World Academy of Science, Engineering and Technology
International Journal of Economics and Management Engineering
Vol:12, No:02, 2018

Captive Insurance in Hong Kong and Singapore: A Promising Risk Management Solution for Asian Companies

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Abstract : This paper addresses a promising area of insurance sector to develop in Asia. Captive insurance, which provides risk-mitigation services for its parent company, has great potentials to develop in energy, infrastructure, agriculture, logistics, catastrophe, and alternative risk transfer (ART), and will greatly affect the framework of insurance industry. However, the Asian captive insurance market only takes a small proportion in the global market. The recent supply chain interruption case of Hanjin Shipping indicates the significance of risk management for an Asian company's sustainability and resilience. China has substantial needs and great potentials to develop captive insurance, on account of the currency volatility, enterprises' credit risks, and legal and operational risks of the Belt and Road initiative. Up to date, Mainland Chinese enterprises only have four offshore captives incorporated by CNOOC, Sinopec, Lenovo and CGN Power), three onshore captive insurance companies incorporated by CNPC, China Railway, and COSCO, as well as one industrial captive insurance organization - China Ship-owners Mutual Assurance Association. Its captive market grows slowly with one or two captive insurers licensed yearly after September 2011. As an international financial center, Hong Kong has comparative advantages in taxation, professionals, market access and well-established financial infrastructure to develop a functional captive insurance market. For example, Hong Kong's income tax for an insurance company is 16.5%; while China's income tax for an insurance company is 25% plus business tax of 5%. Furthermore, restrictions on market entry and operations of China's onshore captives make establishing offshore captives in international or regional captive insurance centers such as Singapore, Hong Kong, and other overseas jurisdictions to become attractive options. Thus, there are abundant business opportunities in this area. Using methodology of comparative studies and case analysis, this paper discusses the incorporation, regulatory issues, taxation and prospect of captive insurance market in Hong Kong, China and Singapore. Hong Kong and Singapore are both international financial centers with prominent advantages in tax concessions, technology, implementation, professional services, and well-functioning legal system. Singapore, as the domicile of 71 active captives, has been the largest captive insurance hub in Asia, as well as an established reinsurance hub. Hong Kong is an emerging captive insurance hub with 5 to 10 newly licensed captives each year, according to the Hong Kong Financial Services Development Council. It is predicted that Hong Kong will become a domicile for 50 captive insurers by 2025. This paper also compares the formation of a captive in Singapore with other jurisdictions such as Bermuda and Vermont.

Keywords : Alternative Risk Transfer (ART), captive insurance company, offshore captives, risk management, reinsurance, self-insurance fund
Conference Title : ICTBEL 2018 : International Conference on Trade, Business and Economic Law
Conference Location : Bangkok, Thailand
Conference Dates : February 08-09, 2018