

LABUAN INTERNATIONAL BUSINESS
AND FINANCIAL CENTRE

Labuan FSA
Financial Services Authority



Strategic Roadmap

2022 - 2026



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Key Message from the Authority

After more than three decades as an international business and financial centre, Labuan International Business and Financial Centre (Labuan IBFC) has established itself as a well-regulated market and has continued to record commendable growth despite challenging economic conditions and the shifting dynamics of the global financial landscape. To pave the way forward, the Labuan Financial Services Authority (Labuan FSA), as the sole regulatory authority for the international business and financial activities in Labuan has developed and adopted a set of developmental strategies to focus on enhancing key businesses and building a sound and reputable financial centre within Asia.

The Labuan IBFC Strategic Roadmap 2022-2026 is a continuation to the thrusts and goals set for Labuan IBFC in the Labuan IBFC Transformation Plan launched in 2018. The Strategic Roadmap has been shaped by recognising the strengths that the Centre possesses, the many opportunities that can be unlocked within its reach, and the challenging externalities which will affect the regional business landscape in the recent years and going forward.

Primary outcome of the Strategic Roadmap is for Labuan IBFC to become a renowned and modern international centre hosting for digital financial innovations to serve Asia's exponentially expanding fintech needs. This serves as the foundation vision for Labuan FSA's forward charting and strategic initiatives planned from three dimensions as follows:

- The first focuses on thrusts to promote greater market development and business expansion for Labuan IBFC key target sectors;
- The second focuses on thrusts to strengthen Labuan IBFC as a well-regulated and internationally-compliant jurisdiction against prevailing regulatory and tax standards; and
- The third focuses internally within Labuan FSA to ensure that it continues to grow its internal capabilities as an adaptive and agile organisation to match the evolving market changes and expectations.

The Strategic Roadmap is supported by five strategic thrusts and two organisational enablers. These measures were formulated after extensive dialogues between Labuan FSA and key domestic regulatory bodies and industry associations to ensure that the strategic goals and thrusts are sufficiently inclusive to all stakeholders.

The achievement of the strategic outcomes would require the commitment and contribution of all stakeholders of Labuan IBFC. Labuan FSA would continue to be responsive, vigilant and market-driven in implementing the measures to achieve the outcomes.

I trust that this publication would serve as a key reference point to drive the vision and mission of Labuan IBFC in not just intermediating Asia's economies but become a key financial market within the region.

Datuk Siti Zainab Omar

*Chairman
Labuan Financial Services Authority*

PART I

Introduction

Section 1.1 Overview

Section 1.2 Reflections on the Changing Landscape

Section 1.3 Reflections on Labuan IBFC's Market Development





Overview

For international business, the last decade ended with a series of global unprecedented challenges and shocks particularly over the last three years. Notable developments are the oil price dips and fluctuations, emergence of the COVID-19 pandemic globally and trade wars, had transformed the Asian financial landscape into the new norms of today. The trade recovery optimism envisaged at the turn of 2020 was also short-lived with the economic disruptions caused by the pandemic.

However, the international market remains agile especially with adoptions of cyber innovations and digital channels to transform businesses beyond their conventional modus operandi. More and more new financial advancements are taking place to improve market access, evolve financial products, promote greater financial inclusivity and build on borderless market reach. The trade liberalisation between economies had also shown encouraging developments with the waning down of China-US trade war recently.

On the regulatory perspective, waves of new international standards have started to gain momentum in order to address emerging threats and topical fiscal concerns. Assessments by international bodies which slowed down or delayed due to the pandemic would be picking up steam as markets revert to their business as usual.



Reflections on the Changing Landscape

While on face value, these developments appear as threats to Labuan IBFC, on the flip side, these may offer opportunities that can be leveraged on with appropriate strategies. Diagram 1 provides an environmental snapshot of developments which are pertinent to the Centre:



Heightened expectations on the Centre's conformity to new international fiscal, prudential and anti-money laundering standards.



Fintech had breathed new life to the banking's and capital market's otherwise maturing trends. Especially for Asia, surging demand for digital assets and digital financial services are catalysed further as they offer more virtual means to overcome the COVID-19-induced physical restrictions.



Emerging demands from Asia's new norms which included financial inclusion agenda and ASEAN's recent economic developments are expected to be the region's business flavour in the coming years.



Labuan IBFC's growing visibility in the international regulatory space as evidenced by:

- the Centre's good standing attested by a series of international tax and anti-money laundering related assessments in the recent years;
- active involvement in the various international bodies comprising peer regulatory authorities of other international financial centres; and
- the good partnership with other jurisdictions as depicted by a number of international memorandum of understandings (MoUs) that Labuan FSA had committed to.

1.2 Reflections on the Changing Landscape (cont'd)

DIAGRAM 1

Environmental Snapshot of Developments pertinent to Labuan IBFC



Taking cognisant of these shifting dynamics, Labuan IBFC would need to be more agile and adaptive in strategising the way forward in the new international business landscape.



Reflections on Labuan IBFC's Market Development

Over three decades, Labuan IBFC had grown by leaps and bounds in terms of market size. Whilst it had been making a mark as one of the leading, expanding financial hubs in Asia, it has also been a key driver for the economic development of Labuan Island (**Chart 1** and **Chart 2**):

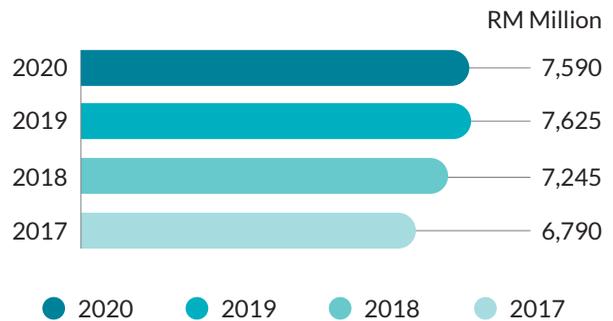
- By 2020, economic contribution of Labuan IBFC aggregate businesses had become the largest component of the Island's Gross Domestic Product (GDP) at close to RM5 billion or more than 60%.
- Labuan's GDP growth had exceeded the national average in the recent years and was in fact the only state that reflected the smallest GDP contraction in 2020.

CHART 1

Labuan GDP Growth Trends



Labuan-Malaysia GDP Growth



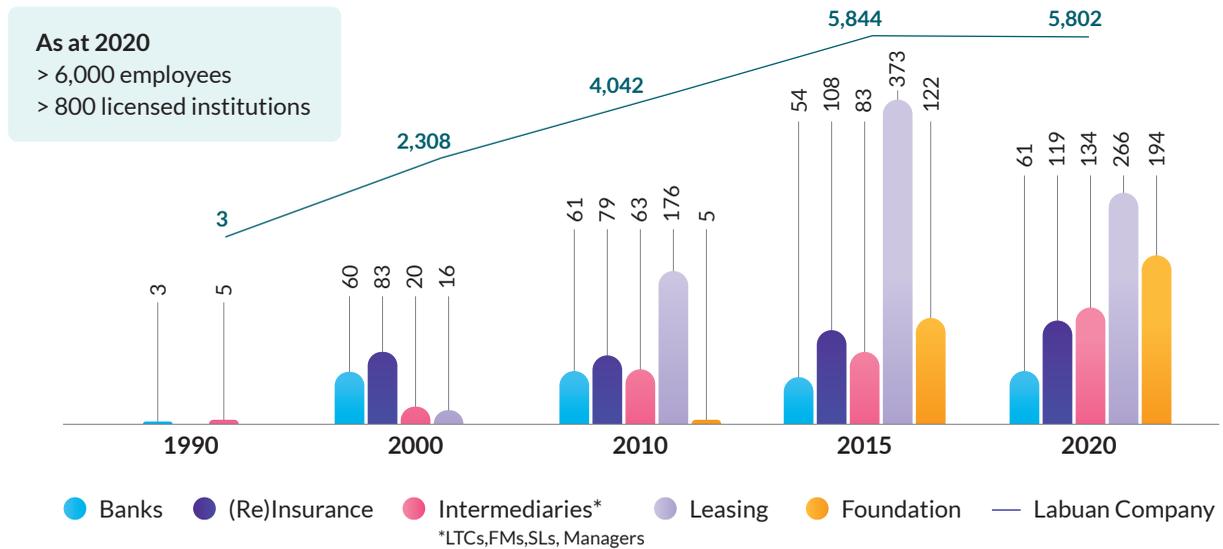
Labuan GDP Trend

Source : Department of Statistics Malaysia

- Labuan IBFC is the Island's largest white-collar employer with nearly 6,000 workforce comprising talents from the local community as well as neighbouring East Malaysian states. This is a reflection of the strong economic demands by the expanding number of operating Labuan entities which is more than 5,800 currently.

CHART 2

Labuan Business Trends



On a more granular sectoral perspective, Labuan IBFC continued to be predominantly driven by international banking and (re)insurance businesses. However, these sectors’ growth is generally plateauing reflecting its market saturation state. Over the last five years, emerging sectors such as captive insurance, Islamic finance and digital financial business have shown high growth potential which the Centre would focus more on relative to its traditional niches¹ of the past years. The Labuan IBFC’s encouraging overall performance is reflected by the following growth headlines (Chart 2 and Chart 3):

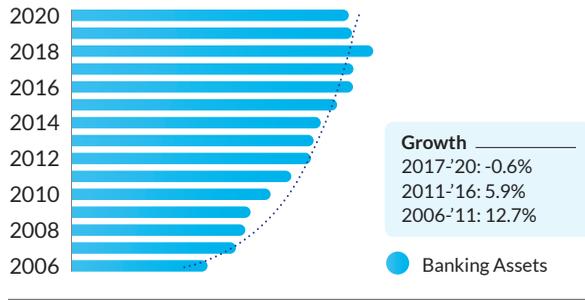
- **Labuan Companies:** Since 2011, incorporations have shown an encouraging average growth rate of 3.1% but recent year’s trending was impacted mainly due to the regional economic slowdown. Asia and the Pacific region remained the largest market segment, accounting for 70% of Labuan companies.
- **Banking:** The banking sector financing grew steadily at 2.6% per annum predominantly driven by overseas borrowings.
- **Insurance:** The insurance sector remained stable with premiums above USD1.5 billion mark with 2.8% premium growth per annum. This was driven primarily by reinsurance business.
- **Captives:** The captive sector showed exponential growth with premium growing at 7.9% per year while number of captives have multiplied with an annual growth of 4.9% since 2010.
- **Digital Financial Services:** The number of digital financial services providers operating had more than doubled since allowed in 2018. This reflects the Centre’s strong potential to be a growing fintech hub within Asia’s commercial space.
- **Islamic Finance:** The Islamic banking is in its nascent stage while takaful sector continued to show an average growth of 20.3%. As a dual system jurisdiction, Labuan IBFC continues to attract demands for the Centre’s Islamic fintech, takaful captive and ESG-related business offerings.

¹ Leasing, international commodity trading, wealth management (foundations and trusts).

CHART 3
Labuan Sectoral Trends

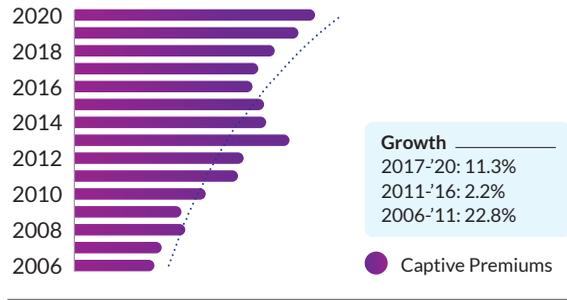
Matured vs Emerging sectors' developments

Banking & Insurance remain drivers albeit moderating growth...

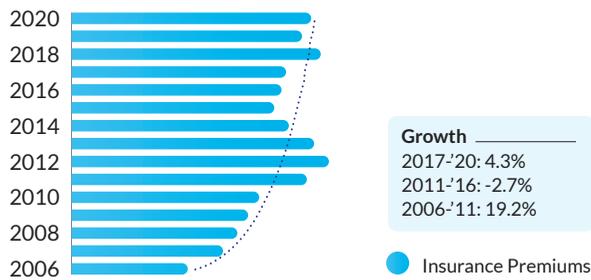


Banking

...but positivity from niche lines



Captives

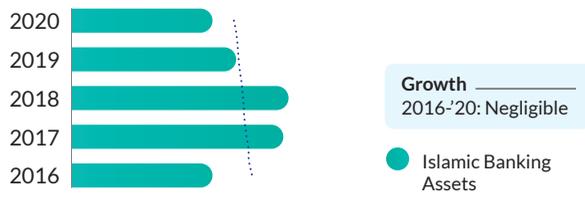


(Re)Insurance



Digital Intermediaries

... Islamic finance's underperformance remains prospective



Islamic Banking



(Re)Takaful

PART II

Labuan IBFC Strategic Roadmap 2022-2026

Section 2.1 Strategic Direction

Section 2.2 Strategic Roadmap 2022 -2026

Section 2.3 Strategic Initiatives





Strategic Direction

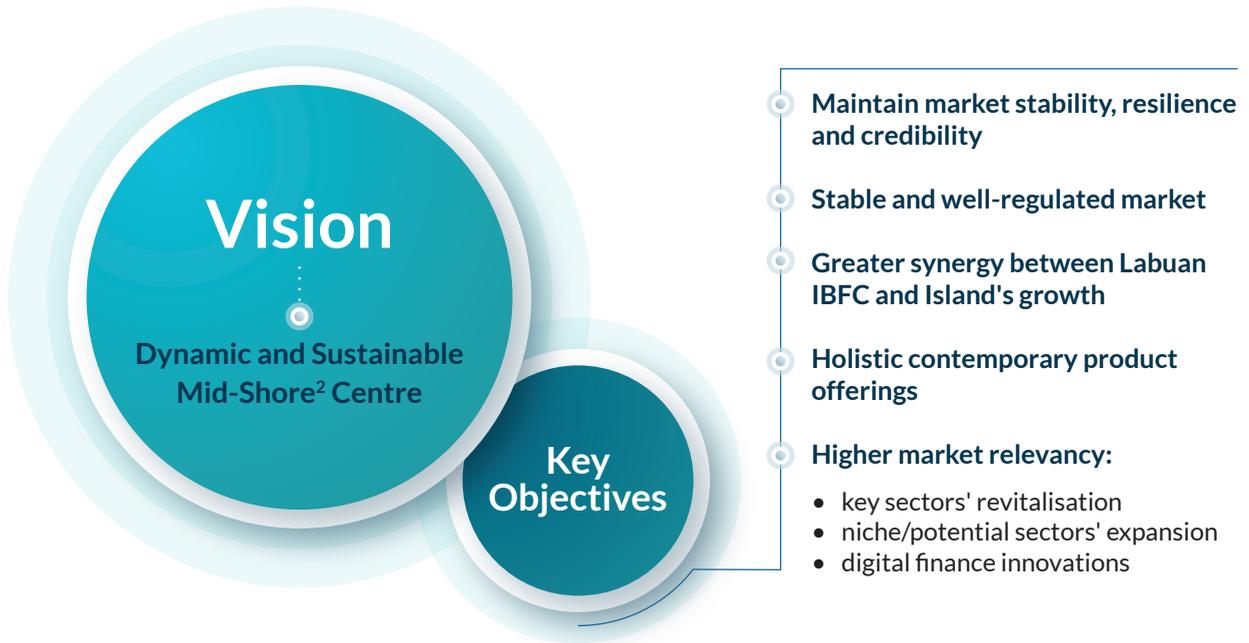
With the advent of the new decade accompanied by a new set of challenges and opportunities ahead, Labuan FSA has updated its forward charting plans via the Labuan IBFC Strategic Roadmap 2022 – 2026 (Strategic Roadmap). In developing this, specific visions and objectives were identified and embedded into Labuan IBFC’s Strategic Direction with the following salient features:

- To transform Labuan IBFC into a dynamic and sustainable international centre that links and supports the economic growth of Asia’s markets, as well as contributes to the national economy. This rides on:
 - Labuan IBFC as a stable, well-regulated market with legal and tax certainty; and
 - Labuan IBFC’s comprehensive financial offerings including greater emphasis on digital innovations and shariah-compliant solutions.
- Aimed at unlocking business opportunities from Asia’s current developments and growth potentials. This builds on Labuan IBFC’s intermediating Asia agenda of the past decade and preserves the strategic pursuit moving forward in enhancing its intra-region business connectivity.
- Continuity of and refinements to the specific business as well as regulatory initiatives from the 3-year Labuan IBFC Transformation Plan which were rolled out in 2018. Some entails intensifying past efforts while others are more granular measures as a follow-through to prior strategies deployed for revitalising identified sectors or strengthening market stability.
- Synching the forward charting of Labuan IBFC with the future advancement plans of Malaysia’s financial markets to ensure continuous economic contribution and relevancy of the Centre to the nation. This involves linking key developmental areas which overlap with those identified by Bank Negara Malaysia’s Financial Sector Blueprint 2022-2026 and Securities Commission Malaysia’s Capital Market Masterplan 3 which were released recently.
- Creating greater synergy between Labuan IBFC’s development plans to that of the Labuan Island’s overall economic growth in line with the national economic aspirations.

Diagram 2 outlines the said vision and key objectives underpinning the Strategic Roadmap.

DIAGRAM 2

Labuan IBFC's Vision and Key Objectives



² A mid-shore centre subscribes to prevailing international regulatory and tax standards, while being consistent with its home country's national requirements and policies. It also typically offers a range of unique, bespoke business solutions and structures that are cost and tax efficient, as well as currency neutral.

2.2 Strategic Roadmap 2022 - 2026

To fulfil these priorities, the Strategic Roadmap is focused on five strategic thrusts and two organisational enablers to be achieved within five years as depicted in Diagram 3. Due to the multi-facet objectives of the Strategic Roadmap, the identified thrusts are grouped based on specific strategic themes:

No.	Thrusts	Themes
1	Business Stream:	Comprising developmental measures to spur business momentum and to elevate international prominence.
2	Regulatory Stream:	Consisting of regulatory and supervisory upscaling measures to strengthen market stability and ensure conformity to international requirements.
3	Organisational Enablers:	Entailing organisational growth strategies to inject internal modernisation and talent enrichment.

DIAGRAM 3

Strategic Roadmap 2022-2026



2.3 Strategic Initiatives

With the advent of the new decade accompanied by a new set of challenges and opportunities ahead, the strategies underpinning the Strategic Roadmap:

- are prioritised based on their criticality to the Centre's market expansion especially for targeted developmental market segments such as digital financial business and Islamic finance;
- adopt phased-in approach over the next five years for new prudential requirements so as to ensure orderly implementation and avoid big bang effects;
- entail specific collaboration with Labuan industry associations, where relevant, to ensure better facilitation in effecting the new requirements whilst ensuring their business practicality; and
- institute improvements within Labuan FSA to ensure it has the capability and means of carrying out its regulatory and supervisory roles effectively in managing the market changes and new norms.

Diagram 4(a) and 4(b) details the key initiatives for the respective strategic thrusts and organisational enablers within the Strategic Roadmap.

DIAGRAM 4(a)

Strategic Thrusts

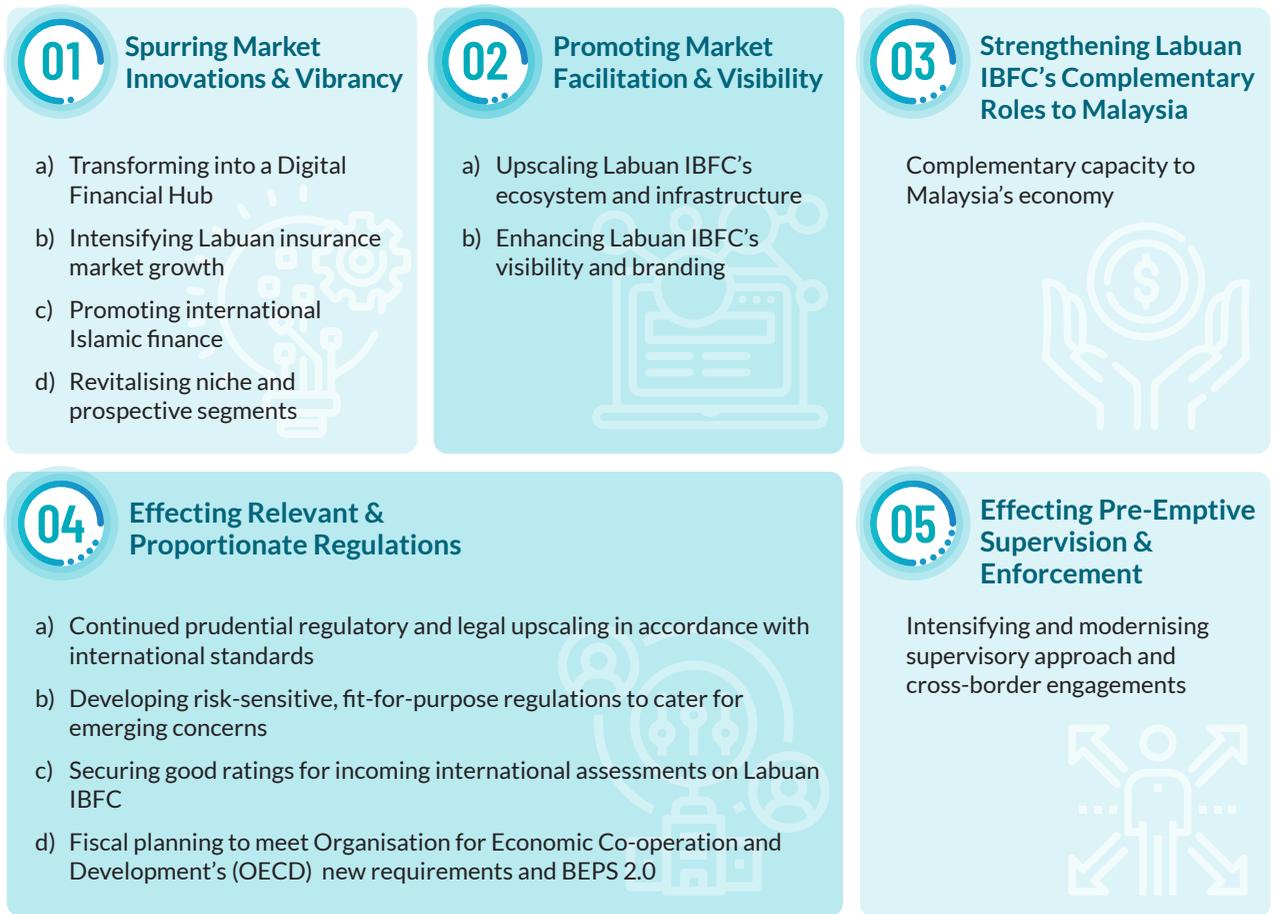
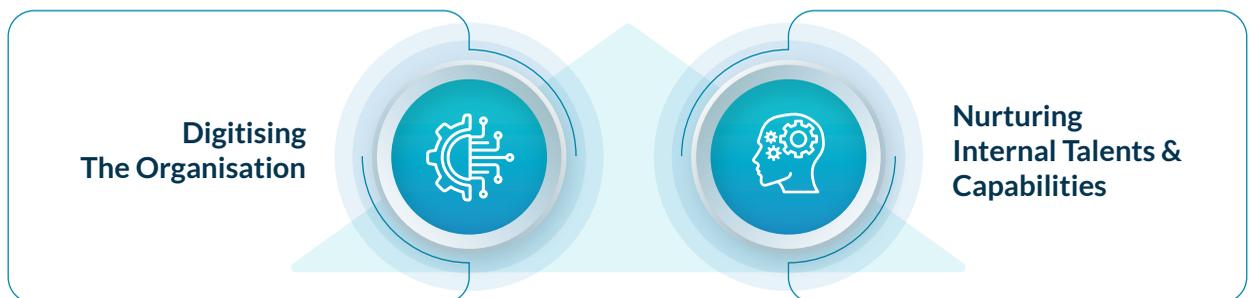


DIAGRAM 4(b)

Organisational Enablers

PROMOTING INTERNAL INNOVATIONS & GROWTH





PART III

Business Stream

Thrust 1 Spurring Market Innovations and Vibrancy

Thrust 2 Promoting Market Facilitation and Visibility

Thrust 3 Strengthening Labuan IBFC's
Complementary Roles to Malaysia

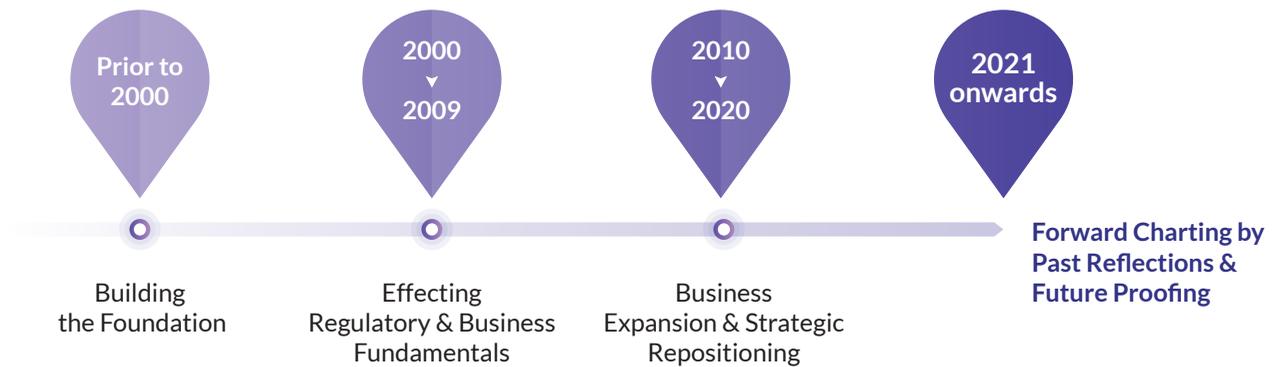


Past Reflections

Labuan IBFC had undergone various transformative phases since its formative years of laying down the fundamental building blocks of the market and requisite infrastructures. In particular, there has been a paradigm shift in the Centre’s business landscape over the last decade which was attributable to:

- (i) External economic shocks due to global oil price instabilities followed by business disruptions caused by the COVID-19 pandemic;
- (ii) Business expansion initiatives from the roll-out of the Labuan IBFC Transformation Plan; and
- (iii) Fiscal reforms effected by the revisions made to the Labuan tax regime.

DIAGRAM 5
Past Reflections



Shaped by these developments in Diagram 5, the following depicts the current state of Labuan IBFC’s key business sectors over the last decade:

- Stable growth impetus was observed in the banking and insurance market. This is coupled by the moderating business trends of previous “best-selling” sectors (i.e. leasing and international commodity trading) which were impacted by the recent economic shocks.
- Market expansionary opportunities exist within potential sectors comprising captives, digital financial business and Islamic finance due to growing demands.
- With the substance regulations roll-out from the revised Labuan tax framework, Labuan businesses had provided greater economic spillovers within the Labuan Island.

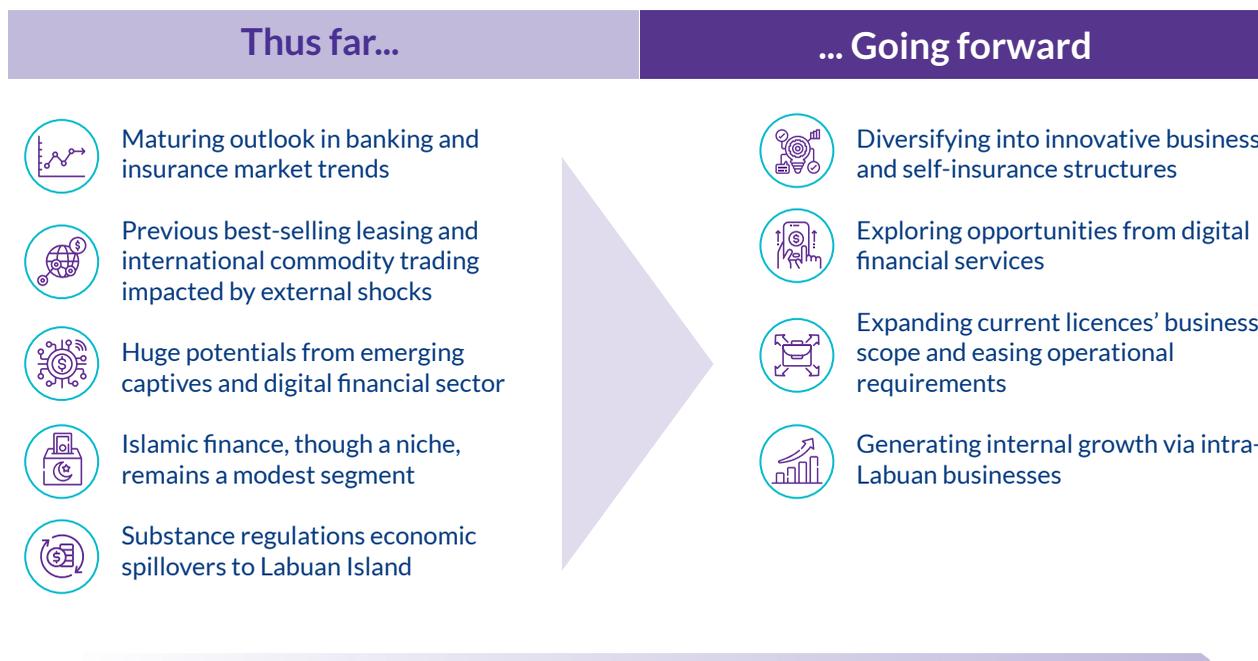
Going Forward

To expand the business frontier of the Centre, current and incoming initiatives will entail:

- (i) Diversifying into digitally-driven businesses, self-insurance business solutions as well as virtual asset related services to capture the demand surge for fintech and captives;
- (ii) Reviewing existing licence offerings to include expansion of business scope and easing of operational requirements so as to ensure these remain relevant and sufficient to capture current market demands as well as business facilitative;
- (iii) Inducing business synergy and internal market growth by promoting cross-sectoral transactions between different businesses within Labuan IBFC; and
- (iv) Providing relevant incentives where required as part of business development especially for targeted growth sectors.

DIAGRAM 6

Business Landscape – Reflections and Forward Charting



THRUST



Spurring Market Innovations and Vibrancy

a) Transforming into a Digital Financial Hub

The next chapter for Labuan must be underpinned by business innovations that ride on digital technological wave that has been sweeping across Asia over the last three years. For this pursuit, initiatives that are being and will be pursued more aggressively is to ensure that:

- the business regulations and infrastructural support are appropriate and sufficiently conducive for Labuan to serve as host market for fintech set-ups to serve Asia from.
- the Labuan banking and capital markets over the next five years are revitalised via innovative digital solutions – a reversal to the moderate trends observed in the past.

ENABLING INITIATIVES	'22	'23	'24	'25	'26
1. Revitalise Labuan banking and capital markets via digital solutions <ul style="list-style-type: none"> • Enhance the scope and operational requirements for Labuan banking activities. • Formulate digital assets regulatory requirements including tokenisation of non-securities via digital platform. • Develop and enhance Labuan exchanges' scopes and functions including promoting ESG. 					
2. Enhance digital environment <ul style="list-style-type: none"> • Promote formation of centralised facilities for digital authentication for Labuan market. • Effect end-to-end digitisation process of licensing and registration. • Develop and enhance existing requirements for dealings on digital assets and digital exchange platforms. 					

b) Intensifying Market Growth of Labuan Insurance

Despite the recent business shocks which included the fluctuating oil prices and COVID-19 pandemic, the Labuan insurance sector’s performance remained resilient over the years, backed by encouraging premium growth and favourable bottom line. With a wide range of (re)insurance and (re)takaful products and intermediary services offered by Labuan IBFC, prospective clients have abundant choice to choose the preferred form for their business setup. Initiatives for the sector will be focused on:

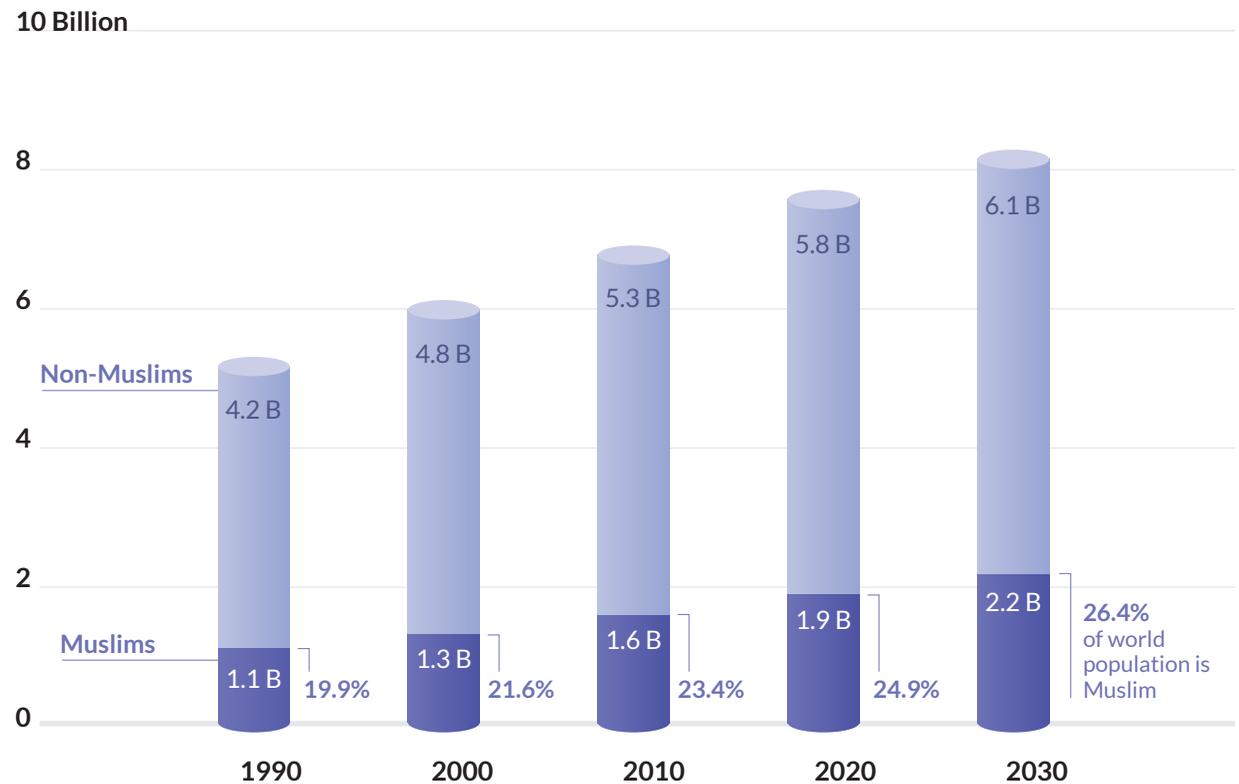
- optimising the sector’s capacity to better serve the (re)insurance needs of Labuan entities and peer sectors within Labuan IBFC and Labuan Island.
- enhancing the attractiveness of Labuan captive solutions as well as professionalism standards for insurance intermediaries.

ENABLING INITIATIVES	'22	'23	'24	'25	'26
<p>1. Expand intra-Labuan insurance business potentials</p> <ul style="list-style-type: none"> • Underwrite specialised risks of Labuan entities. • Develop industry-wide retention policy and market cession schemes. 		▶			
<p>2. Rationalise captive framework</p> <ul style="list-style-type: none"> • Varieties of Labuan captive structures will be harmonised and reviewed to ensure its effectiveness and relevancy are at par with international market development. • Functions of captive managers will be reviewed and expanded to effectively assist captive insurers in the business operations, particularly on risk management activities. 		▶			
<p>3. Diversify Protected Cell Companies (PCC) structure</p> <ul style="list-style-type: none"> • Detailed study will be undertaken to expand the scope of business of PCC. 		▶			
<p>4. Upscale the role and professionalism of insurance intermediation</p> <ul style="list-style-type: none"> • Explore the possibility of sector-based tiering of insurance intermediaries against practice of another international financial centre. • Undertake a feasibility study to introduce new or specialised “underwriter” licences to cater for growing demands for underwriting of specialised risks. 		▶			

c) Promoting International Islamic Finance

With 1.9 billion Muslims¹ underserved globally, it is clear that there is a huge opportunity for Labuan’s Islamic financial sector to cater not only the emerging Asian markets but also to reach a wider Muslim global market. The growth of global Islamic finance assets is estimated at USD2.70 trillion² in 2020 and is forecasted to be above USD3 trillion by 2023. However, lack of digital services could be a major barrier to service the uptake from the next generation of consumers. To maintain its growth trajectory and give better value to the industry players, the expansion of the Labuan Islamic finance sector will focus on enabling business diversification with technology inclusive. Notwithstanding this, Islamic financial solution providers will also target conventional consumers and investors who look for products that are sustainable, value-based and competitive.

CHART 4
Muslims as a Share of World Population, 1990 - 2030



¹ *The Future of the Global Muslim Population* Pew Research Center. Retrieved 12 Jan 2022.

² IFSB Stability Report 2021

CHART 5

Breakdown of the Global Islamic Financial Services Industry by Sector and Region 2020 (USD billion)³

Region	Islamic Banking Assets	Sukuk Outstanding	Islamic Funds Assets	Takaful Contributions	Total	Share %
Gulf Cooperation Council	979.7	280.4	46.3	12.3	1,318.7	48.9
South-East Asia	258.2	366.4	41.9	4.1	670.6	24.9
Middle East and South Asia	499.0	18.9	22.8	5.5	546.2	20.3
Africa	43.1	1.7	1.5	0.6	46.9	1.7
Others	61.8	22.1	31.3	0.6	115.8	4.2
Total	1,841.8	689.5	143.8	23.1	2,698.2	100.0

For the next five years, it is envisaged that the existing ecosystem of Islamic finance in Labuan IBFC will be elevated through:

- embedding digital innovations within its current regulations, players, shariah-compliant offerings and infrastructure;
- bringing in social reforms in topical socio-economic agendas which include financial inclusion, transparency and value-based intermediation, in line with the Maqasid As-Syariah (the objectives of Shariah); and
- amalgamating Islamic pillars with fintech solutions through the implementation of digital Shariah governance in Labuan IBFC in order to attract global players, innovative shariah compliant products and their intermediation, as well as supporting infrastructures.

DIAGRAM 7

Labuan IBFC as a Well-Recognised Islamic International Centre



³ IFSB Stability Report 2021

ENABLING INTIATIVES	'22	'23	'24	'25	'26
1. Create thought leadership in the development of Shariah exchanges.	▶				
2. Attract new digital prospects in banking and other traditional financial sectors.	▶				
3. Support the vision of Government in enriching the rakyat (people) via digitalisation.		▶			
4. Service new sectors through takaful captives and Shariah-compliant tokenisation.	▶				
5. Institutionalise globally social finance via digitalisation such as Pension, Hajj, Waqf and Zakat.			▶		
6. Complement the global Islamic infrastructure.	▶				
7. Host international Islamic digital dialogues and associations.			▶		

d) Revitalising Niche and Prospective Segments

The external economic shocks that affected Asia's business landscape had also impacted Labuan focused markets. There is an imperative need for the Centre to:

- continue to diversify into other potential sectors that can fuel business expansion of the Centre.
- revitalise existing businesses by reassessing as well as exploring ways of enhancing the current product offerings so as to ensure alignment with emerging and topical demands.

ENABLING INTIATIVES	'22	'23	'24	'25	'26
1. Promote commercial use of PCC for administering mutual funds.	▶				
2. Enhance the attractiveness of LITC including operational requirements for oil and gas (O&G) and non-O&G.	▶				
3. Rationalise the licence scopes and activities for Labuan key services providers.			▶		
4. Develop digital leasing structure by identifying possible types of leasing assets that can be digitised for commercial purpose.			▶		

THRUST



Promoting Market Facilitation and Visibility

a) Upscaling Labuan IBFC’s Ecosystem and Infrastructure

As prospects desire for a comprehensive suite of infrastructure that is well-suited for their business setups, it is imperative that Labuan IBFC provides a suitably conducive financial ecosystem. In this regard, Thrust 2 initiatives are geared towards:

- leveraging on digital advancements and seamless platforms to intermedate different market players whilst providing the requisite building blocks towards attaining smart island vision for the Centre; and
- promoting greater business confidence on the Centre by exploring mechanisms to better safeguard investors’ and business stakeholders’ commercial interests.

ENABLING INTIATIVES	'22	'23	'24	'25	'26
1. Develop aggregation/distribution platform to encourage cross-sectoral business transaction to match the supply and demands of business in Labuan IBFC.	▶				
2. Partner with local key agencies in developing roadmap for Labuan as a Smart City which includes greater connectivity with active engagement with local agencies.			▶		
3. Develop ‘protection’ schemes to enhance investors’ confidence by undertaking feasibility study.			▶		

b) Enhancing Labuan IBFC’s Visibility and Branding

Labuan financial industry has progressively expanded since its establishment, becoming a sound and stable international financial centre with increasing reputation and international recognition. As international business climate improves, Labuan IBFC will remain proactive and ready to take any opportunities to attract and facilitate new and existing players in the Centre. Furthermore, strategic partnerships with domestic and international regulators as well as standard-setting bodies will also be strengthened to ensure the Centre is at par with international standards and best practices. A comprehensive strategic communication framework is crucial to deliver an effective communication plan, increase awareness of Labuan IBFC and formulate appropriate proactive strategies. Therefore, the Centre’s strategic communication framework will continue to be enhanced and updated for effective end-to-end stakeholders’ management.

ENABLING INITIATIVES	'22	'23	'24	'25	'26
1. Enhance strategic communication framework for effective stakeholders management.	▶				
2. Active participation in international events and strengthen collaboration with other international financial centres as well as domestic stakeholders. This includes engagement with standard setting bodies, MoU partners and promotional agencies.			▶		
3. Focus on marketing strategy emphasising on targeted key brands for specific sectors.			▶		

THRUST



Strengthen Labuan IBFC's Complementary Roles to Malaysia

Complementary Capacity to Malaysia's Economy

Labuan, as part of Malaysia, plays an important role in complementing the national economy, particularly for segments identified to be deficient or insufficient to be catered for by domestic industries. In this regard, initiatives under this thrust are geared towards complementing the domestic financing and insurance needs beyond those that can be offered by the domestic banks and insurers. It is envisaged that these initiatives which are in sync with the prevailing national economic and developmental agendas would entail close cooperation between Labuan FSA and key government ministries as well as domestic regulatory authorities.

ENABLING INTIATIVES	'22	'23	'24	'25	'26
1. Utilise captive structures by GLCs, GLICs, co-operations for better risk management.	▶				
2. Support international trade and investments in specific business niches through digital platform that have been proposed on digital activities.		▶			
3. Introduce counter-cyclical fiscal measures for relevant resident borrowers (firms) with Labuan banks especially for financing related to national interest.		▶			
4. Labuan digital banking to serve financing needs of the unserved or underserved Small-Medium Enterprises (SME).		▶			

PART IV

Regulatory Stream

Thrust 4 Effecting Relevant and Proportionate Regulations

Thrust 5 Effecting Pre-Emptive Supervision and Enforcement



Past Reflections

With the dynamic landscape changes in the last decade, Labuan FSA had embarked on a series of regulatory improvements as well as supervisory enhancements in order to ensure the Centre's orderly business growth and market stability. This upscaling exercise has been a key commitment of Labuan FSA as depicted by the developments since 2010:

- (i) Its inclusion in the national recommendation package under the Financial Sector Blueprint 2011-2020;
- (ii) Establishment of the Financial Stability Committee, a cross-agency advisory platform comprising senior officials of Labuan FSA, Bank Negara Malaysia and Securities Commission Malaysia, that deliberates on new regulations, supervisory surveillance as well as pertinent developments that may affect the Centre's safety and soundness;
- (iii) Setting up of a Prudential Policy Development and Anti Money Laundering Policy division within Labuan FSA so as to accord dedicated focus on formulating key regulations and effect regulatory enhancements; and
- (iv) Fiscal modernisation effected the Labuan tax regime so as to be in line with international standards.

As a result of these current regulatory and supervisory developments, Diagram 8 outlines key progress attained thus far:

- Although the current Labuan legislative and regulatory frameworks are generally comprehensive, these may not cater to all regulatory and supervisory future needs vis-à-vis the new, evolved business norms.
- Adopted the baseline international standards on prudential financial regulations for banking and insurance sectors. However, pressures to conform with the latest AML/CFT and tax standards remain challenging due to a slew of new requirements issued by relevant standard-setting bodies.
- Labuan IBFC was conferred with positive ratings from international AML/CFT and tax assessments in the recent years. On AML/CFT front, Malaysia (including Labuan IBFC) was assessed favourably by the Asia/Pacific Group on Money Laundering (APG) in 2015 and subsequently accepted as a member of the Financial Action Task Force (FATF) in 2016. In relation to fiscal assessments by OECD, Labuan tax regime was rated as "Not Harmful" as well as "Largely Compliant" for BEPS harmful tax practices and tax transparency areas of evaluation, respectively in 2019.
- Supervisory monitoring and surveillance are undertaken continuously though relying on traditional methodologies which may not always result in lengthy resolution or enforcements.

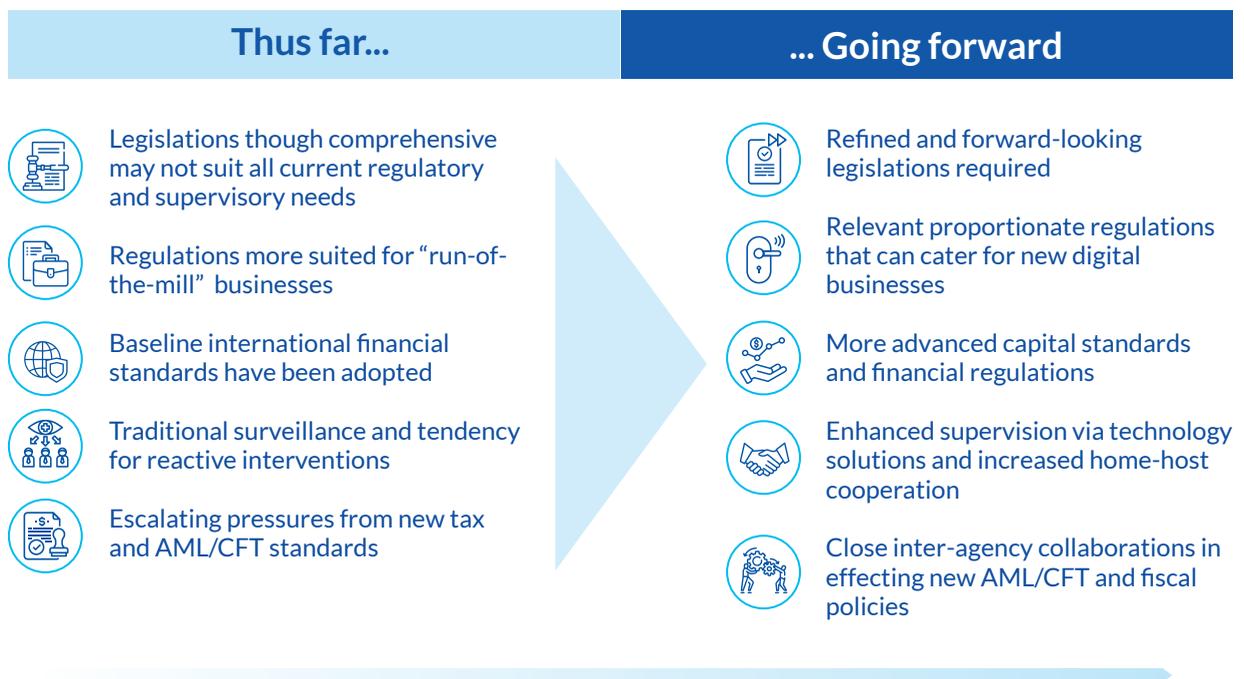
Going Forward

To further enhance the regulatory and supervisory functions, key initiatives identified as outlined in Diagram 8 entail:

- (i) Refining the legal and regulatory requirements to be more forward-looking and adopt a proportionality approach. These requirements should also cater beyond traditional businesses with the emergence of new digital financial services;
- (ii) Continued upscaling the financial regulations by adopting advanced capital requirements in line with the latest international banking and insurance standards;
- (iii) Effecting more pre-emptive supervision through digital solutions and data-driven surveillance; and
- (iv) Pursuing closer cooperation with the national regulatory authorities and key agencies in developing and adopting new AML/CFT and tax policies to avoid unwanted disruptions to the market whilst ensuring the Centre remains internationally-compliant.

DIAGRAM 8

Regulatory Landscape – Reflections & Forward Charting



THRUST



Effecting Relevant and Proportionate Regulations

a) Continued Legal and Regulatory Upscaling

Efforts to strengthen the legislations and regulatory framework which had gained momentum since 2013 will continue and would be focused on:

- modernising the requirements that can better cater for proportionality in regulatory and supervisory approach to suit the varying forms of businesses and structures in Labuan IBFC.
- providing sufficient flexibility that allows room for future business innovations whilst safeguarding market stability and good standing.

ENABLING INITIATIVES	'22	'23	'24	'25	'26
1. Review the current legal requirements to accommodate for proportionate regulatory and supervisory approach.	▶				
2. Effect forward-looking legal requirements in tandem with international regulatory developments and market innovation.			▶		
3. Undertake measures to ensure that the legal ecosystem remains effective and relevant in safeguarding financial stability and market integrity.			▶		

b) Developing Risk-Sensitive, Fit-For-Purpose Regulations to Cater for Emerging Concerns

Insurance and banking capital regulations will continue to be enhanced to ensure these financial requirements remain robust and relevant to address any emerging risks:

- the final phase of the Insurance Capital Adequacy Framework which began in 2015 with the harmonised liability valuation requirements will be effected to replace the existing solvency margin requirements. The new framework would ensure that capital levels of Labuan (re)insurers are intrinsically aligned with their underlying risk exposures, and are explicit on the required prudential buffers. This would accord greater flexibility for insurers to operate based on their different risk appetite and available capital resources.
- with the completion of Basel II+ adoption in 2017, efforts will be geared towards transitioning the banking sector into the Basel III framework. This upscaling would also enable the market to develop and adopt advanced capital management approaches so as to better integrate sound financial risk management techniques within their banking operations.

With the rapid growth of digital financial business in the Centre, it is paramount that this segment is adequately regulated and suited to the more virtually-based operation set-ups:

- reinforcing good digital governance and risk management practices to mitigate cyber risk exposures, would continue to be the key theme of new prudential regulations. These regulations would be implemented on a principle-based basis so as to ensure their application remain practical across the diverse digital business set-ups and complexities.
- to cater for the predominantly virtual transactions and non-face-to-face features of digital financial business, sound market conduct requirements will be enforced. Particularly for key intermediaries, principles of professional conduct, fairness and transparency will continue to be emphasised and where relevant, this would entail embedding such requirements within Labuan legislations.

ENABLING INITIATIVES	'22	'23	'24	'25	'26
1. Enhance risk-based capital framework for insurance market in line with international standards developments.	■	■			
2. Review capital adequacy framework and prudential requirements for banking sector in line with Basel standards.	■	■	■	■	■
3. Formulate key regulations for digital financial services, such as asset tokenisation, digital trading platform operators and digital exchanges.	■	■	■	■	■
4. Develop market conduct regulations for key and digital market intermediaries to promote fair and responsible market practices.	■	■	■	■	■

c) Securing Good Ratings for Incoming International Assessments on Labuan IBFC

As an international conforming financial centre, it imperative that Labuan IBFC be attested by periodic international assessments. This reinforces the Centre's firm commitment in adopting and adhering to international standards and best practices. For the next five years, Labuan FSA has made plans for requisite preparations to be made to ensure the Centre would be able to secure good outcome from the incoming international fiscal and AML/CFT-related assessments:

- assessing and reviewing the Centre's conformity to the key requirements of BEPS will continue to be the key agenda for Labuan FSA. In this regard, efforts will now be focused towards adopting the new global minimum tax rules under BEPS 2.0 as well as Phase III of the Exchange of Information scheduled in 2023 and onwards.
- preparing for the APG Mutual Evaluation which has been scheduled in 2024/2025. This would include organising self-assessment exercise to ensure that the market is adequately-equipped and prepared for the actual evaluation.

With the major reforms made to the Labuan tax framework in 2019, particularly on substantial activity requirements, it is equally important that the Centre:

- monitors as well as facilitates the level of compliance of the industry so as to ensure legitimate businesses enjoy the Labuan tax benefits.
- engages with key tax authorities in coordinating and rolling out the BEPS 2.0 requirements whilst timely addressing any potential challenges that may be faced by the market. This includes ensuring that any new fiscal requirements under BEPS 2.0 will need to be a well-planned and coordinated implementation strategy while preserving the Centre's business competitiveness.

ENABLING INITIATIVES	'22	'23	'24	'25	'26
<p>1. Undertake adequate preparation for fiscal and AML/CFT assessments expected over 2022-2026</p> <ul style="list-style-type: none"> • OECD's BEPS 2.0 and the Automatic Exchange of Information. • Asia/Pacific Group on Money Laundering (Mutual Evaluation). 					
<p>2. Firm-up and ensure cohesion in the Labuan tax policy under post-substance environment which include:</p> <ul style="list-style-type: none"> • Effecting appropriate monitoring of substance compliance. • Close working with Ministry of Finance and Inland Revenue Board of Malaysia on addressing the rollout of BEPS 2.0 pillar one and two implementation. 					

THRUST



Effecting Pre-emptive Supervision and Enforcement

Intensifying and Modernising Supervisory Approach and Cross-Border Engagements

As the fintech waves changes the Labuan IBFC business landscape, there is a critical need for Labuan FSA to pro-actively embrace suptech innovations as well as engage in more cross-border supervisory engagements. Initiatives have been identified to ensure supervisory monitoring remain robust and effective which include:

- developing early warning mechanism using data-rich, analytical assessments. This is intended to timely prompt supervisors on potential or imminent financial vulnerabilities of Labuan financial institutions that would allow for pre-emptive intervention by Labuan FSA.
- digital financial services which come in a myriad of virtual business set-up, necessitates the need for supervisors to have adequate fintech understanding. New talents would be acquired to ensure that the supervision function has sufficient digital-related skillsets to monitor the individual digital-based institutions effectively.
- risk profiling as the foundation of the Risk-Based Supervisory Framework would be expanded to include external ratings of financial institutions. This is to ensure the supervisors would always have a comprehensive set of financial barometers to gauge in their ongoing surveillance of the supervised entities.
- as a predominantly host market, Labuan FSA has reliance on the support of its peer home regulators in supervising Labuan entities. As part of a consolidated group supervision approach, Labuan FSA will continue to strengthen its collaboration and undertaken rigorous supervisory dialogues with home regulatory bodies especially for identified key jurisdictions. Home-host arrangements which include developing memorandum of understanding or supervisory college initiatives with targeted regulatory bodies will continue to be pursued over the Strategic Roadmap period.

ENABLING INITIATIVES	'22	'23	'24	'25	'26
1. Modernise supervisory approach through adoption of supervisory technology for monitoring, surveillance and enforcement.	▬				
2. Enhance supervisory capabilities and skillsets needed for new digital businesses.			▬		
3. Modernise by incorporating Labuan IBFC's financial and credit ratings as part of supervisory profiling.	▬				
4. Strengthen home-host supervisory relationship for more effective monitoring of banking and insurance international groups.	▬				

PART V

Organisational Enablers

Promoting Internal Innovation and Growth





Promoting Internal Innovation and Growth

In facing the evolving market, Labuan FSA must be equally agile and adaptive as an organisation to effectively address external challenges. Two factors have been identified as key enablers in transforming Labuan FSA as a future-proof, resilient and dynamic organisation.

ENABLER 1

Digitising the Organisation

Digitisation will be key in the coming years in improving Labuan FSA's key functions for greater efficiency and synergy as well as preserving the overall information security within the organisation. This would entail:

- developing cross-functional platform to enable data-synergy across departments with common information needs. This is intended not to only provide centralised info-repository but would ensure greater data consistency across functions.
- adopting partial or full automation of manual processes for greater productivity and to reduce instances of operational oversight and omissions.
- strengthening the information security in order to manage any cyber threats to Labuan FSA systems. Following the award of the ISO27001:2013 certification for the COR@L registry system in 2021, more periodic cyber health checks on the internal databases would be undertaken in order to proactively identify and address any system vulnerabilities.

ENABLING INITIATIVES	'22	'23	'24	'25	'26
1. Strengthen reliability and efficiency of key delivery platforms e.g. corporate registry, statistical database, licensing system.	[Progress bar from '22 to '25]				
2. Digitise key internal processes via e-cabinet.	[Progress bar from '22 to '23]				
3. Maintain robust cyber security defense through external assessment.	[Progress bar from '22 to '25]				
4. Automate key internal processes for licensing and enforcement e.g. monitoring and enforcement e-platform, Early Warning Supervisory System.	[Progress bar from '22 to '24]				

ENABLER 2

Nurturing Internal Talents and Capabilities

As a modest size outfit, Labuan FSA is highly dependent on having sufficient talents with the capabilities well suited for the job. Talent enrichment will continue to be a driving agenda which entail:

- developing or acquiring specific skillsets to support the regulatory and supervisory initiatives with regard to digital financial services. This includes know-how on fintech, data mining and analytics.
- grooming future leaders for key strategic positions to ensure management continuity. This will involve effecting the existing succession planning programmes so that Labuan FSA will have the right people with the right capabilities and experiences, when they are needed to helm senior roles within the organisation.

ENABLING INITIATIVES	'22	'23	'24	'25	'26
1. Effect talent management initiatives to acquire and nurture internal talents, particularly for topical skillsets e.g. fintech, data analytics and surveillance.	▶				
2. Succession planning initiatives to ensure strong leadership continuity via succession planning programmes.	▶	▶	▶	▶	▶

PART VI

Endgame Envisaged



Against the various dimensions under the Strategic Roadmap, Labuan FSA envisaged the key headline milestones attained in the next five years as outlined in Diagram 9. The realisation of this endgame will rely, not only on the sole efforts of Labuan FSA, but also equally important through close collaborations with the Government, national regulatory bodies, key agencies as well as the Labuan industry players. With such combined efforts and synergy in effecting the five strategic thrusts, would Labuan IBFC transform into a prominent, leading Centre and digital financial hub for Asia as aspired by 2026.

DIAGRAM 9
The Endgame Expected in 2026



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