

# LABUAN INTERNATIONAL BUSINESS AND FINANCIAL CENTRE



## MARKET REPORT 2020

[www.labuanibfc.com](http://www.labuanibfc.com)



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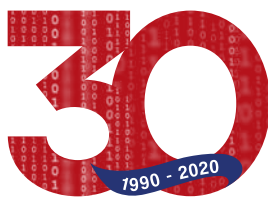
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# INNOVATION, INTERMEDIATION AND INCLUSION

Labuan FSA is pleased to present Market Report 2020 for the Labuan International Business and Financial Centre (Labuan IBFC). This third annual edition is aimed at providing our stakeholders with an update of the Centre's developments and accomplishments over the past year while looking ahead to the various initiatives to usher in new opportunities for 2021.

**T**he COVID-19 pandemic posed an unprecedented challenge to the global market in 2020. The economic repercussions of the outbreak were profound as it had extended far beyond a public health crisis to having far-reaching impact on international economic activities, disrupting global business and supply chains. The pandemic had in fact exacerbated an already fragile international market, due to persistent geopolitical tension and the volatile oil market of recent years.

For Labuan IBFC, the year 2020 marked the Centre's 30<sup>th</sup> anniversary. It was also a tumultuous year navigating through the challenging pandemic and economic uncertainties. Despite the ongoing anxiety about the future, there are solid reasons for cautious optimism on the standing and growth of Labuan IBFC going forward. Faced with the spillover implications from prevailing global conditions, Labuan IBFC remained resilient in 2020 underpinned by its strong ecosystem and relatively stable financial market. This is a culmination of the various initiatives that the Centre has pursued in the past to achieve greater sustainability, innovation, and the trust of international investors, despite external adversities. In fact, it was encouraging to observe that Labuan IBFC continued to draw interest from international

prospects ranging from conventional banking and insurance licensees to those from key growth verticals such as digital financial services and captives.

With this continued support and confidence in the jurisdiction, Labuan IBFC continued to be an attractive market for financial intermediation in the region with more than 800 licensed financial institutions operating currently. For 2020, the market saw inflow of new entrants amidst the current challenging times. Indeed this holds testament to the Centre's growing prominence in Asia.

Adaptability has never been more important than in 2020 and beyond, in particular in addressing new challenges. Both the industry and the Authority had acclimatised to the new norms which included adopting remote working arrangements via digital solutions. With this, the Centre continued to operate with minimal disruptions and served clients seamlessly across markets despite travel restrictions.

Agility was another factor that was also key for the Authority in 2020. With increasing adversity in business due to the pandemic, the Authority took pre-emptive measures by issuing temporary regulatory reliefs. To a certain extent, this alleviated some of the regulatory burdens and operational difficulties while the industry weathered through the



business strains caused by the pandemic. In turn, the said reliefs provided avenues for the Labuan financial institutions to offer flexibilities to their own business in order to better facilitate clients. With such prompt and market sensitive measures, the market and prospective investors were assured of Labuan IBFC's standing as a stable and business-conducive Centre.

Alignment to global developments is important to ensure Labuan IBFC industry continues to thrive. For 2020 and beyond, we see a new competitive landscape lined with new business potential and accelerating innovation ride on these dynamics and welcomed digital propositions from prospects that were offered via the Centre. There has been a strong influx of new fintech-related business, and this positive momentum is expected to continue. It is encouraging to note that these digital prospects range from global corporations, small and medium sized enterprises and technology providers – all looking to expand their digital business reach in Asia via Labuan IBFC.

Since the Centre's inception, the Labuan financial industry has evolved and progressed into a stable and secure international financial centre with growing prominence. Labuan IBFC takes pride in its pragmatic market approach which emphasises on proportionality in regulating and supervising the market based on risk materiality. This has worked well for the Authority's balancing act for the past three decades between maintaining market stability and orderliness, versus facilitating business growth and innovations. All these were undertaken with due regard to conformity to international standards and best practices, thereby securing Labuan IBFC's

solid reputation in international assessments as well as amongst peer international financial centres. These are the features that make the Centre an attractive, business facilitative hub, and a well-regulated financial centre amongst global investors.

As part of the next phase of market maturity, it has been encouraging to observe cross-pollination of businesses between Labuan entities. Indeed, it is only natural for the Centre to grow further with the increasing intra-Labuan business activities as more synergies between market players were realised. This augurs well for the Centre as it not only fosters closer collaboration between different sectors but also enhances the business vibrancy of the market.

For 2021, Labuan IBFC will continue to open its doors to international businesses and investors looking to operate in a sound and stable business environment. With the challenges and opportunities looming ahead, appropriate strategies with the theme "Enhancing the Sustainability and Relevancy of Labuan IBFC" have been formulated to propel the Centre to the next level. The growth prospects in the near term have remained cautiously optimistic. With the international market already on its path of recovery with the initiation of mass COVID-19 vaccinations, the global economy will shift towards a positive outlook - giving the market renewed confidences and growing positivity. Labuan IBFC will continue to be proactive and ever ready to seize opportunities as the international business climate improves in 2021. With the firm support of the Government and the industry, Labuan IBFC will continue to intermediate business and investment flows within Asia.

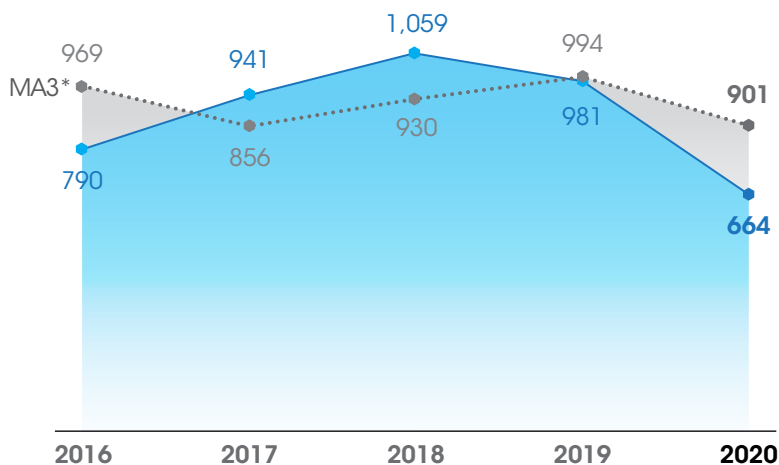
# COMPANIES

2020 was a challenging year for many international financial centres including Labuan IBFC; confronted with the ongoing changes in the international tax requirements, and roiled by the unprecedented COVID-19 pandemic crisis. For Labuan IBFC, the global economic slowdown and the adoption of the revised tax framework, covering economic substance requirements, had led to a decline in Labuan company incorporations. This decline coupled with higher deregistration had moderated the number of active Labuan companies.

However, as institutions and investors conform to international fiscal norms, the new tax policy will reinforce Labuan IBFC's reputation in the longer term vis-à-vis its peer jurisdictions. Prospects reliant are not solely on tax incentives when selecting their business base because other influencing factors such as

a cost-efficient market, comprehensive legal and regulatory framework, and stable business environment are equally if not more important. With the preference of such attributes in the Centre, Labuan IBFC will continue to enhance its ecosystem and offerings in order to remain attractive to international investors.

## NEW INCORPORATIONS



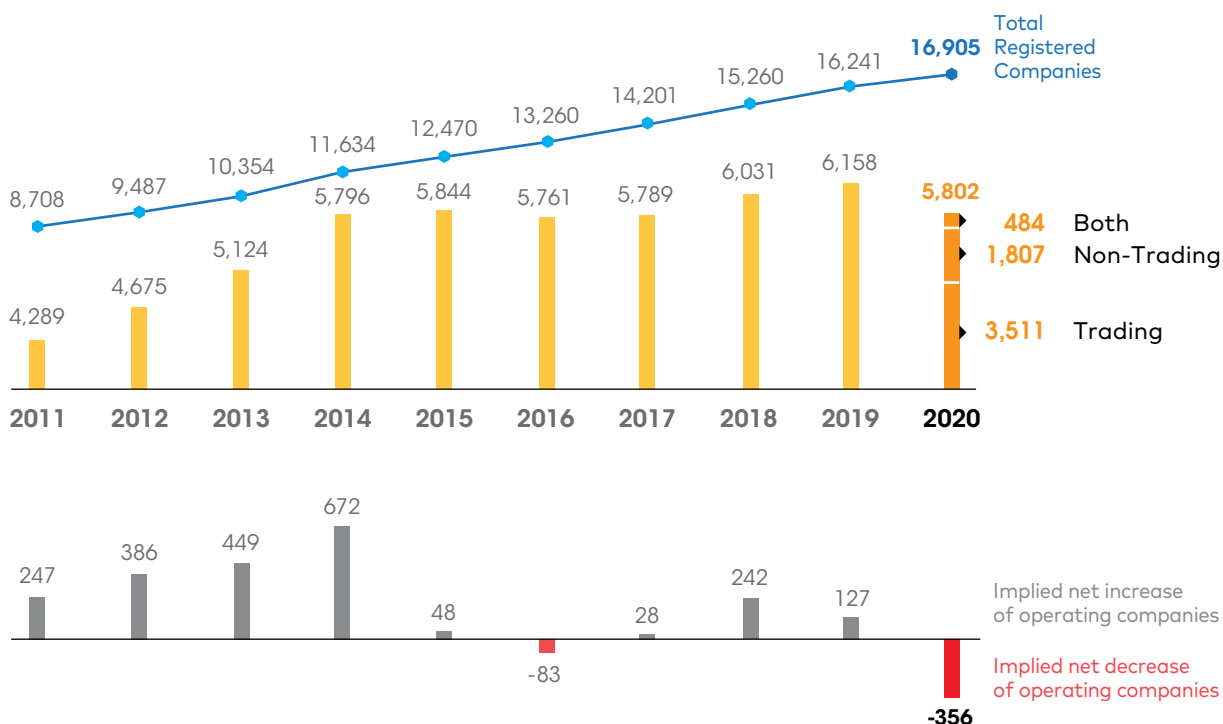
\* 3-Year Moving Average

## NEW INCORPORATIONS BY TYPES



- Labuan companies comprise trading and non-trading entities. In 2020, new incorporations declined by 32.3% to 664, recording fewer new trading companies.
- More than half of the new incorporations were from Malaysia, China and Japan; with 40.4%, 7.8% and 5.4% share of total incorporations, respectively.
- During the year, the number of deregistration increased sharply to 1,020 which was attributable to business rationalisations in response to the Labuan tax changes. As a result, operating Labuan companies declined by 5.8% to 5,802 entities.

## OPERATING COMPANIES

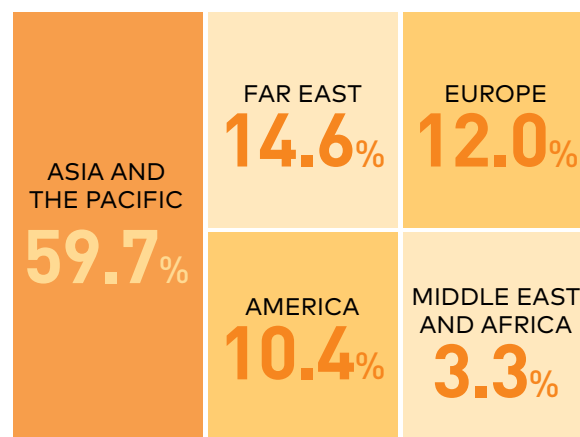


### By Country

Countries	Market Share
Malaysia	43.0%
Singapore	6.2%
Japan	5.1%
Virgin Islands, British	4.7%
China	4.2%
United Kingdom	3.5%
Hong Kong	2.4%
Australia	2.2%
India	2.1%
Taiwan, Province of China	1.7%
Others	24.9%

- Labuan trading companies constituted 68.8% or 3,995 entities. The remaining 1,807 entities were set up for the purpose of investment holding.

### By Region



- Asia and the Pacific region remained as the major market segment; mainly from Malaysia, Singapore, Australia, India and Indonesia.

# BANKING

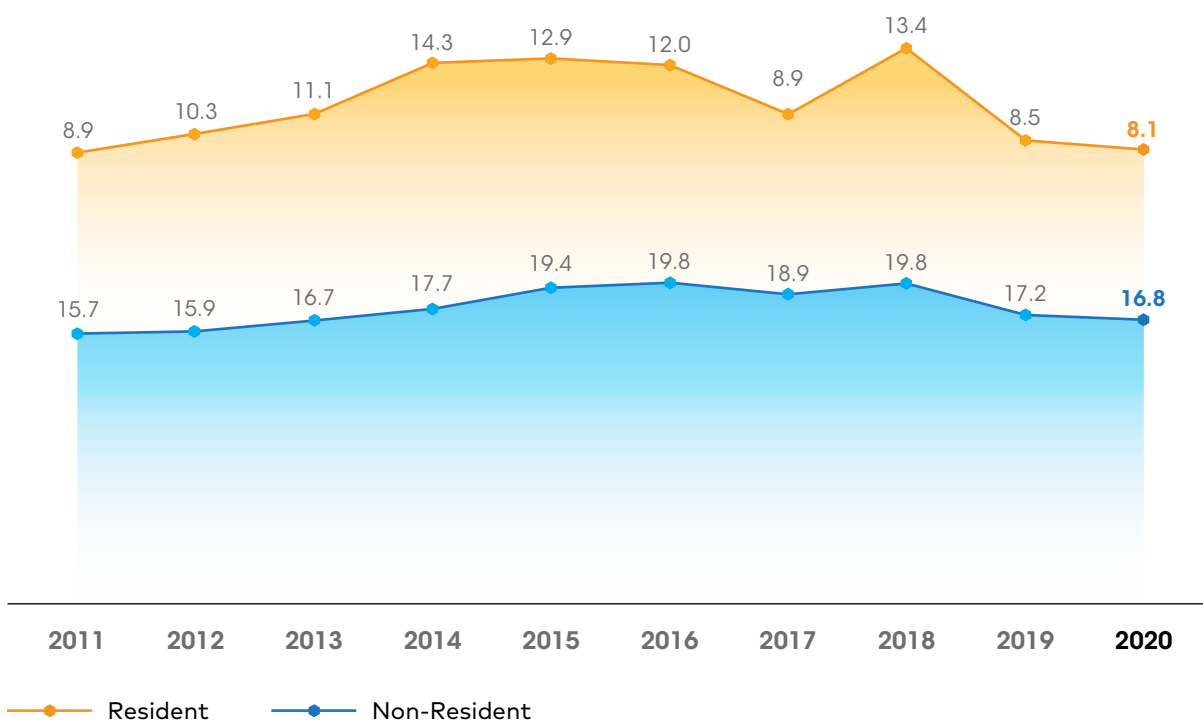
The global market uncertainty in 2020 had adversely affected international banking business. Labuan financing and investments were also impacted as reflected by the significant provisioning for possible loan defaults and investment impairments. The market also saw a dip in resident loans due to the non-deductibility tax requirement imposed on resident borrowers as part of the revised Labuan tax framework. These factors had reduced the overall banking profitability for the year.

Despite the challenging environment, the Labuan banks demonstrated high business agility and resilience by adapting to the new challenging norms, as well as by ensuring that their operations remained sustainable. This included ventures into new offerings, especially in the digital banking space. The emergence of the Labuan digital banking framework had enriched the industry by enabling participations from non-bank institutions to offer innovative banking services. In 2020, there were eight new banking

institutions in the Labuan market which included four which are focused on digital business.

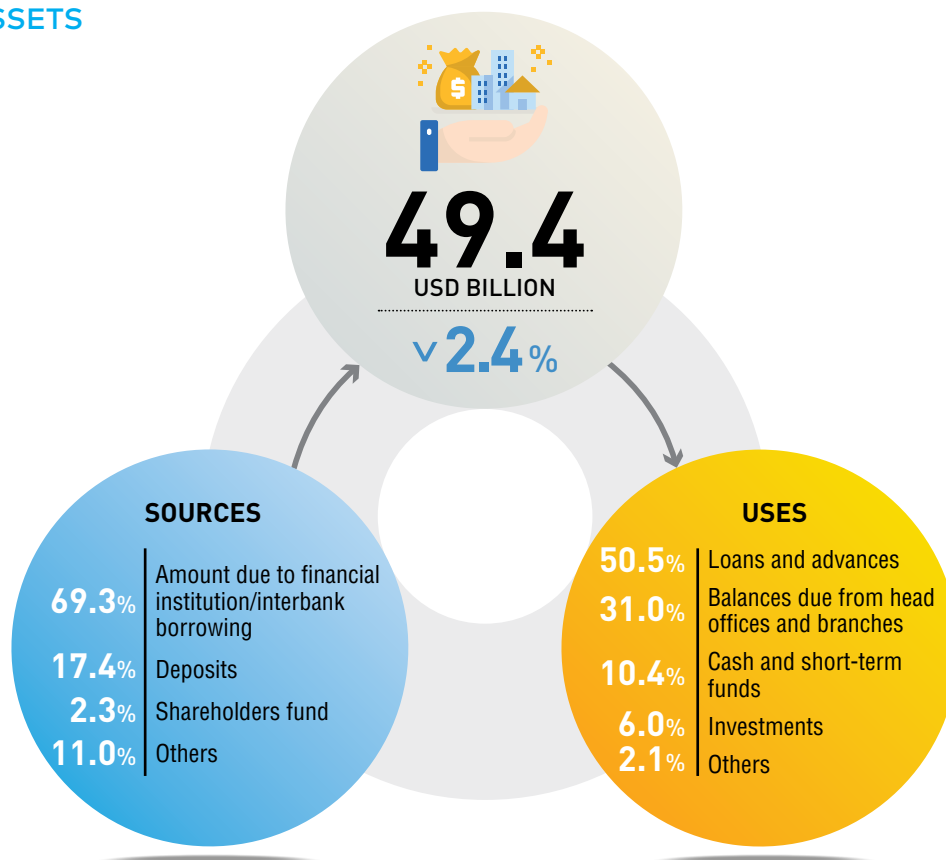
Faced with the uncertainties in the international banking business and regional economic outlook beyond 2020, Labuan banks would need to strategize and enhance their intermediation role for the markets within Asia. Going forward, Labuan IBFC players will certainly not be complacent but instead, intensify efforts to capture business opportunities in the region.

## TOTAL LOANS (In USD Billion)





## TOTAL ASSETS



- Total assets reduced by 2.4% to USD49.4 billion, due to lower interbank placement.
- Borrowings from head offices and financial institutions remained as key sources of funding for Labuan banks. This amounted to 69.3% or USD34.2 billion of the total funding with a slight 4.7% decrease (2019: USD35.9 billion). Cash and short-term funds increased by 52.2% to USD5.1 billion (2019: USD3.4 billion).
- The COVID-19 situation has caused the Labuan banks to exercise higher prudence. With greater holding of more liquid assets (e.g. cash and short-term funds), the banks have improved the medium to long term sustainability of their investments.
- The sector's growth prospect is expected to be positive, supported by continued interest in the establishment of Labuan banking business.



**61**  
NUMBER OF BANKS

- The banking industry further expanded with the granting of eight new banking licences. These comprised two commercial banks and six investment banks.

## LOAN PORTFOLIOS

### ORIGIN OF BORROWER

#### BY REGION

(In %)

ASIA AND  
THE PACIFIC

**66.0%**

EUROPE

**19.4%**

AMERICA

**9.7%**

FAR EAST

**3.8%**

MIDDLE EAST  
AND AFRICA

**1.1%**



#### BY SECTOR

Market Share	Sector
22.0%	Manufacturing
17.3%	Property
12.1%	Miscellaneous
10.0%	Transport and Communication
9.9%	Financial Services
9.9%	Utilities
7.8%	Mining
4.8%	Agriculture
3.9%	Trading
2.3%	Other Services

- The total loan portfolios contracted by 2.7% to USD25 billion with non-resident borrowings contributing 67.5% or USD16.8 billion of the total portfolios.
- Financing to all major sectors declined, with the exception of property sector that grew by 25.7%, mainly for commercial and residential projects.

## LOAN EXPOSURES

### BY REGION

(In %)



#### ASIA AND THE PACIFIC

# 75.2%

##### Main Sectors

Manufacturing  
Utilities  
Transport and  
Communication

#### EUROPE

# 15.2%

##### Main Sectors

Property  
Financial Services  
Transport and  
Communication

#### AMERICA

# 4.4%

##### Main Sectors

Trading  
Transport and  
Communication  
Agriculture

#### FAR EAST

# 3.6%

##### Main Sectors

Other Services  
Property  
Financial Services

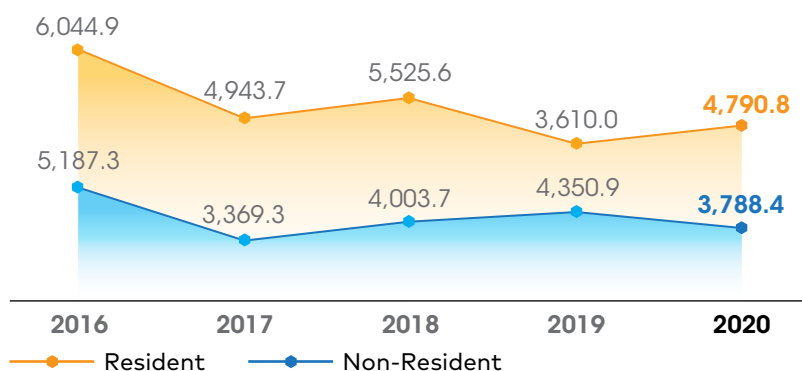
#### MIDDLE EAST AND AFRICA

# 1.6%

##### Main Sectors

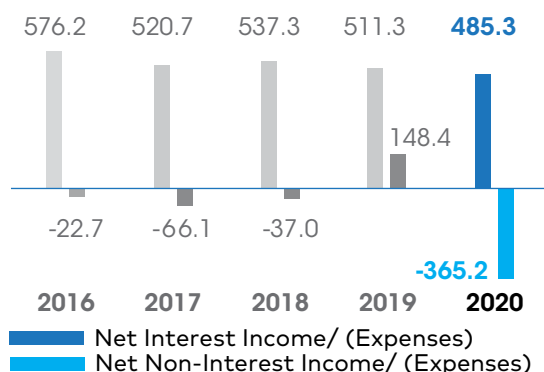
Mining  
Utilities  
Transport and  
Communication

## DEPOSITS (In USD Million)

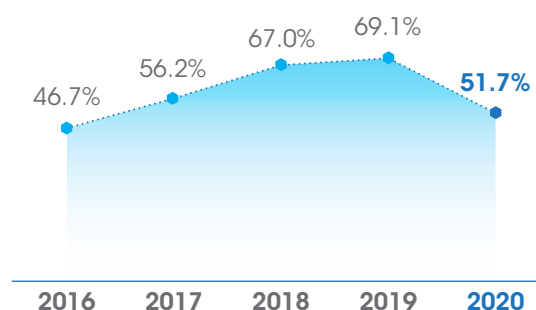


- The total customer deposits increased by 7.8% to USD8.6 billion due to additional resident deposits amounting to USD4.8 billion. This constituted 55.8% of the industry's total deposits.

## NET INTEREST AND NON-INTEREST INCOME/ (EXPENSES) (In USD Million)



## INTEREST EXPENSES TO INTEREST INCOME RATIO (In %)



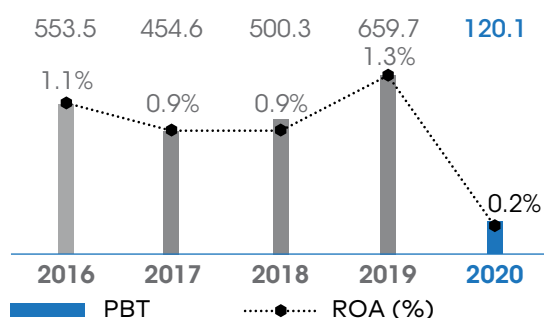
## NON-INTEREST INCOME (In USD Million)

Market Share	Description	Amount	Growth
100.0%	<b>Non-interest Income</b>	548.2	-11.2%
43.3%	Gains on Financial Instruments	237.2	-13.9%
24.8%	Other Comprehensive Income before Taxation	136.0	446.1%
17.1%	Fee and Commission Income	93.7	-25.5%
10.1%	Impairment Reversals	55.2	-57.8%
4.7%	Others	26.1	-57.0%

## NON-INTEREST EXPENSES (In USD Million)

Market Share	Description	Amount	Growth
100.0%	<b>Non-interest Expenses</b>	913.4	94.60%
44.7%	Losses on Financial Instruments	408.5	91.5%
36.5%	Impairment Losses	332.8	160.7%
7.7%	Administration Costs	70.3	8.9%
5.7%	External Service Arrangement Costs	52.3	305.2%
5.4%	Others	49.6	-2.5%

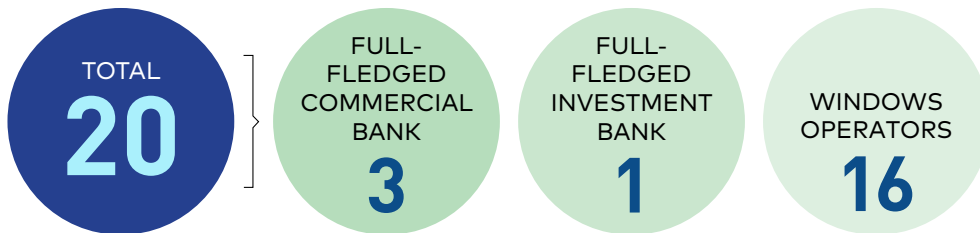
## PROFITABILITY (In USD Million)



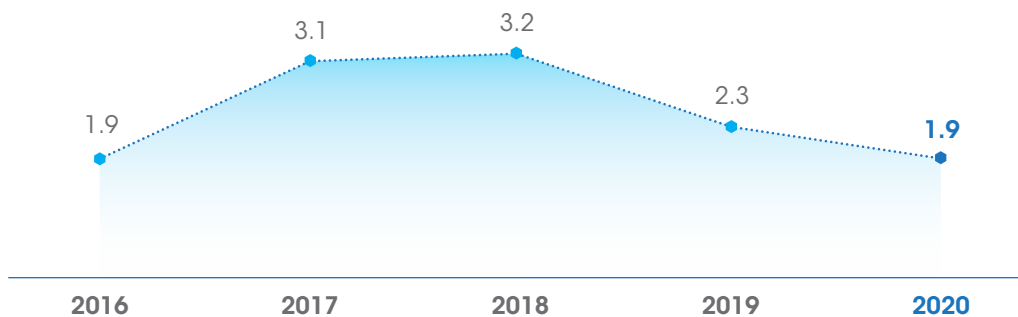
- The banking sector's profitability declined to USD120.1 million due to higher provisioning for investment impairments as well as loss on sale of securities and derivatives.

## ISLAMIC BANKING

### NUMBER OF OPERATORS

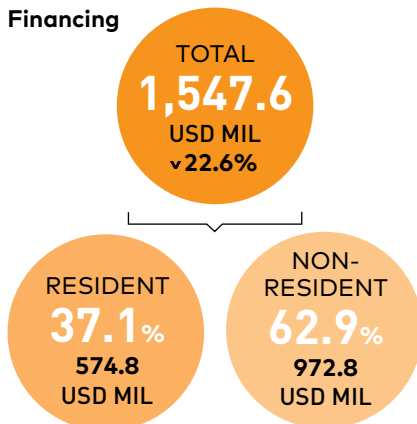


### TOTAL ISLAMIC ASSETS (In USD Billion)

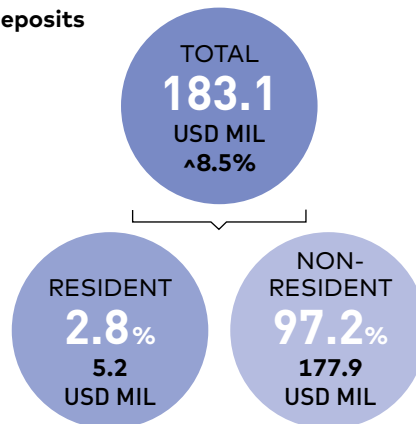


- Islamic banking assets declined to USD1.9 billion due to business rationalisation of certain banks.

#### Financing



#### Deposits



- The total financing of the Labuan Islamic banks decreased by 22.6% to USD1.5 billion (2019: USD1.9 billion); non-resident borrowings accounted for 62.9%.
- The total Islamic deposits increased by 8.5% to USD183.1 million (2019: USD174.2 million) with non-resident deposits contributing 97.2% of the total.



**EMPLOYEE  
COMPOSITION**  
**507**

**MALAYSIAN**  
**90.5%**  
459 EMPLOYEES

**FOREIGNER**  
**9.5%**  
48 EMPLOYEES

- The banking sector employed 507 employees, comprising mainly Malaysians.

# Well-Integrated and Connected Labuan IBFC

The renewed international focus on fighting tax evasion and avoidance has witnessed Labuan IBFC's migration into the new tax framework with enhanced requirements for economic substance. Despite facing implementation challenges, Labuan IBFC prevailed and remained vigilant about any factors that may have affected the well-being of the Centre. Combined with the unprecedented situation of COVID-19, Labuan IBFC has been agile in addressing the economic challenges arising from

the adaptation to international norms, legislative developments, and other uncertainties.

As Labuan IBFC marked its 30 years of establishment in 2020, the Centre has been home to over 16,000 companies with more than 800 licensed institutions. A well-integrated financial ecosystem in Labuan IBFC provides for a conducive business environment for operations with the highest standards of integrity and ease of doing business.

- Establishment of Labuan FSA
- Enhancement of legislation
- Growth and diversification of business
- International memberships and cooperation

- Development of regulatory and supervisory frameworks
- Establishment of marketing arm
- International assessments
- MOUs with peer regulators
- International recognition

- New legislations
- New niche structures
- Influx of digital businesses
- MOUs with key IFCs
- Wider Asian business capture
- Greater international cooperation and info exchange
- Enhanced international visibility and acceptance
- Regulatory upscaling with greater supervisory intensity
- New tax framework

- Building up business momentum post COVID-19 and tax substance
- Reinforcing market stability
- Enhancing digital-conducive ecosystem
- Attracting targeted brands and facilitating intra-Labuan business
- Strengthening roles and capabilities of key intermediaries

**2021 AND BEYOND**  
Enhancing Sustainability and Relevancy

**2010 - 2020**  
Business Expansion and Strategic Repositioning

**2000 - 2009**  
Effecting Regulatory and Business Fundamentals

**PRIOR TO 2000**  
Building the Foundation

As the world struggles with the pandemic and the resulting economic fallout, Labuan IBFC also experienced a market exodus caused by recent changes to the tax framework. It will be critical for Labuan IBFC to withstand these ripple effects, and focus to ensure the sustainability and relevancy of the Centre in the coming years.

Labuan IBFC is planning the following business strategies in the next three years:

**(a) Become the Asian Hub for Digital Revolution**

In order to remain relevant, organisations have had to digitally revolutionise their financial offerings to meet customer needs. This global development continues to attract new business innovations and opportunities as evidenced by the influx of digital financial service providers,

revolutionising offerings in Labuan IBFC.

The Authority has always encouraged digital innovation for business solutions that are tailored to current market needs, while at the same time ensuring a conducive and safe operating environment for businesses.

The launching of the new Labuan Digital Banking Framework in 2020 would attract new players into the digital banking space well ahead of other key international financial centres. This is in line with Labuan IBFC's progressive and facilitative approach to financial innovations and creating a digitally-conducive environment. The Centre continues to attract digital financial business setups from Asia, and has broadened its reach to attract new players from the region.

## DIGITAL TRANSFORMATION IN LABUAN IBFC

### 30 digital financial services approved in 2020



**(b) Centre of Choice for (Re)Insurance and Self-Insurance Business**

Labuan IBFC is an ideal location for captive formation and is currently being labelled as one of the fastest-growing reinsurance hubs in Asia for self-insurance, registering more than 200 insurance and risk management licensees. In addition, Labuan IBFC is among the few jurisdictions in the world to offer a variant of the protected cell company (PCC) for captives, and the only jurisdiction in Asia to offer both conventional and Shariah-compliant PCCs.

#### Snapshot of Captive Performance for Year 2020

Increase of <b>6%</b> in captive set-ups (55 captive licences)	Premium growth of <b>9%</b> to <b>USD497.5 million</b>
Growing interest from Far East region insurers to underwrite overseas risk	Labuan IBFC won the <b>'Highly Commended' award at the European Captive Awards 2020</b> under the category "International Domicile of the Year"

**(c) Bridging Economic Connectivity of Malaysia with Asian Partners**

One of the key areas that drives Asia's economic growth is the region's dedication to enhancing infrastructure investment and regional connectivity to encourage international trade and foreign direct investment. Additionally, in Free Trade Agreements (FTAs) made between two or more countries, participant countries are given preferential market access to facilitate stronger trade and commercial ties. The recent FTA signed by Malaysia, namely the Regional Comprehensive Economic Partnership (RCEP), is an agreement that broadens ASEAN's engagement with Australia, China, Japan, Korea and New Zealand, and is aimed at establishing a modern, comprehensive, high-quality, and mutually beneficial economic partnership that will facilitate the expansion of regional trade and investment as well as contribute to global economic growth and development. With various FTAs signed by Malaysia, the Centre could become a conduit to facilitate cross-border trades, investments, intermediation support services, financing or (re)insurance to companies under the FTAs.

# INSURANCE

The Labuan insurance industry remained resilient despite the economic effects from the COVID-19 pandemic crisis. The Labuan insurance industry started 2020 on a more positive note, exploring new business opportunities in the Asian market.

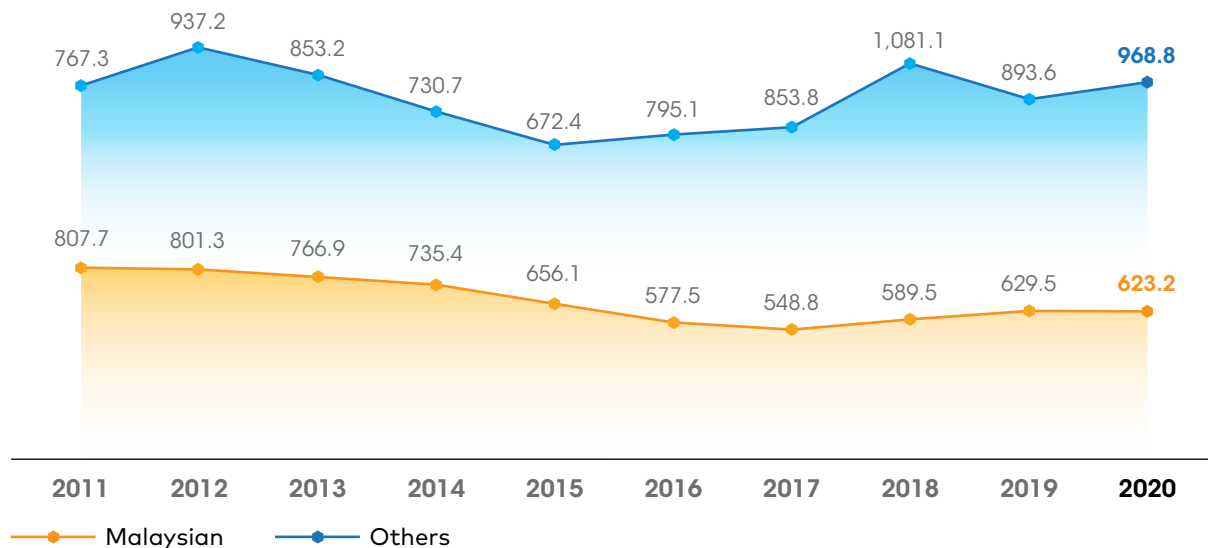
Overall, the Labuan insurance industry demonstrated better business performance with higher profitability in 2020, supported by improved underwriting results driven by lower claims experience. Total premiums underwritten recorded a moderate growth, largely driven by captive business followed by the Labuan reinsurance.

In fact, the Labuan captive business in the form of Protected Cell Companies (PCCs) has been gaining traction as an efficient means of operating captives. This could be attributed to a heightened 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. With organisations' growing exposures against emergent risks precipitated by the COVID-19 pandemic, among others, traditional insurance coverages have ceased to be the only means of risk

transfers. Now, captives have become increasingly popular as an alternative risk mitigation tool. This is due to the variety of ways it can be structured in accordance with the risk appetite and the financial affordability of business owners.

Taking cognisance of the business disruptive effects of the pandemic, Labuan FSA provided flexibility to the insurance industry in the form of temporary regulatory reliefs for the technical computation of valuation of insurance/takaful liabilities, as well as investment impairments. With this, some of the regulatory compliance costs would then be alleviated for the Labuan insurers, thereby enabling them to have additional financial buffers. This would enable them to continue to provide their services uninterrupted, and where needed, offer their clients business facilitation during these trying times.

## TOTAL GROSS PREMIUMS (In USD Million)



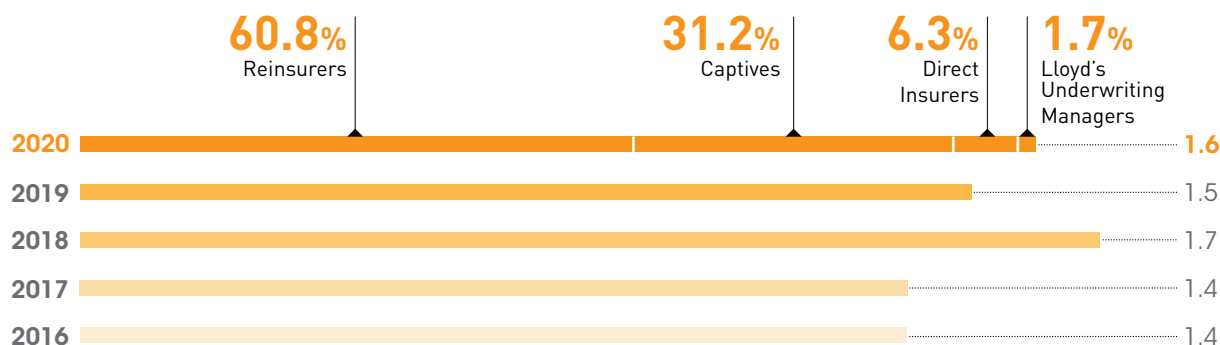
- Total gross premiums recorded a marginal growth of 4.5% to USD1.6 billion, mainly from (re)insurance business.

- Foreign business forms the larger share of 60.9% or USD968.8 million of the underwritten premiums.

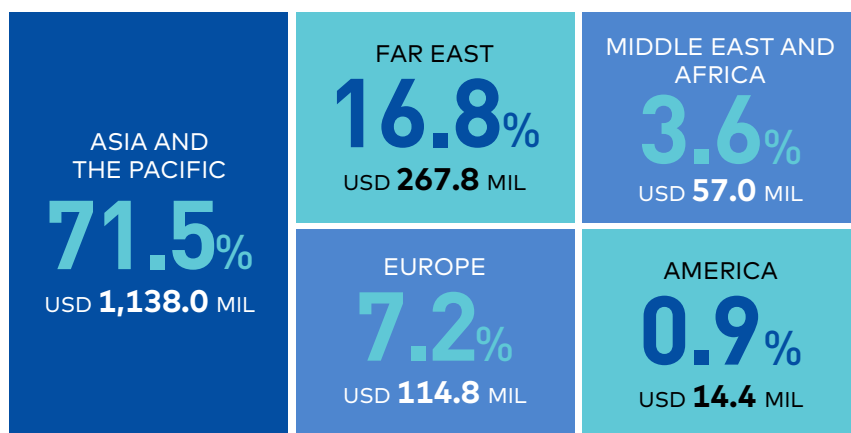


## TOTAL GROSS PREMIUMS

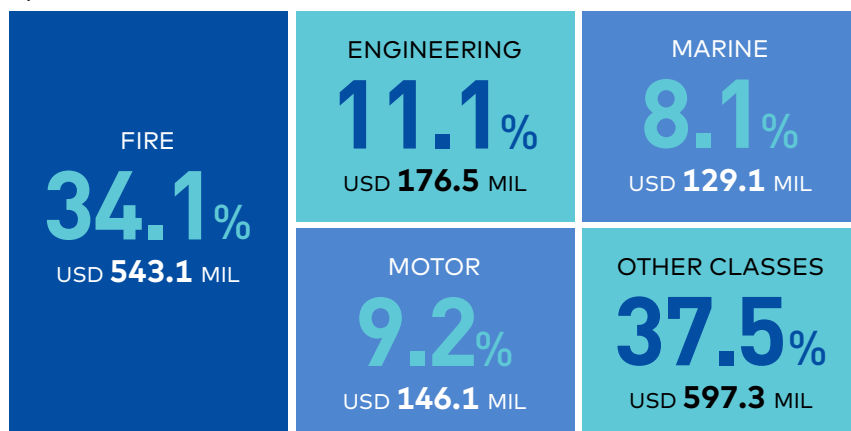
(In USD Billion)



### By Region



### By Sector



- The Fire sector remains the largest business with 34.1% market share or USD543.1 million of the total premiums underwritten.
- Under the Other Classes sector, general liability continued to show a growth of 9.2%, with USD197.1 million of premiums recorded (2019: USD180.4 million).

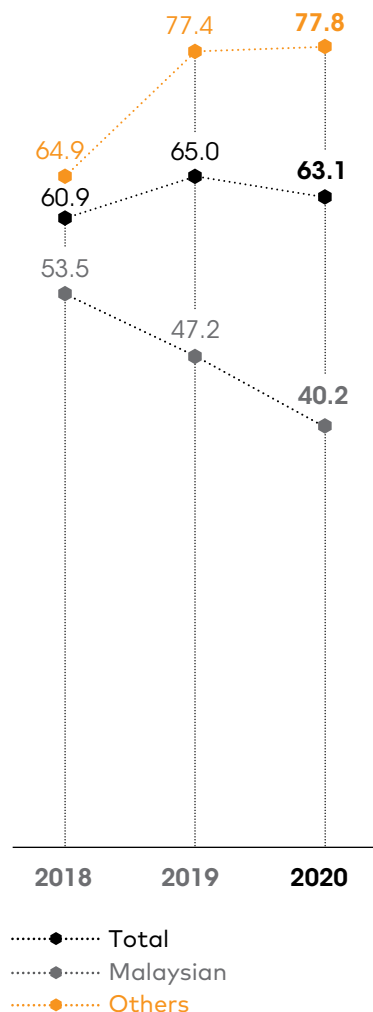
## NUMBER OF INSURANCE AND INSURANCE-RELATED ENTITIES

221

- In 2020, fifteen new entities were approved, comprising eight captives, four brokers, two general (re)insurers and one underwriting manager.
- Thirteen entities surrendered or revoked their licences due to business strategic decisions.

## NET RETENTION RATIO

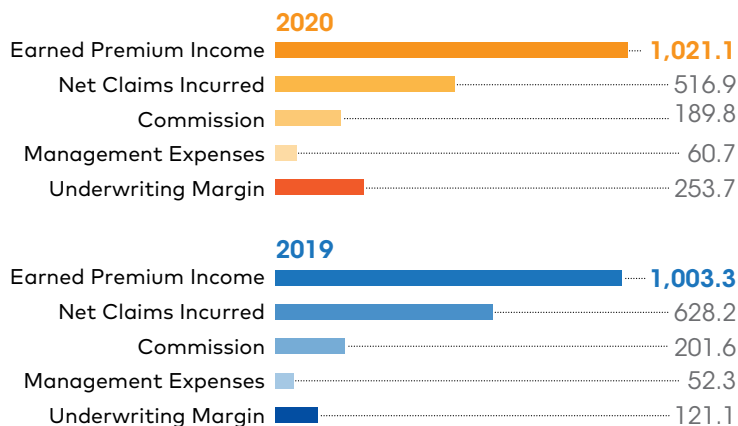
(In %)



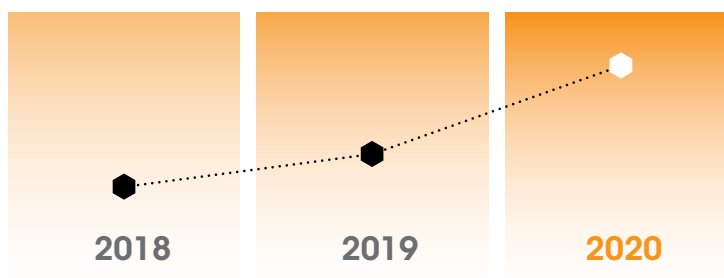
- The industry's net retention ratio remained stable at 63.1%, with lower retention in Motor and Other Classes sectors.
- Premium income of USD1,021.1 million was recorded in 2020, mainly due to better claims experience. This resulted in doubling of underwriting profits amounting to USD253.7 million.

## UNDERWRITING MARGIN

(In USD Million)

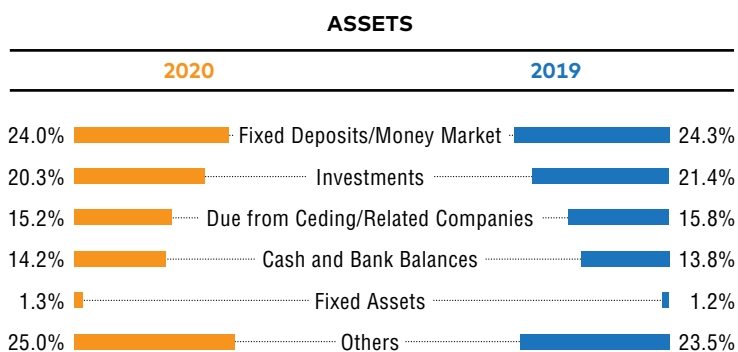


## PROFITABILITY



- The industry's overall profitability improved by 87.1% to USD364.1 million in 2020 (2019: USD194.6 million) buoyed by favourable underwriting performance.

## TOTAL ASSETS



- Total insurance assets grew by 9.9% to USD5.1 billion which was mainly attributable to higher investments in fixed deposits and money market instruments.
- Fixed deposits and money market instruments remained the largest asset share of 24% or USD1.2 billion.

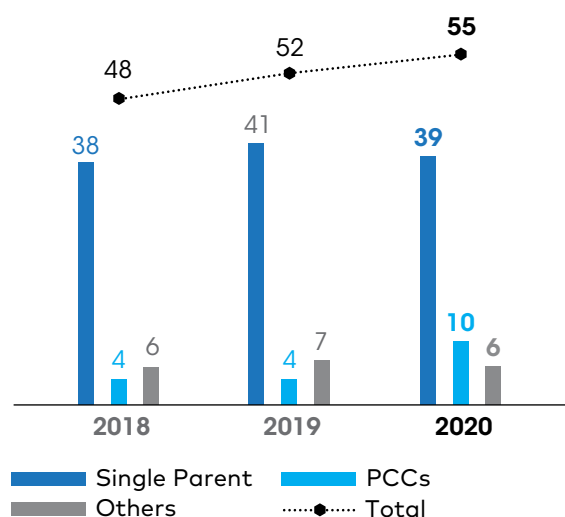
## CAPTIVE BUSINESS

2020 was a boon year for Labuan captive business. The Labuan captive sector continued to expand with increasing demand for the varying structures that the Centre offers, ranging from pure single captives, including mutual and association captives, to rental captives. Aside from the conventional normal company structures, there have been more and more new Labuan captive setups in the form of PCCs and Shariah-compliant takaful captives.

There is huge untapped potential in the Asian captive space. Based on a published survey<sup>1</sup>, many captive managers have plans for expansion into Asia over the next five years. This reflects the abundance of opportunities that exist for Labuan captive structures in the region. In addition, the hardening reinsurance market combined with the existing COVID-19 pandemic, and the ensuing regional economic slowdown, have driven many organisations to consider captives as means of improving their risk management practices. Captives are expected to grow in popularity as commercial insurance for certain specialised risks become increasingly less affordable or limited in scope, due to more-selective underwriting by insurers.

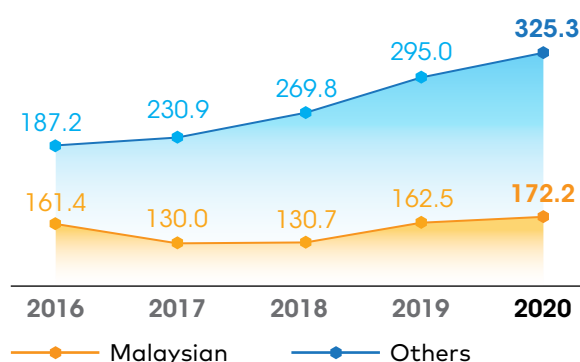
As an ideal location for captive growth, Labuan IBFC is home to 55 captives. Labuan IBFC is the only Asian jurisdiction with a comprehensive legal framework to cater for PCC structures. Labuan IBFC is now licensing a quarter of all captives in the Asia-Pacific and Mena.<sup>2</sup>

### NUMBER OF CAPTIVES



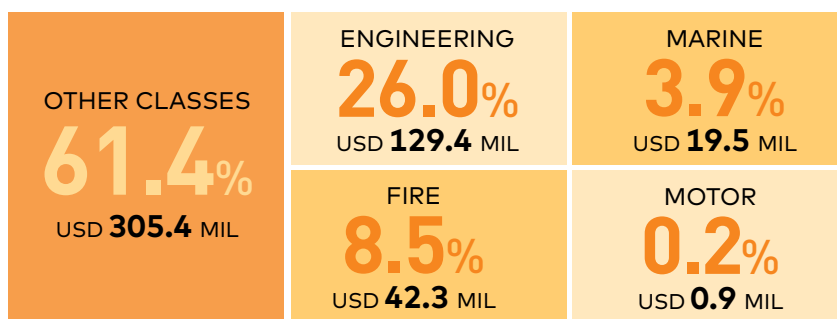
- Progressively showing upward trend in new captive formation over the past three years.

### TOTAL GROSS PREMIUMS (In USD Million)



- Increasing trend in captive premiums underwritten continued in 2020, with total premiums increased by 8.7% to USD497.5 million (2019: USD457.5 million).
- Premiums from the captive business are dominated by the international markets with a share of 65.4%.

### DISTRIBUTION OF GROSS PREMIUMS



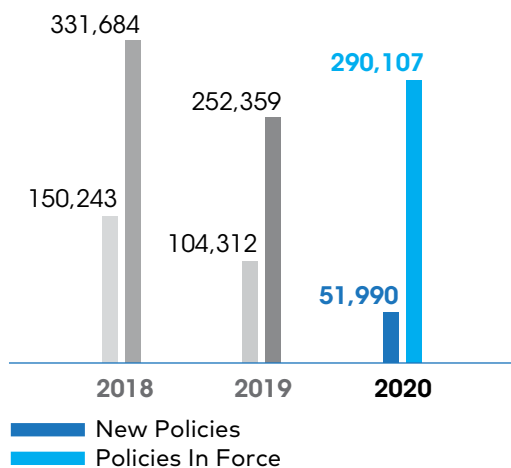
- The Other Classes sector accounted for more than half of the total captive gross premiums, of which general liability continued to be the main business class. The gross written premiums for the business stood at USD159.1 million (2019: USD148.6 million).

<sup>1</sup> Captive Managers Survey 2019, Captive Review December 2020

<sup>2</sup> Captive Review, World Domicile Update 2020

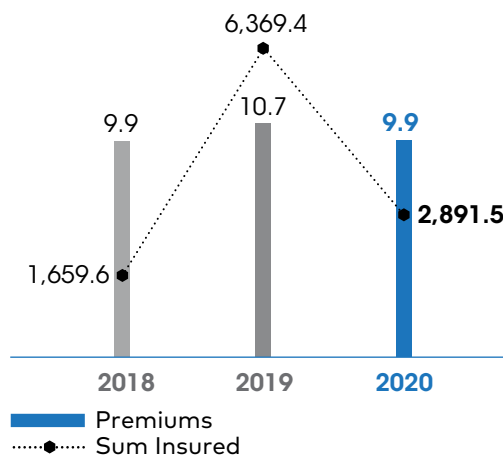
## LIFE INSURANCE BUSINESS

### NUMBER OF INVESTMENT-LINKED POLICIES



- The total number of policies-in-force increased by 15% to 290,107.

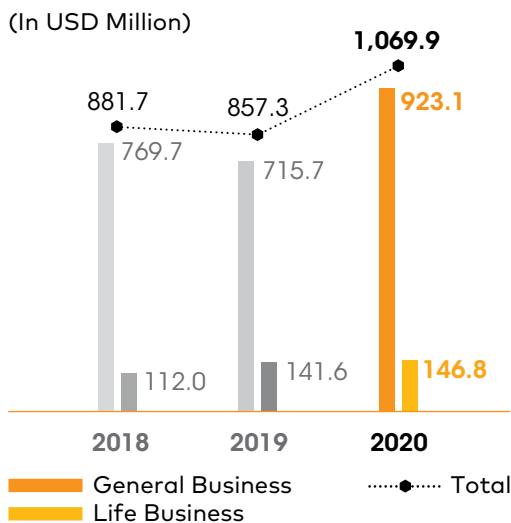
### NEW INVESTMENT-LINKED POLICIES (In USD Million)



- A total of 51,990 new investment-linked policies were issued with premiums amounting to USD9.9 million.

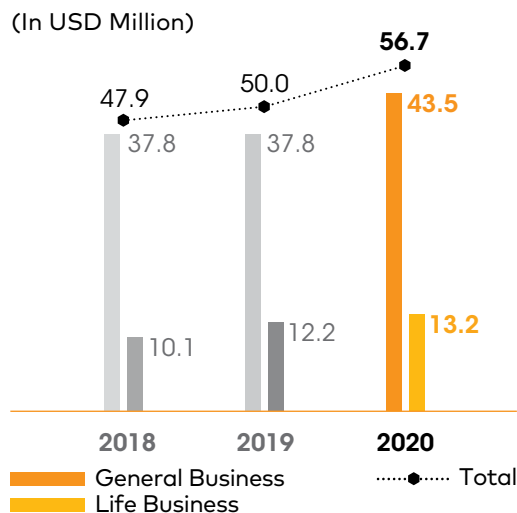
## BROKING BUSINESS

### PREMIUMS PLACEMENT (In USD Million)



- The total premium placements by Labuan brokers increased by 24.8% to USD1.1 billion. The general insurance business contributed 86.3% of the premiums placed, which were mainly from the international business.

### BROKERAGE FEES (In USD Million)

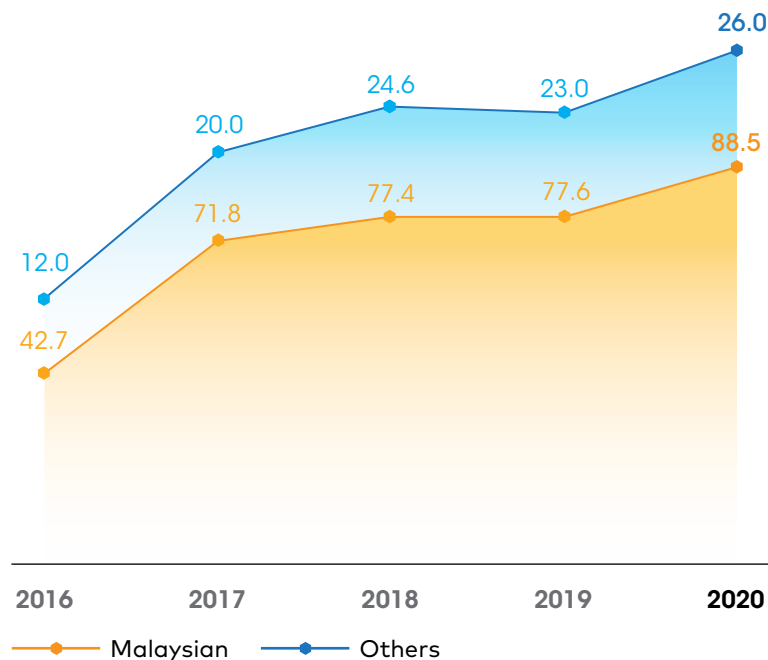


- Brokerage fees earned by the Labuan insurance brokers increased by 13.4% to USD56.7 million.

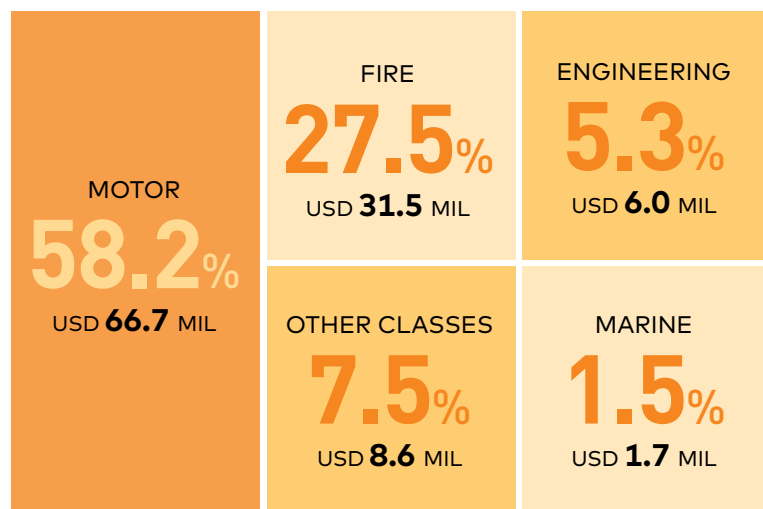
## (RE)TAKAFUL BUSINESS

### TOTAL GROSS CONTRIBUTIONS

(In USD Million)



### DISTRIBUTION OF GROSS CONTRIBUTIONS



- The general (re)takaful industry showed encouraging business growth of 13.8% to USD114.5 million in 2020 (2019: USD100.6 million), led primarily by the motor sector at 58.2% or USD66.7 million (2019: USD55.3 million).

### EMPLOYEE COMPOSITION



2020  
**1,068**

MALAYSIAN  
**84.5%**  
**902** EMPLOYEES

FOREIGNER  
**15.5%**  
**166** EMPLOYEES

Employment grew marginally to 1,068 employees (2019: 1,057). The sector's workforce is mainly represented by Malaysians.

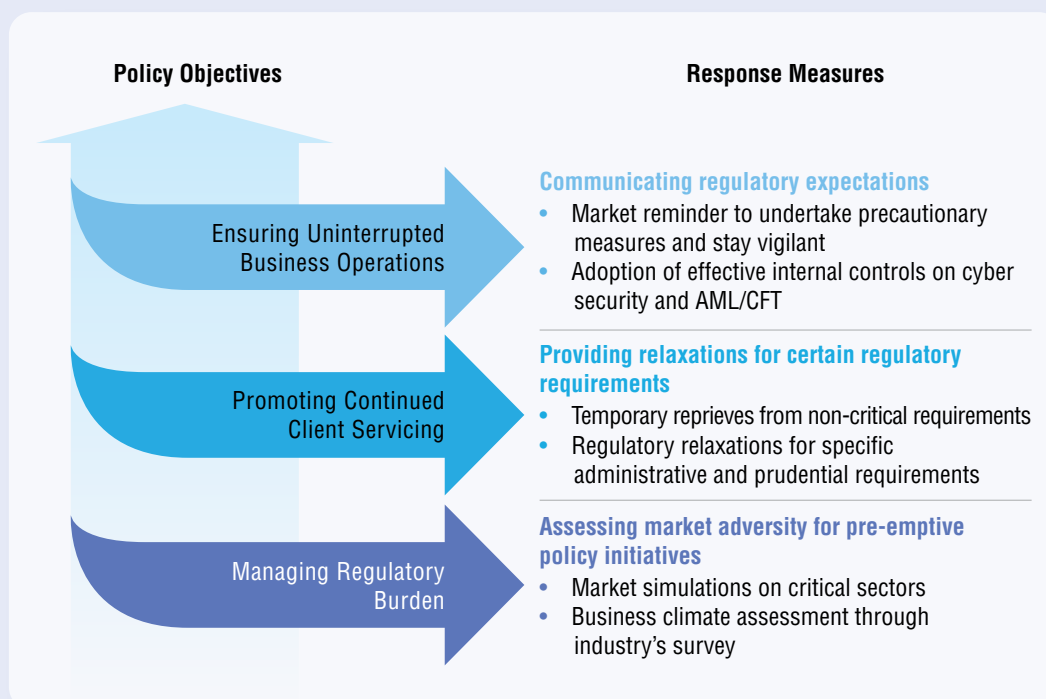
# Navigating the Market through the Challenges of COVID-19 Pandemic

The year 2020 marked the 30<sup>th</sup> year for Labuan IBFC as a midshore financial centre. After three decades of resilience, agility and adaptability, the Centre had grown in size and maturity to serve, not just the surrounding ASEAN markets, but also the greater Asia-Pacific region. As the Centre transitioned into the new decade, it was confronted with a systemic market-wide disruption of global proportions – the COVID-19 outbreak in early 2020. The pandemic had resulted in a negative impact to Labuan's economic activities, and businesses in the Centre due to the movement and travel restrictions imposed because of the pandemic. Recognising the heavy strain on Labuan IBFC and the Island's local economy, the Authority had undertaken proactive roles to:

- (i) facilitate Labuan businesses and cushion the pandemic's impact on the market; and
- (ii) support the local community by providing assistance to relieve hardships via the pooling of resources.

## Facilitating and Guiding the Market

A set of measures were undertaken to facilitate the market which were deemed appropriate and timely, to ensure Labuan financial institutions (LFIs) were able to operate their businesses during the adverse pandemic situation. The response measures rendered were underpinned by specific objectives and accomplished through various initiatives outlined in Diagram 1.



**Diagram 1:** Policy Objectives and Initiatives for Market Facilitation and Navigation



The response measures incorporated these three strategies:

(i) **Communicating regulatory expectations on LFIs during the pandemic:**

- LFIs are required to be prudent in their operations during the pandemic by being continuously vigilant.
- Appropriate precautionary measures and safeguards are to be undertaken to ensure business operations of LFIs remain safe and stable for employees.
- Reminders for LFIs to ensure that their key internal controls remain effective especially with regard to cyber security and AML/CFT.

(ii) **Providing relaxations for certain regulatory requirements:**

- Temporary reprieves from non-critical requirements were given to ensure that Labuan businesses are operationally and financially viable to continue servicing their clients.
- In turn, there were also expectations for the Labuan businesses to support their clients with their business arrangements during the challenging period.
- The regulatory relaxations provided were in relation to specific administrative or

financial requirements for a limited period. The relaxations were initially made applicable for the 2020 but was extended for another year in view of the continued market adversities.

(iii) **Assessing market adversity in order for pre-emptive policy planning and measures comprising:**

- Stress testing analysis and market simulations were undertaken for key sectors as proxy impact for the overall market.
- Financial trends and emerging risks arising from the pandemic were identified and simulated to assess the extent of of financial impact to the market.
- Assessment of the business climate by surveying the industry's experience facing key challenges during the pandemic.
- Identification of possible pre-emptive action plans based on feedback from the market. This includes closer monitoring of impacted sectors and LFIs; going forward, providing required additional regulatory guidance to the market as well as strengthening control measures to improve LFIs' governance setup.

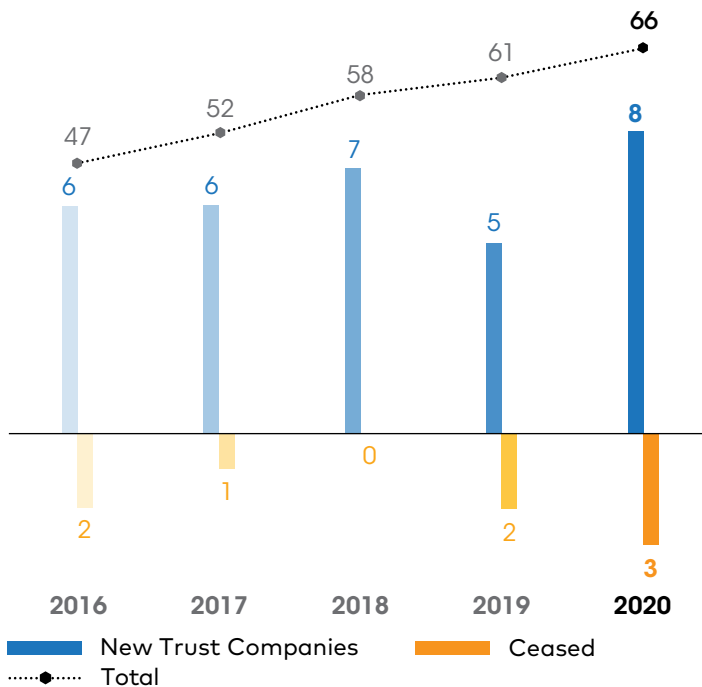
# TRUST COMPANIES

The Labuan Trust Companies (LTCs) continued to play a vital role in the development of the jurisdiction by facilitating the incorporation and management of Labuan entities via the services they provided. To keep pace with the changing regulations and higher client expectations, the industry is expected to further develop and upskill, review business strategies, and embrace the use of digitalisation in order to better serve the marketplace.

As with other sectors, the LTCs' business operations in 2020 continued to be impacted by operational challenges arising from the revised Labuan tax framework. In tandem with the lower company incorporations, the industry's profitability for the year was

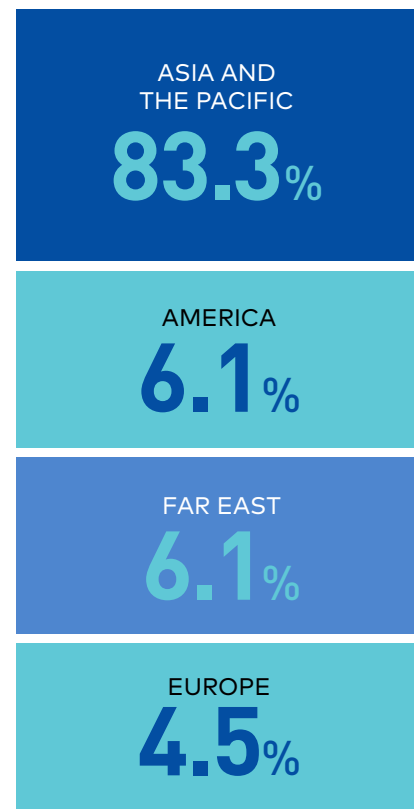
adversely affected. Notwithstanding, the LTCs continue to look for opportunities to expand their business in Asia. Growing demands for Labuan structures to undertake digital financial services will also bode well for the future of LTCs in Labuan.

## NUMBER OF TRUST COMPANIES



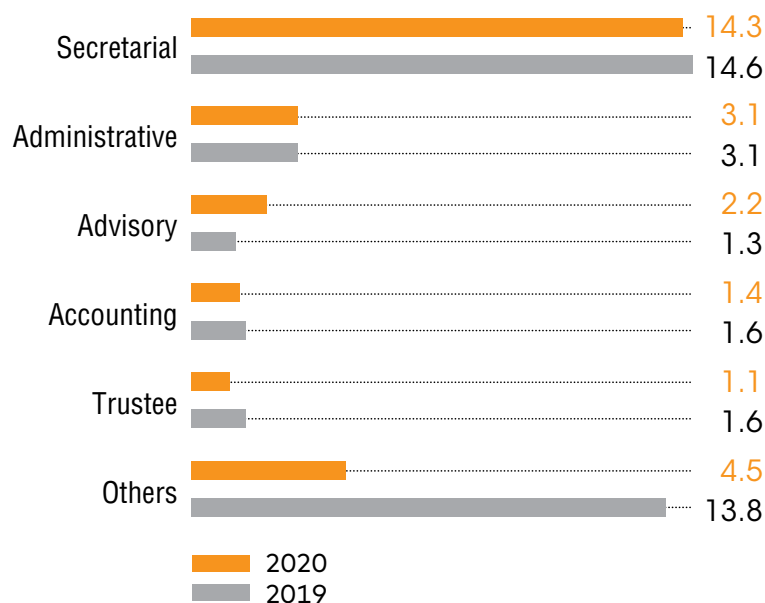
- The total number of LTCs increased by 8.2% to 66. Eight new LTCs were approved comprising four full-fledged trust companies, three managed trust companies and one private trust company.
- Majority of the LTCs were from the Asia and the Pacific region.

## THE ORIGIN OF TRUST COMPANIES (In %)

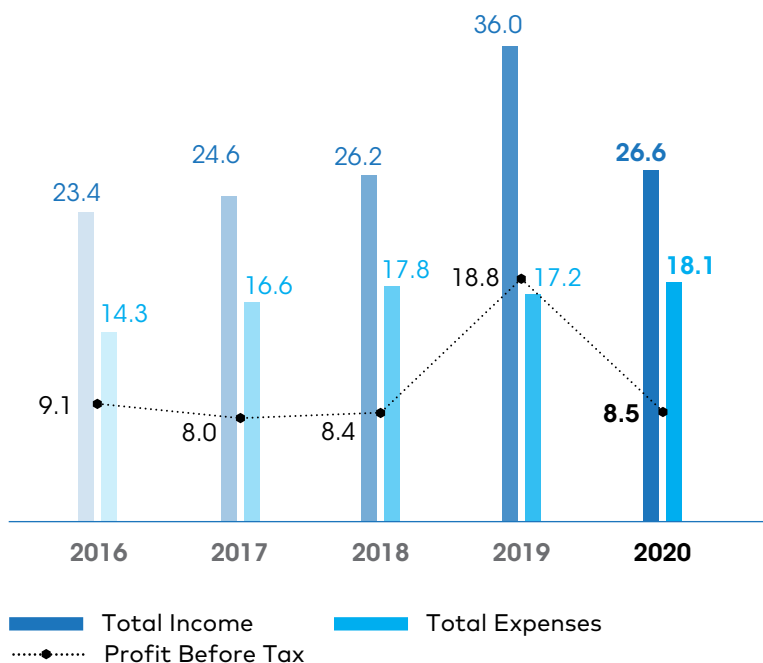




## SOURCE OF INCOME (In USD Million)



## PROFITABILITY (In USD Million)



- Total income declined by 26.2% to USD26.6 million with profitability of USD8.5 million.

## EMPLOYEE COMPOSITION



2020

**472**

MALAYSIAN

**97%**

**458** EMPLOYEES

FOREIGNER

**3%**

**14** EMPLOYEES

The LTCs' manpower recorded a decline of 7.5% to 472 employees. This is mainly due to business restructuring by one major trust company.

## TRUST OFFICERS



2020

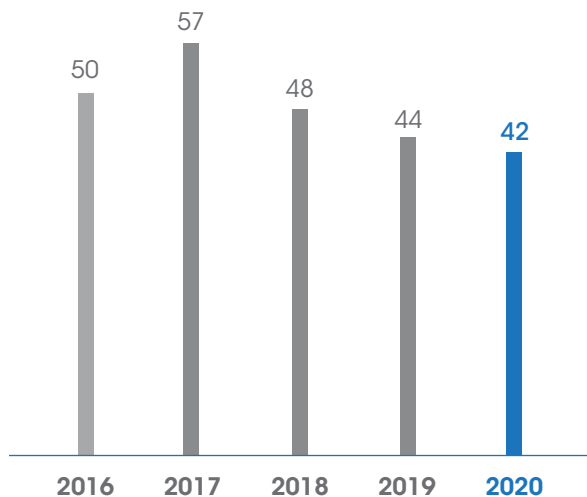
**88**

# INTERNATIONAL COMMODITY TRADING

The Global Incentives for Trading (GIFT) Programme continues to provide a set of incentives for Labuan International Commodity Trading Companies (LITCs) to establish their operational base in Labuan IBFC. During the year, changes were made to the Guidelines on the Establishment of LITCs under the GIFT Programme. These relate to the rescoping of the Programme to include commodities other than petroleum and petroleum-related products; as well as the enhancements to the operational requirements.

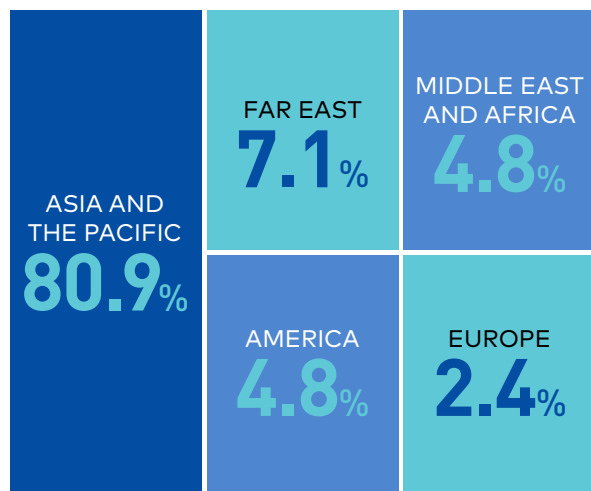
In 2020, the industry's business performance was impacted following the global oil and gas price volatility, and economic crisis due to the pandemic. However, with the ongoing oil and gas market recovery, it is expected that the LITCs' business prospects will be bullish.

## TOTAL LITCs



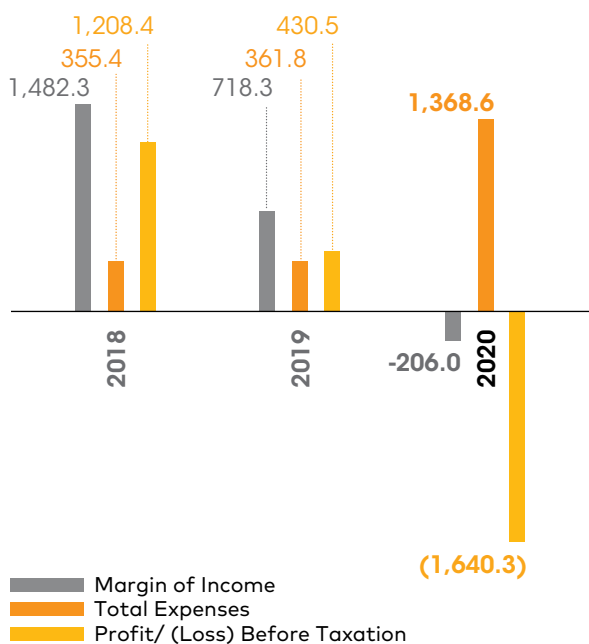
- During the year, five LITCs were approved and seven surrendered or revoked, bringing the total number to 42.

## THE ORIGIN OF LITCs



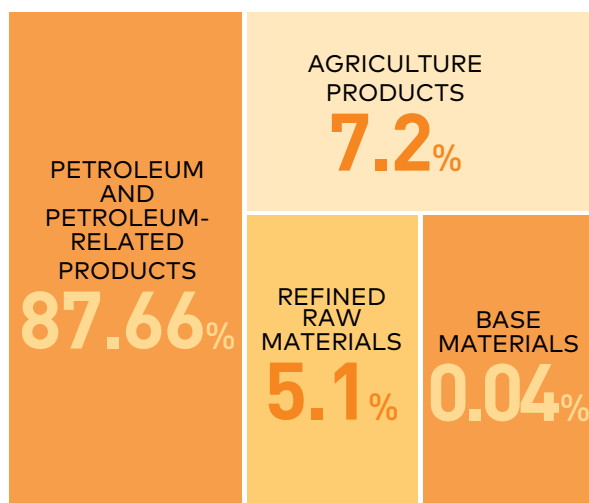
- Majority of the LITCs were from Asia and the Pacific, mainly from Malaysia and Singapore. The remaining 19.1% were spread throughout, with the most from the Far East region.

## PROFITABILITY (In USD Million)



- In 2020, the industry recorded a loss of USD1.6 billion which was attributable to the following:
  - > Total margin of income declined due to deteriorating oil prices.
  - > Total expenses increased significantly to USD1.4 billion mainly due to higher provisioning for asset impairments.

## COMMODITIES TRADED BY TYPES



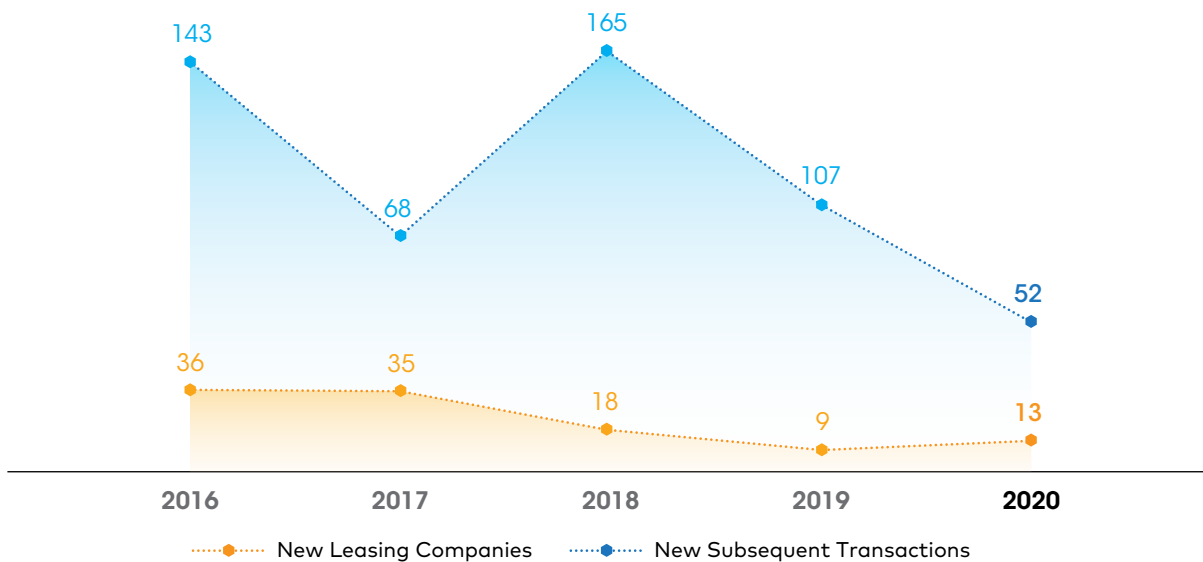
- There was a 25.9% decline in total commodities traded, down to USD22.7 billion.
- Petroleum and petroleum-related products constituted 87.7% of the total commodities traded. The agriculture products and refined raw materials contributed 7.2% and 5.1% share of the total, respectively.

# LEASING

The economic slowdown in 2020 had prompted global leasing companies to undertake contractionary and cost-cutting measures, which in turn had knock-on effects to the growth of the Labuan leasing sector. In particular, aviation leasing was drastically affected from the travel restrictions and business disruptions to the sector, particularly in relation to tourism.

With the ongoing economic recovery, and growing travel confidence with availability of COVID-19 vaccinations, Labuan leasing is expected to rebound. As part of diversification efforts, Labuan leasing companies are encouraged to diversify into new areas of leasing finance other than aviation and oil and gas equipment. It would be beneficial for the leasing industry to spur other economic activities such as logistic services, as well as Maintenance, Repair and Overhaul (MRO) activities on Labuan Island.

## NUMBER OF NEW APPROVALS



### NEW ASSETS LEASED

2020

**1,837.4**

USD MIL



Aviation

**17.7%**



Oil and Gas

**80.7%**



Others

**1.6%**

2019

**3,753.4**

USD MIL



Aviation

**85.1%**



Oil and Gas

**13.3%**



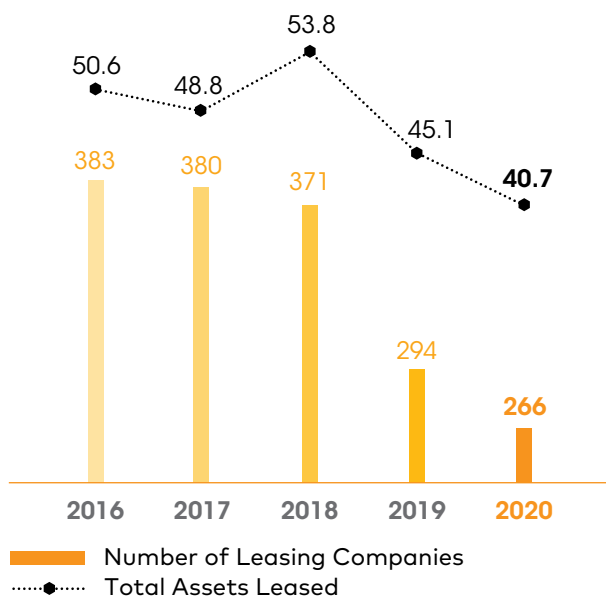
Others

**1.6%**

- 13 new leasing companies and 52 new subsequent transactions were approved, of which majority were for the oil and gas sector.
- New assets leased to the oil and gas sector grew 196.5% to USD1.5 billion.

## TOTAL ASSETS LEASED

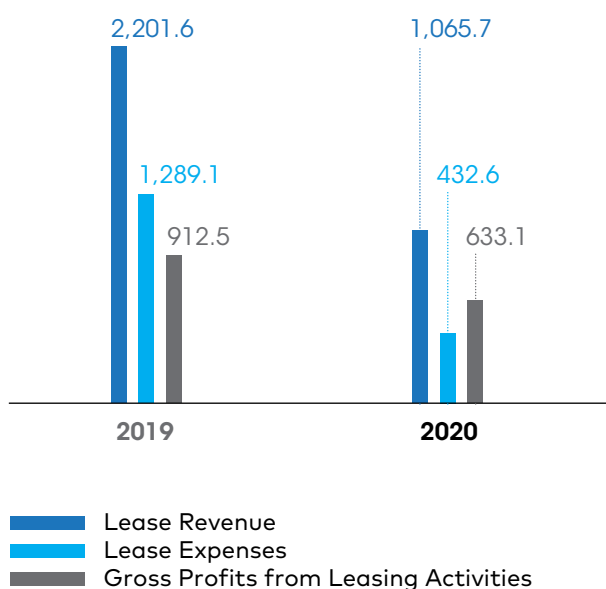
(In USD Billion)



- Total industry leased assets declined by 9.9% to USD40.7 billion. Oil and gas, and aviation leasing contributed market share of 56.7% and 42.3%, respectively.

## PROFITABILITY

(In USD Million)



- The business performance of leasing companies was affected by numerous business and operational challenges.
- Since the early stages of the COVID-19 pandemic, entities have taken counter-measures that include renegotiating lease rentals rates and payment schedules, postponement of projects, cost containment measures, short-term financing, and cash flow management.
- The gross profits reduced from USD912.5 million to USD633.1 million in 2020.

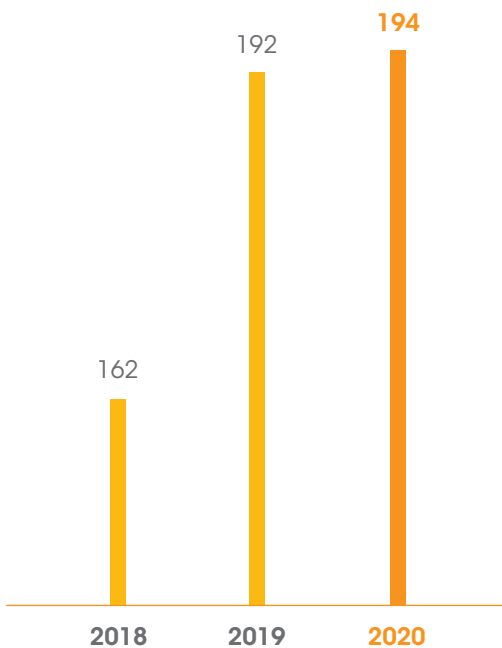
# WEALTH MANAGEMENT

With its comprehensive ecosystem which include clear legislations and facilitative regulations, Labuan IBFC has remained attractive for wealth management and dynastic planning for the affluent.

The Centre offers both common or civil law-based solutions in the form of Labuan trusts or Labuan foundations. Backed by a dual-financial system, prospects can undertake their wealth planning via conventional or Shariah-compliant structures based on individual preference. Labuan IBFC is the only jurisdiction in Asia that offers private foundations as a wealth management solution.

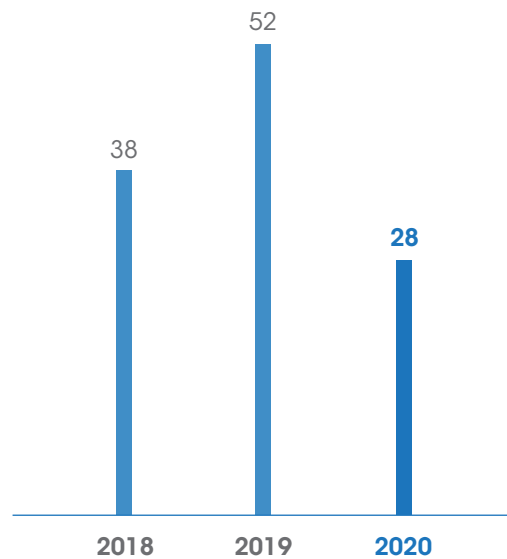
## FOUNDATIONS

### TOTAL FOUNDATIONS



- For 2020, there were 194 foundations in operation.
- Of the total foundations, 166 were non-charitable.
- 7 were Shariah-compliant foundations, of which 1 was non-charitable.

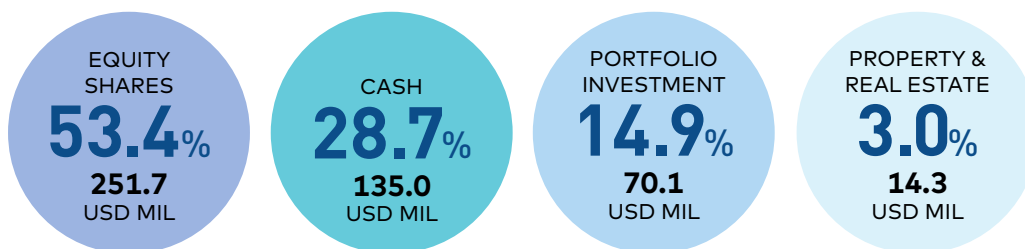
### NEW REGISTRATIONS



- Registration of new foundations decreased by 46.2% to 28.

## FOUNDATIONS

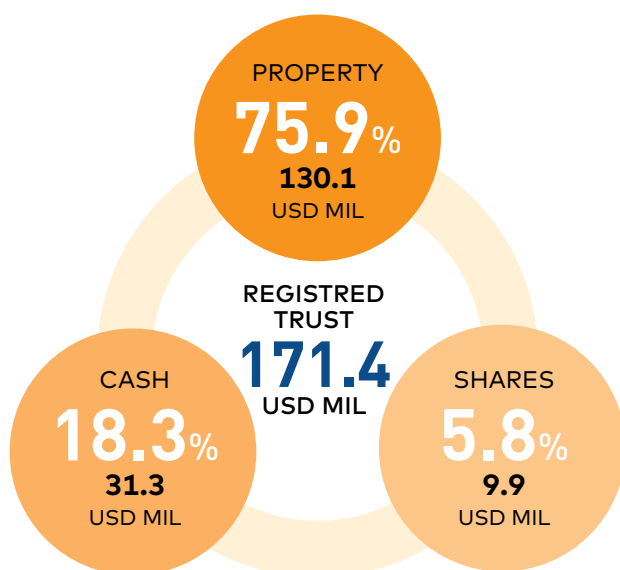
### TOTAL ENDOWMENT



- Total assets endowed amounted to USD471 million, and the majority were in non-cash assets.
- Of the total non-cash assets, 74.9% or USD251.7 million was in the form of equities, while the remainder in properties and other investments.

## TRUSTS

### ASSETS UNDER MANAGEMENT



- The number of registered trusts remained unchanged at 14, comprising six purpose trusts, three charitable trusts, two protective trusts, and three private beneficiary trusts.
- Total assets under management were mainly in property and real estate.

# DIGITAL MARKET

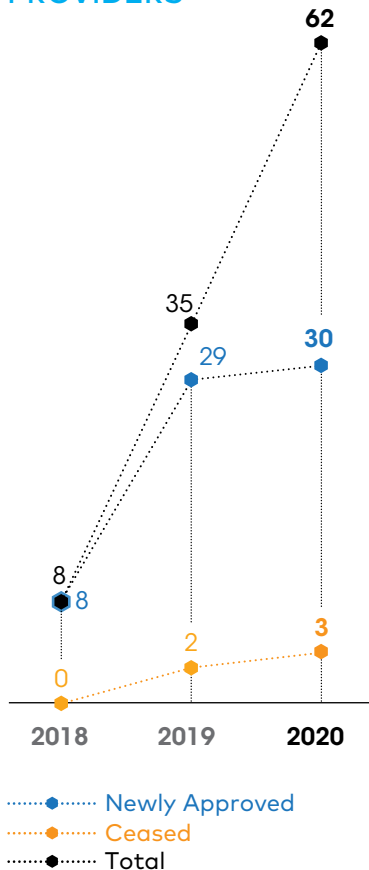
The Centre's Digital Financial Services (DFS) encapsulate a broad range of financial activities ranging from simple digital trading platforms for fiat or digital currencies, to more complex digital banking and digital assets.

2020 was a revealing year for DFS whereby fintech was no longer merely an option for financial institutions to diversify, but had become the enabling channel to effectively reach clients during COVID-19's movement control restrictions. This revelation explains the accelerating growth in DFS set-ups in the Centre. Labuan IBFC will continue with its efforts to enhance its regulatory ecosystem to ensure orderly development of the DFS, and

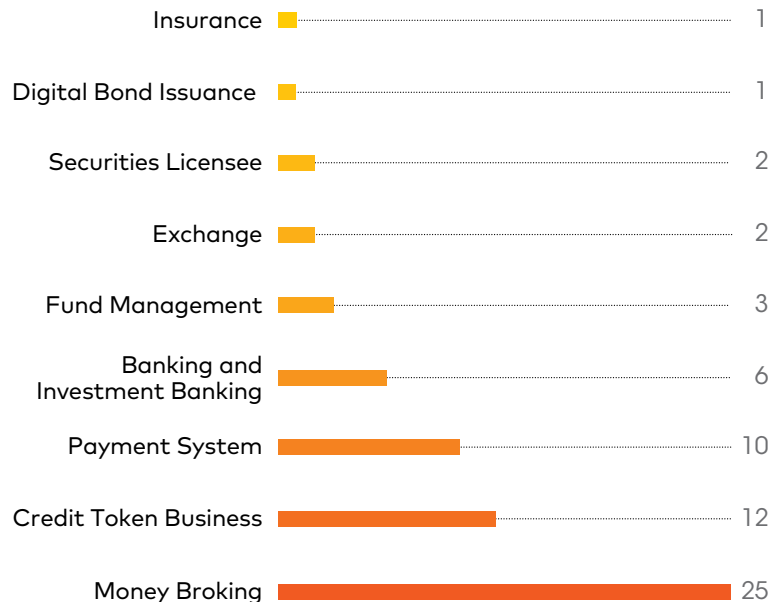
that fundamental market conduct remains sound even via a virtual platform.

The number of Labuan DFS establishments continued to double in 2020 reflecting an exponential trend despite its recent introduction in 2018. There was increasing interest in proposals to undertake digital banking, digital currency trading as well as other digital-based intermediations.

## NUMBER OF DFS PROVIDERS



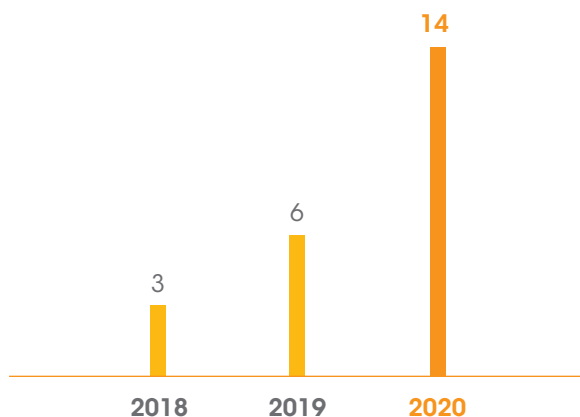
## DIGITAL FINANCIAL SERVICE PROVIDERS



- 30 licences were approved for DFS business, bringing the total number to 62 providers.
- Out of the total DFS providers, majority were licensed to provide digital currency trading platform, credit token business, and e-payment system.

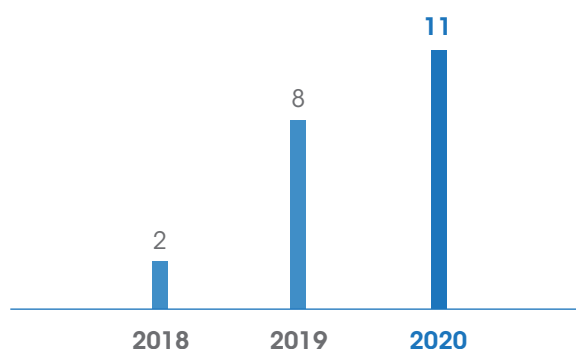


## CREDIT TOKEN



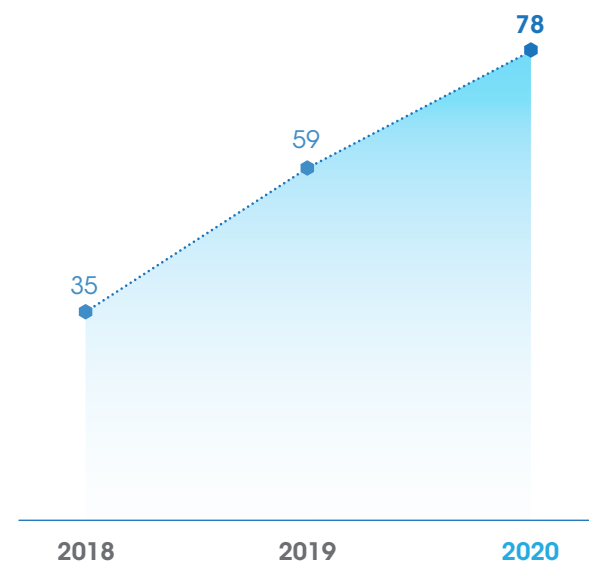
- More than two-fold increase was observed in 2020 which included nine new licences approved for tokenisation of asset-backed securities.

## PAYMENT SYSTEM



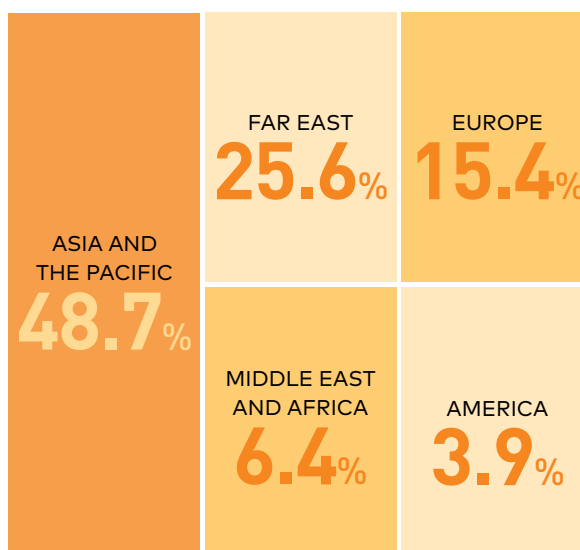
- Four new payment systems were approved to facilitate fund clearing and settlements.

## MONEY BROKER



- During the year, 24 new money brokers were approved and five surrendered or revoked, bringing the total number to 78. Of the total, 25 were engaged in DFS business.

### BY REGION (In %)



- 74.3% of Labuan money brokers were from Asia (Asia-Pacific and the Far East), mainly from Malaysia, Singapore and India.

# Pragmatic<sup>and</sup> Evolving Digital Regulation

A torrent of technology-driven innovation in financial markets and services has reshaped how markets are structured; how companies access and deploy capital; how investors respond and react to information and how customers receive and use financial services in their new innovative form. Faster response to rapid technological advancement and shifting market dynamics require fresh thinking as to how regulation can best foster the responsible development of this digital industry. Similarly, as an international financial marketplace, Labuan IBFC is no exception to a more agile and iterative rulemaking process. The Authority has been promoting digital innovation for business solutions that are tailored to current market needs, whilst ensuring businesses are conducted in a conducive and safe operating environment.

## Regulatory enhancement for digital businesses

Current digital transformation megatrends are fast changing the way financial institutions operate. These require rapid regulatory responses that are appropriate to the nature and complexity of the financial institutions' digital and virtual operations. The Authority recognises that no single regulatory model fits all, and

divergent regulatory frameworks in a complex, fast-moving landscape can add complexity, create uncertainty and dampen innovation. Against this backdrop, the Authority developed the appropriate prudential policy measures to safeguard the Labuan financial institutions (LFIs) from the cyber vulnerabilities and prepare the market to embrace digital transformation in the new norm operating landscape. The measures were aimed at:

- (i) enhancing business contingency planning to minimise material consequences arising from any major operational disruptions; and
- (ii) strengthening cyber resilience for digital operations to ensure operational agility and efficiency.

## Enhancing market practices for business contingency and cyber resilience

As part of initiatives to ensure that LFIs maintain operational resilience and effectively manage the emerging cyber risks and other related vulnerabilities arising from digital transformation, the Authority had embarked on regulatory policy enhancements as depicted in Diagram 1.

	BCM Guiding Principles	Digital Governance Framework
<b>Governance Oversight</b>	Board and senior management oversight on: <ul style="list-style-type: none"> <li>• Business continuity management</li> <li>• Digital and cyber resilience policies</li> </ul>	Corporate oversight on: <ul style="list-style-type: none"> <li>• Business continuity arrangement</li> <li>• Cyber risk internal controls</li> </ul>
<b>Risk Management</b>	Assessment and monitoring of potential disruption risks Business impact analysis	Cyber risk management Digital security controls
<b>Recovery Strategy</b>	Alternative recovery arrangements	Backup plan for critical data
	Disaster recovery planning	
	Stakeholders' communication plan for business contingency activation and cyber incidents	
<b>Awareness and Training</b>	Periodic training and awareness on: <ul style="list-style-type: none"> <li>• Business continuity preparedness</li> <li>• Cybersecurity management and emerging threats</li> </ul>	

**Diagram 1: Measures to Enhance Business Continuity and Cyber Resilience**

The following are the key policy enhancements that are being undertaken by the Authority under the proposed exposure drafts issued during the year:

- (i) Guiding Principles on Business Continuity Management which provided principle-based requirements for LFI's to:
  - maintain a sound and effective business continuity management (BCM) with board and senior management oversight;
  - assess and mitigate risks from major disruptions, concentration of critical business functions and outsourcing arrangements as part of its BCM;
  - adopt recovery strategies that reflect the magnitude of the potential disruption risks to the LFI's critical business operation;
  - develop the IT disaster recovery plan for critical business functions and related technology infrastructure to provide assurance to relevant internal and external stakeholders of LFI's preparedness in the event of a major disruption;
  - conduct a continuous organisation-wide awareness and testing for business continuity and resumption plans;
  - develop an effective communication plan to address the reputational risks; and
- undertake periodic review and maintenance of approaches and strategies for business continuity to assess the LFI's operating environment and business circumstances.
- (ii) Digital Governance Framework that is intended to inculcate effective management of cyber risks by requiring the LFIs to:
  - ensure that its digital governance and cyber risk management is overseen and approved by the board and senior management;
  - maintain enterprise-wide strategies to preserve data confidentiality, system security and resilience in a systematic and consistent manner;
  - implement robust security controls that are matched with the risk and complexity of its digital services on continuous basis;
  - effect obligations of the external service provider for the outsourced IT systems and digital services in the service legal agreement; and
  - conduct awareness programme and participate in trainings for emerging cyber risks and digital-related issues to mitigate cyber threats and vulnerabilities.

Labuan IBFC has been progressive in embracing the rapid evolving fintech development in line with international standards of compliance, transparency and prudential requirements, and will continue to benefit Labuan IBFC moving forward.

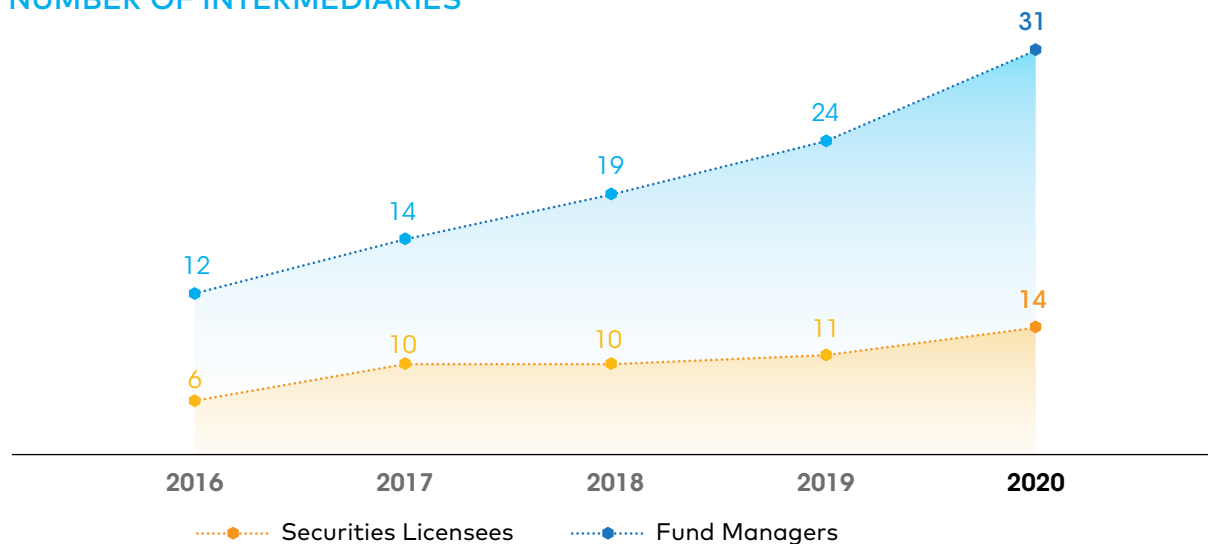


# CAPITAL MARKET

Labuan IBFC's legal and regulatory framework provides a well-regulated and agile business environment, which has spurred increasing interest from international capital market service providers such as fund managers, private equity funds, securities dealers and fund administrators.

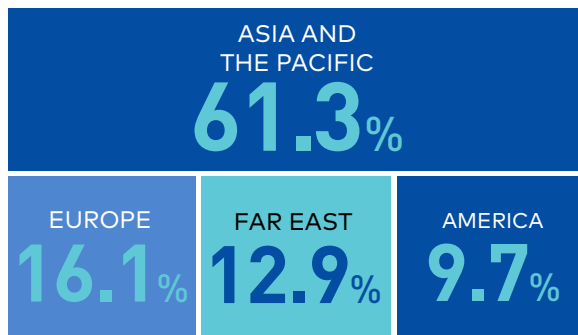
Over the last two years, there has been increasing interest in using the Centre for investments and fund-raising activities across Asia and beyond, especially towards the intermediation of digital securities.

## NUMBER OF INTERMEDIARIES



## FUND MANAGER

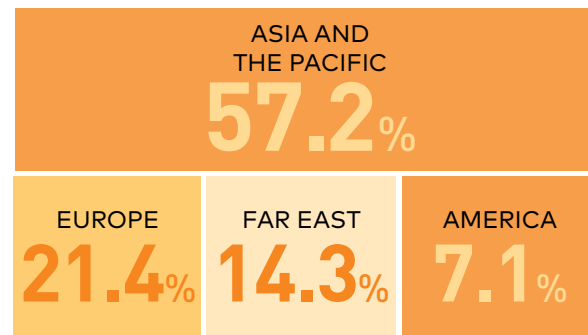
### BY REGION (In %)



- Ten new fund managers were approved bringing the total number to 31.
- 61.3% of the fund managers were from the Asia and the Pacific region, mainly from Malaysia and Singapore.

## SECURITIES LICENSEE

### BY REGION (In %)



- Five new securities licensees were approved bringing the total number to 14.
- 57.2% of the securities licensees were from the Asia and the Pacific region, mainly from Malaysia and Singapore.

# FINANCIAL EXCHANGES

Financial exchanges in Labuan IBFC operate in conventional and digital form, providing a platform for listing and trading of financial instruments. These instruments comprise equities, investment funds, debt instruments and other types of financial instruments which can be listed as conventional or Shariah-compliant to suit investor preferences.

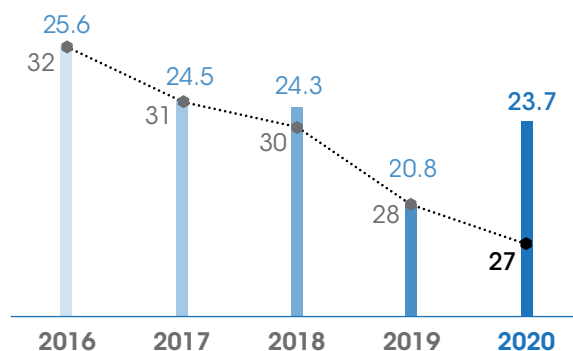
In 2020, Labuan FSA granted approval for two digital exchanges which offer blockchain-based solutions for the issuance and trading of financial instruments. Both exchanges offer primary listing of digital securities such as equities, bonds, derivatives, funds, and alternative asset classes for real estate with an innovative approach that promotes lower operational cost and greater efficiency. The exchanges also allow secondary market trading of security tokens, crypto, and fiat currencies.



## NUMBER OF LISTINGS AND MARKET CAPITALISATION

(In USD Billion)

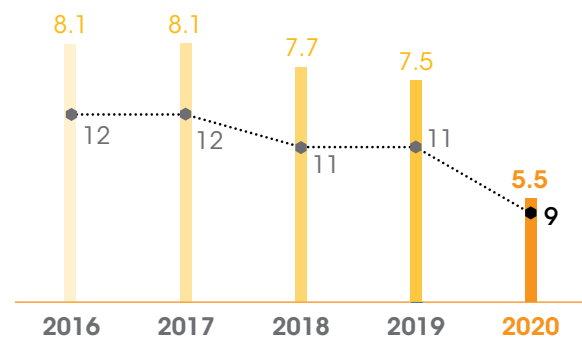
Total



■ Total Capitalisation

.....●..... Number of Listings

Islamic



■ Total Capitalisation

.....●..... Number of Listings

- In 2020, three new listings worth USD6 billion were raised through the Labuan International Financial Exchange, with a range of 10-40 years maturity, by a domestic oil and gas operator.
- The total market capitalisation increased by 14.1% to USD23.7 billion. Of the total, 23.1% or USD5.5 billion were Sukuk issuance.

# Strategic Direction of Labuan IBFC 2021-2023

## Enhancing the Sustainability and Relevancy of Labuan IBFC

Labuan IBFC has grown from strength to strength in terms of market size as well as traction in the regional business. It has evolved significantly over the years and has persevered during the most challenging of times, in particular during the past year's COVID-19 pandemic crisis. We maintain cautious optimism that the years ahead will bring business recovery, and even a rebound, with many business opportunities that can be captured via the Centre. With the presence of diverse financial institutions, professional service providers and intermediaries as well as availability of up-to-date products and services offerings, we believe that Labuan IBFC will continue to be one of the preferred markets in the region for the intermediation of Asian trades and investments.

**M**oving ahead, Labuan IBFC remains cognisant of the evolving business environment; and will continuously leverage on emerging developments to pursue potentials which include financial digitalisation. The future business landscape will continue to be challenging, and as such, appropriate strategies have been formulated and embedded within the Labuan IBFC's strategic roadmap for 2021-2023.

In line with the theme of *"Enhancing the Sustainability and Relevancy of Labuan*

*IBFC"*, the strategic plan comprises four key priorities:

- Expand and strengthen Labuan IBFC's financial ecosystem;
- Regulatory and supervisory modernisation;
- Visibility enhancement and branding strategy; and
- Enhance organisational reputation and delivery efficiencies.



### Expand and Strengthen Financial Ecosystem

#### BUSINESS INTENSIFICATION

To enhance business facilitation and invigorate identified key business sectors.

- Review and align business regulations
- Enhance digital-conducive ecosystem
- Tap into full potential of Labuan insurance market
- Revitalize Labuan banking business
- Attract targeted brands and facilitate intra-Labuan business
- Strengthen and expand functions of key intermediaries



### Regulatory and Supervisory Modernisation

#### RESPONSIVE REGULATIONS AND SUPERVISION

To modernise regulatory and supervisory approach with forward-looking requirements; and strengthen market monitoring and enforcement capability to ensure continued market stability.

- Upscale proportionate regulations to suit new business developments
- Refine supervisory approach to cater for emerging risks
- Inculcate greater international regulatory and supervisory cooperation



### Visibility Enhancement and Branding Strategy

#### PROFILING AND VISIBILITY OF LABUAN IBFC

To foster closer collaboration with key stakeholders to enhance prominence of Labuan IBFC.

- Active participation and involvement in international bodies and forum
- Reinforce strategic ties and create greater synergies with key stakeholders through MOUs
- Strategic communication to enhance timely information exchanges and responses to public
- Joint collaboration with the industry to provide cohesive support to the Labuan community



#### ENHANCING ORGANISATIONAL REPUTATION AND DELIVERY EFFICIENCIES

To continue enhancing organisational reputation, capabilities and to drive operational efficiencies.

- Improve key facilities via digital solutions to support organisational needs
- Strengthen reliability of key digital service platforms
- Continue upskilling of internal competencies and new skill sets in line with market development
- Prudent financial management of Labuan FSA

# Supporting Labuan Community in Times of Need

In 2020, Labuan IBFC welcomed its 30<sup>th</sup> anniversary as an international business and financial centre. Typically, such an anniversary would have been celebrated as an important milestone, if not for the great challenges that ensued in that year. Malaysia was not spared as the COVID-19 pandemic took everyone by surprise with its unprecedented reach as well as widespread impact across the globe. At the time this article is being written, the effects of the pandemic have continued to be felt across the country including Labuan Island. With business slowdown and movement restrictions confining the people of Labuan to their homes, the disruption to the Island's local community has been deeply profound.

As a key economic contributor to the Island, Labuan IBFC industry was determined to play a greater role by extending a helping hand to

the community during these difficult times. In tandem with the Government's effort to combat the pandemic, Labuan FSA and the Labuan IBFC industry had come together to provide support to those in the community whom were severely impacted by the pandemic.

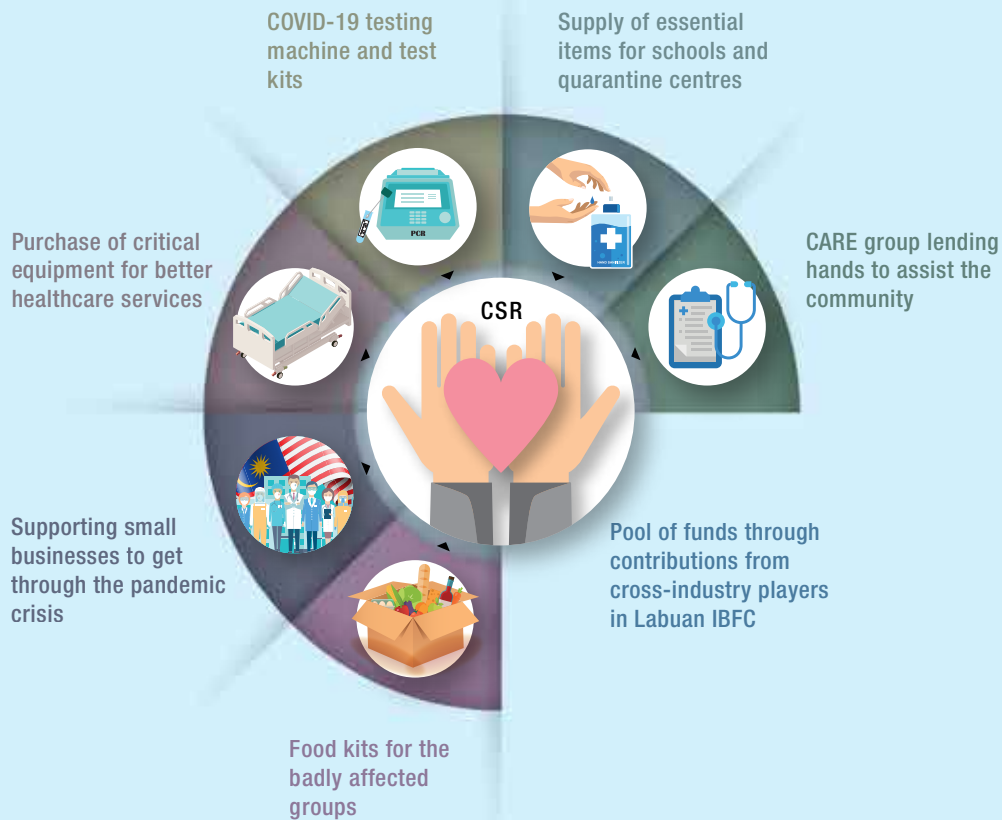
One key initiative arising from the collaboration was the establishment of the '*COVID-19 Relief Fund*'. Through the pool of funds, various relief efforts were conducted to support the community, among others:

- purchasing COVID-19 test machine for the local hospital;
- procuring beds, mattresses and pillows for the Labuan quarantine centres and the temporary hospital; and
- acquiring household necessities, foodstuff and healthcare items for distribution to the underprivileged as well as the frontliners.





### LABUAN IBFC'S CONTRIBUTIONS TO THE LABUAN ISLAND AND COMMUNITY



Recognising the importance of healthcare services for the Island, especially during period of crisis, Labuan FSA has worked closely with Labuan hospital to upgrade its medical facilities and equipment. This has enabled the Labuan Hospital to better meet the healthcare needs of the local community, especially with the surge of medical requirements during the COVID-19 pandemic.

The COVID-19 pandemic in 2020 has taught all of us to remain resilient, adaptive and agile. Notwithstanding the economic difficulties caused by the health crisis, Labuan IBFC will remain ably in navigating through challenges and grow stronger. The Centre will continue with its corporate social activities for the betterment of the Labuan Island and its community.

# The History of Labuan and the Trade Matrix

By Kam Raslan

On a map Labuan is a tiny island. Labuan is tiny compared to the massive island of Borneo. Labuan is tiny compared to the rest of Malaysia and the now dead empires that governed it, and it is tiny compared to the surrounding sea. But tiny Labuan has been a witness and participant in Southeast Asia's remarkable maritime trading history that stretches back for thousands of years. War, occupation, invasion, migrations, trading, industrial revolutions, so many people and so many ships, and now a key point in the empires of sophisticated global banking, Labuan has seen it all and it continues to play its role, bigger than its tiny size.

**B**runei, Sabah and Sarawak, as well as Britain and even Spain have all either owned or contested Labuan. It's now a Malaysian Federal Territory, along with the capital city of Kuala Lumpur, two hours flying time away to the west. From the air you cannot see any land borders on the island of Borneo or any borders that might be dotted in the sea. But you can easily see the island of Labuan, shaped like an arrowhead pointing north to China. Below you is a flotilla of ships sheltering

in the deep water harbour that gave the island its name: *labuhan* is Malay for harbour. You can see Victoria town and Ramsay Point where British sailors first raised their flag in 1846, and you might see a tall brick chimney in the north, all that remains of the abandoned coal mines that were once worked by convicts from Singapore and Hong Kong. From above we cannot see any sharp details, and we cannot see the people of Labuan. But you can see the sea, which is an island's true home.



So let's go down to sea-level. To understand Labuan, its people and its purpose we must see it not from a plane or on a map but we must use our imagination to see it from the sea, from a canoe, a Malay *prahu*, a Javanese *djong*, a Chinese junk, a Portuguese caravel, a fast tea-laden East Indiaman ship with masts so tall it gave us the word "skyscraper", or from a struggling steamship with a boiler that could explode at any minute. The seas of Southeast Asia have always been a trading matrix. It's a legacy that continues, albeit in a different style.

Before and even during the arrival of the European empires, the peoples of the land, the rivers and the sea would trade the produce of the jungles at important entrepôts like Brunei, sheltering and taking fresh water at Labuan. Then catching the seasonal winds the Malay, Chinese, Tamil, Arab or Persian traders would carry cargoes of sea cucumbers or fragrant agar wood that would be traded through several hands for cloth from India or horses from Persia before arriving in the ports of Canton or Basra via Malacca or Bugis, Javanese and Cham ports.

From the Straits of Hormuz to the Sulu Sea, the land and sea must be seen as a single maritime world with peoples and empires ebbing and flowing.

In this swirling world we reach and take shelter in the lee-side of the island of Labuan that has played its part like a moored ship, a stopping point, a bargaining chip, a military base, an offshore banking hub and especially as a harbour. We must see Labuan from the sea and we will begin by seeing it from two British naval ships.

8am, December 24<sup>th</sup> 1846. HMS *Iris* and *Wolf* were in Labuan's harbour. The ships were dressed with flags across the top gallants because this was an important occasion. On shore, British sailors stood to attention as the Union Flag was raised and a commemorative stone was laid: "This Island was taken possession of December 24 1846 in the name of Her Majesty Victoria". At 1.30pm the captains of the two ships, Captains Mundy and Gordon, arrived with the Sultan of Brunei's representative, Pangeran Mormeen and seven fellow Pangeran (princes). They stood on a platform under two huge umbrellas. Captain Mundy gave a speech that was translated into Malay by Lieutenant Heath:

"Let it be known to all here present that on this day I take possession of the island of Labuan, and the islands adjacent, in the name of her Majesty Queen Victoria, by order of Sir Thomas Cochrane.

You are therefore now standing on British ground. People of all nations will now be protected by the English nation. The English Admiral will order his steamers and ships to destroy all pirates by land or by sea, killing them and burning their villages. The Sultan of Borneo and the Queen of England are now friends. Pirates making war against him will be destroyed by the great English nation."

The promise and threat of the bloodcurdling words were reinforced by a thunderous salute of 40 ships' cannons that had just recently been pointed directly into the Sultan of Brunei's wooden palace during the negotiations for the Treaty of Labuan when the Sultan ceded the island to the British, beginning Labuan's 120-year association with the British Empire. The states that make up present-day Malaysia were governed by five different forms of British Empire, and only Labuan would experience three of them.

Pangeran Mormeen must have shuddered and also been pleased by the shock waves of the guns. It was an unequal treaty but the Sultan had made the best possible deal from a selection of bad choices. Over a century later Brunei would become immensely wealthy because of oil but back then oil had no value. In 1846 coal

## THE HISTORY OF LABUAN AND THE TRADE MATRIX

was king and Labuan had coal. After the ceremony the British and the Pangerans shared a celebratory drink but suddenly one of the Pangeran was accused of stealing a bottle and Pangeran Mormeen immediately offered to decapitate his fellow prince. Given the display of wealth and power the unfortunate man must have believed the bottle was a complimentary door-gift, and now he was about to lose his head. He was allowed to keep his head and even if the offer was an empty gesture it shows that Pangeran Mormeen understood the value of the Treaty of Labuan to Brunei.

Brunei had once been rich but in 1846 it was poor and was ruled by the British and most especially by Rajah Brooke of Sarawak who was a British man but his kingdom of Sarawak was not officially part of the British Empire. In fact, he was theoretically a vassal of the Sultan of Brunei but Brooke had wealthy London backers. James Brooke was not present when Britain took Labuan but he would be the island's first governor. Taking Labuan had been his plan, to extend British power eastwards from Singapore and give himself Royal Navy protection. Not for the last time would Labuan be used as a bargaining chip.

As British sailors raised their flag over Labuan and gave three cheers they began Labuan's history. Or so we might be deceived into thinking. When there had been very little before their arrival, British domination brought a sudden and overwhelming abundance of written documents: ships' logs, governor's reports to London, letters, civil servants' memoirs, and the books of wandering novelists, ethnologists and botanists. And they brought the wholly new economic concept of capitalism with investors brochures and annual reports that shape our modern world.

The Europeans had banks and capital and they imposed new industries, plantations, mines, new trade connections that killed old ones and new things made of brick and metal that have lasted through time when wood has dissolved. Everything was exploited for what had economic value in the European market and suddenly Asian wants were an afterthought. It was a shock but Asia, Malaysia and Labuan have adapted because the networks that came before had worked successfully for 2000 years and have had a lasting impact for the Southeast Asian mindscape. Old documents about Labuan, or even of once mighty Brunei might be scarce but we should remember that Labuan has always been there,

playing its role in maritime Southeast Asia.

Also witnessing the raising of the British flag over Labuan were people gathering beeswax in the dense jungle, fishermen and passing traders. Until then they paid rent to the Sultan of Brunei. We'll never know who they were or what they thought of the situation. British texts describe them as "Malays" but they were probably Malays from near and far, Orang Bajau (a people of the sea) and perhaps Chinese; just some of the peoples who had for centuries been essential players in Southeast Asia's trade matrix. Their seasons and seascapes would be forever changed by the hard borders being created before their very eyes. Queen Victoria must have seemed a very distant and very strange new landlord, and she didn't accept payment in dried fish.

The history of Labuan took a significant turn on Christmas Eve 1846, but it did not begin on that day. To understand Labuan's and Southeast Asia's long and exciting history of trade and cultural exchange we must follow the river and sea journeys of these silent Asian witnesses. Then we will discover that the history of this tiny island of Labuan has always been a tale of movement, change and constant adaptation.

# Labuan Island Key Statistics



SIZE OF  
LAND AREA

**92** km<sup>2</sup>



TOTAL  
POPULATION

**99,300**



GDP  
GROWTH

**5.2%**



MAIN  
ECONOMY

**SERVICES AND  
MANUFACTURING**



TOTAL  
EMPLOYMENT

**40,300**

## POPULATION



People ('000)



Male



Female



**MALAYSIA**

32,523.0

16,764.9

15,578.1



**LABUAN**

99.3

50.0

49.3

### By Residency

**89.9%** Resident

**10.1%** Non-resident

### By Ethnicity

**85.2%** Bumiputra

**10.7%** Chinese

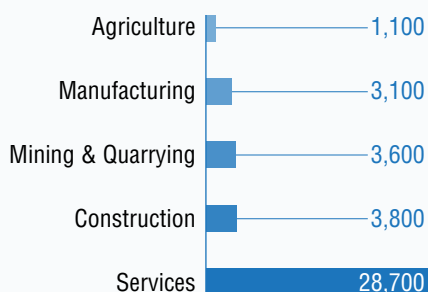
**0.9%** Indian

**3.2%** Others

## EMPLOYMENT

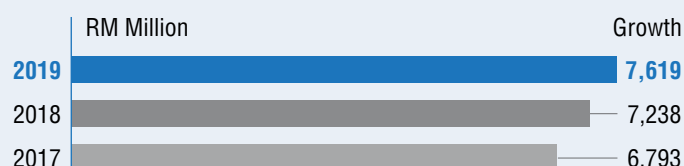


By Sector



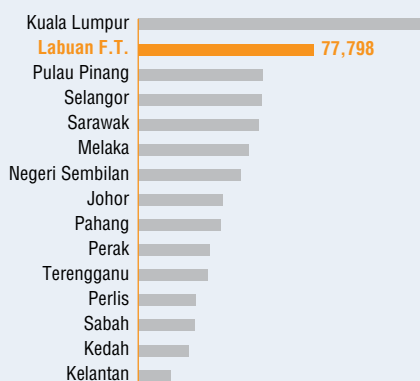
## GROSS DOMESTIC PRODUCT OF LABUAN

(RM Million, at Constant 2015 Prices)



	Market Share	Growth
Services	77.4%	7.50%
Manufacturing	18.2%	1.40%
Construction	2.3%	13.50%
Agriculture	1.7%	6.10%
Import Duties	0.4%	-73.30%

## GDP Per Capita by State, at Current Prices



# A Preferred International Business and Financial Centre in Asia

Labuan International Business and Financial Centre (Labuan IBFC), Malaysia, through our internationally recognised yet business-friendly legal framework, is a preferred international business and financial centre in Asia. Established in 1990, Labuan IBFC is regulated by the Labuan Financial Services Authority (Labuan FSA), a statutory regulator under the purview of the Ministry of Finance.

As an international financial centre, Labuan IBFC offers global investors and businesses the benefits of being in a well-regulated and supervised jurisdiction, which adheres to international standards of compliance in tax transparency. Labuan IBFC, located in the centre of Asia, boasts a cost-efficient environment making it an ideal jurisdiction for both global businesses looking at penetrating Asia and Asian entities aiming to go global.

## Why Labuan IBFC as Your Asian Base?



### REGIONAL OPPORTUNITIES

Southeast Asia is estimated to be 4th largest economy by 2050, investors and businesses can gain access to a larger marketplace into the region via Labuan IBFC.



### EFFICIENT AND FLEXIBLE TAX SYSTEM

Simple and straightforward tax system to carry out a Labuan business activity as defined by the Labuan Business Activity Tax Act 1990.



### EASE OF DOING BUSINESS

Ease of doing business with cost-effective solutions and structures.



### WELL-REGULATED JURISDICTION

A robust regulatory framework to ensure entities remain in compliance with international best standards.



### SUBSTANCE CREATION AND TRANSPARENCY

Complying with the latest global regulatory standards including requirements for transparency and substance creation.

## WIDE ARRAY OF SOLUTIONS AND STRUCTURES INCLUDING SHARIAH-COMPLIANT OPTIONS

Banking | Risk Management | Leasing | Wealth Management | Commodity Trading  
Protected Cell Companies | International Business Companies

## GLOBALLY RECOGNISED INDUSTRY MEMBERSHIPS AND RECOGNITIONS

							
Group of International Finance Centre Supervisors (GIFCS)	International Organisation of Securities Commissions (IOSCO)	Group of International Insurance Centre Supervisors (GIICS)	International Association of Insurance Supervisors (IAIS)	Asia/Pacific Group on Money Laundering (APG)	Financial Action Task Force (FATF)	Islamic Financial Services Board (IFSB)	International Islamic Financial Market (IIFM)

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# INDUSTRY ASSOCIATIONS

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## ASSOCIATION OF LABUAN BANKS

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Financial Park Complex  
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Chairman: **Mr. Khairudin Abdul Rahman**  
Secretary: **Ms. Nelly Peter Sedomon Gunsanad**

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Fax : +6087 452 779  
E-mail : admin@alb-labuan.com

## ASSOCIATION OF LABUAN TRUST COMPANIES

c/o Noblehouse International Trust Ltd  
Level 1, Lot 7, Block F  
Saguking Commercial Building  
Jalan Patau-Patau  
87000 FT Labuan, Malaysia

Chairman: **Datuk Chin Chee Kee**  
Secretary: **Mrs. Rita Mohd Sharif**

Tel : +6087 410 745  
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## LABUAN INTERNATIONAL INSURANCE ASSOCIATION

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Chairman: **Mr. Gerard Roy Suresh Sharma**  
Secretary: **Mr. Ahmed Farouk Aripin**

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c/o IBH Investment Bank Limited  
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