

Labuan

Introduction

The island of Labuan located off the Borneo coast is home to Malaysia's International Business and financial Centre. It is the second largest Captive domicile in Asia and is home to around 34 captives. About half of the captives are established by Malaysian companies.

Labuan has very strict confidentiality rules and not much is known about the owners of the Captives, their program structure or financial strength. Labuan is also home to many reinsurance companies, set-up by regional and global insurers.

Summary of Facts

Number of Captives	34 ¹⁾	EU Passporting	No
Solvency II	No Solvency II Equivalence planned	Minimal Capitalisation	MYR 300,000
Tax treaties	Malaysia has 60, however, Labuan is sometimes excluded	Solvency	20 percent of net premium income
Office	Local office required	Local Personal	One resident Director Local representative
Investments	Free investments	Third Party risks	Possible depending on circumstances
Time to register	2 months for Captives, 1 to 2 months for Cells	Reporting	Quarterly
PCC	Yes since 2012	Licences	General, Life but no Composite Captive licence
Income Tax rates	Either flat tax of MYR 20,000 (less than USD 7k) or 3 percent of net income	Insurance Regulation	Offshore Insurance Act 1990 and other legislation

¹⁾ As per Labuan FSA annual report 2011

Supervision

Captives are supervised by the Labuan Offshore Financial Supervision Authority ('LFSA'). Captives are required to report to LFSA on a quarterly basis.

It is mandatory for all insurers to join the Labuan International Insurance Association. Captives need to appoint a locally licensed Captive Manager.

Advantages

Labuan is an attractive domicile for Captive owners. The advantages are:

- ✓ Reasonable and efficient supervision
- ✓ Minimal investment restrictions
- ✓ Flexibility to write third party risks
- ✓ Strict privacy rules
- ✓ Attractive capitalisation rules
- ✓ Low operating cost
- ✓ Attractive tax regime, see below
- ✓ Malaysia has tax treaties with over 50 countries

Disadvantages

- There is no direct flight to Labuan from most major cities
- Labuan is not a well known jurisdiction
- Labuan is excluded from some tax treaties of Malaysia

Sharia Compliant Captives

We are able to provide Sharia compliant Captive Management in Labuan, including the provision of a sharia Board. Please contact us for more information.

Income Tax

Captives can choose between a flat tax of MYR 20,000 or an income tax of 3 percent.

Capitalization

The capitalisation required to start a Captive is only MYR 300,000, which is less than USD 100,000. However, from a practical and commercial perspective, capital will need to be higher in most cases, depending on the retained risk and insurance program. Protected Cells can start with a capitalisation of MYR 1, but need to have a financing mechanism in place to cover losses.

Establishment

The establishment of a Captive takes 3 months and a Cell can be established within 2 to 3 months.

Application documents for a Cell or Captive include provision of details about the parent and ultimate parent company, the business plan and reinsurance strategy as well as details of Directors in the case of a Captive.

Privacy

Labuan has strict privacy rules. Owners and Directors of Captives are not known to public, Annual Reports are not publicly available.

Cost

Operating costs in Labuan are typically lower than costs of other offshore Captive domiciles such as Guernsey or Bermuda. This is also true for audit or tax consulting fees. A detailed cost schedule is provided below.

Costs include one-off fees for the establishment of a captive, as well as recurring costs.

	USD	
Incorporation Cost	Captive	Cell
Legal & Government fees	2,000	0
Set-up fees Manager	15,000	8,800
Licence Application fee to regulator	7,000	1,200
Total	24,000	10,000

	USD	
Recurring Cost	Captive	Cell
Legal & Government fees	2,500	0
Captive Management fees (minimum)	45,000	34,000
License fees	850	3,500
Labuan Insurance Association	300	0
Tax Agent		300
Auditor	10,000	3,000
Total	62,150	40,800

Captive Management fees vary depending on the number of lines of business, complexity of the program and number of claims.

Contact

Please contact us for more details.

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