

Brighton NEWSLETTER

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Editor's Note

As we reach the half-way mark for 2021, it has become harder and harder for many of us to remain optimistic as the pandemic rages on and cases reach record numbers. While it may be difficult to be entirely optimistic, we must believe, this shall pass.

On a positive note, I am happy to share that the Labuan insurance industry had demonstrated high profitability and better business performance in 2020 as reported in the Labuan IBFC Market Report 2020. Despite global challenges, the industry has weathered the pandemic storm reasonably well, which was largely driven by captive and reinsurance business.

I am also pleased to share that Labuan IBFC was named as the "Fastest Growing Captive Insurance Centre in Asia and MENA" by the World Domicile Update 2020 report. As one of the key players, Brighton is proud to be a major part of this key achievement.

Our heartiest congratulations goes to Nik Mohamed Din and Datuk Siti Zainab for their recent appointments as the new Director-General and Chairman of Labuan FSA. We wish them a warm welcome and look forward to working together to strengthen Labuan IBFC's position as Asia's leading international insurance hub.

Annie Undikai,
Managing Director

Labuan Insurance Posts Higher Profits In 2020

The Labuan insurance industry recorded better business performance with higher profitability in 2020, according to the Labuan IBFC Market Report 2020 released by Labuan FSA. The industry's profitability improved by 87.1% to US\$364.1 million in 2020, anchored by improved underwriting performance and better cost management. Total insurance assets grew by 9.9% to US\$5.1 billion, which was mainly attributable to higher investments in fixed deposits and money market instruments.

In 2020, the number of insurance and insurance-related entities stood at 221 where 15 new entities were approved; comprising 8 captives, 4 brokers, 2 general (re)insurers and one underwriting manager. However, a total of 13 entities surrendered or revoked their licences due to business strategic decisions.



The year 2020 saw total premiums underwritten increased by 6.7% to US\$1.6 billion with 71.5% originated from the Asia and the Pacific market whilst 16.8% or US\$167.8 million were from the Far East. Total gross premiums underwritten was largely driven by captive business, which recorded an 8.7% growth in total gross premiums last year to reach US\$497.5 million. Premiums from the captive business were dominated by the international markets with a share of 65.4%.

In terms of the distribution of gross premiums, Other Classes sector accounted for 61.4% or US\$305.4 million of the total captive gross premiums, of which general liability continued to be the main business class. This is followed by engineering (26%, US\$129.4 million), fire (8.5%, US\$42.4 million), marine (3.9%, US\$19.5 million) and motor (0.2%, US\$0.9 million). In terms of new captive formation, Labuan IBFC has recorded a progressive upward trend over the past three years from 48 in 2018 to 55 captives formed in 2020. This steady overall year-on-year growth in the captive formation has cemented Labuan IBFC's leading position as the domicile of choice for captive insurance business. The upward trend also reflects greater awareness of the role of captives as well as the jurisdiction's ability to continue to attract these risk management vehicles.



The report further highlighted that PCCs have been gaining traction as an efficient means of operating captives. This, according to the report, was attributed to greater understanding of self-insurance as part of a dynamic risk management approach, and the realisation of its cost advantages on the back of the hardening (re)insurance market.

Meanwhile, total premium placements by Labuan brokers increased by 24.8% to record a high of US\$1.1 billion from US\$857.3 million in 2019. The general insurance business contributed 86.3% of the premiums placed, an increase from US\$715.7 million in 2019 to US\$923.1 million in 2020, which were mainly from international business. In line with this growth, brokerage fees earned by the Labuan insurance brokers increased by 13.4% to US\$56.7 million in 2020.

The general (re)takaful industry in Labuan IBFC continued its growth momentum. In 2020, total gross contributions of the (re)takaful business grew by 13.8% to US\$114.5 million, led primarily by the motor sector at 58.2% or US\$66.7 million. Within the life insurance business sector, total number of policies-in-force increased by 15% to 290,107 in 2020 from 252,359 in 2019. Last year, new investment-linked policies issued in Labuan IBFC were 51,990, with premiums amounting to US\$9.9 million.

Labuan IBFC Remains Resilient Amid Global Challenges

Amid global market challenges presented by the COVID-19 pandemic and changes in the recent tax landscape, Labuan IBFC continues to record moderate to respectable growth in key business sectors. Enhanced digital infrastructure developed by Labuan FSA over the years has also enabled industry players to operate with minimal disruption during times of uncertainty.

Unveiling its Market Report 2020 recently, Labuan FSA reported that the introduction of pre-emptive temporary regulatory measures helped alleviate industry's burden in weathering global challenges, thus ensuring business operations remained viable and uninterrupted during the pandemic.

The report also highlighted that Labuan IBFC remained resilient in 2020 despite external adversities as a direct result of its strong ecosystem, relatively stable financial market and the culmination of various initiatives aimed at achieving greater sustainability, innovation, and investors' trust.

Moving forward, Labuan IBFC aims to expand and strengthen its financial ecosystem through the enhancement of its digital-conducive ecosystem and modernise its regulatory and supervisory approach. Strategies in achieving these are formulated and embedded within the Labuan IBFC's strategic roadmap for 2021-2023.

Double Digit Growth in Labuan Digital Financial Services

The number of Digital Financial Services (DFS) established in Labuan IBFC continued its double digit growth trend in 2020 to record a total of 62 providers. This was an increase from 35 providers registered in 2019. The majority of DFS providers in Labuan IBFC were licensed to provide digital currency trading platform, credit token business, and e-payment system.

According to Labuan FSA, DFS have grown significantly in tandem with its aspirations to have the market embrace digitalisation as the future of conducting business.

Since its debut as a digital friendly jurisdiction in 2017 with just one licence, the DFS industry in Labuan IBFC has expanded to include a wide range of digital businesses and players. The jurisdiction has licensed crypto currency platforms, fintech funds, digital token issuance as well as licensed digital securities exchanges focused on using blockchain technology.

With the launch of the digital banking framework by Labuan FSA in December last year, digital-related business is expected to become a key growth area for Labuan IBFC. The Guidelines is intended to attract qualified fintech service providers that wish to undertake digital banking business in Labuan IBFC in light of shifting customer's preference to online or digital channels.

Labuan Financial Services Authority Appoints New DG and Chairman

Labuan Financial Services Authority (Labuan FSA) has announced the appointment of Mr. Nik Mohamed Din Nik Musa as the Director General of Labuan FSA effective from May 1, 2021. Prior to his appointment, Nik Mohamed Din was the Director of Money Services Business Regulation of Bank Negara Malaysia (BNM) since 2016. At his previous post, he was responsible for the regulation, supervision, policy-making and development of cross-border remittance, currency exchange and currency wholesale business in Malaysia.



He joined BNM in 1991 and had served in various areas within the central bank, including bank regulation, Islamic banking and takaful as well as market development of international finance of the Labuan IBFC. Besides holding a Chartered Banker certificate from the Asian Institute of Chartered Bankers, Nik Mohamed Din holds a Bachelor of Science in Economics and Accounting from the University of Bristol and a Master's degree in Business Administration from the University of Warwick.

Meanwhile, Datuk Siti Zainab binti Omar was appointed as the Chairman of Labuan FSA, effective from 1 May 2021. Currently, she is the Solicitor General II of Malaysia, where she oversees the Advisory Sector in the Attorney General's Chambers. Prior to her current role, she has served in



various capacities in a few government agencies including as Treasury Solicitor for the Ministry of Finance and State Legal Advisor of Malacca. She is also responsible for the supervision and monitoring of legal officers in the Advisory Sector, who are based in the states or branches of the Attorney General's Chambers, in cadre service in the ministry and government agency. Datuk Siti Zainab obtained her LLB (Hons) from Essex University, United Kingdom and was admitted to the Bar of England & Wales (Gray's Inn) in 1986. In 1998, she was admitted to the Malaysian Bar as an Advocate & Solicitor.

Insuring A Renewable Future

Renewable energy, which includes technologies such as solar photovoltaic (PV), wind power and geothermal; is still an emerging industry.

Although the future for renewable energy is bright; renewables can be risky for both insurers and investors. This is due to a multitude of factor including uncertainty of new technologies, financing and ownership challenges, and weather-related risks.



We have since several cases how renewable power generations have been directly exposed to the volatility and unpredictability of the weather. In February this year, nearly half of the Texas wind turbines were frozen in a winter storm over the weekend, which had contributed to the state's power outages. The Texas case shows how renewable energy projects sometimes face climate risks. In fact, the already-present effects of climate change, such as severe weather patterns, are magnifying the risks faced by renewable energy producers. With the significant shift of energy production to wind, solar, and hydropower; the influence of weather risks becomes an essential factor - a fact that is often overlooked.

Over the last decade, insurance premiums for renewable energy projects have increased significantly, mainly due to the greater frequency and intensity of natural disasters and extreme weather events and the resulting claims. According to a research by Norton Rose Fulbright, renewable energy projects, especially solar installations, are seeing steep insurance premium cost increases due to industry disruptions caused by extreme weather events.¹ The research revealed that insurance premiums for some solar projects had actually increased by up to 400% over the last two years, which were often driven by perceptions of the potential for damage from extreme weather events. In a recent Solar Power World article, renewable insurance provider GCube reported that 50% of solar claims came from weather-related occurrences between 2011 and 2015.²

However, events like heavy rain and wildfires are becoming more frequent, more severe and less predictable; and combined with a lack of historical data; have made it even more difficult to model impacts of weather risks on renewables and insurance requirements.

¹ <https://www.pv-magazine.com/2020/12/15/extreme-weather-causing-us-solar-insurance-premiums-to-explode/>

² https://wrbenterprises.com/wp-content/uploads/2020/03/ENERGY-0052_Article5_Insurance_V3-3-13-20-1.pdf

Labuan IBFC Recognised As The Fastest Growing Captive Insurance Centre in Asia and MENA

Labuan IBFC was recently named as the “Fastest Growing Captive Insurance Centre in Asia and MENA” by the World Domicile Update 2020 report. The report, which is published by Captive Review, canvassed all global jurisdictions offering captive insurance.

The newly released report highlighted that Labuan IBFC charted a strong captive growth in 2020, with its total number of captives increasing by 15.4%.¹ With a quarter of all captives in Asia and the MENA region licensed in Labuan IBFC, this firmly reinforces its position as the fastest growing captive centre in Asia.

Labuan IBFC recoded eight new captives formed in 2020, thus bringing the total to 55 captives licensed by the jurisdiction. According to Farah Jaafar-Crosby, CEO of Labuan IBFC Incorporated, “This was the highest number of captives formed in both Asia and MENA in 2020.”² She added that last year was a boon year for Labuan captive business.

The report also revealed that at the end of 2020, there were 6,304 captives licensed in 71 different captive insurance domiciles.³ It is worth noting that Labuan IBFC was ranked 16th out of 71 global domiciles with the greatest number of captive formations in 2020 by the World Domicile Update 2020.

Despite a slight decrease in the overall numbers of global captive recorded last year, the report reported a surge in captive cell formations. As the only jurisdiction in Asia that provides a comprehensive legal framework for PCC structures, Labuan IBFC expects to continue charting growth momentum in captive business in 2021.

This is against the backdrop of renewed growth of Asian economies, a hardening reinsurance market and the need to cover more esoteric risk including cyber risks. Asian Development Bank expects economic growth in developing Asia to rebound in 2021, supported by a healthy global recovery and progress on COVID-19 vaccines.⁴



¹ <https://www.globalreinsurance.com/labuan-anticipates-strong-captive-growth/1437063.article>

² <https://www.labuanibfc.com/resource-centre/media/labuan-ibfc-inc/labuan-ibfc-the-fastest-growing-captive-insurance-centre-in-asia-and-mena>

³ <https://captive-review.com/news/world-domicile-update-reveals-surge-in-captive-insurance-cell-formations/>

⁴ <https://www.adb.org/outlook>



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From all of us at Brighton Group