SPECIAL REPORT

Five-year game plan enough to give Labuan an edge?

In its five-year (2022-26) strategic roadmap launched last year, Labuan International Business and Financial Centre (Labuan IBFC) clearly defined — for the first time in its over 30-year history — the areas in which it is actively seeking to build a niche for itself amid growing competition from new and existing jurisdictions. In a nutshell, it aims to create a niche in the areas of Islamic finance/sustainability, captive insurance and digital financial services.

"We have wide-ranging licences and products and services that we offer to our global clients, but [now] we need to have certain niches and competitive edges, strengths that can [take] Labuan to the next level. We already have a base [in the niches we've identified], and now we need to be more focused," Labuan Financial Services Authority (Labuan FSA) director-general Nik Mohamed Din Nik Musa, better known as Nik Din, tells *The Edge* in an interview.

Labuan FSA is the statutory body responsible for the development and administration of Labuan IBFC.

According to Nik Din, there are four core areas of focus under its roadmap: (i) for Labuan to become Asia's digital hub; (ii) to be its Islamic digital asset centre (IDAC); (iii) to become a leading centre for captive insurance; and (iv) to strive for regulatory excellence.

On the digital hub plan, he says Labuan wants to build an ecosystem of fintech players under the first phase, which runs for two or three years.

"In phase one, we plan to get all sorts of fintech players to register in Labuan. We already have three securities exchanges, payment system companies, as well as digital asset trading platforms. In phase two, we will invite more sophisticated players, such as insuretechs, digital banks and online asset managers, to support our ecosystem."

This could be challenging, considering that rivals such as Singapore also aim to be a digital hub. However, Nik Din says: "For ours, we want our niche in Islamic/ESG (environment, social and governance)."

As for IDAC, which was launched in October last year, Nik Din says it is envisioned to be a fundraising and investment hub with a niche in shariah-compliant and ESG activities.

"There will be opportunities for companies — for us, the focus is on SMEs (small and medium enterprises) — to digitally securitise or tokenise their assets or commodities such as gold, property real estate or even carbon credit, via a securities token offering (STO) on a shariah-compliant digital exchange, to raise funds. What makes IDAC different [from others] is the fact that there must be an asset that is latched onto the STO, and that the focus is on SMEs," he explains. "We are expecting to see the first product, the first token, launched soon, before the end of the year. Once we have a product, then we can create more awareness around this."

Another interesting initiative under IDAC is a plan to create what is known as "ummah-linked companies" (ULCs) that aim to help Muslim expatriates and foreign workers manage their savings or zakat.

"These ULCs will emulate the established businesses of Lembaga Tabung Haji or the Employees Provident Fund, and offer these services through IDAC in Labuan. This plan is still in the pipeline. Our team is looking at several parties to emulate the activities [of LTH or EPF] ... it can be a fintech or a fintech in partnership with other companies," says Nik Din.

As for the captive insurance business, Labuan IBFC is giving itself a three-year time frame to become the biggest market in Asia. Today, it is already the second largest by number of captive companies — it has 71 versus Singapore's 83 — but it beats Singapore in terms of the rate of establishment of new companies.

"We want to get more companies to set up captives in Labuan ... and we also want to set ourselves apart by becoming a takaful captive centre, which will be another niche," says Nik Din.

In its bid to achieve regulatory excellence, one of its many plans include coming up with even more digital guidelines, including those to govern tokens.

What experts say

Industry observers note that Singapore and Hong Kong, in particular, are Labuan's biggest competitors in Asia. Be that as it may, Labuan is fairly competitive, notes Jennifer Chang, PwC Malaysia's financial services tax leader.

"You have to remember, Labuan is a fairly new player. A lot of the international financial centres have been around for many more years, so they've had a head start in establishing themselves," she tells *The Edge*.

The jurisdictions are pretty similar in that they all offer lower taxes and allow for the setting up of companies relatively easier and faster.

"So, I think what you see in most centres, you would also see in Labuan. Some centres have been able to attract certain industries. For example, Bermuda has been quite popular for captive insurance and reinsurance, while Ireland has a lot of leasing companies. Labuan has been popular for Islamic finance, including bonds and sukuk issuances, and there have also beens funds and holding companies established in Labuan," Chang notes.

Asked about the fact that Labuan IBFC has only recently identified its niche, EY Malaysia's Anil Kumar Puri, international tax and transaction services partner and international corporate tax advisory leader, says: "If you look at offshore and midshore jurisdictions, not all have established niches. Some jurisdictions may be known for [a particular type of business] and they just go with the flow, whereas Labuan is continuing to identify value-enhancing areas and seeking to elevate its positioning in those areas.

"I would say, we're picking the areas which we feel are important and relevant, and which will allow us to maximise the potential of Labuan's unique value proposition, and seeking to focus on those areas. At the same time, Labuan is proactively keeping an eye on what other jurisdictions are focusing on, to see whether it makes sense for it to play in these spaces too."

Labuan's choice of niches make sense, he notes.

"In terms of international Islamic finance, Malaysia is a world leader in this area and has contributed and will continue to contribute to this. The Islamic financing and Islamic digital slant is certainly something we probably should have a head start on compared to other countries. Labuan also has a well-developed and robust insurance industry," Anil points out.

"As for ESG, digital finance and digital offerings in general, many countries are looking at offerings in these areas and Labuan's focus in these will help us stay relevant and ahead of the curve."

Meanwhile, the global tax landscape is changing very quickly with the introduction of Pillar Two rules under the Organisation for Economic Co-operation and Development's BEPS 2.0 (base erosion and profit shifting) regime. Pillar Two introduces a global minimum effective tax rate of 15% for multinational groups with consolidated revenue of over €750 million (RM3.79 billion).

"Hence, countries are having to adapt their tax laws quickly to comply with these international tax standards. Malaysia and, consequently Labuan, is not immune to this change. It really remains to be seen how Labuan's preferential tax regime can be amended. Much thought needs to be given to how Labuan can subsequently be repositioned to remain competitive and relevant," Istee Cheah, a lawyer with Wong & Partners, tells *The Edge*.

"Of course, it's also important to keep in mind that the Pillar Two rules are intended to affect the large multinational corporations that meet the prescribed threshold; so, the effects of the Pillar Two regime will not be as pronounced for those entities that fall outside the scope."

Cheah, a partner in the tax, trade and wealth management practice, notes, however, that there are other aspects that Labuan has which continue to make it a choice jurisdiction for investors and those seeking to set up succession-planning structures.

"I think, to ensure that Labuan continues to remain competitive, it's also key that the jurisdiction is backed by a strong administration that is consistent and clear in its policies and implementation. So, in my view, continuous engagement with industry players is important to ensure that Labuan is able to maintain its position as a key international business and financial centre," she says.

According to Nik Din, there are currently only 10 out of almost 5,000 companies in Labuan with a global group revenue in excess of €750 million. E

Labuan wants to build an ecosystem of fintech players

LABUAN FSA