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Labuan Re thinking global

Hamisah Hamid

LABUAN Reinsurance Ltd (Labuan Re), a local offshore reinsurer which has become a major player in the Afro-Asian insurance and reinsurance industry, is looking at global expansion.

The company, which was incorporated in September 1992 in the International Offshore Financial Centre of Labuan, is now spreading its wings further abroad to West Asia and Europe.

At the same time, Labuan Re will consolidate its position in the Asian and African regions.

"With its financial strength and the strong support of its shareholders, the company is now embarking on a planned expansion of its business overseas.

"In line with this, the company has taken measures to upgrade its systems and skills to meet new challenges," Labuan Re chairman Mohamad Abdullah said in the chairman's message in the the company's corporate profile.

Reinsurance companies provide insurance to insurers. It means that an insurer will be prepared to cover an insurance risk up to a certain amount, and above that figure the excess risk is re-insured with another company so that the risk will be spread.

Mohamad said Labuan Re has adopted a policy of cautious growth.

"Consistent with this policy, a substantial portion of its business would be derived from the Malaysian, Asean (Association of South-East Asian Nations) and the Afro-Asian regions," he said.

He said the ultimate objective of Labuan Re is to consolidate its positions in these regions, while at the same time, make inroads into the global reinsurance market.

The company's commitment is seen from its expansion into Bahrain and penetration into Lloyds' insurance market in the UK.

Three months ago in April, Labuan Re's branch office in Manama, Bahrain, was opened by Prime Minister Datuk Seri Dr Mahathir Mohamad.

The branch office seeks to service and develop Labuan Re's business in West Asia, the Gulf states as well as the North and East Africa.

Bahrain, the financial centre of the Gulf region, is now growing to be West Asia's financial centre.

Labuan Re also currently provides a capacity of STG25 million (STG1 = RM5.88) in the Chaucer Syndicates at Lloyds in the UK.

The company is also expected to continue establishing strategic alliances with major regional players and intensifying efforts to provide value-added services and increase its networking with cedants, locally and abroad.

Labuan Re was formerly incorporated as Malaysian-Re International Insurance Ltd (MIIL), a wholly-owned subsidiary of Malaysian National Reinsurance Bhd (Malaysian Re), with an initial paid-up capital of US\$10 million (US\$1 = RM3.80).

It was set up to write international reinsurance business.

Its establishment is also partly to enhance insurance premium retention in the country and create an opportunity for expansion of insurance activities overseas.

The Government has been concerned about a large outflow of funds stemming from reinsurance payouts as local insurance companies have not been able to absorb the increasingly expensive and technical Malaysian

risks.

Only small portions of such risks have been retained in Malaysia while a major chunk of the premiums is ceded overseas, resulting in an outflow of Funds

Therefore, the setting up of MIIL (Labuan Re) has helped in controlling the outflow of funds by diverting reinsurance services through the offshore reinsurance company.

The company provides a range of support services to its cedants, including risk assessment and management, market training, reinsurance programming and quotations for treaties and facultative reinsurance. In early 1996, MIIL was restructured and recapitulated while its name changed to Labuan Re.

The company is now backed by a group of top-tier Malaysian public corporations with large risk-owners such as Tenaga Nasional Bhd (10 per cent) Telekom Malaysia Bhd (10 per cent), Petroliam Nasional Bhd (10 per cent) and Malaysia International Shipping Corp (10 per cent).

Other shareholders are Bumiputra-Commerce Bhd (10 per cent), Malayan Banking Bhd (5 per cent), Public Bank Bhd (5 per cent), RHB Bank Bhd (5 per cent), Hicom Holdings Bhd (10 per cent) and Armed Forces Fund Board (5 per cent).

The recapitalisation has seen Malaysian Re's stake in Labuan Re diluted to 20 per cent.

Mohamad said the paid-up capital of the company now is US\$150 million.

"An additional US\$50 million, which had been allotted, has not been called as the present capital is sufficient to support the company's volume of business in the immediate future," he said.

Labuan Re's authorised capital is US\$500 million.

A.M. Best Co Inc, the world's oldest and most authoritative insurance rating and information source, has affirmed the "B++" (very good) for Labuan Re's claims-paying ability. The rating reflected Labuan Re's financial strength, its flexible and strong capitalisation base as well as adequate liquidity.

According to A.M. Best, Labuan Re has solid support and a long-term capital commitment from its shareholders, of which are first tier corporations in Malaysia.

It observed that Labuan Re's capital is denominated in US dollar while foreign currency exposures in the reinsurance programme and investment portfolio are hedged through foreign exchange forward contracts and options.

"Labuan Re maintains a good liquidity position that is supported by a significant proportion of the investment portfolio, which is invested in debt securities and other realisable instruments," it said in a statement posted at Labuan Re's website.

Meanwhile, the company anticipated to write a premium volume of about US\$60 million in 2001, compared with US\$41.5 million in 2000.

According to the summary of the chairman's statement in Labuan Re's Annual Report 2000, included in the company's website, the projected increase in premium is expected to be due to the hardening of premium rates experienced in most markets, across all classes of business.

Looking ahead, the company has adopted a number of strategies that would enable it to increase its premium volume and improve the spread of its business.

Besides capital commitment to the Chaucer Syndicates at Lloyd's and the opening of a branch office in Bahrain, other initiatives to expand the business include identifying value-added services such as reinsurance programming and the development of innovative and non-traditional products to meet the requirements of the newly-merged and enlarged domestic

insurers.

Efforts will also be made by Labuan Re to continue to enhance skills and expertise in underwriting niche areas such as specialised lines of liability and energy business.

This would be done among others, through Labuan Re's involvement with the Chaucer Syndicates.

At the same time, Labuan Re will also continuously review and improve its reinsurance protection programmes with particular emphasis on cost-effectiveness and the security of its reinsurers.

For the financial year 2000, Labuan Re wrote a gross premium of US\$41.5 million, an increase of US\$7.26 million or 21.2 per cent compared with the premium income of the previous year.

Premium income from overseas business for the year totalled US\$11.2 million, compared with US\$7.4 million in 1999.

The increase in the overseas sector was 50.5 per cent, partly due to greater marketing efforts made by the company during the past few years.

Overseas business represents 27 per cent (1999: 21.7 per cent) of the company's total premium volume.

The domestic business grew by 13 per cent to US\$30.3 million. Labuan Re attributed the growth in domestic business, which was particularly noticeable since 1999, mainly to the recovery in the domestic economy.