PARK LANE
You Plan, We Facilitate

Labuan IBFC
International Business and Financial Centre, Malaysia

JOINT WEBINAR

QUICK COVER!

Turnkey Self-Insurance Solutions via Cell Captives

Thursday, 29 July 2021 | 4.00PM (GMT +8)

Media Partners

Asia Insurance Review
Member: Beacon International Group, Ltd.

Middle East Insurance Review
Member: Beacon International Group, Ltd.

QUICK COVER!
Turnkey Self-Insurance Solutions via Cell Captives

The Asian & MENA Risk Landscape and Outlook

Woon Khai Jhek
Senior Economist
RAM Rating Services Berhad

Private & Confidential

RAM RATINGS

The Asian and MENA Risk Landscape and Outlook

Woon Khai Jhek, Co-Head, Economic Research & Senior Economist

29 July 2021

Contents

Global economic recovery looking increasingly rosy with growth projection upgrades

World GDP Growth Projection

IMF	2021f	2022f
	6.0% (+0.0ppt)	**4.9%** (+0.5ppt)

The World Bank (IBRD • IDA)	2021	2022
	5.6% (+1.5ppt)	**4.2%** (+0.5ppt)

Note: figure in bracket denotes difference from last projection update

World Economic Outlook Update Report (July 2021):

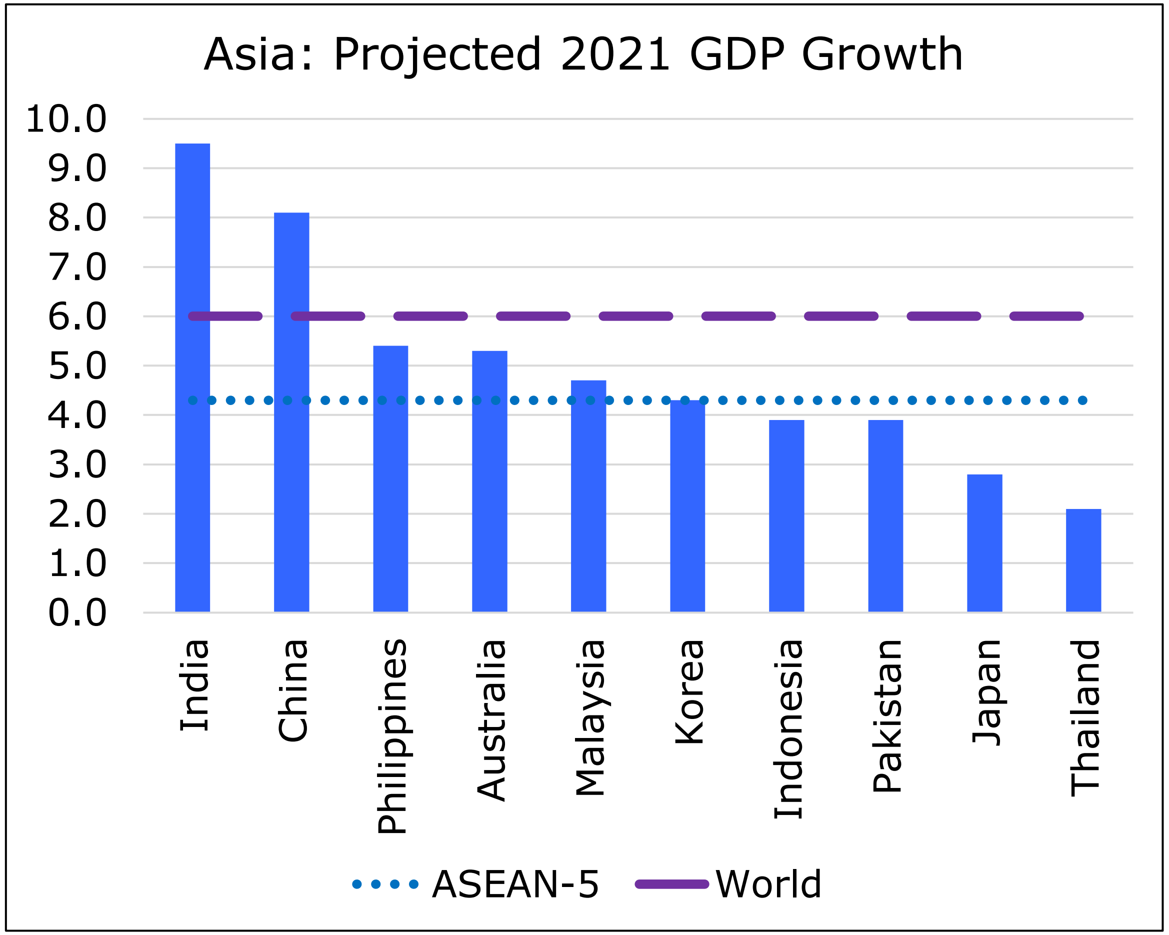
Fault Lines Widen in the Global Recovery

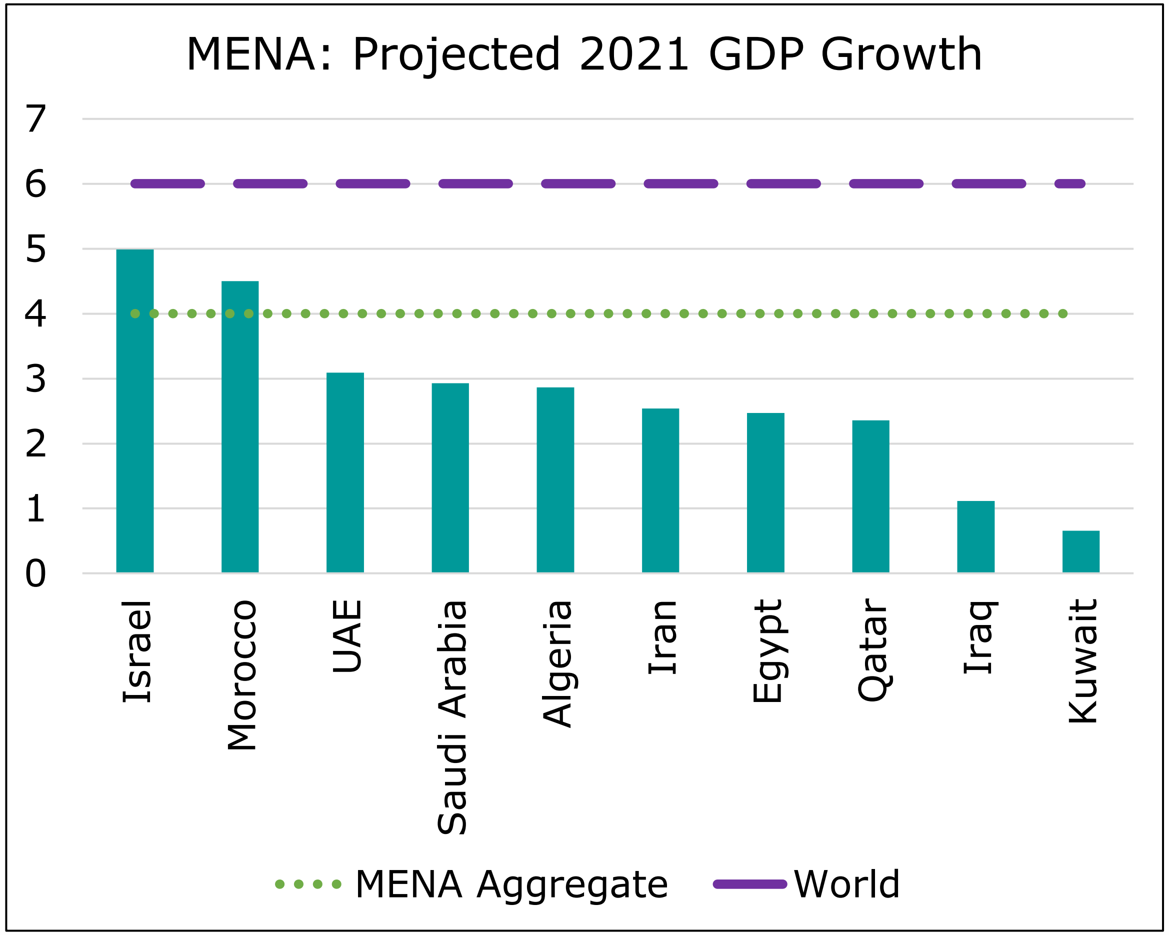
Global Economic Prospects Report (June 2021):

A Strong but Uneven Recovery

***Sources**: IMF and World Bank*

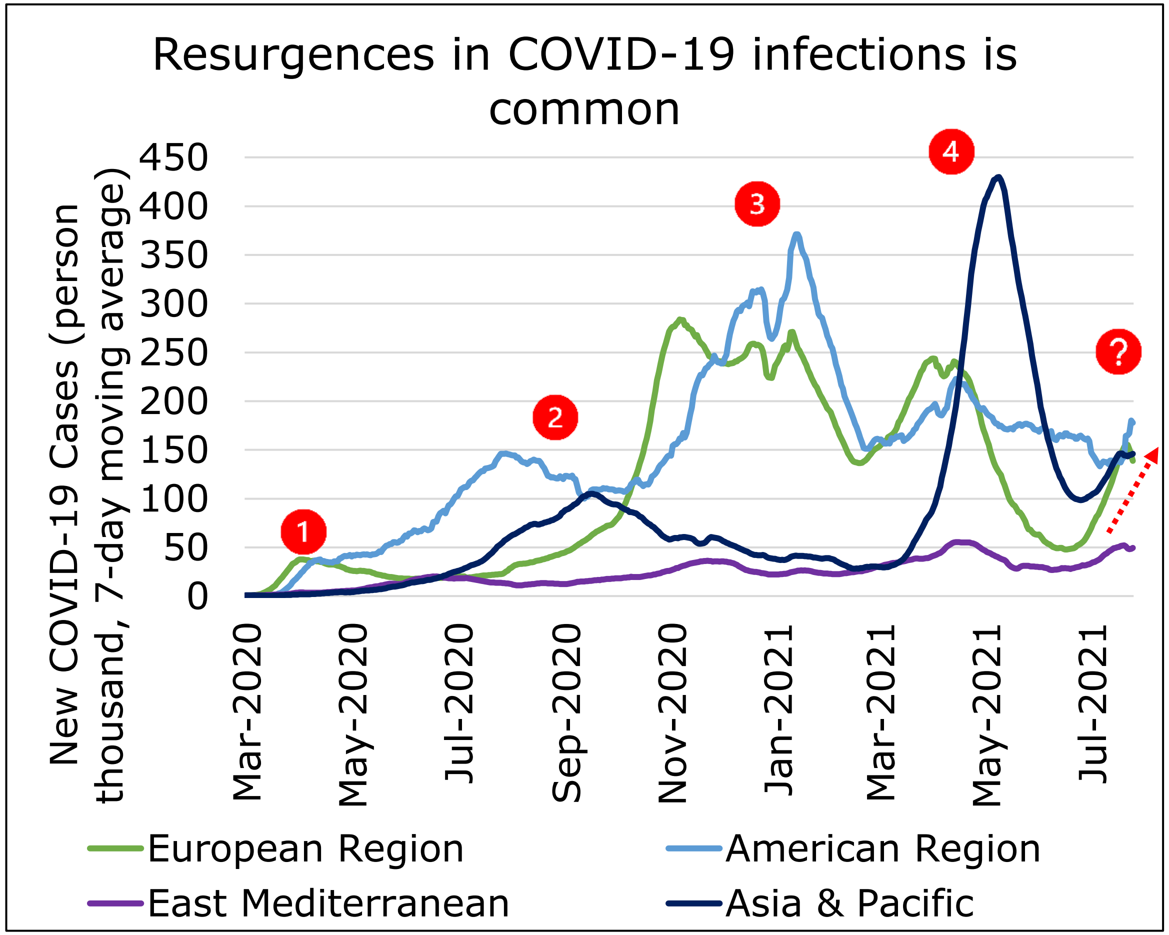
Growth of Asia and MENA region projected to rebound…

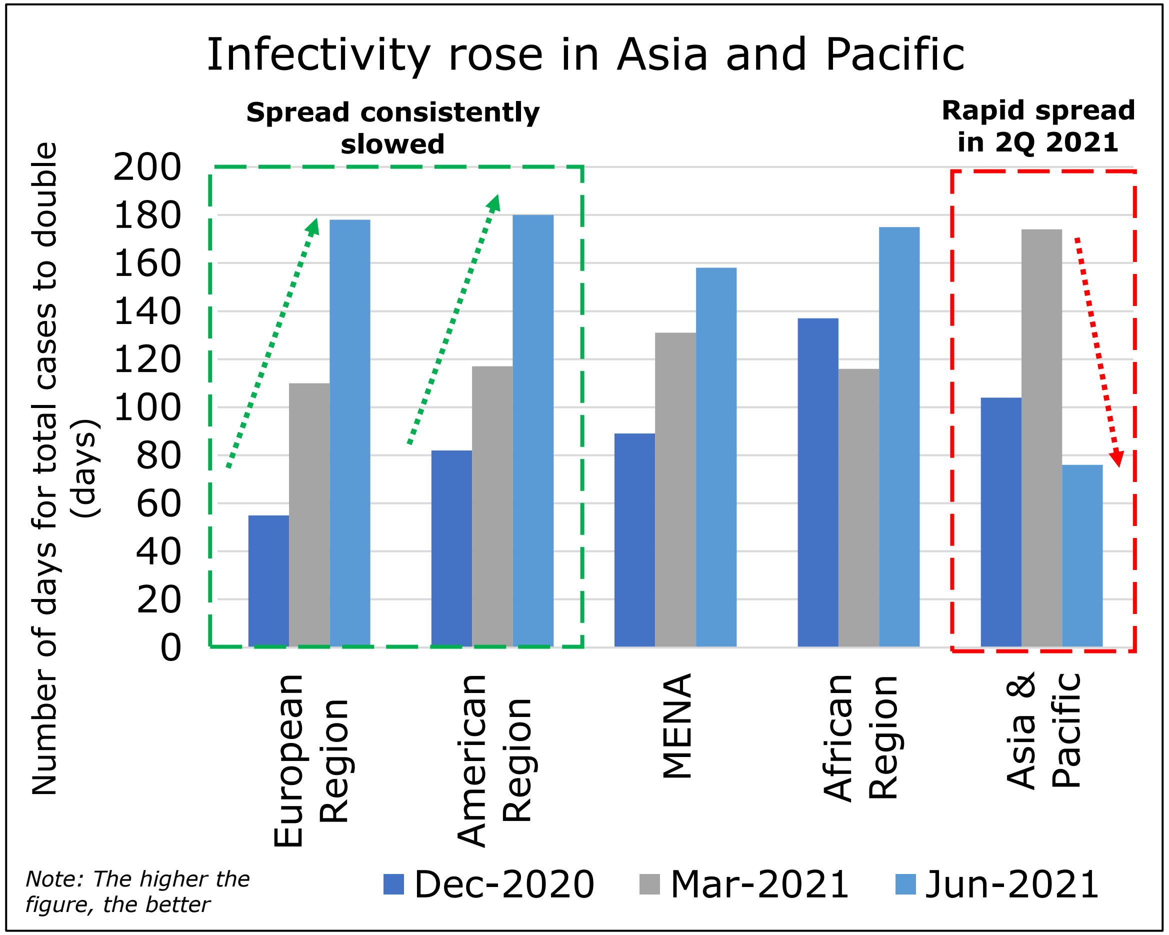




***Source**: IMF July 2021 WEO Update, IMF April 2021 WEO*

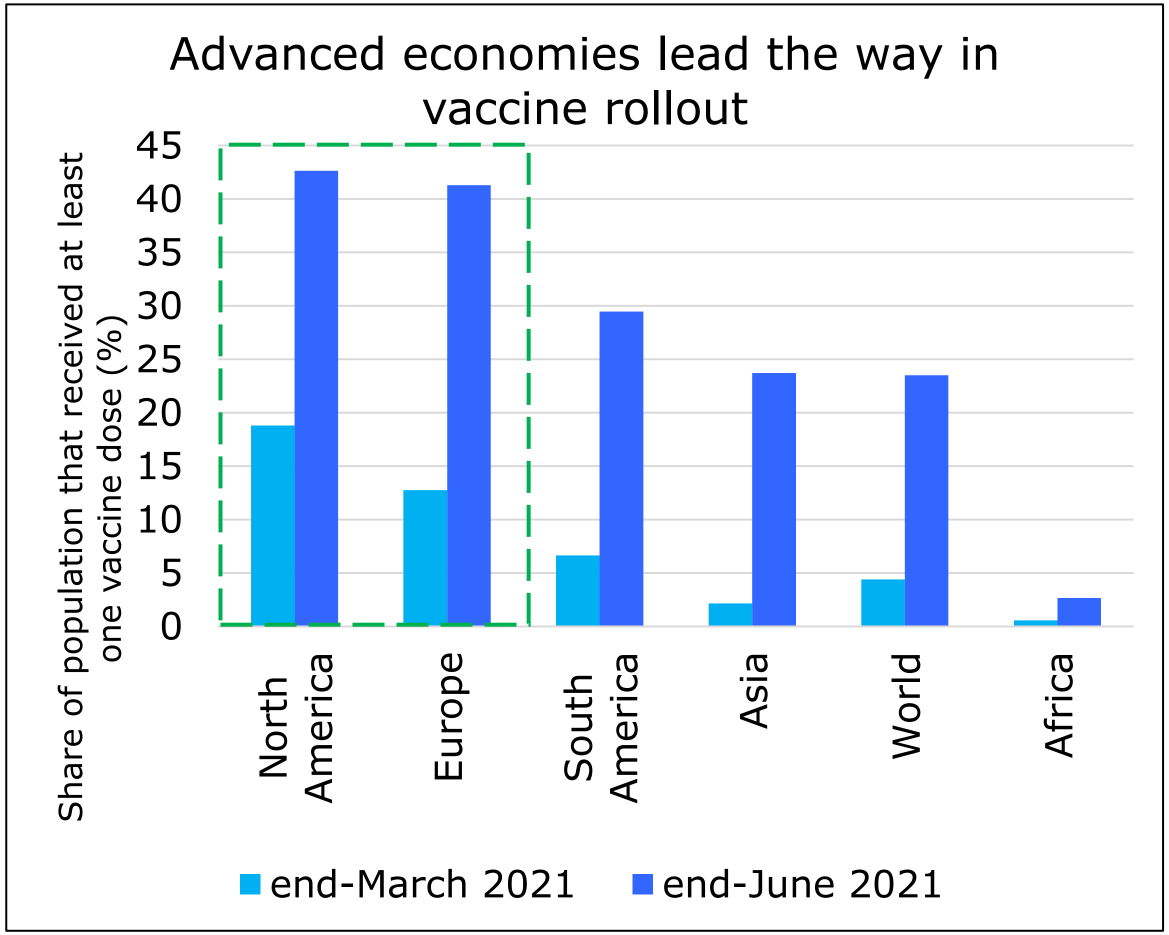
…but downside risk to growth still fairly elevated

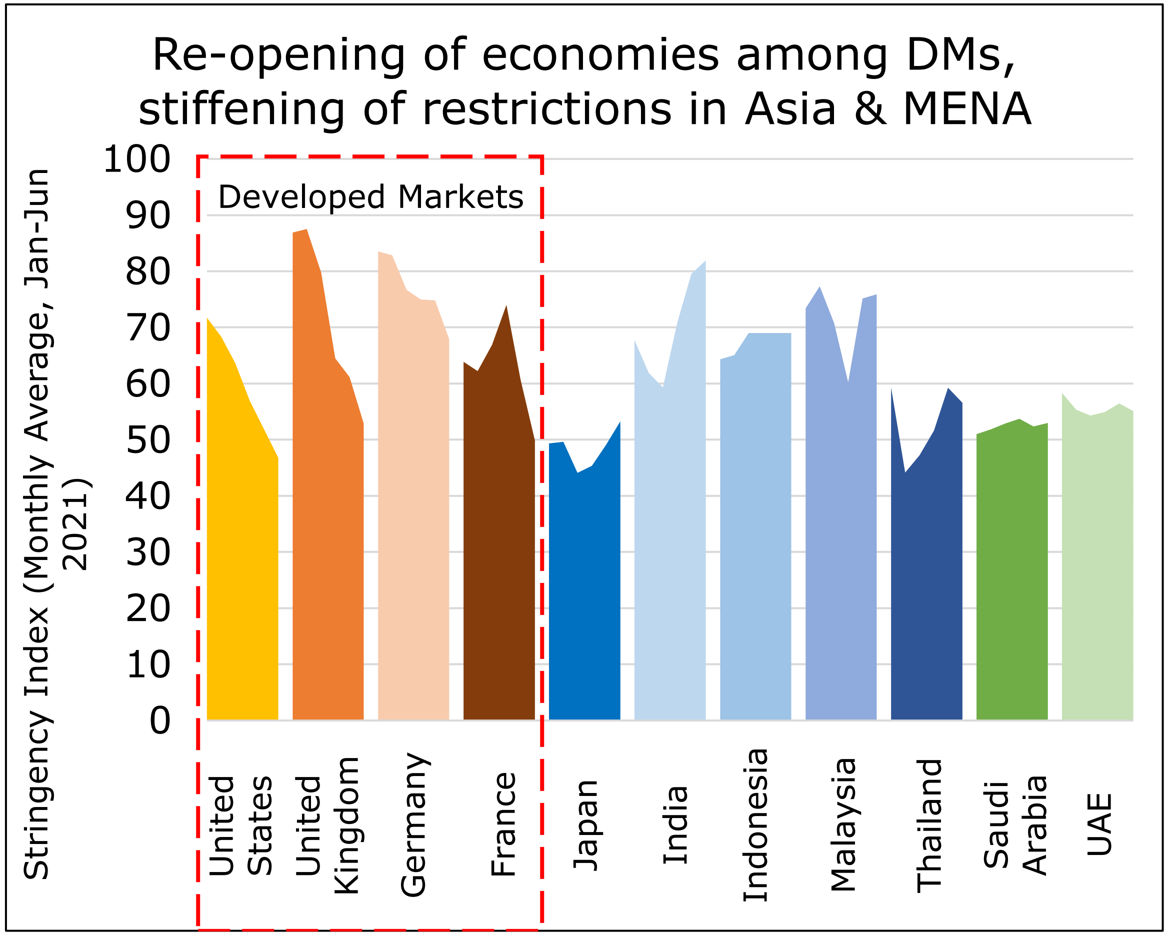




Sources: *World Health Organization and RAM*

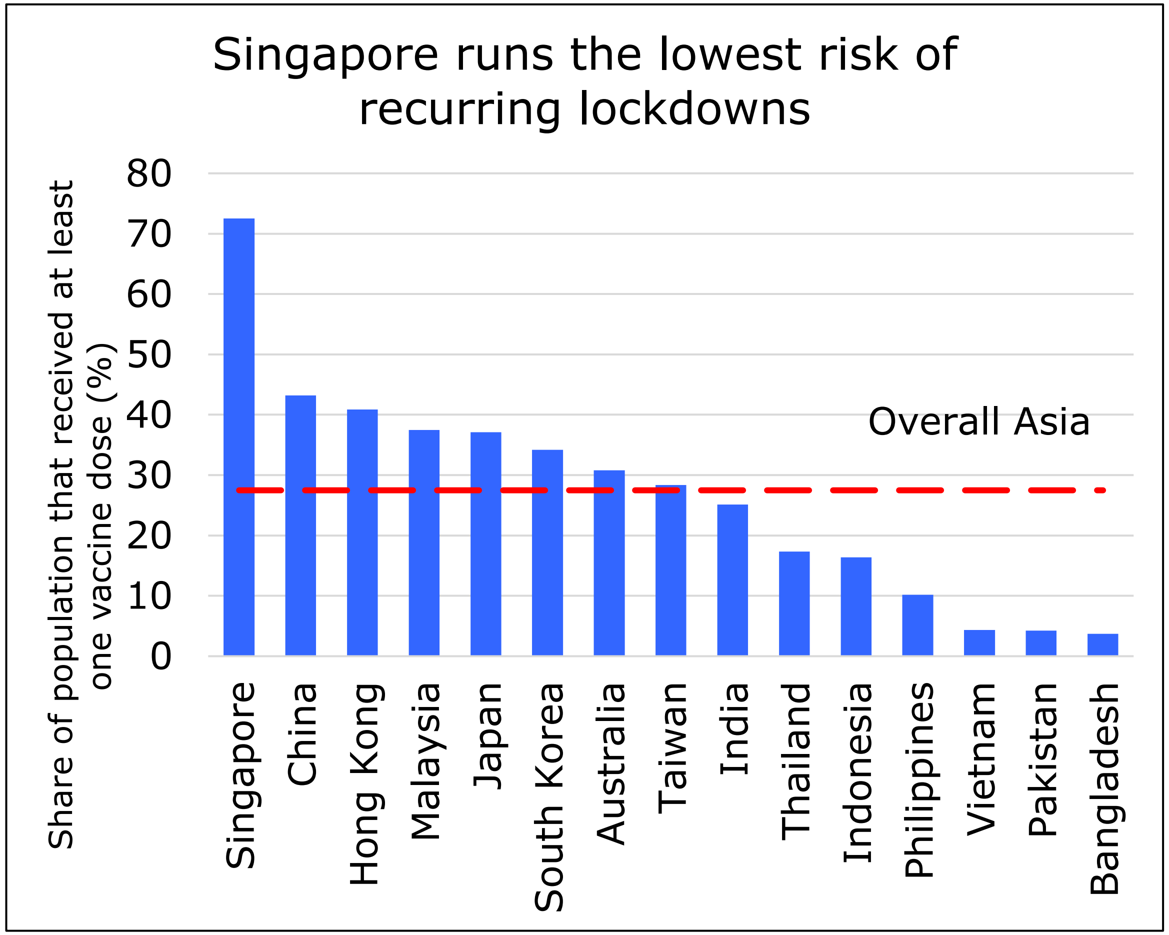
Vaccination rate in Asia and MENA still lags behind advanced economies

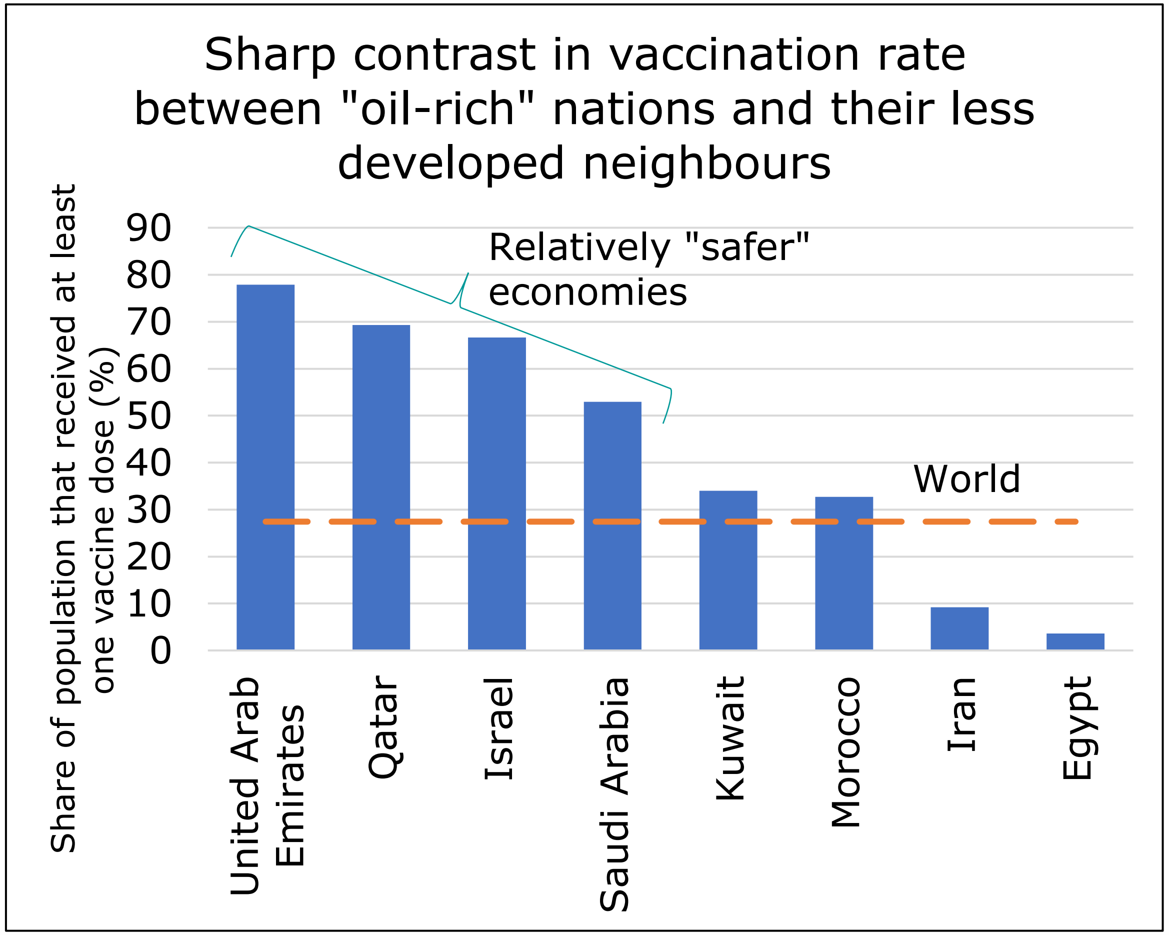




***Sources**: Our World in Data, Blavatnik School of Government, University of Oxford, RAM*

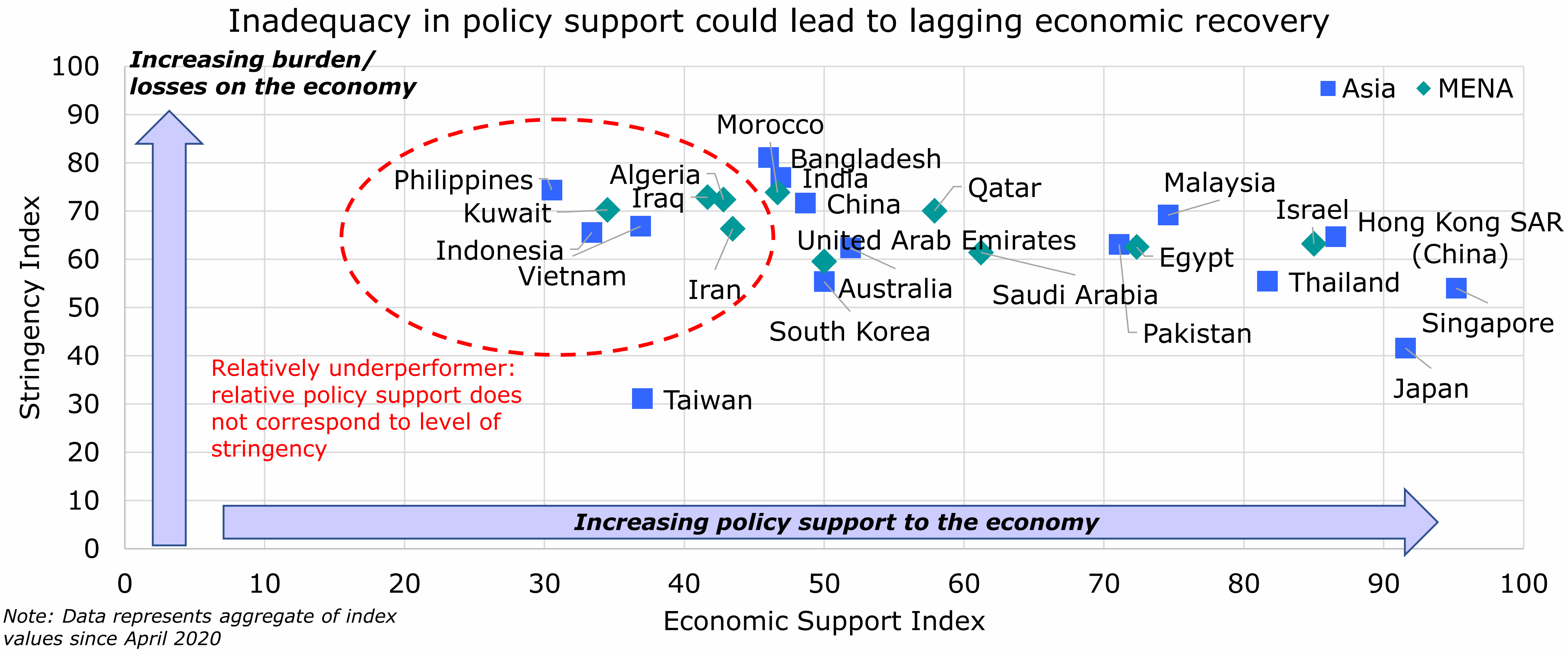
Unevenness within the same region as well: "Winners and Losers"





Sources: *Our World in Data and RAM*

Potential "economic scarring" might risk leaving some countries behind

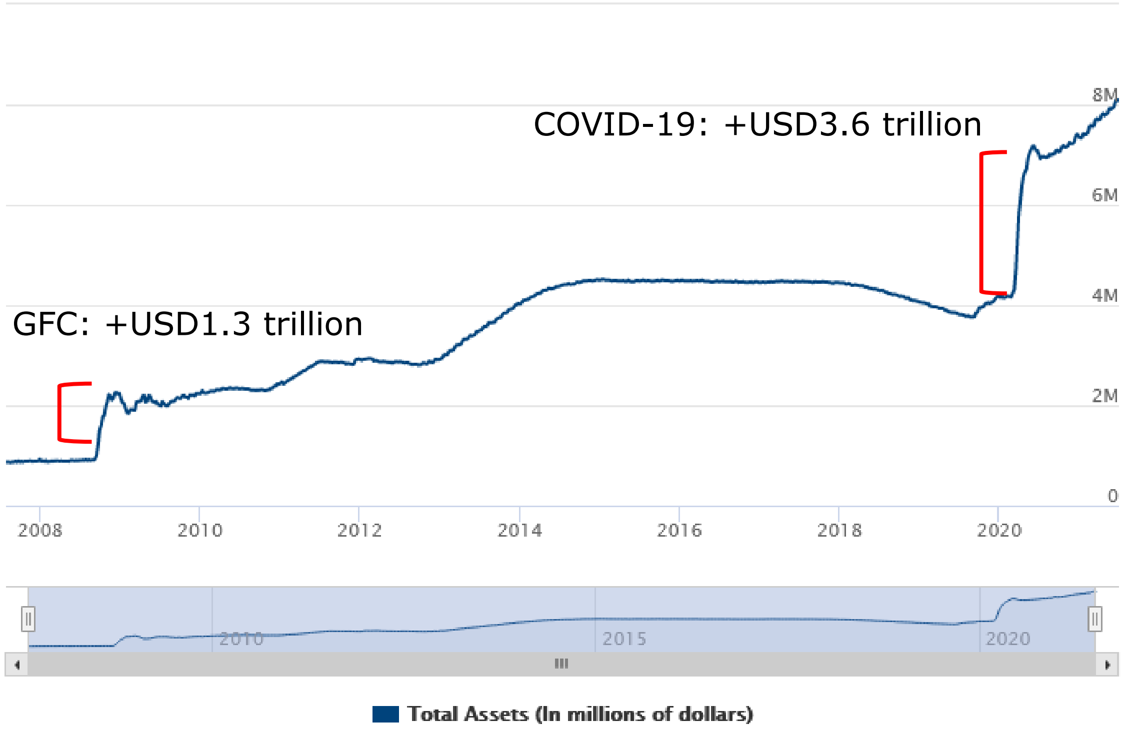


Note: Data represents aggregate of index values since April 2020

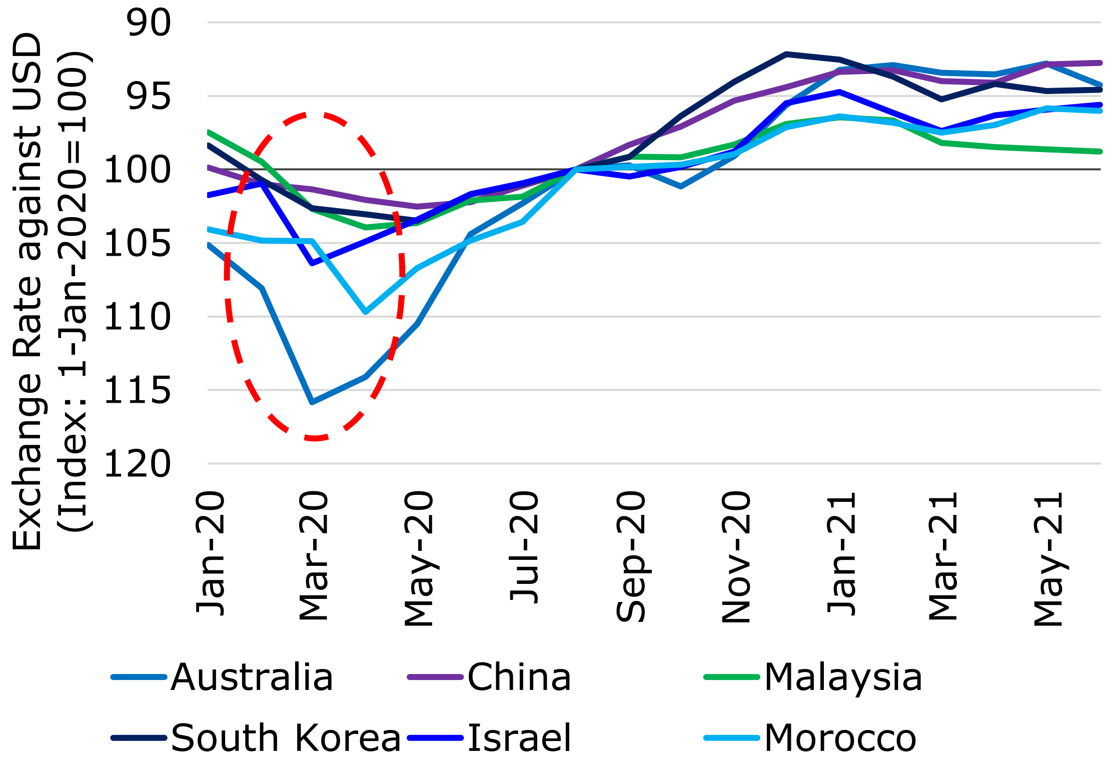
***Sources**: Blavatnik School of Government, University of Oxford and RAM*

Unwinding of QE – Will it trigger another round of financial market volatility?

US Fed's immediate injection of liquidity amid the pandemic is almost 3 times larger compared to GFC



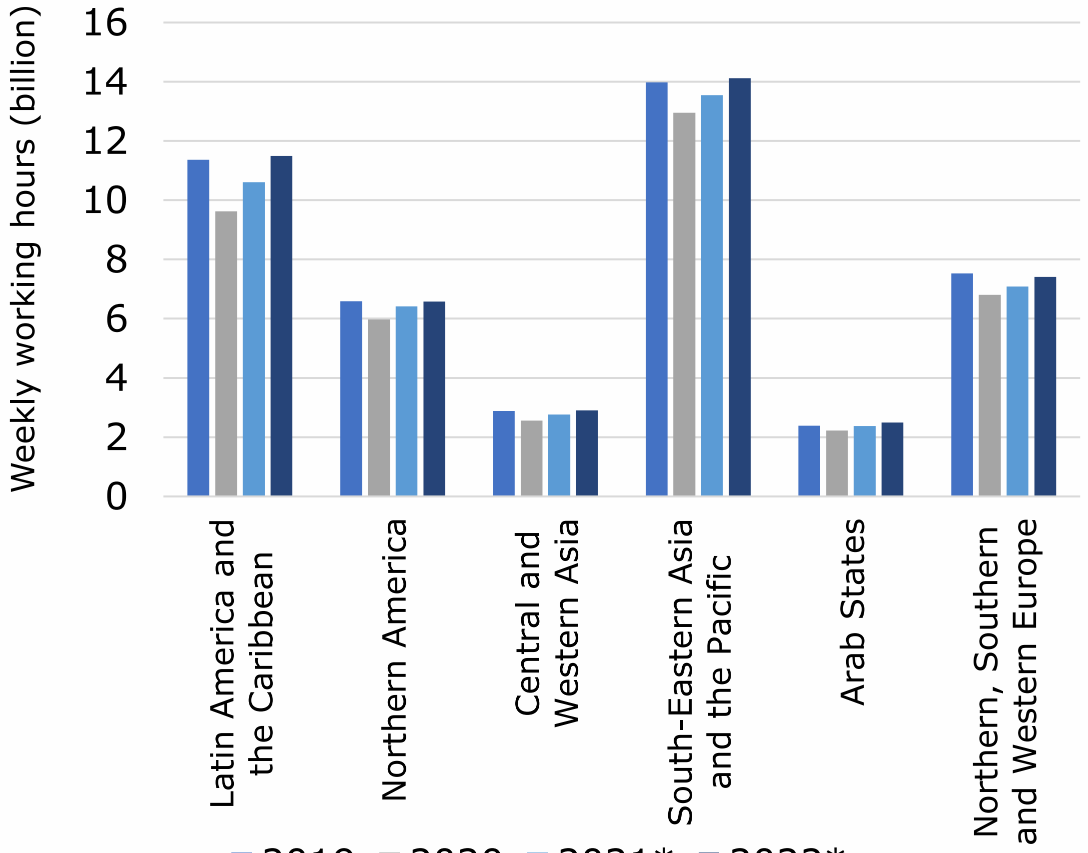
Capital inflows supported exchange rate in Asia and MENA



Sources: *US Federal Reserve, CEIC Data and RAM*

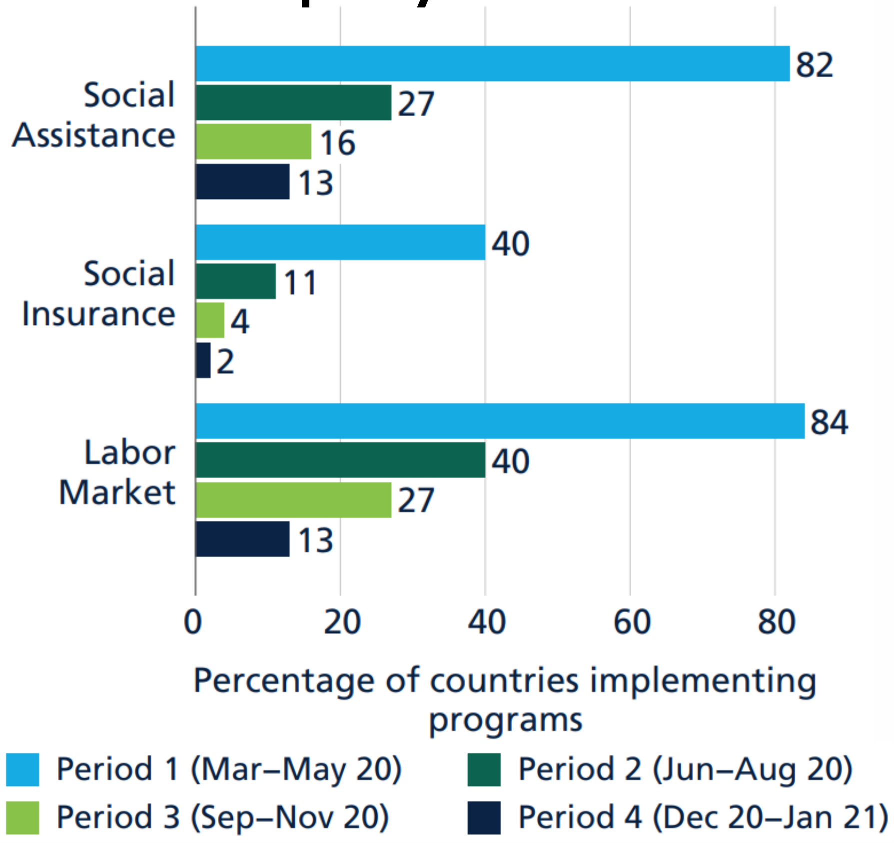
Employment conditions remain under pressure

Hours worked not expected to pick up much momentum



**ILO forecasts*

Labour market remains key focus area for new policy measures

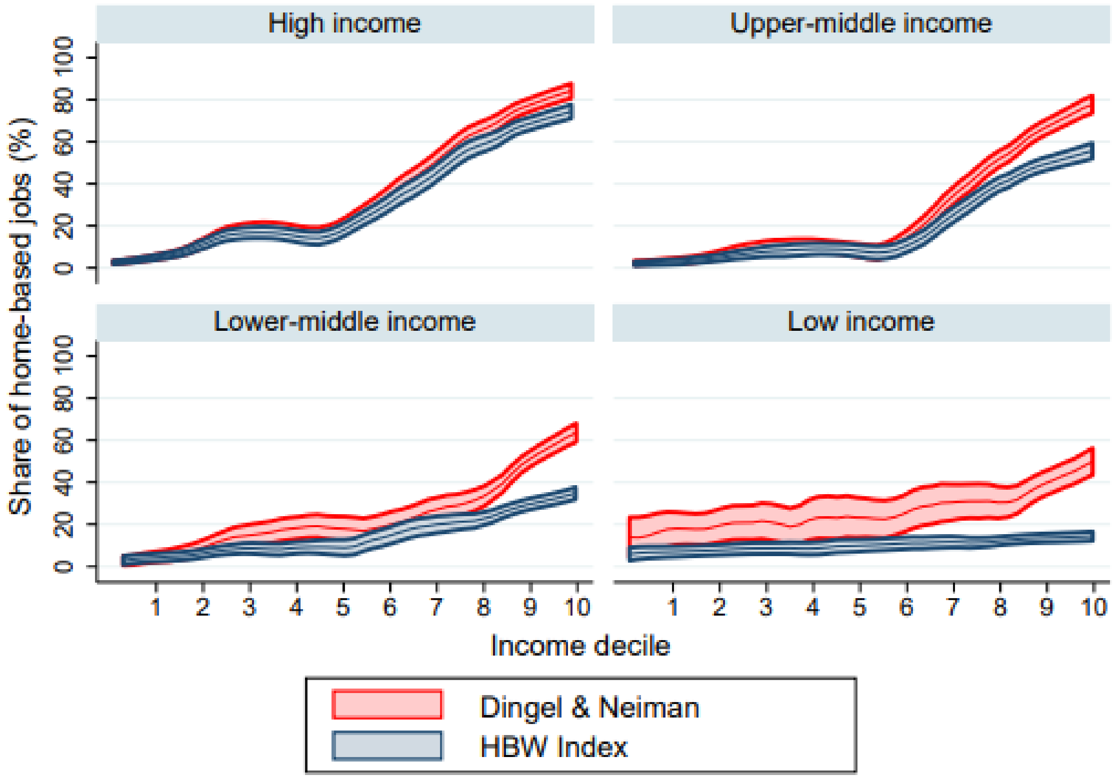


Note: Based on 55 countries

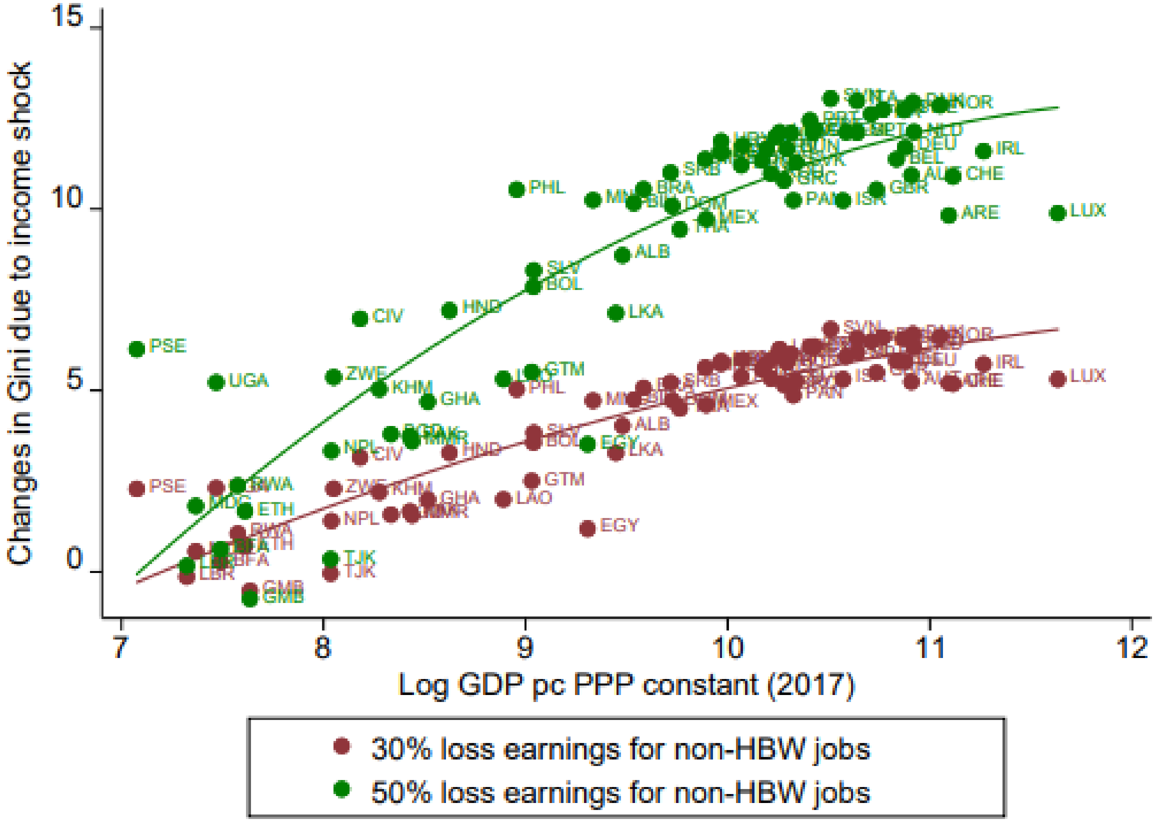
***Sources**: International Labour Organisation, World Bank*

Pandemic will likely widen income gap, notably in developed countries

Home Based Work by income decile and country groups

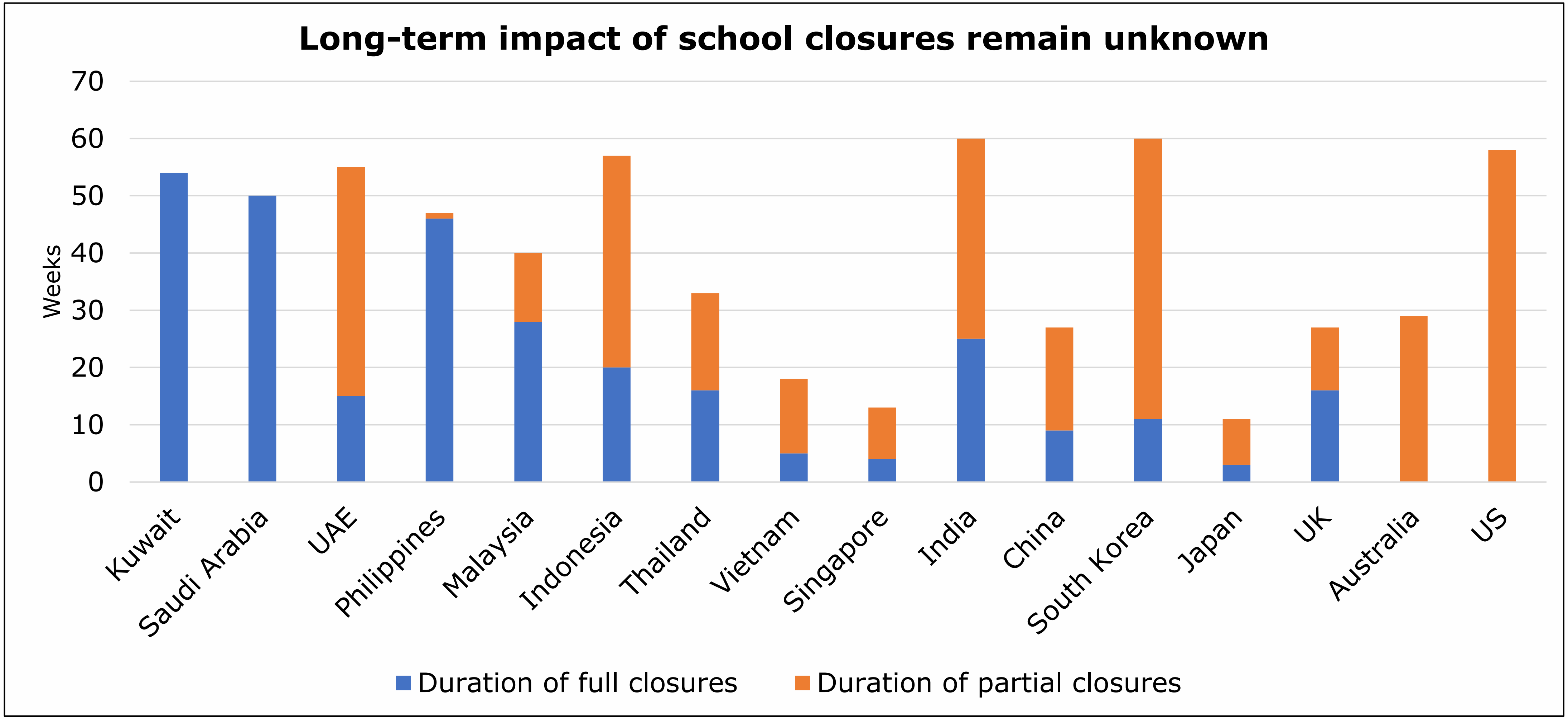


Simulated impact of COVID-19 on income inequality



Source: World Bank

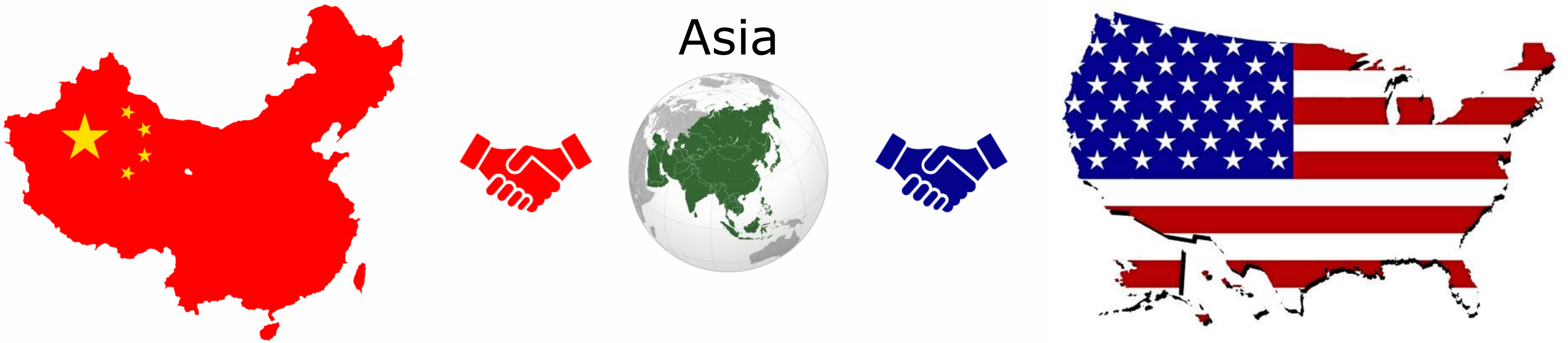
Education disrupted, also moving online



Note: Duration from Mar 2020 to Jun 2021

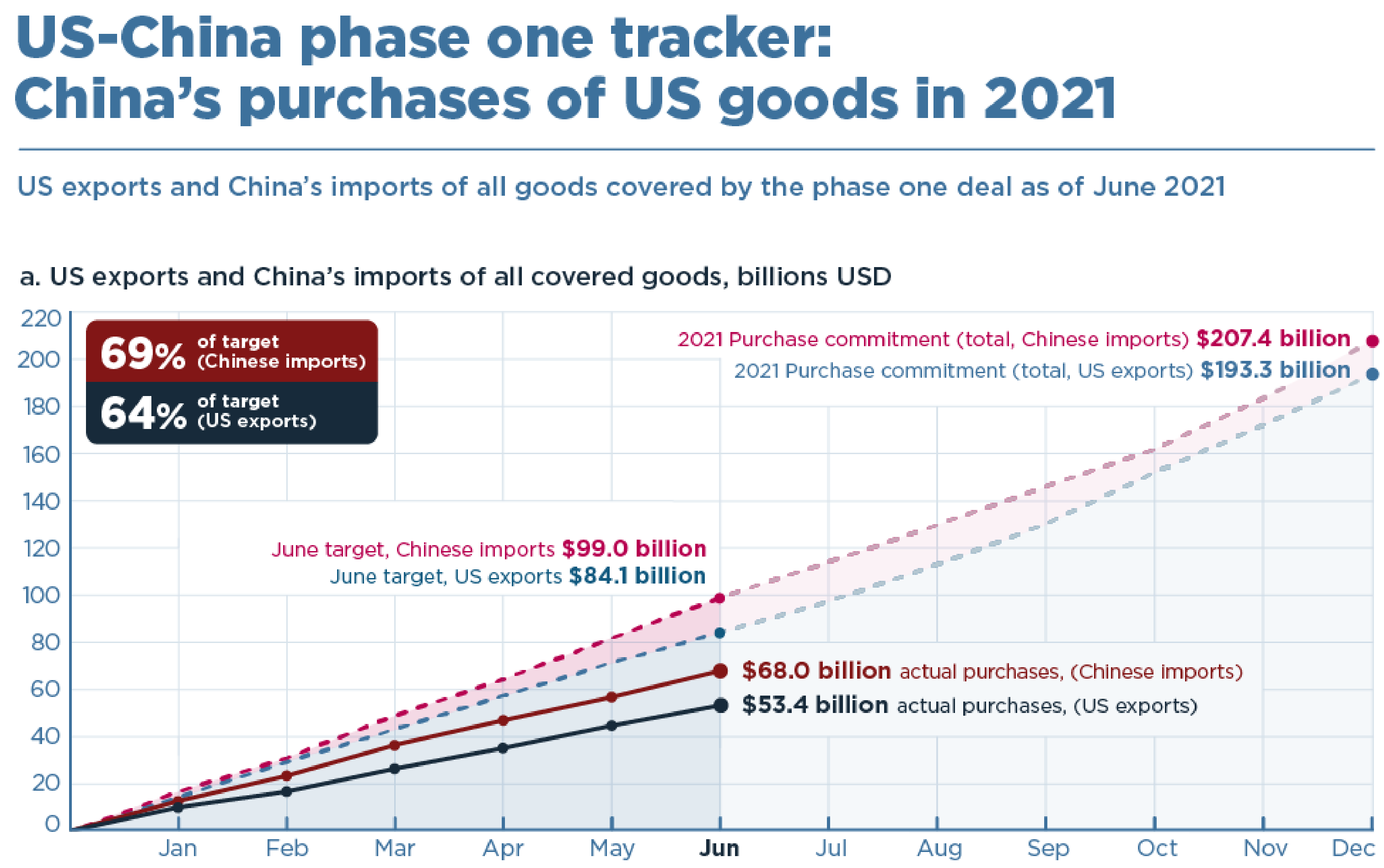
Source: *United Nations Educational, Scientific and Cultural Organization*

Geopolitical Risk – US-China relations again in the spotlight



- Both countries competing in supremacy in:
  - Global trade – the Asian supply chain
  - Technology – specifically in 5G and semiconductor production
  - Exerting "soft-power" – notably with China's vaccine diplomacy

China has not met its agreement to expand purchases of US exports signed in early-2020



***Source**: Chad P. Bown – Peterson Institute for International Economics*

- Would this trigger a revival of the US-China trade tit-for-tat?
- Chances are low under the leadership of President Biden.
- Nonetheless, US remains "tough" on its relations with China

Key Takeaways

- Global economy to **recover** in 2021.
- Recovery across regions and within the region to remain **uneven**.
- **Resurgence in COVID-19** infection remains key downside risk.
- Unwinding of COVID-19 stimulus measures could **potentially** introduce **financial market volatility**.
- **Socio-economic disparity** exposed and aggravated due to the pandemic might pose downside risk **over the longer-term**
- **US-China relations** might come to the forefront again once COVID-19 dissipates

THANK YOU

For more information on the above presentation, please contact

Woon Khai Jhek, CFA
Co-Head & Senior Economist
Economic Research
(603) 3385 2512
khaijhek@ram.com.my

RAM Rating Services Berhad
Level 8, Mercu 2, KL Eco City,
No.3, Jalan Bangsar, 59200,
Kuala Lumpur, Malaysia
T: (603) 3385 2488
F: (603) 3385 2582
W: www.ram.com.my

QUICK COVER!
Turnkey Self-Insurance Solutions via Cell Captives

Turnkey Self-Insurance Solutions via Cell Captives

Annie Undikai
Founder and Director
Park Lane PCC Limited

Turnkey Self-Insurance Solutions via Cell Captives

Presented by Park Lane PCC Limited
July 2021

Contents

What is a Captive?

A captive insurance company is effectively an in-house insurance provider formed primarily to insure its owner and affiliated companies and can be viewed as a form of formalized self-insurance.

The Labuan Financial Services & Securities Act 2010 (LFSSA) defines the Labuan Captive insurance business as:-

“where the insured is a related corporation or associate corporation of the Labuan insurer or where the insured is any other persons in respect of whom the Labuan insurer is authorized by Authority to provide insurance or reinsurance”

Captive can transact general insurance or life insurance whether as direct business or as reinsurance accepted business.

Captive cannot transact Malaysian domestic business except as reinsurance and Malaysian permitted risks such as risk relating to international MAT, liability deriving from such risk and risk relating to goods in international transit, subject to approval from Bank Negara Malaysia

Under the insurance guidelines issued by Authority, a Labuan Captive may underwrite a limited amount of third party risk provided it is approved by Authority.

Captive Structures in the Labuan IBFC

The captive in Labuan IBFC is governed by **Part vii** of Labuan Financial Services & Securities Act 2010 (LFSSA), which was specially drafted in a manner designed to provide a simple and helpful operating environment.

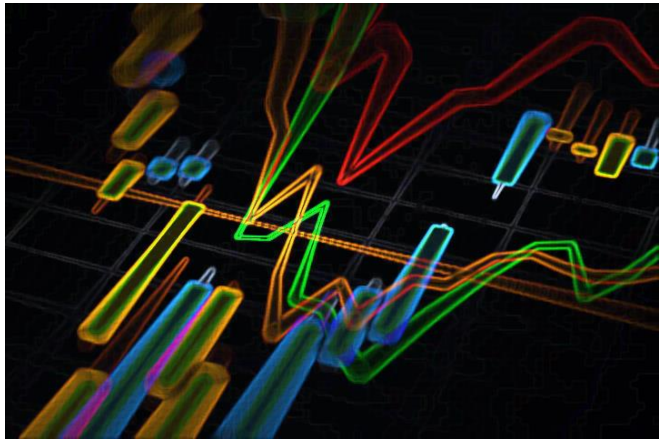
The LFSSA provides for the establishment of the following:-

- Pure/Single Captive
- Group Captive/Association Captive
- Rent-a-Captive
- Protected Cell Captive / Master Rent-a-Captive
- Multi-Owner Captive

The PCC was introduced in the Labuan IBFC in 2010. The jurisdiction is the first to do so in the Asian region and is aiming to evolve to become the PCC Centre for Asia.

Heightened Interest in Captive Insurance

According to Marsh's 'Global Insurance Market Index', in the last quarter 2020, global commercial insurance prices had jumped by 22% which was the largest premium hike since the index was launched in 2012. This was preceded by a year-on-year average increases of 20% in the third quarter and 19% in the second quarter of 2020. Reference: "https://www.marsh.com/us/insights/research/global-insurance-market-index".



Typically, in a "hard" insurance market, characterized by sustained and significant rate increases, reduced capacity, coverage restrictions, and increased reinsurance costs among others, companies tend to seek relief in alternative risk transfer. Thus, we had witnessed a heightened interest in companies looking at self-insurance (retaining more of their own risk) or by setting up a captive insurance company.

As at mid-2020, the Labuan captive business continued its growth momentum with premiums increasing by 14.2% to USD457.5 million, where 64.5% of its total premiums originated from international markets including Europe.

At the end of 2020, the Labuan IBFC had recorded 10 new captives comprising of three pure captives, two master-rent-a-captive and five protected cell captives, which represented a growth of more than 300% in terms of numbers compared to the whole of 2019. This growth momentum continued to the new year and by mid-2021, the jurisdiction recorded an additional five new subsidiary-rent-a-captives.

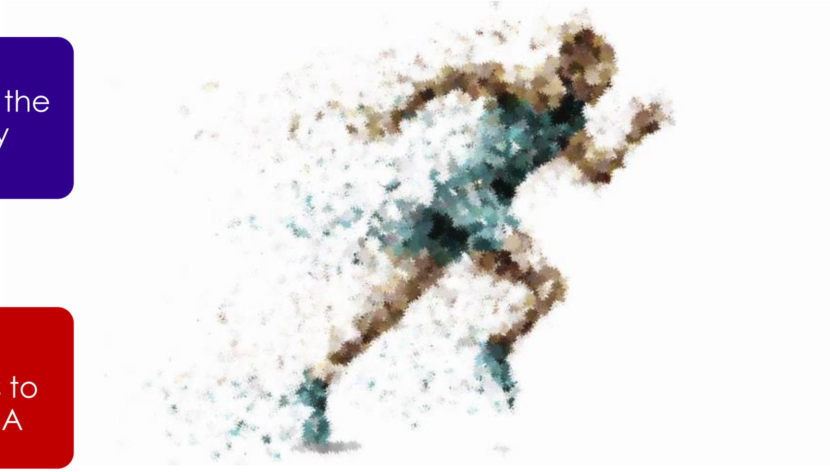
Establishing A PCC And Cell in the Labuan IBFC

ACTION PLANS

#PCC

Select Service Provider - Brighton → Submit Application for Licence to Labuan FSA → Approval in Principal from Labuan FSA → Incorporate the company → Submit documents to Labuan FSA → Captive Licence issued by Labuan FSA → Commence Operation

Approximately 30 days



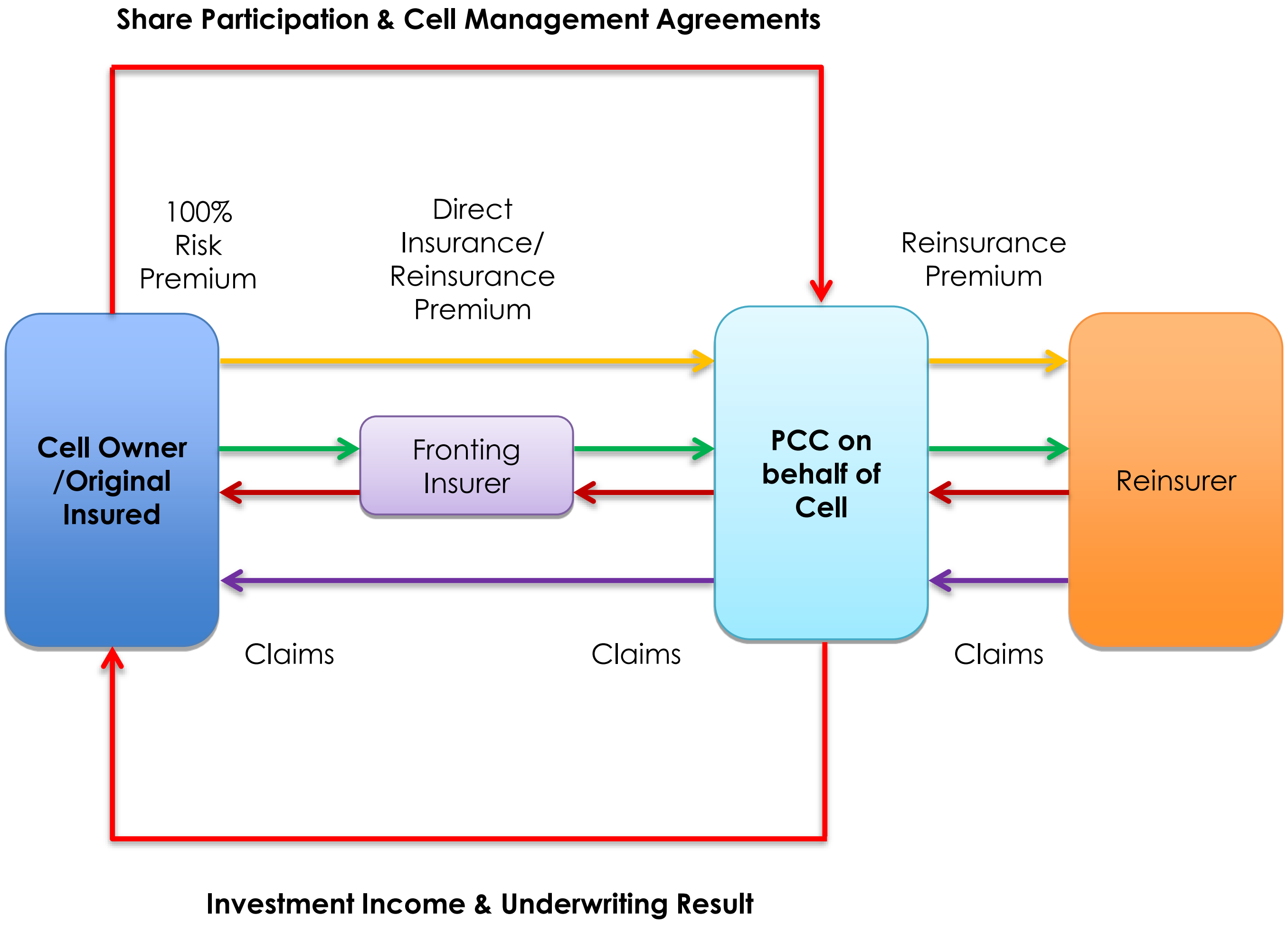
#Cell

Discuss Cell Formation with Core → Execute Agreement & Resolution → Creation of Cell → Annual Fee Payment & Capitalise Cell → Cell Commence Operation → Notify Labuan FSA

Update July 2021:

Approval from Labuan FSA is no more required for the creation of cell in a PCC structure. Only require to notify Labuan FSA within 14 days.

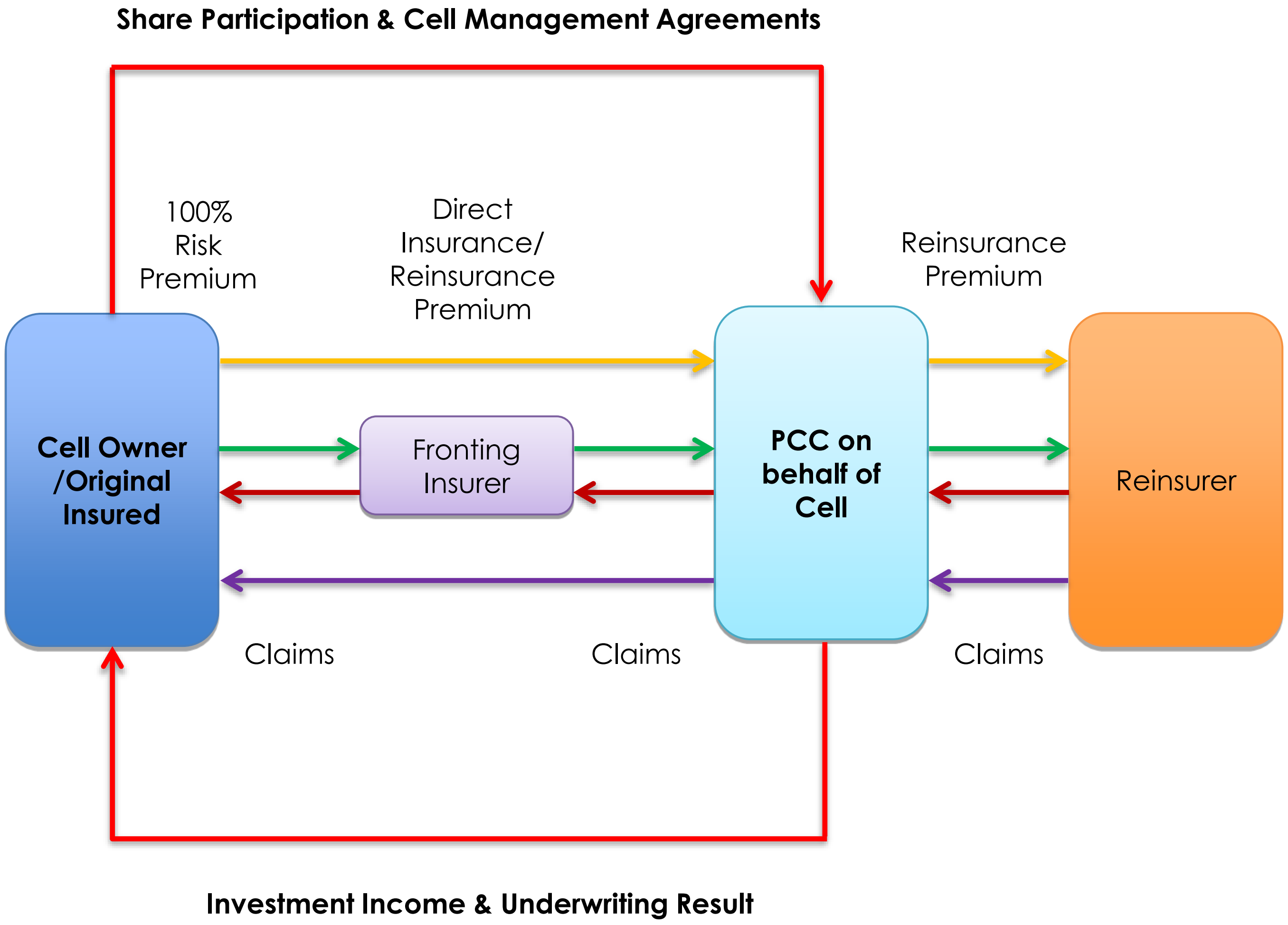
Typical Structure Of A Protected Cell Company



*The **Share Participation & Cell Management Agreement** may cover the following matters:*

- *Calculation of the protected cell's experience account;*
- *Calculation of cell shareholder fund and right to dividends;*
- *Investment management of cell's funds;*
- *Maintenance of solvency margins;*
- *Financial reporting to the regulator.*

How a Cell Captive Can Be a Profit Centre



Cell Captive

Income

- Commission
- Earned Premium
- Investment Income

Expenses

- Mgmt Expenses (ME)
- Reinsurance Premium
- Expected Losses

Profit

Case View #1 Cells Representing Different Business Segments

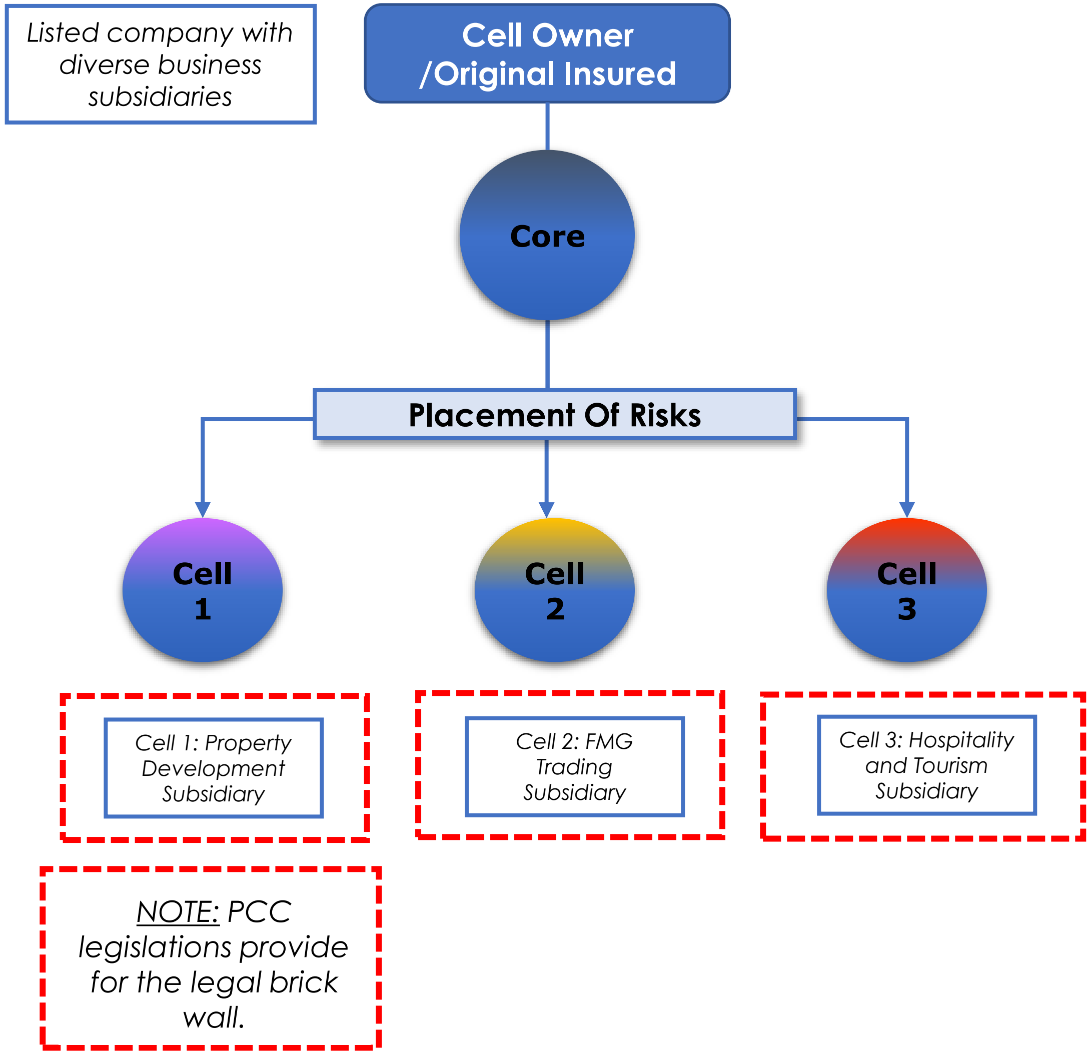
1. A listed company that has many business interests with different subsidiaries may adopt PCC and cell captives for its insurance risk solutions.

2. The intention is to ring fence each subsidiaries' insurance risks instead of co-mingling in a pure captive as their businesses are quite distinct from each other.

3. In this case, the Core may not underwrite any risks. The cells will underwrite the insurance / reinsurance businesses that the PCC is authorized to underwrite.

4. The Core maintains and controls all the activities of the PCC including the minimum capital requirement at all times for regulatory purposes.

5. An exit strategy for cells would be for the cells to convert to pure captives once a certain level of insurance premiums and economies of scale are achieved.



Case View #2 Cells Representing Different Localities

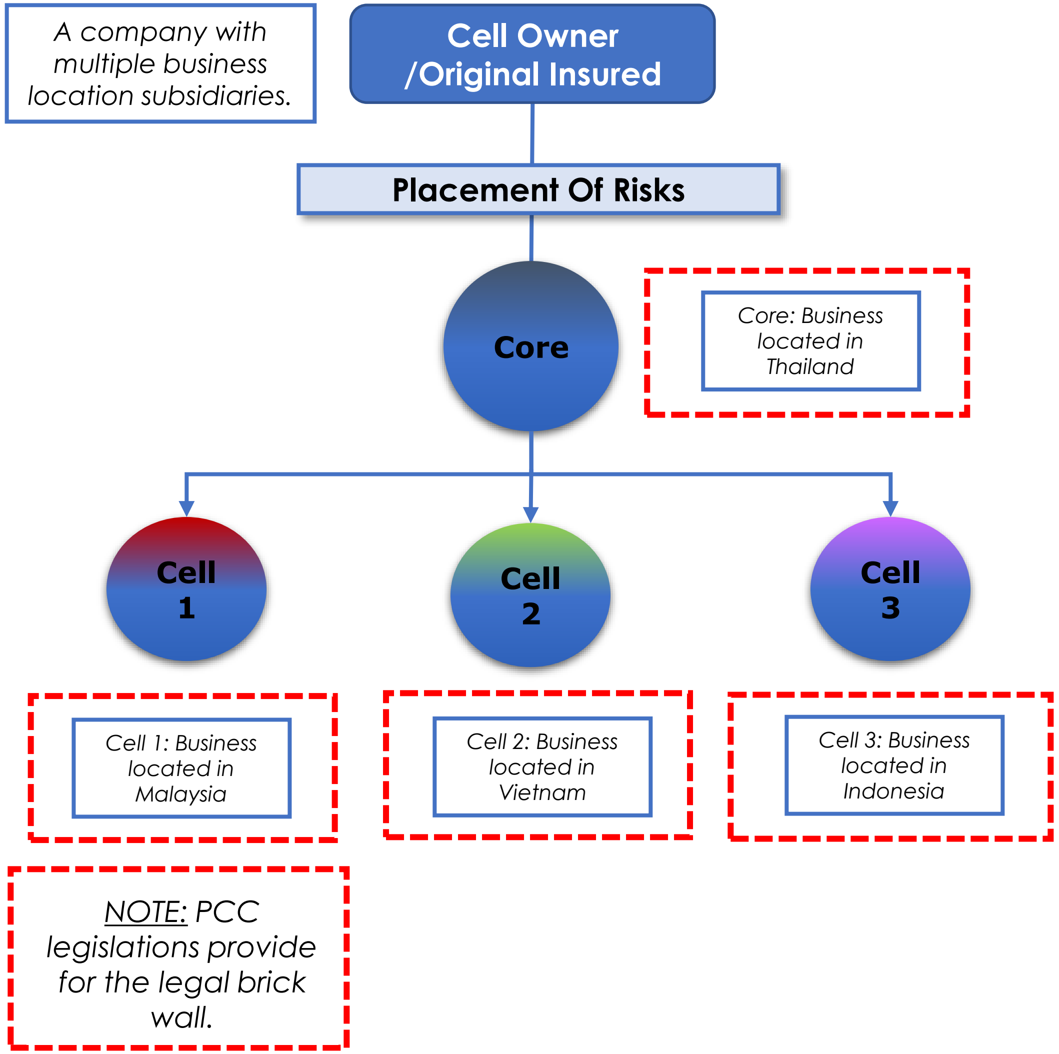
1. A local company that manufactures and distributes motorcycles in 4 different geographical markets.

2. The intention is to ring fence each business locations' insurance risks instead of co-mingling in a pure captive to address different geographical business risks peculiar to each location.

3. In this case, the Core will underwrite its own insurance / reinsurance business notwithstanding each cell will underwrite its own insurance / reinsurance businesses that the PCC is authorized to underwrite.

4. The Core maintains and controls all the activities of the PCC including the minimum capital requirement at all times for regulatory purposes.

5. An exit strategy for cells would be for the cells to convert to pure captives once a certain level of insurance premiums and economies of scale are achieved.



Case View #3 Cells Representing Different Business Owners

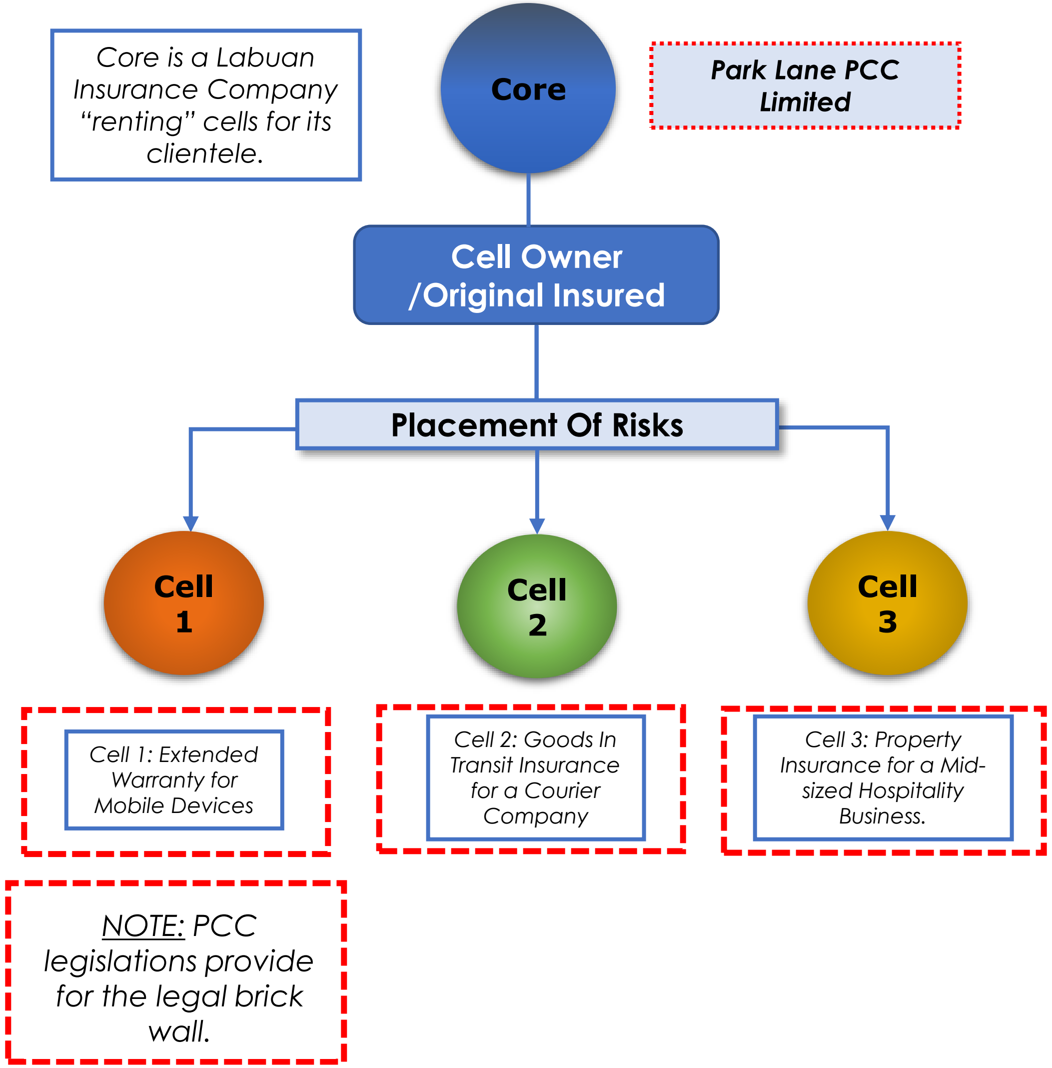
1. A Labuan Insurance Company establishes a PCC special purpose vehicle or commercial PCC to rent cell captives to its clientele.

2. The insured parties have the opportunity to self-insure through a captive without the need to establish one themselves but in lieu, by renting cell captives from a service provider.

3. In this case, the Core would not underwrite any risks. The cells will underwrite the insurance / reinsurance businesses that the PCC is authorized to underwrite.

4. The Core maintains and controls all the activities of the PCC including the minimum capital requirement at all times for regulatory purposes.

5. The cell captive benefits by insuring risks that would otherwise be uninsurable, establishing a captive when the premiums do not justify a pure captive and experimenting captive insurance solution guided by a professional service provider.



Park Lane PCC Limited

Park Lane PCC Limited (Park Lane) received approval from the Labuan Financial Services Authority (Labuan FSA) on 25 February 2020. Park Lane is licensed as a protected cell company, captive insurer, with a takaful window.

The cell under Park Lane may conduct the following businesses viz. a. viz. :-

- general insurance,
- life insurance,
- takaful, and
- family takaful.

A cell can transact either in general/takaful or life/family takaful. If the cell owner wishes to transact both general/takaful and life/family takaful then more cells are required, one for each business segment.

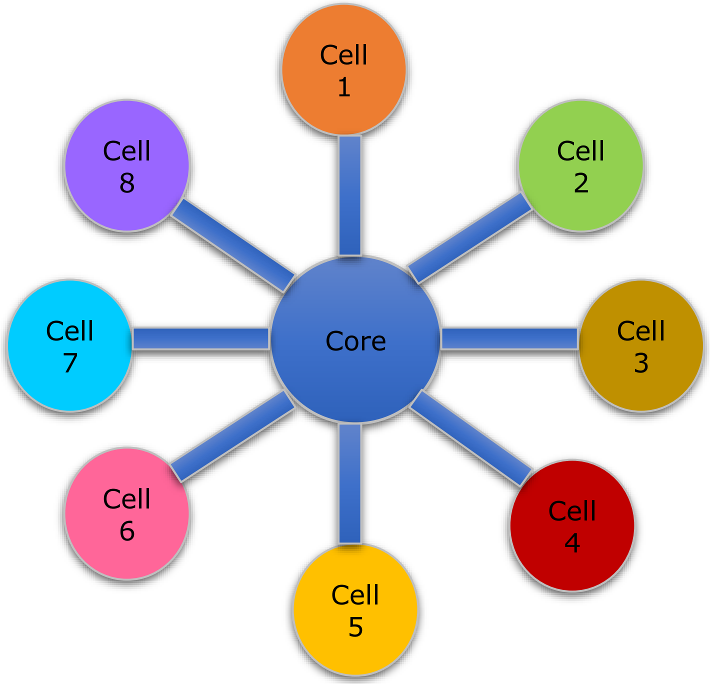
Park Lane is a 100% owned subsidiary of Brighton International Group Limited and is managed by Brighton Management Limited (Brighton). As at 30th June 2021, Brighton manages 93 insurance and insurance related companies including 23 captives. For the captives clientele, 4 are Protected Cell Company (PCC) including Park Lane.

Brighton has been shortlisted as Captive Manager of the Year category for the Asia Captive Review Awards for 2018 and 2019. Captive Review has recently announced the result and we are pleased that Brighton is shortlisted for 2021 Captive Manager of the Year category.

Benefits of Cells in Park Lane PCC Limited

*"The cell captive structure holds a number of benefits from the cell owner's perspective. It is an **entry route** into the insurance market that provides for **direct control** of the business and participation in the **economic benefits** of insurance, at **lower cost** and with **fewer compliance hurdles** than a full insurance license. The cell owner also has the **autonomy to tailor** the product offering to their vision and/or customer needs (as opposed to a pure distribution relationship), as well as the ability to **innovate** in a **nimble structure** that **sits outside** of the corporate culture and legacy systems of "traditional" corporate insurers."*

Reference: "Third-party cell captives as an enabler for transformation in the insurance sector"., Cenfri, July 2018.



In Labuan IBFC, the PCC is regulated by law under Part VIIIB of the Labuan Companies Act 1990 (LCA).

1	first entry	**Park Lane will facilitate and/or guide first entry into alternative risk transfer or self-insurance for the insured/captive owner for small ticket size premiums or uninsurable risks and with hand-holding, where required.**
2	faster & easy	**The creation of cell does not require a Labuan FSA's approval – mere notification within 14 days suffices. Notification to include material information like cell ownership, cell name, cell share capital, cell insurance/reinsurance program and the cell management agreement with Park Lane.**
3	lower cost	**The cell in Park Lane does not need to meet with substance requirement as this would be complied by Park Lane. Other costs not required are BOD meetings/travelling costs, LIIA fees, nil or lower compliance function costs and others as applicable which would be sponsored by Park Lane. Cell is also not required to have a specified minimum capital outlay.**
4	ensure	**Managed by Brighton, Park Lane has an exceptionally strong and the best support in terms of experiences and skills in the Labuan IBFC.**

Requirements in the Labuan IBFC

	Pure Captive	Cell Captive
Paid-up Capital/Working Funds	RM 300,000 (minimum)	RM 500,000 (minimum) for Core , no minimum prescribed for Cell
Annual Licence Fee	USD 3,000	USD 9,500 Core / USD 3,000 Cell
Solvency Capital Requirement (Surplus of assets over liabilities for Cell)	▪ Maintain all times a surplus of assets over liabilities or more than the amount of its working fund ▪ 10% of Net Premium Income or 10% of provision for OS Claim for preceding year iro General Insurance ▪ 2.5% of the Cells' actuarial valuation of the liabilities for life insurance/ family takaful business as at the last valuation date	
Business Plan	▪ Objective of Establishment ▪ Type of Insurance i.e. Life or General ▪ Class of Insurance i.e. Fire, Marine, Engineering, Motor, Accident, Miscellaneous, Others ▪ Retention Level (%) ▪ Reinsurance Arrangement i.e. Structure, Proposed Reinsurer & Shares, Fronting Arrangement, Loss History	▪ Target Market i.e. Individual or Corporate Client ▪ Territorial Scope i.e. Country and Percentage ▪ Marketing Strategy ▪ Proposed Manpower Planning ▪ Three Year Financial Projection i.e. Income Statement & Balance Sheet including basis of assumption in deriving the projected figures.
Corporate Tax Rate (irrevocable upon election)	**Labuan Business Activity Tax Act 1990** (LBATA) **- 3%** of the profits as disclosed in the audited financial statement for the year. However, the company must meet the following **substance requirements** in Labuan: ▪ Establish an office ▪ Minimum 2 full time employees ▪ Minimum operational expenditure of RM100,000 24% shall apply if substance requirements are not met. Or **Income Tax Act 1967 - 24%** of the chargeable income in the audited financial statement for the year.	

Pure Captive versus Cell Captive Cost Comparison

			Pure Captive	Cell
	a) At times of incorporation and first year of operations	RM	USD	USD
i	To Trust Company		3,750	1,800
ii	To Labuan FSA		3,350	3,000
iii	Labuan International Insurance Association	2,500	625	n/a
iv	To Insurance Manager (minimum and based on business volume)		10,000	10,000
v	To External Auditor (negotiable depending on size of operation)		3,000	1,500
vi	Internal Audit (negotiable depending on size of operation)		3,000	1,000
vii	Tax Agent (LBATA, where required)		250	250
viii	Payroll Services		500	n/a
ix	Miscellaneous/Retainer/Processing Fees etc		9,000	5,000
	Total		**32,975**	**22,550**

**** Please note costs are best estimates. For pure captive, costs do not include others like BOD meetings/traveling in Labuan and compliance function costs.***

Pure Captive versus Cell Captive Cost Comparison

			Pure Captive	Cell
	b) Annually thereafter	**RM**	**USD**	**USD**
i	To Trust Company		1,300	300
ii	To Labuan FSA		3,800	3,000
iii	Labuan International Insurance Association	2,500	625	n/a
iv	To Insurance Manager (minimum and based on business volume)		10,000	10,000
v	To External Auditor (negotiable depending on size of operation)		3,000	1,500
vi	Internal Audit (negotiable depending on size of operation)		3,000	1,000
vii	Tax Agent (LBATA, where required)		250	250
viii	Payroll Services		500	n/a
ix	Miscellaneous/Retainer/Processing Fees etc		3,000	3,000
	Total		**25,475**	**19,050**

***** Please note costs are best estimates. For pure captive, costs do not include others like BOD meetings/traveling in Labuan and compliance function costs.***

Pure Captive versus Cell Captive Cost Comparison

				Pure Captive	Cell
	c) Estimated Annual Costs to comply with Substance Requirements in Labuan		RM	USD	USD
i	Rent a serviced office from Brighton				
	a)	Office Rental (RM1,000 to RM1,800 per month)	21,600	5,400	n/a
	b)	Telephone Line (RM50 per month)	600	150	n/a
	c)	Electricity & Water (RM100 per month)	1,200	300	n/a
ii	Staff Cost				
	a)	1 staff must be at the managerial capacity i.e. Principal Officer (RM10,000 per month minimum for expatriate)	120,000	30,000	n/a
	b)	1 other staff can be non-managerial/clerical (RM1,200 minimum wage)	14,400	3,600	n/a
ii	Travelling Cost				
	a)	1 staff at managerial capacity i.e. Principal Officer (estimate 4 trips a year)	4,000	1,000	n/a
		Total		**40,450**	**n/a**

**** Please note costs are best estimates. For pure captive, costs do not include others like BOD meetings/traveling in Labuan and compliance function costs.***

Where do I sign up?   Talk to us today.

Thank You

Park Lane PCC Limited
Brighton Place
Lot U0213-U0215, Jalan Bahasa,
87014 Labuan FT, Malaysia
Tel: +60 (87) 442899 Fax: +60 (87) 451899

Brighton Management Limited
Brighton Place
Lot U0213-U0215, Jalan Bahasa,
87014 Labuan FT, Malaysia
Tel: +60 (87) 442899 Fax: +60 (87) 451899

Brighton International Management Sdn Bhd
Unit A-22-15, Level 22, Menara UOA Bangsar
5 Jalan Bangsar Utama 1
59000 Kuala Lumpur, Malaysia
Tel: +60 (3) 2182 1899 Fax: +60 (3) 2182 1999

For more info, please visit www.brighton.asia or email us at Enquiry@brighton.asia

Media Partners

JOINT WEBINAR

QUICK COVER!

Turnkey Self-Insurance Solutions via Cell Captives

Thursday, 29 July 2021 | 4.00PM (GMT +8)