A GUIDE TO CAPTIVE INSURANCE

What is a captive?

Establishing a captive is not merely about incorporating a company, instead it is about forming a new insurance company.

A captive is an insurance or reinsurance company established by a non-insurance parent company. A captive insurance business offers to insure the risks of its parent or related/associated corporations. Such risks include any legal risk that may be underwritten by a commercial insurer.

Over 75% of the world's Fortune 500 companies are parent owners of captive insurance companies, with total captive premium income exceeding USD100 billion, via the approximately close to 7,000 captives established worldwide.

In Asia Pacific, many large conglomerates are beginning to recognise captives as a key element in facilitating business efficiency. According to Aon's Asia Market Review 2017, the region is experiencing "an unprecented level of sophistication in captive owners" and the increase in the take-up rate of captives shows that Asian corporations are using captives as a risk management and mitigation tool.

Why form a captive?

Key benefits of setting up a captive include:

- To insure otherwise 'uninsurable' risk
- Control an entity's own insurance programme, which in turn will stabilise the premiums paid
- Create direct access to the reinsurance markets, thus reducing premiums payable
- Enjoy potential tax benefits
- Consolidate deductibles across the entity's group of companies
- Reduce dependency on commercial insurers/reinsurers
- Insulate the entity's group of companies from insurance market cycles.

What are the types of captives available in Labuan IBFC?

A captive insurance entity in Labuan IBFC may include, but is not limited to, the following forms:

- Pure/Single captive
- Group/Association captive
- Master rent-a-captive
- Subsidiary rent-a-captive
- Captive using Protected Cell Company (PCC)*
- Multi-owner captive.

A captive insurer in Labuan IBFC may:

- act as either a direct insurer or a reinsurer
- underwrite property and casualty businesses as well as contingency coverage. A separate company must be established for a captive insurer wishes to underwrite life insurance
- access to the reinsurance market at wholesale rates.