

## **Introductory Remarks by The Chairman**

### **Labuan Offshore Financial Services Authority (LOFSA) - Release of Annual Report 1999**

27 March 2000 (9.00 am)

Ladies and Gentlemen,

Assalamu'alaikum Warahmatullahi Wabarakatuh and a very good morning.

First of all, let me welcome and thank all of you for attending this function. As the Chairman of Labuan Offshore Financial Services Authority (LOFSA), it is my pleasure to officially release the 1999 Annual Report of LOFSA.

2. I am pleased to announce that overall the Labuan IOFC had performed remarkably well in 1999. Last year, various measures were introduced by LOFSA to further promote and develop Labuan as an integrated offshore financial centre. The thrust in 1999 was to introduce new offshore activities, attract new players to Labuan as well as improve the operational efficiency of LOFSA and that of the offshore industry. Ultimately, the mission for LOFSA is to strategically position Labuan as a world class offshore financial centre in the region.

3. In the area of offshore company incorporation and registration, it is encouraging to note that in 1999, the number of offshore companies and foreign offshore companies has exceeded the initial projection of 300 companies. There were 396 companies incorporated or registered in Labuan in 1999 compared with only 268 companies incorporated or registered in 1998.

4. The offshore banking industry made a remarkable recovery by registering a combined pre-tax profit of USD57.0 million in 1999 compared with a loss of USD268.9 million in 1998. The turnaround in performance was made possible following the improved business environment in the region.

5. As for the insurance and insurance related business, 19 new licences were issued in 1999 compared with 13 in 1998. This represents a growth of 47.5%, a commendable achievement by most standards. In the trust industry, the aggregate operating income of the trust companies increased by 9.8% to RM13.2 million compared with RM11.9 million in 1998. In the area of mutual funds, LOFSA has granted consent to six private funds to be launched in Labuan with a total fund size of approximately USD151 million. In addition, three public funds totaling USD180 million were also given provisional approval to register the funds in Labuan subject to the finalisation of their respective prospectuses. Exemptions under the Offshore Banking Act had been granted by the Government to three offshore leasing companies to conduct leasing business. The total amount of leasing business conducted by leasing firms in Labuan was USD800 million as at 31 December 1999 as compared with USD600 million as at 31 December 1998.

6. I am also pleased to announce that LOFSA's account for the year 1999 continued to show commendable performance by recording a surplus of RM3.0 million. For the year 1999, the operating income of LOFSA rose 14.0% from RM8.6 million in 1998 to RM9.8 million in 1999. As in the previous years, the bulk of the income came from revenues collected from the incorporation of companies and the annual fees of the offshore players.

Ladies and Gentlemen,

7. It is the vision and aspiration of LOFSA to create a strong, progressive and competitive offshore centre in Labuan. One that is able to withstand future shocks, like the financial crisis experienced in 1997, without adversely affecting the national banking system stability. And one that is able to support the nation's economy effectively and facilitate the economic transformation process in order for the country to attain the status of a developed nation by the year 2020. Development of an efficient and competitive offshore financial sector is necessary to provide the overall foundation for broadening and deepening the nation's financial markets to meet future challenges. Despite the distractions caused by the economic turbulence, the development of the offshore financial system to achieve this long-term vision is still very much on our agenda.

8. Major forces are reshaping the financial sector - globally, regionally and domestically. These factors, including the financial crisis, have highlighted the urgency to undertake a critical assessment of the competitiveness of our offshore financial sector in Labuan and its ability to continue supporting economic growth. We will also need to assess the prospects of the various segments of the financial markets and the financial infrastructure, that would be required to provide a conducive environment for growth and

development. In particular, the development of alternatives as avenue for funding for corporations regulatory rules and policies would also need to be reviewed to be in line with current developments. Building strong management capabilities among the offshore institutions will also be an area of priority that needs to be focused on.

9. As we enter the new millennium, the challenges posed by the process of globalisation and liberalisation will continue to intensify. To remain relevant in this ever-competitive environment, offshore institutions will need to continue to build on their strength and expertise, be more focused and long-term oriented in their strategies, and more innovative and proactive in customer services. These qualities are necessary for them to benefit from the opportunities that will be created from the various initiatives that LOFSA has taken to deepen and broaden the offshore market in the Labuan IOFC.

10. The Labuan IOFC is a potential source of growth for the financial sector and the economy as a whole. The full potential of Labuan IOFC as a growth centre for the economy is still largely untapped, and strategies to enhance its growth prospects needs be pursued more vigorously in the future. Now is the time for us to lay the foundation for Labuan IOFC to realise its full growth potential and at the same time, enhance the visibility of Malaysia as a successful financial centre. Not only Labuan IOFC will benefit, but the businesses generated by the offshore companies will inevitably have positive spillover effects on the domestic economy. It is this 'win-win' concept for the offshore players and for the Malaysian economy that all of us should strive for.

Ladies and Gentlemen,

11. The benchmarks of a successful offshore centre are varied. Some would look at the number of offshore companies established in a particular centre while others at, perhaps, the diversity of players or the range of services and products available in that centre. As far as Labuan IOFC is concerned, even though there has been steady growth in the number of offshore companies establishing in Labuan over the years, the number, which at present stood at 2,266 in 1999, is far lower than that in other jurisdictions. Some Caribbean jurisdictions have well over 100,000 companies. Hence, in terms of absolute number, Labuan IOFC has clearly fallen short. But then, there is a reason to it. By design, Labuan has not been focusing on registration business, yet. The focus was on attracting companies to establish in Labuan with real physical presence. Nevertheless, LOFSA is having a re-look at this, but I can assure you the existing prudence requirements will not be compromised at all costs.

12. Nevertheless, in selected industries such as offshore banking and insurance, Labuan has a critical mass with 61 of the top banks in the world. For example, 33 of the top 50 banks are in Labuan. The insurance sector, the star performer in 1999 again, continued to see the number of insurance companies increasing despite the economic turmoil. The number of insurance companies as at the end of 1999 was 50 compared with 31 in 1998. We are also happy to note several innovative products being generated by the insurance sector including the rent-a-captive concept. Another plus point is that the diversity in terms of country of origin of the players in Labuan is very wide.

Ladies and Gentlemen,

13. The way forward, as LOFSA envisaged it, is to attract many and diverse players to the Labuan IOFC, and to be meaningful these players must bring along with them services and products which are comprehensive and competitive. The financial landscape of the Labuan IOFC of the new millennium should be one distinguished by one where customers needs are satisfactory met at minimal cost and efficiently, and in the process propelling Labuan IOFC to be one of the top service providers of the world.

14. Having achieved critical mass in certain sectors, our new effort is directed to new set of players. These are the players who will be attracted to "what Labuan has to offer", and not unduly concerned with Malaysian business, but rather on regional business. LOFSA have reviewed the present entry criteria for offshore banks, which is solely based on the top 200 banks in the world. In October 1999, the offshore banking sector had been liberalised to the extent that entry to the industry in Labuan IOFC will no longer be limited to the top 200 banks. The focus will be on quality rather than size of the bank. Well managed and boutique financial institutions providing specialised services will be welcomed to be established in Labuan. Banking institutions with sound track records, accorded a good credit rating by acceptable rating agencies, supervised by a relevant regulatory body and that conform to generally accepted standards of international banking practices will be enticed to set up their operations in Labuan. I wish to emphasise here that there will be no compromise on quality, and the entry to Labuan is still restricted to sound and well managed banking institutions. This is to ensure that Labuan IOFC remains to be clean and reputable. That is why Labuan is a member of various international bodies like the Offshore Group of Banking Supervisors, Offshore Group of Insurance Supervisors and Offshore Group of Collective Investments Schemes Supervisors, who subscribe to international best practices.

15. Other than the banking sector, LOFSA is in the process of reviewing policies and regulations of the leasing, funds and insurance industries in Labuan. There are tremendous market opportunities in these industries. LOFSA needs to ensure that the business environment in Labuan IOFC is conducive to increase the activities and attract new players into these sectors.

16. At the same time, LOFSA, in consultation with various parties, is exploring to build an effective and efficient supply chain to reach global and borderless market. LOFSA will be investing in an internet gateway in the World Wide Web, and players will be linked to that gateway with nodes provided to facilitate innovations and interfacing with customers by the offshore players. The idea is to ensure there is no duplication of investment between the offshore players and LOFSA. Under this concept, offshore players can "piggy back" onto the infrastructure to be provided by LOFSA, capitalising and synergising on a ready-made "super highway". In addition to the electronic gateway, LOFSA is also implementing its plans to modernise the operations of the Labuan IOFC.

17. As I have mentioned earlier, the future of Labuan IOFC's future will see further expansion in its activities. A virtual global exchange known as the Labuan International Financial Exchange is expected to be launched soon. The exchange will be market-driven, run by participants of the market and adopting best international practices of offshore exchanges in the world. Its rules will be flexible to allow dual listings as well as investors and companies from other jurisdictions to tap capital. The cost of listing and trading will be competitive, and trading can be conducted 24 hours a day. More importantly, there will be plenty spin-offs to the other offshore players to participate in the form of providing custodial, depository, clearing and trustee services.

18. Labuan is also spearheading the development of a global network of Islamic money markets to take advantage of the tremendous market opportunities in Islamic financing globally as well as to provide an alternative to the conventional financial markets. These network of money markets are targeted for the needs of financial institutions worldwide seeking global financing, not domestic, thus in the process giving them a more international outlook in their business activities. Specifically, the Islamic international money market in Labuan will be US-dollar based, facilitating liquidity management 24 hours a day and 7 days a week. It is a part of a cooperative framework which will enable participation by Islamic financial institutions and authorities, all embodied in an institution called the liquidity management centre. Under the liquidity management centre concept, its

participants, including monetary agencies of participating Islamic countries, will provide the necessary support to facilitate liquidity in the money market. A memorandum of understanding between the Islamic Development Bank, Bahrain Monetary Agency, LOFSA and Bank of Sudan had been signed to implement the project. Several other governments, including that of Saudi Arabia, Iran, Indonesia and Brunei have expressed their commitment in participating in the money market. InshaAllah, with the international Islamic money market, the spin-offs for generation of Islamic financial instruments and establishment of Islamic institutions including Takaful in Labuan will be realised. Ultimately, the success of the international money will further enhance the development of the Islamic capital market.

19. The three core initiatives undertaken by LOFSA are synergistic with each other. To illustrate, LIFE could be used for the listing of Islamic financial products. Since LIFE and IIMM will be very electronic-based, the Internet gateway can provide the facility for them.

20. We also need to fully utilise the extensive and excellent high-tech telecommunication and other communicational facilities available in the Labuan IOFC. An area of business, which could become an important niche for Labuan IOFC, is operating as a regional processing and administration centre. LOFSA had received several proposals from large multi-international corporations seeking to establish backroom processing offices as well as treasury hubs in Labuan for their regional offices. Coupled with the availability of excellent communication facilities, the Labuan IOFC is also cost efficient in terms of operating costs, skilled workforce. It also has a liberal work permit policy for expatriates with specialised skills, and hence is well positioned to be the hub of such activities.

Ladies and Gentlemen,

21. I wish to reiterate the unwavering commitment of the Government to develop Labuan IOFC. The investments that have been made by the Government to ensure Labuan IOFC becomes a world class offshore financial centre. This commitment is clearly seen in the infrastructure developments that had taken place in Labuan. For example, a RM500 million financial complex was built to house the offshore players in Labuan. A new airport costing more than RM138 million had also been built to cater to increasing air traffic into Labuan. The Government had also converted an administration complex into an international university to increase the population of Labuan as well as to ensure that the offshore industries will have a steady supply of skilled manpower.

22. At the same time, the Government would continually review the incentives and policies to ensure that Labuan is abreast with new developments in the offshore world. In this regard, it is mindful that staff needs to be taken of by providing necessary incentives for them to stay and work in Labuan. Several incentives have been approved by the Government in 1999 including:

- i) The extension of the 65 % tax rebate given to trust companies to year of assessment 2004;
- ii) The extension of the 50% tax rebate given to for another five years;
- iii) The 50% of the housing and regional allowances given to residents working in the Government sector and offshore companies in Labuan are exempted from tax for the year of assessment 1998 to 2001;
- iv) the "second tier" dividends paid by an offshore company to a domestic company are exempted from tax; and
- v) the 50% of income of non-resident manager working for a Labuan trust company are exempted from tax for the year of assessment 1998 to 2001;
- vi) the stamp duty for transfer of shares and preparation and filing of M&A by an offshore companies is waived.

Ladies and Gentlemen,

23. The effort to make Labuan as an attractive IOFC is not just providing conducive business environment as described above. To ensure that expatriates who work and live in Labuan have access to quality education for their children, LOFSA went a step beyond its normal supervisory functions by rescuing the only international and private school in Labuan, i.e. the Labuan International School. The taking over of the school is not profit-oriented but rather to enhance the image of Labuan as an IOFC.

24. We are encouraged that since the taking over of the school, more parents have expressed their confidence by enrolling their children to the school. To-date there are a total of 130 students, compared with only 72 students before the school was taken over by LOFSA.

Ladies and Gentlemen,

25. The challenges ahead for the Labuan IOFC is certainly daunting, more so in a tough environment. To be successful in offshore business, there is a need for vision, sense of mission and keen far-sightedness to grab the opportunities that lie ahead, and to exploit our strengths. On the other hand, it is critical for the industry to play a more significant role instead of depending on the Government to provide the thrust. On its part, LOFSA will continue to be responsive, vigilant and market driven. In this regard, LOFSA

will adopt a more consultative and pro-active approach with the offshore players in developing the Labuan IOFC. This is one of the ways to enhance the participation and support of the industry in LOFSA's efforts to develop the IOFC. Together with the offshore players in Labuan, we hope that the performance of the Labuan IOFC in general, and LOFSA, in particular, will be better in the year 2000.

26. On this note, I would like to end here and thank you for your attention.