



Association of Labuan Banks
Labuan Investment Banks Group
Labuan International Insurance Association
Association of Labuan Trust Companies

Dear Sir/Madam,

DIRECTIVE ON MINIMUM CAPITAL REQUIREMENT BY LABUAN LICENSED ENTITIES

1.0 Preamble

- 1.1 The Directive on Minimum Capital Requirement¹ by Labuan Licensed Entities (hereafter referred to as “the Directive”) is issued pursuant to section 4B of the Labuan Financial Services Authority Act 1996 (LFSAA).
- 1.2 The Directive is issued to reiterate and serve as a reminder on the prudential requirement to be complied with by all Labuan Licensed Entities (Labuan LEs). Specifically, all Labuan LEs are required to maintain its minimum paid-up capital **at all times** as prescribed by Labuan FSA. In addition to this minimum paid-up capital, the Labuan banks and Labuan insurance and insurance-related entities shall also comply with the capital adequacy ratio or solvency margin requirements imposed on them.

2.0 Non-Compliance

- 2.1 Each Labuan LE shall maintain its prescribed minimum paid-up capital which is unimpaired by losses at all times and the capital adequacy ratio or solvency margin requirements upon a licence being granted under paragraph 3.1 of the Directive. Any Labuan LEs which fail to comply with the Directive shall be guilty of an offence and be liable, on conviction, to the penalty as provided under section 4B(2)(b) of the LFSAA.

¹ For avoidance of doubt, the minimum paid-up capital should be defined as either the paid-up capital unimpaired by losses or capital funds (the sum of paid-up capital and reserves) unimpaired by losses or working funds (the surplus of assets over liabilities), whichever is applicable.

3.0 Applicability

3.1 The Directive is applicable to all Labuan LEs² which are licensed to carry on permissible activities under the Labuan Financial Services and Securities Act 2010 (LFSSA) and Labuan Islamic Financial Services and Securities Act 2010 (LIFSSA).

4.0 Minimum Capital Requirements

4.1 For the purpose of the Directive, the amount of the minimum paid-up capital unimpaired by losses of Labuan LEs, which shall be maintained throughout its operation and denominated in the Ringgit Malaysia's equivalence of any foreign currency and the prescribed capital adequacy ratio or solvency margin requirements, are reiterated below:

| Labuan LEs | | Minimum Capital and/or Capital Adequacy/Solvency Requirements | |
|------------|--|---|--|
| | | Subsidiary | Branch |
| A. | Banking licensees | | |
| (i) | Labuan bank and investment bank (including <i>Islamic bank and Islamic investment bank</i>) | a) RM10 million unimpaired by losses; and b) minimum risk-weighted capital ratio of 4% for Tier 1 Capital³ and 8% for Total Capital³ . | |
| B. | Insurance licensees | | |
| (i) | Labuan general/life insurer (including <i>general/family takaful operator</i>) | a) paid-up capital of RM7.5 million unimpaired by losses; and b) RM7.5 million or 20% of net premium income of the preceding year, whichever is greater. | a) a surplus of assets over liabilities of RM7.5 million⁴ unimpaired by losses; and b) RM7.5 million or 20% of net premium income of the preceding year, whichever is greater. |
| (ii) | Labuan general/life composite and reinsurer (including <i>general/family Islamic composite and retakaful operator</i>) | a) paid-up capital of RM10 million unimpaired by losses; and b) RM7.5 million or aggregate of 20% of net premium income of the preceding year and 3% of the latest actuarial valuation of life insurance liabilities . | a) a surplus of assets over liabilities of RM10 million⁴ unimpaired by losses; and b) RM7.5 million or aggregate of 20% of net premium income of the preceding year and 3% of the latest actuarial valuation of life insurance liabilities . |

² Regardless whether the Labuan LE concerned is a subsidiary or a branch.

³ As defined under the Guidelines on Risk-Weighted Capital Adequacy issued by Labuan FSA.

⁴ The surplus of assets is to be maintained by the branch licensee in the books of its office in Labuan.

| Labuan LEs | | Minimum Capital and/or Capital Adequacy/Solvency Requirements | |
|--|---|--|---|
| | | Subsidiary | Branch |
| (iii) | Labuan rent-a-captive/master-rent-a-captive/protected cell company undertaking captive insurance or takaful business /other similar vehicles (including Islamic) | a) paid-up capital of RM500,000 unimpaired by losses; and b) RM500,000 or 20% of net premium income of the preceding year or 3% of the actuarial valuation of life insurance liabilities , whichever is greater. | a) a surplus of assets over liabilities of RM500,000⁴ unimpaired by losses; and b) RM500,000 or 20% of net premium income of the preceding year or 3% of the actuarial valuation of life insurance liabilities , whichever is greater. |
| (iv) | Labuan pure/single owner captive/ group association & multi-owner captives (including Islamic) | a) paid-up capital of RM300,000 unimpaired by losses; and b) RM300,000 or 20% of net premium income of the preceding year or 3% of the actuarial valuation of life insurance liabilities , whichever is greater. | a) a surplus of assets over liabilities of at least RM300,000⁴ unimpaired by losses; and b) RM300,000 or 20% of net premium income of the preceding year or 3% of the actuarial valuation of life insurance liabilities , whichever is greater. |
| C. Insurance-related licensees | | | |
| (i) | Labuan underwriting manager/ insurance manager/insurance broker (including takaful underwriting manager, takaful manager and takaful broker) | Paid-up capital of RM300,000 unimpaired by losses. | A surplus of assets over liabilities of RM300,000 unimpaired by losses. |
| D. Trust Company Business licensees | | | |
| (i) | Labuan trust company | Paid-up capital of RM150,000 unimpaired by losses. | A surplus of assets over liabilities of RM150,000 unimpaired by losses. |
| E. Capital Market licensees | | | |
| (i) | Labuan fund manager | a) paid-up capital of RM300,000 unimpaired by losses; and b) for Asset Under Management (AUM) of more than RM150 million, to maintain additional capital amounting to 0.2% of the AUM in excess of RM150 million ⁵ . | N/A |

⁵ With effect from 13 February 2014.

| Labuan LEs | | Minimum Capital and/or Capital Adequacy/Solvency Requirements | |
|------------|--|--|--------|
| | | Subsidiary | Branch |
| F. | Other Labuan Financial Business & Market Intermediary licensees | | |
| (i) | Labuan money broker | Paid-up capital of RM300,000 unimpaired by losses. | N/A |
| (ii) | Labuan securities licensee (including Islamic securities licensee) | Paid-up capital of RM150,000 unimpaired by losses. | N/A |
| G. | Company Management | | |
| (i) | Labuan company management | Paid-up capital of RM100,000 unimpaired by losses. | N/A |

4.2 Notwithstanding the above minimum prescribed level, Labuan FSA has the discretion to impose higher capital requirements to commensurate with the LEs' business activities and risk exposures, based on Labuan FSA's supervisory assessment of the LE concerned.

Should you require further information or clarification on the above, you may contact the following officers:

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