

LE CAPTIVE
LIMITED



CAPTIVE GUIDE



CONTENTS

<u>What is a Captive?</u>	<u>3</u>
<u>A short history of Captive</u>	<u>3</u>
<u>Types of Captives.....</u>	<u>4</u>
<u>Why Form a Captive?.....</u>	<u>4</u>
<u>Who should consider forming a Captive?.....</u>	<u>5</u>
<u>Benefits of a Captive:</u>	<u>5</u>
<u>How are Captives structured?</u>	<u>6</u>
<u>Is a Captive right for your business?</u>	<u>7</u>
<u>About LE Captive</u>	<u>8</u>
<u>OUR SERVICES</u>	<u>8</u>
<u>WHO WE ARE</u>	<u>9</u>
<u>Senior Management.....</u>	<u>9</u>
<u>Contact Us:.....</u>	<u>11</u>

WHAT IS A CAPTIVE?



A Captive is a legally licenced insurance or reinsurance entity. Its business is primarily supplied by and controlled by its owners, which are also normally the principal insureds. These owners/insureds participate in controlling the underwriting, claim and investment decisions of the insurance company. The Role of a Captive in an organisations' Risk Management strategies include:

- Establishing a centralized risk framework
- Creating tailored, comprehensive and responsive coverage
- Improving claims handling and monitoring
- Potentially reducing the overall cost of risk
- Potentially increasing the cash flow of the combined business enterprise

A SHORT HISTORY OF CAPTIVE

Contrary to what most people think, Captive is not a new phenomenon. Its existence goes back to the 1870's which were mainly protection and indemnity clubs / groups forming risk sharing within the industry. This include Marine voyages and textiles mills forming mutual for rebuilding after fires.

The term "Captive" was not coined until 1953 when Frederic M. Reiss (1924–1993), often called the "great white father" (because of his shock of white hair) of the captive movement, founded Steel Insurance Company of America, a captive developed for an Ohio steel company, from which the term "captive" was borrowed from "captive" mines sending ore to the company's mills.

The real growth of captives began in the 1960s in the Bermuda market. Fred Reiss set up the American Risk Management in Bermuda, where the first captives were domiciled. (Its name changed in various ways from ARM to IRM to IRMG. All are referred to in this timeline as the "Reiss Organization.") The three keys to his unique success were as follows.

- Captive management in Bermuda offered fronting, administration, governance, reinsurance, and brokerage.
- Property loss-control engineering was in-house, with Factory Mutual loss-control standards (or better) and maximum foreseeable loss estimates.
- The reinsurance capacity included captives as reinsurers, funnelled through Hopewell, a pooling facility.

Source: [The Early Days of Captives \(through 1984\) www.captive.com](http://www.captive.com)

There are now almost 6,000 Captives worldwide today, with more than 40% of major US multinationals owning one or more Captives. It is estimated that half of the Captives worldwide are in five major offshore domiciles with Bermuda being the highest, followed by Cayman Islands, Vermont, Guernsey, and the British Virgin Islands.

TYPES OF CAPTIVES

In Labuan specifically, there are three common types of Captives:

Single Parent or “Pure” Captive

- companies with a single owner, for whom they provide insurance coverage for the parent company only.
- usually monitored by a risk manager or financial officer at the parent company and managed by a domiciled insurance management company.

Rent a Captive

- Manage the risks of its renters and returns underwriting profit and investment income participation to the insureds / renters
- Designed for parties not wanting their own captive company
- Available to unrelated organizations for a “rental” fee

Segregated or Protected Cell Captive “PCC”

- rent-a-captive with a difference i.e. offers the benefits of a captive without the same level of financial commitment and associated costs
- core and the individual cells created are not separate legal entities but legally separated from other cell and each has sufficient attributes to carry out business independently.

WHY FORM A CAPTIVE?

There are many reasons for business owners to form a Captive, most are financial driven, but some are not. The initial reasons to form a Captive may change over time, depending on the priorities of the owners, business activities and business plans. But there are many compelling reasons driving business owners to have a Captive formed. This include:

FINANCIAL

- Helps reduce total insurance costs over time by aligning premiums with actual loss experience
- Increases stability of premium rates during times of market volatility
- Provides direct access to the reinsurance market
- Eliminates high expense ratios applied by commercial insurers
- Offers enhanced investment and cash flow benefits
- Create new revenue generating opportunities
- efficient accounting and tax structure

RISK MANAGEMENT AND CLAIM COST CONTROL

- Delivers centralized information and risk control
- Facilitates improved risk capital allocations
- Consolidates and manages global programs
- Provides a vehicle to support enterprise risk management initiatives
- Allows for the ability to create more effective claims handling processes
- Improves claims monitoring capabilities
- Identify any areas of higher than average loss activity through claims audits

INSURANCE COVERAGE

- Enables the development of tailored insurance policies
- Increases negotiating power with the commercial market at renewal when purchasing excess insurance
- Provides broader coverage options
- Can be adapted in response to changing market conditions cushioning the vagaries of the insurance market cycle
- Ability to overcome exclusions or other restrictions applied by the commercial market
- Delivers more responsive coverage
- Centralized and improved risk retention strategies
- Stability of cover if commercial insurers withdraw from a specific line of coverage

WHO SHOULD CONSIDER FORMING A CAPTIVE?

Companies with some of these attributes should seriously consider forming a captive:

- RM2,000,000 or more or equivalent in annual Property and Casualty insurance spend
- Proactive approach to risk management
- Long-term commitment to risk financing
- Strong financial balance sheet
- Appetite to finance retained risk

BENEFITS OF CAPTIVE:



Risk Management

Data driven quantification of risk to aid in managing risks, resulting in positive risk management



Control on Insurance Programme

Able to control and select the most relevant type of coverage/insurance without having to succumb to off-the-shelf packages offered by conventional insurers



Captive Reserve Pool

Ability to establish reserves from unused premiums for investment purposes



Risk Finance Optimisation

Enabling the insured to create a threshold for risk tolerance so that the organisation can determine how much risk it can take without affecting KPIs



Cost Efficiency

Despite being guided by the principal of arms-length pricing, cost efficiency can still be optimised by way of a lower operational cost by the Captive company



Reinsurance Market

Allows access to the reinsurance markets for specialty risks



Cashflow Optimisation

Premiums paid over time to the Captive will generate a cash surplus which can be deemed as a secondary source of cash-flow, adding value to the parent company



Tax Optimisation

Optimising underwriting profit under a lower tax regime is also one of the advantages of utilising captives

OTHER BENEFITS IN FORMING A CAPTIVE:

TO SUPPORT STRATEGIC PARTNERS

Insurance coverage can be made available to various business partners such as key vendors, suppliers, and tenants of commercial and retail properties. Apart from business partners, your customers can also potentially benefit from any insurance coverage specifically designed as part of a value-add service. Some examples include an Extended warranty programme, logistics insurance, and even personal accident



CONSISTENT AND UNIFORMED INSURANCE COVERGE ACROSS REGIONS

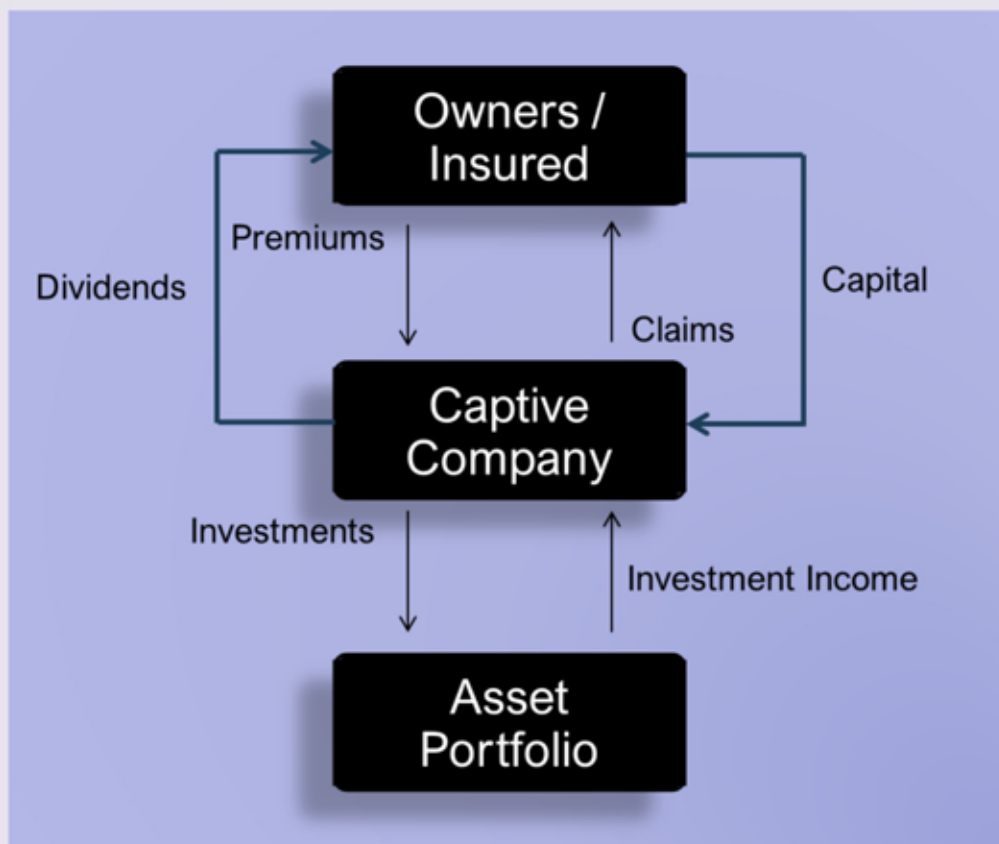
Businesses with multinational operations and with business partners and customers worldwide will benefit from the Captive. Country specific insurance coverage are often restrictive in terms of rates, coverage, geographical limits and even retention. Captives provides businesses with full control over underwriting, rates and forms, as well as control of claim settlements. An example is the Travel Insurance coverage offered to airline passengers.

HOW ARE CAPTIVES STRUCTURED?

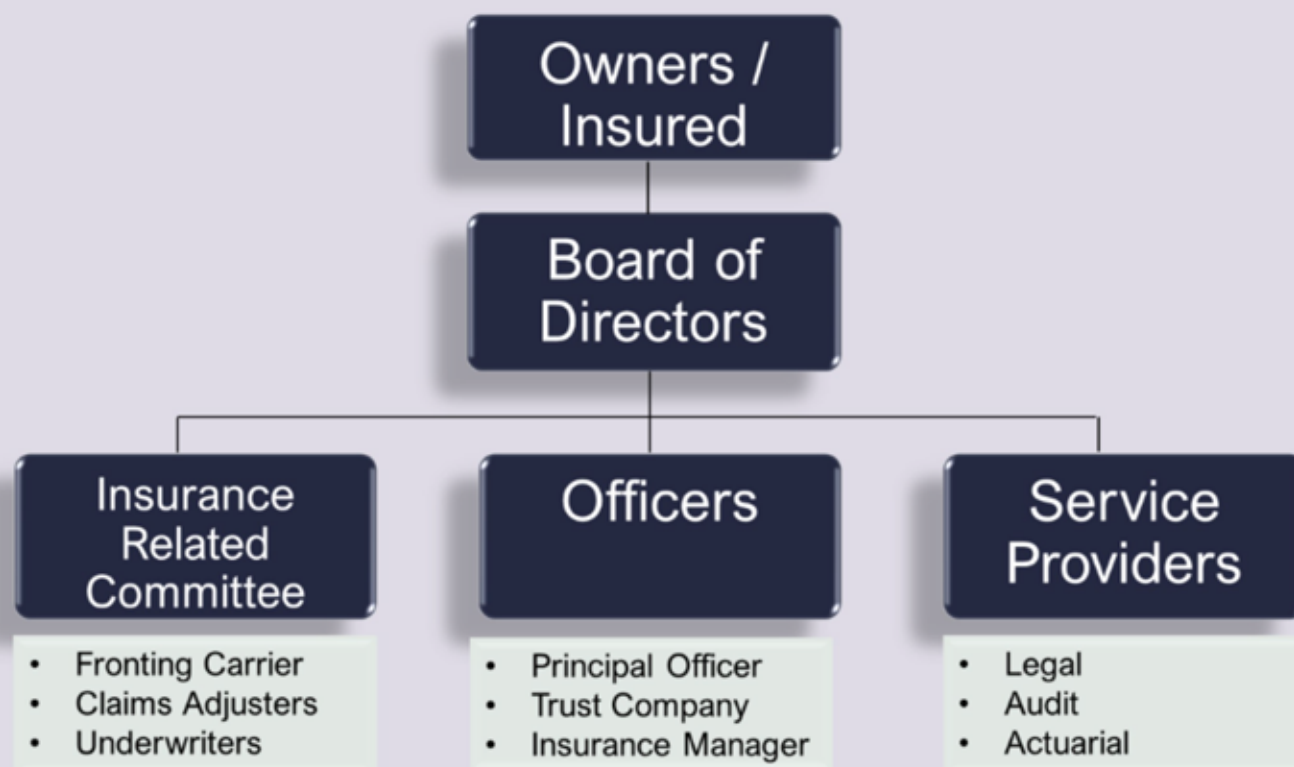
It is structured just like a regular insurance company, whereby the captive issues direct policies to its insured, make reinsurance arrangements, collect premiums and sets aside claims reserves to fulfil any claims obligations. Other reserves are also set aside to pay legal obligations to reinsurers and to pay for any operating expenses.

Three main components of a Captive include Financial, Operational and People.

FINANCIAL RESOURCES AND FLOW OF FUNDS IN A CAPTIVE



OPERATIONAL STRUCTURE IN A CAPTIVE



Depending on the size of a Captive, most Captives hire only a minimal number of employees to fulfil regulatory licensing and operating requirements. Management services such as legal counsels, tax, auditing is used to assist with day to day operations of the captives. In Labuan, services of an Insurance Manager are a prerequisite for Insurance business entities, acting a crucial role as liaisons with the regulators. Their services are extended to provide additional management resources, including underwriting, hiring and bookkeeping.

IS A CAPTIVE RIGHT FOR YOUR BUSINESS?

Setting up a Captive is a long-term commitment. Considerations include:

• CAPITALISATION

Labuan Regulations require a minimum capital of up to RM 500,000 for captive rentals and RM 300,000 for pure single captives

• TYPES OF CAPTIVE

Apart from the Capital requirements, if your annual insurance spend exceeds RM 5,000,000, a pure Single Captive will make sense, although it will also depend on the level of resources that your business is able to put in place. As mentioned, a captive works just like a regular insurance company and therefore staffing requirements will need to have the right skill set to manage the captive efficiently.

Other decisions and consideration would include ownership structure, type of coverage to be underwritten by the Captive and any other regulatory requirements to consider in your insurance arrangements, a feasibility study should be conducted to study your business profile, along with a review of the insurance market conditions and an assessment of regulatory, legal and tax issues for your business.

ABOUT LE CAPTIVE

Boutique establishment focusing on risk management alternatives through creative offshore programmes.

We tailor alternative risk management solutions to suit clients' individual challenges as the needs of business owners evolve. Medium to large corporate organisations experiencing increased costs associated with managing business risks will find that in an increasingly dynamic, evolving and volatile global marketplace, the need to establish and maintain control over risk exposures is critical, which may not be adequate with conventional risk management methods.

During hard insurance market cycles, most business owners are left to weather the vagaries and cycles of the insurance market. Whilst larger corporate and multinational organisations have the resources and means to manage and control risk exposures, many are shackled by the exorbitant risk management costs associated with increased insurance premiums charged during such times.

OUR SERVICES

Captives come in a variety and ever-evolving range of formats designed to meet the requirements of a diverse type of business owners. While the single-parent or pure captive remains the most common, the phenomenal growth in the formation of segregated/protected or sponsored facilities, cell-type structures and enterprise risk captives has opened up the benefits of establishing a Captive to much smaller organizations.

WHAT MAKES LE CAPTIVE THE RIGHT STRATEGIC PARTNER FOR YOU?

1. A one stop alternative risk management solutions provider and captive management.
2. We help businesses optimize the balance between self-insurance and risk transfer with commercial insurers to suit risks and resources limitations through creative offshores programmes.
3. We bring substantial local market knowledge together with Labuan IBFC's internationally recognised regulatory framework to optimize the benefits of forming a captive.
4. Making direct access to international reinsurance market possible. This helps in ensuring only the most competitive and extensive coverage is in place, and to overcome exclusions or other restrictions applied by local commercial markets premium with high coverage

At LE Captive Limited, we are a licenced Labuan Insurance entity, offering Captive Rental services to business owners not wanting to own a captive company. We Manage the risks of its renters and returns underwriting profit and investment income participation to the insureds / renters.

Our services also include Insurance consultation services to help businesses to complete the full lifecycle of the captive structure covering all permutations of captive arrangements and risk management needs.

WHO WE ARE

Wholly owned by LE Holdings. LE Captive was established in March 2020 to complement the insurance and risk management offerings to clients of the LE Group of companies. Associated companies include:

- LE Associates Sdn Bhd
- LE Risk Management Sdn Bhd
- LE Risk Solutions Sdn Bhd
- LE Risk Management Limited
- LE Holdings Limited
- LE Taxation
- LE Advisory Sdn. Bhd.
- LE Management Sdn. Bhd



SENIOR MANAGEMENT



WONG YOONG LOONG

DIRECTOR

As Principal Director at KL-based corporate insurance service outfit Le Risk Management, Wong Yoong Loong is responsible for a wide range of tasks central to the company's success, from steering strategic business development initiatives across a vast business network to product development and managing intermediary success in providing seamless client-integration and servicing. In his role, Yoong Loong brings over 20-years of sales, management, claims and underwriting experience to help the company build scale and spearhead the customer experience in the property and casualty segment.

Yoong Loong's expansive experience across the Insurer-Agent divide also proved invaluable as he steadily grew the company's P&L under management across various industries that included Manufacturing, Retail, Shopping Malls, Oil & Gas, Palm Oil and Construction companies found in Public-listed companies, Multinationals, and SME's.

Combining industry-specific insight and business acumen, Yoong Loong has always looked to empower the existing clientele through enhancing their understanding of risk exposures and the fundamentals of hedging against financial pitfalls via tailor-made coverage schemes and self-insurance programmes.

Yoong Loong received his AMII from the Malaysian Insurance Institute of Insurance amongst other industry accolades and certifications.



As the founding and managing partner of Han & Partners, Kien Han's extensive litigation expertise in corporate finance, merger and acquisition, and cross-border transactions prepared him well for his current position overseeing all aspects of the firm's cases. In particular, his strategic business acumen has been instrumental in paving the way for his boutique legal firm to become a highly regarded firm in Malaysia.

The firm now represents several leading corporate entities, including private real estate funds and REITs in Malaysia. Not willing to rest on his laurels, Kien Han foresaw a need to value-add to his current clientele and began spearheading several key initiatives in diversifying and expanding his current suite of corporate services.

Having the need to always put his clients first, Kien Han envisioned a turnkey-solution of integrated services which encompassed more than just legal solutions by building a collaborative ecosystem consisting of professional services that pooled specialists in relevant disciplines who could offer pertinent and timely consultation to clients at pivotal points

LEE KIEN HAN / NON-EXECUTIVE DIRECTOR / COMPLIANCE OFFICER

PRINCIPAL OFFICER



JOAN LOH

Joan is the Principal Officer and Technical Director of Le Captive Limited where she heads the administrative and strategic agendas of the firm. Joan has been a risk management professional for over 20 years. Prior to setting up LE Captive, Joan was responsible to oversee & manage the setting up of Manulife Insurance Labuan Limited, a Labuan entity for Manulife Malaysia, a pioneer and first-to-market offering USD denominated Universal Life insurance to High Net Worth (HNW) Malaysians. Upon completion of the entity set up, Joan continued to oversee operations of the newly established entity as Head of Concierge & Operations and prior to that as Project Manager for the Business Development division at Manulife Holdings Berhad where she oversaw the cross functional activities of various local and regional initiatives.

Joan's contributions at Manulife Holdings Berhad (MHB)) involved various roles, including overseeing the integration of business, systems and people of MAAKL Mutual Berhad (MAAKL) acquired by MHB in 2014. Other major projects include Country Project Manager for various digital initiatives like the global implementation of the cloud-based system used by both agents and staff as well as the regional implementation of a web-based project management tool used across the entire APAC region, while at the same time overseeing the company's strategic client relationships initiatives across various stakeholders.

Spanning over two decades, her illustrative trajectory has provided Joan invaluable insight to the full spectrum of the property, casualty and life insurance landscape. Having worked within various ecosystems, her experience spreads across the gamut of distribution channels from Bancassurance, Broking to in-house agency structures.

With her rich and intimate understanding of the operational and strategic complexities across disciplines, her career has since culminated in her being the principal consultant for Le Captive Limited, domiciled in Labuan, Malaysia.



CONTACT US

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