



ACTUARIAL RESERVES IN LABUAN IBFC

NICHOLAS ACTUARIAL SOLUTIONS

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This white paper sets out the salient points in Labuan FSA's new actuarial reserving guidelines which parallel reporting starts for financial year ending 2017. The main takeaways are the requirement to appoint an Appointed Actuary, and potential implications on financial statements specifically around ceded reinsurance. This is a succinct summary. We welcome discussions and collaborations.

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INTRODUCTION

Labuan International Business Financial Centre (Labuan IBFC) is the most successful mid-shore insurance jurisdiction in the world, a domicile sought after by large global insurers and smaller local and regional insurers alike. Since its inception in 1990, Labuan IBFC has been developed from strength to strength, owing to the fiscal and regulatory infrastructure it provides to its 13,000+ international businesses.

In line with this development, Labuan Financial Services Authority (Labuan FSA) is modernising its prudential requirements. Labuan FSA has introduced new guidelines for actuarial valuation for life and general insurance and takaful business. Parallel reporting has commenced for the financial year ending 2017 and the regulations shall come into effect for the financial year ending 2018 (one year later for takaful).

KEY SALIENT POINTS

Appointed Actuary. Every licensed insurer is required to appoint an actuary. Nicholas Actuarial Solutions provides this service at a cost-effective manner due to our Founder & Actuary Nicholas Yeo's unique experience in offshore financial services and our artificial intelligence capabilities in automating actuarial work.

Ceded Reinsurance. It is noteworthy that unearned premium reserves are prescribed and shall be calculated on a gross of reinsurance basis unless the reinsurer is domiciled in Labuan, or deposit is held back from the reinsurer. This has a significant impact to Labuan insurers engaged in or intending to engage in significant quota share reinsurance arrangements where income is recognised at net but reserves are recognised at gross.

As a comparison, in the onshore jurisdiction of Malaysia, the regulations are similar with the exception that reserves can be calculated on a net basis for reinsurers with jurisdiction onshore in Malaysia or in Labuan.

In Singapore, unearned premium reserves are calculated on a net basis, with a requirement to consider reinsurer default in the unexpired risk reserves calculations. The creditworthiness of the reinsurer is considered under capital requirements (which is likely to be relaxed under the RBC2).

In Bermuda, unearned premium reserves are calculated on a net basis, with responsibilities on the board of directors to make an adjustment should the board opine that the reinsurance arrangement is in doubt.

Nonetheless, there are several remedies which can be considered to mitigate the unearned premium reserves strain.

BACKGROUND

"Actuarial Reserves in Labuan IBFC" is our fourth issue of succinct white paper. Our objective of issuing succinct white papers is to enable our thought leadership to reach a wider audience, and make a larger positive impact. Our white papers are publicly available and we do not claim any proprietary intellectual property on the contents.

Labuan insurers engaged in or intending to engage in significant quota share reinsurance arrangements should take cognisance of the impact of the new regulations on ceded reinsurance.

ABOUT US

Nicholas Actuarial Solutions is founded as a platform to collaborate with like-minded businesses and individuals to make a difference. Our interests are wide and varied, with our core focus being the actuarial field.

Our mission is to develop and implement novel and cutting edge solutions to make our clients more successful.

It is our vision to achieve global recognition of our thought leadership and innovative solutions in the actuarial field.

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