

FREQUENTLY-ASKED QUESTIONS GUIDELINES ON CAPTIVE INSURANCE BUSINESS IN LABUAN IBFC

A. PERMISSIBLE ACTIVITIES

1. Can the Protected Cell Company (PCC)'s core write insurance business?

The PCC's core may write insurance business by way of establishing a dedicated cell to write its business.

B. TYPE OF CAPTIVE

2. What is a sponsored captive?

A sponsored captive is one the captive structures available in the insurance market. It is owned by one or more sponsors. Each participant is unrelated to the owner(s) and insures its own risks. Each participant has its assets protected in a separate cell within the facility so that one participant never pays for the losses or expenses of any other participant. It can be established in Labuan IBFC by using any structures based on its eligibility.

C. INSURABLE INTEREST RISKS

3. What is the definition of insurable interest?

Insurable interest can be defined as an interest in a person or a good that will support the issuance of an insurance policy; an interest in the survival of the insured or in the preservation of the good that is insured¹.

4. What is the example of "good" as per the definition?

"Good" refers to physical thing in whatever means. It can be anything so long as it is insurable by the captives.

5. What are the examples of captive structures for indirect insurable interest risks?

Examples of possible captive structures is provided in Appendix.

¹ Definition provided by International Association of Insurance Supervisors (IAIS)

D. OPERATIONAL REQUIREMENTS

6. What are examples of changes of business plan that may require approval from Labuan FSA?

This may include change in captive structure and other changes that may materially affect the initial business plan submitted during application.

7. Do the Labuan captive needs to submit a copy of approval from authorities in the home market where the risk is originated?

Only if there is an approval required and obtained from the respective jurisdiction. However, as specified in the Guidelines, the risk owner is expected to comply with any applicable regulatory requirements of the relevant authorities in the home market where the risk originated.

8. Please clarify on outsourcing arrangement that requires prior approval as specified under Paragraph 7.12(vi) of the Guidelines?

At the moment, outsourcing arrangement for Labuan captives is guided by the Guidelines on External Service Arrangements for Labuan Financial Institutions (Guidelines on ESA) which does not applicable to Labuan captives. Nevertheless, the Guidelines on ESA will serve as best practices in managing the risks arising from any external service arrangements of Labuan captives. Please refer to item 1 of FAQ of the Guidelines on ESA for further information.

9. What is the solvency requirement for External rent-a-captive (XRAC)?

At this juncture, the solvency requirement for XRAC would be similar to Subsidiary rent-a-captive as provided under the *Guidelines on Capital Adequacy Requirements for Labuan Captive Insurance and Takaful Business* dated 31 October 2019.

E. CELL ESTABLISHMENT

9. Is there any other regulatory expectations on the PCC when onboarding a cell?

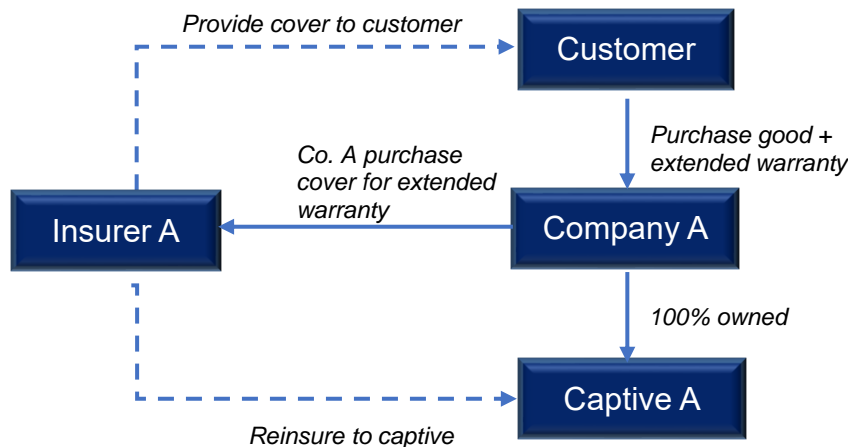
- a) Have the necessary insurance knowledge and resources to assess the cell application.
- b) Have appropriate policies and procedures relating to disclosure and segregation of duties between the core and cell.

- c) Demonstrate that the board of directors have a broad knowledge of insurance business being written.
- d) Have a senior management team with skills, experience and insurance knowledge.

EXAMPLES OF INDIRECT INSURABLE INTEREST RISKS

(i) Extended warranty

- A customer purchases goods from the Company A.
- The Company A offers extended warranty on top of the goods sold.
- The Company A establishes its own Captive to insure the extended warranty.



(ii) Cooperative

- A Cooperative B establishes a Labuan captive and insured the risks of its members. Members of the Cooperative B subscribe minimum shares to the Cooperative E.g. RM500 shares.
- The Cooperative B provides insurance/takaful benefit to its members e.g. Personal Accident (PA), Term life (TL), medical etc.
- The Cooperative B purchases insurance/takaful cover from local Insurer B as fronting company.
- The Insurer B will reinsure the risks to Captive B established by the Cooperative B.

