institutions.
- Significant changes in supervisory structures in key jurisdictions now occurring across Asia – following EU, UK and many other markets.
- Move by IAIS to harmonise regulatory requirements globally will significantly change the regulatory landscape.
- ComFrame proposal by IAIS to better supervise Internationally Active Insurance Groups will be significant.

What does it mean for insurers

- Converging regulatory requirements will bring greater commonality and consistency in risk and capital requirements – particularly beneficial for international groups.
- Some businesses now subject to increased supervisory scrutiny, especially off-balance sheet vehicles or activities.
- Non-regulated entities will receive increased scrutiny – including overly complex structures, including holding company structures.
- Managing multiple supervisory requirements – question over how convergent and consistent supervisory colleges will be.
- Uncertainty of tone and consistency as new agencies bed in.
- Increased supervisory requirements for data and ad hoc information and analysis.

Opportunities for captives

- Boards able to better understand implications of changes in supervisory tone and approach.
- Adequate and appropriate relationships exist with supervisors – more able to really understand the business of the captive.
- MI and data is sufficiently comprehensive and flexible to meet multiple supervisory requirements if required.
- Up-scaling of staff and compliance capability to monitor and respond to changing rules and relationships can be more quickly initiated.
- Ability to sufficiently be engaged in developments to ensure appropriate frameworks are established enhanced.

Key takeaways

Key Takeaways of Global Trends Impacting Captive Insurers

Globally – Significant Economic, Market, Risk and Regulatory Change Continuing

- Hard market continuing while many western economies begin to experience rising inflation and resource shortages
- Operating profits have declined, but operating ratios are still lower than those of their commercial non-life peers; underwriting ratios improved
- Investment returns remain a challenge, however, surplus continues to grow owing to underwriting profitability
- Trend continues towards more risk-based supervision – Regulators are increasingly looking beyond the boundary of the regulated insurer to the wider group and holding company operations. Local governance, reporting and capital requirements will be enacted around global requirements
- Growing trend of larger brokers offering captive management services
- Emerging risks continue to increase awareness and need for ongoing good risk management – though captives' utility and benefits to owners and policyholders broaden
- Notwithstanding the global environment, number of domestic captives continues to rise

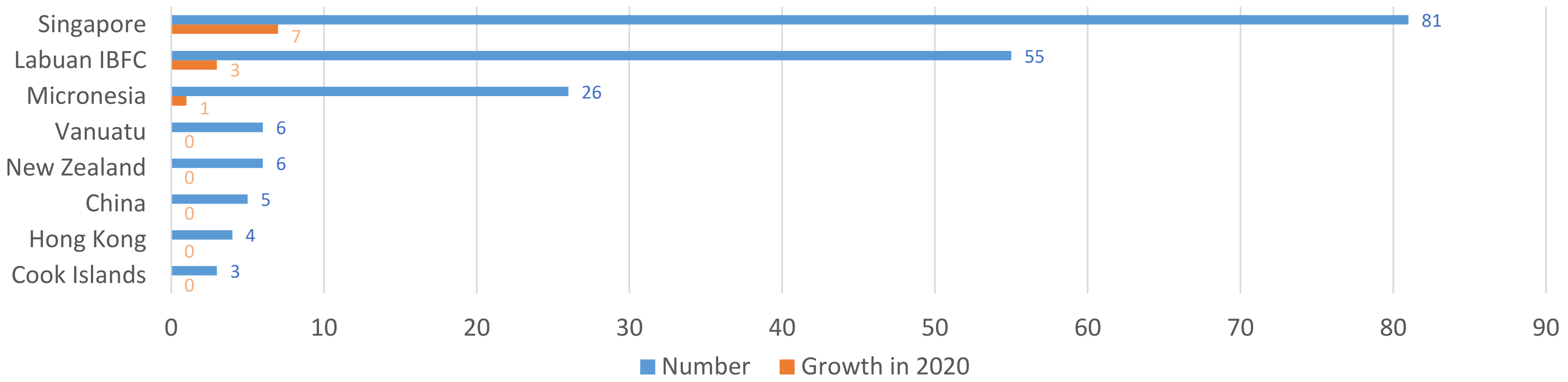
Likely Impact

- Continued move towards economic valuation basis/economic capital model builds
- Improved pricing, terms and conditions for commercial lines and reinsurers into 2023
- Inflationary pressures and changing interest environment will impact investment portfolios and strategies
- Higher solvency control level requirements in Asia Pacific likely and to be aligned with new international (IAIS) standard (ICS)
- Further regulatory reform of developing markets – e.g., new RBC reforms across Asia
- Increased need to improve ERM standards and internal ERM functions, capabilities and governance
- Insurers and captives will need to understand their critical functions and essential services and invest more in resolution and contingency planning as a result
- Climate risk and social inflation will require ongoing attention and continue to impact property and casualty lines

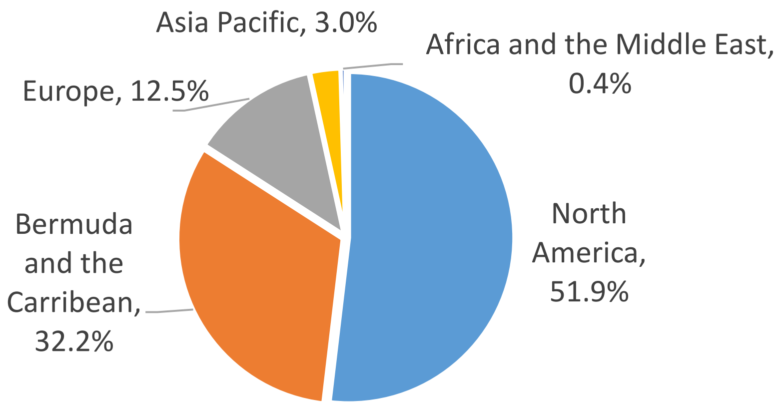
For further information
- a closer look at some Asia-Pacific markets

Overview of Captive Statistics – Asia Pacific

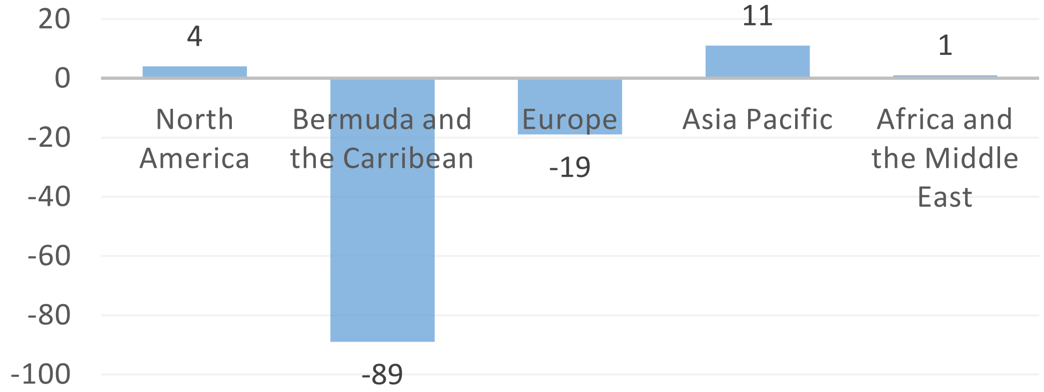
Number of Captives in APAC and Growth in 2020/21



Proportion of Captives Globally in 2020/21



Change in Captive Count in 2020/21



Source: CaptiveReview

Hong Kong Life

- Life insurers have shifted their focus to local business as cross-border travel with mainland China remains restricted.
- Economic uncertainties are testing insurers' capability in investment and risk management.

Headwinds	Tailwinds
Limited new business due to muted travel from mainland China	Increasing interest rate environment
Volatility in investment markets	Governmental support in closing protection gap
Operational burden to meet new accounting and regulatory requirements	New RBC framework

Hong Kong Non-Life

- Supportive regulatory initiatives.
- Overall disciplined underwriting and investing.

Headwinds	Tailwinds
Competitive and highly fragmented market	Governmental and regulatory support in market development
Increasing regulatory and compliance costs	Improved rate adequacy in statutory lines, EC and motor
Volatility in investment markets	Increased health awareness lifts medical insurance demand

Malaysia Non-Life: Stable

- Good underwriting discipline by non-life insurers amid a phased de-tarrification, along with potential market consolidation

Headwinds	Tailwinds
Rising inflation, low interest rate environment continue to pressure investment yields	Robust pricing and underwriting discipline amid ongoing phased de-tariffication of motor and fire business
	Premium growth expected to rebound, underpinned by GDP growth expectations
	Market consolidation and regulatory developments aimed at strengthening industry

Indonesia Non-Life: Negative

- Non-life insurers face significant headwinds including the economic fallout and heightened investment risks from the COVID-19 pandemic

Headwinds	Tailwinds
Weaker than expected economic recovery amid extended mobility restrictions	**Premium tariffs limiting unhealthy price competition**
Claims escalation in credit insurance	**Technology investment to support distribution and operational efficiency**
Higher investment risks and low interest rates	

Philippines Non-Life: Stable

- Favourable economic outlook expected to support non-life growth prospects over the long term

Headwinds	Tailwinds
Significant exposure to natural catastrophe risks	Premium growth to be back on track on the back of GDP rebound
Further rise in minimum net worth requirement could add to burden on smaller insurers	Improving investment conditions supported by better macroeconomic outlook
Potential abolishment of tariffs could lead to price war and hurt profitability	Strong growth in microinsurance

Vietnam Non-Life: Stable

- Favourable demographics to support long-term growth and regulatory changes to advance the non-life insurance market

Headwinds	Tailwinds
Adverse social and economic consequences of the COVID-19 pandemic over the short term	Demographics to support long-term growth
Low interest rate environment	Digital transformation for distribution
	Regulatory advancements and a potential rise in foreign shareholding

Thank You

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OECD BEPS AND ITS IMPACT ON CAPTIVES

Bernard Yap

Partner, Ernst & Young Tax Consultants Malaysia

Introduction to BEPS 2.0 and the Impact on Captive Insurance Companies

Cd August 2022

Agenda

1. Introduction of BEPS 2.0
2. BEPS 2.0 From a Malaysian perspective
3. Captive insurance and BEPS 2.0
4. Outlook of Captive Insurance

Organisation for Economic Co-operation and Development's (OECD's) Base Erosion and Profit Shifting (BEPS) Action Plans

Action 1: Digital economy

"Because the digital economy is increasingly becoming the economy itself, it would be difficult, if not impossible, to ring-fence the digital economy from the rest of the economy for tax purposes"

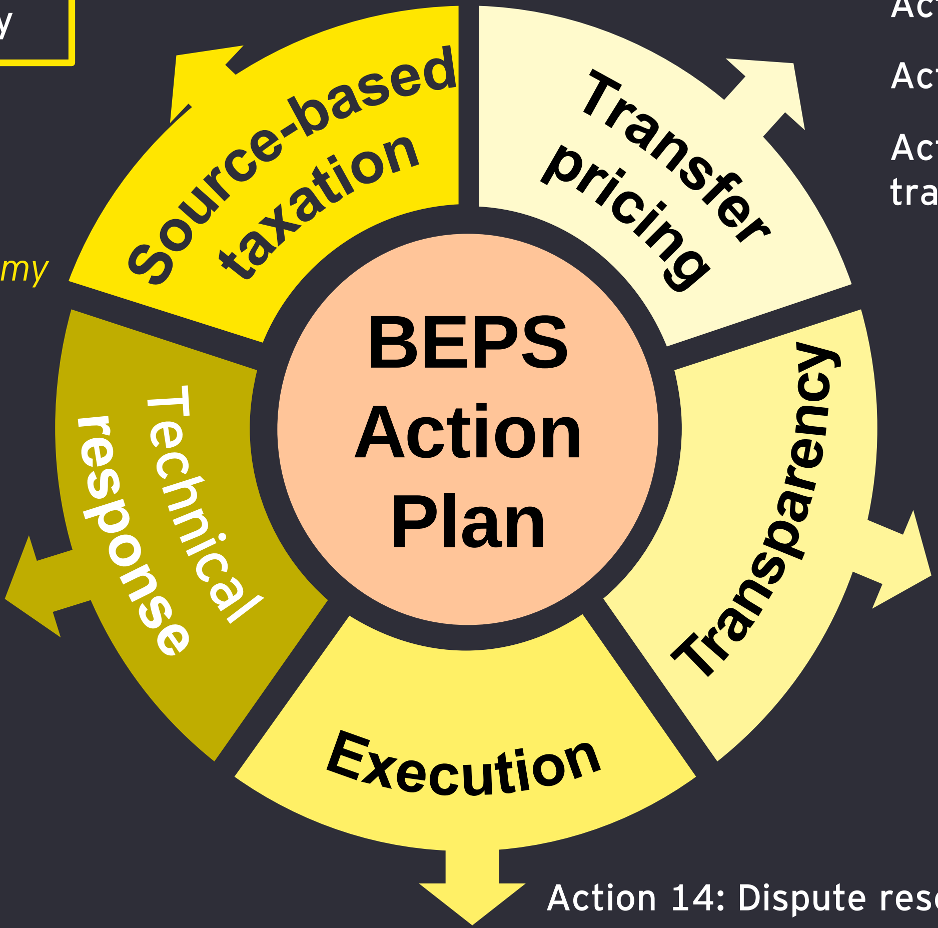
Action 2: Hybrid mismatches

Action 3: Controlled foreign corporation (CFC) rules

Action 4: Financial payments

Action 6: Treaty abuse

Action 7: Permanent establishment (PE) status



Action 8: Intangibles

Action 9: Risks and capital

Action 10: High-risk transactions

Action 5: Harmful tax practice

Action 11: BEPS data collection and analysis

Action 12: Aggressive tax planning disclosure

Action 13: Transfer pricing documentation

Action 14: Dispute resolution

Action 15: Multilateral instrument (MLI)

BEPS 2.0 Background - 8 October 2021 statement by OECD on the Two-Pillar Solution (BEPS 2.0 Statement)

137*

out of 141 members of the OECD/G20 Inclusive Framework (IF) on BEPS have agreed to the Statement

- Purpose: Addressing the tax challenges arising from the digitalisation of the economy with a consensus-based, long-term solution
- **Pillar One**: Taxing rights on more than **US$125 billion of profits** are expected to be **reallocated to market jurisdictions** each year.
- **Pillar Two: Global minimum tax rate** is estimated to generate around **US$150 billion in new global tax** revenues each year.

Source:
(1) OECD Statement on a Two-Pillar Solution to Address the Tax Challenges arising from the Digitalisation of the Economy (8 October 2021) https://www.oecd.org/tax/beps/statement-on-a-two-pillar-solution-to-address-the-tax-challenges-arising-from-the-digitalisation-of-the-economy-october-2021.htm
(2) Highlights Brochure: Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy (8 October 2021)
*As at 4 November 2021

BEPS 2.0 Snapshot

The twofold objective of BEPS 2.0 – levelling the playing field by

(1) Providing new taxing rights to jurisdictions with active market but no physical presence (Pillar 1)
(2) Reducing tax competition among countries (Pillar 2)

Pillar One:
New nexus & profit allocation rules

Establishes new taxing rights in market jurisdictions by

Proposing a nexus concept largely based not on physical presence but on sales; and	Proposing income allocation rules that depart from arm's length's standard.

- Catches only MNEs with global turnover > €20 billion (potentially €10 billion after 7 years) and profitability above 10%
- Carve out for Regulated Financial Services sector.

Pillar two:
Global minimum tax rules

Global anti-base-erosion regime ("GLOBE") aimed at

A global minimum 15% corporate tax under the Income Inclusion Rule ("IIR") & Undertaxed Payment Rule ("UTPR");	A minimum rate of 9% under the Subject to tax rule ("STTR").

- Non-mandatory (common approach)
- Applies to any group with a consolidated financial statement annual gross revenue of €750 million or more.

BEPS 2.0 from a Malaysian perspective

Implementation of BEPS 2.0 in Malaysia

1 August 2022	The Ministry of Finance ("MOF")

a Budget 2023 Public Consultation Paper ("PCP") titled "The Implementation Of Globe Rules In Malaysia"

Endorse the OECD's recommended international best practices

Remain compliant with BEPS standards of regulation, i.e. tax evasion and harmful tax practices (Action 5)

Impact of the PCP to Captive Insurance businesses?

Ideal investment location for foreign investors

Well-established captive domicile

Captive Insurance and BEPS 2.0

Benefits

1. Insures the risks of its parent or related/associated corporations
2. Reduction of risk management costs
3. Improved cash flows of the captive
4. Enjoy potential tax benefits

Economic substance rules in certain low/zero tax jurisdictions

e.g. existing top captive domiciles in the region

Malaysia – Labuan

- 3% preferential tax rate on net audited accounting profits
- Substantive requirements:-
  - 3 full-time employees
  - RM200,000 (~USD 47,500) annual OPEX

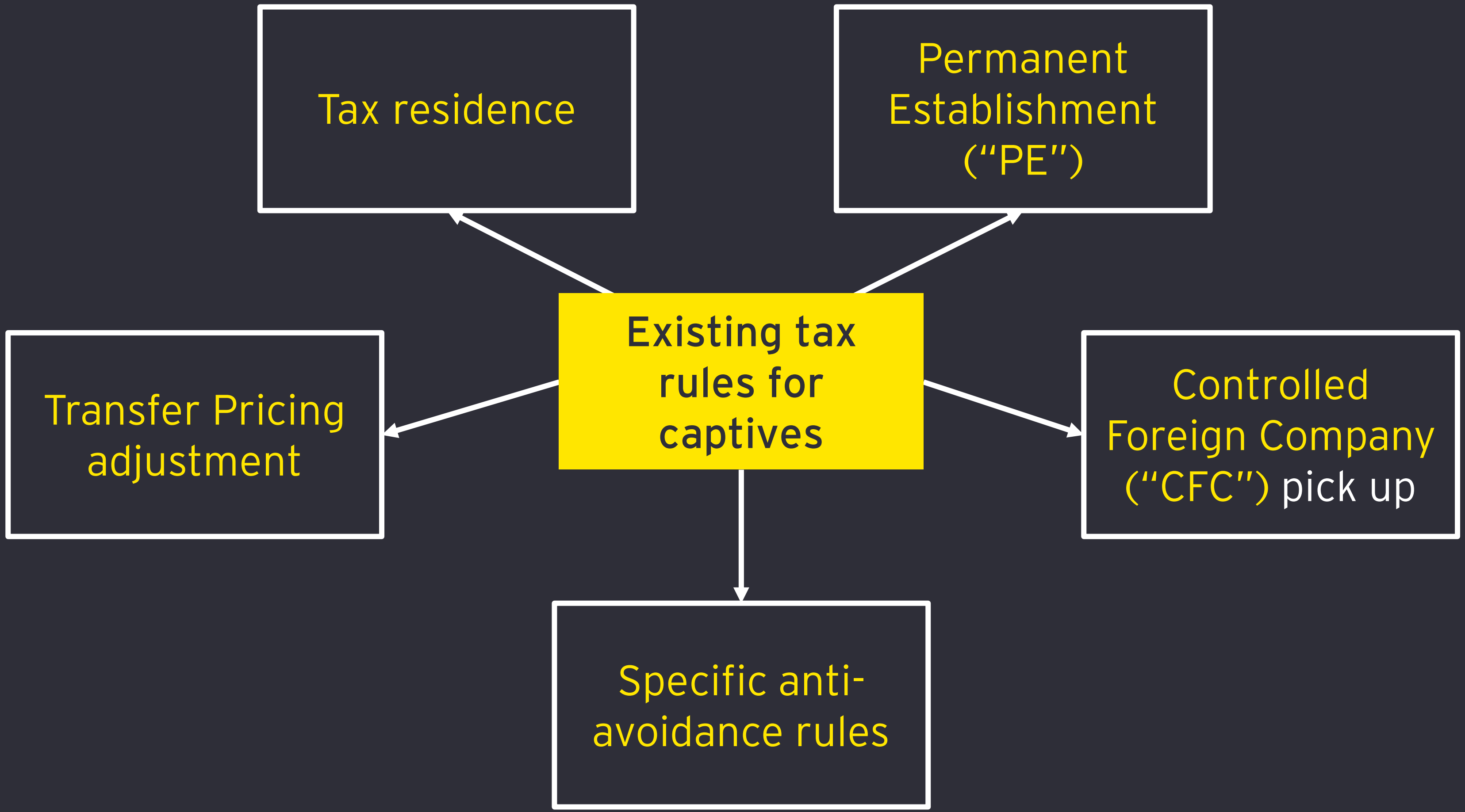
Singapore

- Insurance Business Development Captive Insurance ("IBD CI") scheme expires on 31 December 2025
- 10% concessionary tax rate on qualifying income, i.e. direct insurance & reinsurance & onshore and offshore risks
- Substantive requirements:-
  - 2 professionals with diploma / equivalent engaged substantially in the qualifying activity

Hong Kong

- 50% reduction in the corporate income tax rate (i.e. effectively 8.25%) on onshore and offshore risks from YA 2018/2019 onwards indefinitely
- Substantive requirements yet to be released
- Upcoming proposed legislative amendments pertaining offshore claims on passive income, targeting companies with no substantial economic activity

Captive Insurance and BEPS 2.0 (cont'd)



Outlook of Captive Insurance

BEPS 2.0 Requirements

1) Substantive requirements

2) Arm's length principle

Appropriate amount global taxes paid by an MNE and its captive

If otherwise (i.e. BEPS 2.0 requirements aren't met)

Recalculate related party transactions $ to comply with GloBe rules

Adjustment of tax deduction (i.e. non-deductible premium payment*)

Double taxation risks

Potential tax controversy / TP audit

* To be allocated among the entities benefiting from the coverage, ensuring the right amount of tax will be paid by each entity insured.

Thank you

EY | Assurance | Tax | Strategy and Transactions | Consulting

THE ASIAN CAPTIVE CONFERENCE 2022

EMBRACING CHANGE AND ACCELERATING GROWTH:

THE WAY FORWARD FOR SELF-INSURANCE

18 AUGUST 2022

SIME DARBY CONVENTION CENTRE, MALAYSIA

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