



LABUAN ENTITY CORPORATE ASSESSMENT

Frequently Asked Questions (FAQs)

1. What is LECA?

An assessment service from RAM Rating Services Berhad (RAM Ratings), for companies based in Labuan International Business and Financial Centre (Labuan IBFC).

For banks and (re)insurers, LECA is an assessment of claims paying ability and/or financial strength. For service providers, LECA evaluates capacity and competence in fulfilling roles and responsibilities. LECA ratings are expressed on an alphabetical scale and are anchored by RAM's hallmarks of integrity and analytical rigour.

2. How can I benefit from LECA?

As an independent view of risk and/or performance, LECA will facilitate business transactions and could lead to benefits in the form of better financial or business terms. LECA also reduces information asymmetry, provides added comparability across entities, and supplements in-house assessments of counterparties.

Efficient information dissemination and market transparency are essential to support the long-term resilience and future growth of financial markets. While services from incumbent rating agencies are already available to participants, LECA is customised to serve Labuan IBFC companies, regardless of stature, with the same standards of analytical diligence and service quality from RAM Ratings.

3. How are LECA ratings derived?

RAM Ratings uses principles comparable to established frameworks for credit and performance evaluation, including its existing methodologies.

The rating approach for banks and (re)insurers incorporates assessments of the operating environment, competitive position and risk profile, as well as financial indicators measuring performance, capital strength/solvency, operating leverage and liquidity. For service providers, we consider experience, track record, staff strength, business support systems and financial performance. Regulatory compliance, governance and risk management are requisite components of all LECA evaluations.

4. Describe the LECA process.

The process starts with the submission of information required for the LECA assessment. Upon reviewing this, we will schedule a meeting to discuss salient themes such as strategic plans and performance trends. After the business and financial strength of the company is evaluated, the analyst will present a rating recommendation to a committee comprising RAM Ratings' senior management. This committee will make the final rating decision.

The rating will be conveyed through a draft report detailing the key drivers of the assessment. The factual contents of the report will be available for discussion before being finalised. This process is expected to take 3 to 4 weeks.



A benchmark of risk and performance for Labuan

5. What is the difference between LECA and other ratings assigned by RAM Ratings?

Our main grading system uses a 7-grade credit rating scale with subscripts 1, 2 or 3 applied to each rating grade to indicate ranking within a category. Similar main grades are used for other assessment services, although different symbols are applied to distinguish between service offerings and/or type of entity evaluated.

The LECA for financial institutions applies RAM Ratings' main 7-grade scale, using lower case alphabets. LECA ratings for service providers are expressed on a scale of LECA1 (best) to LECA6 (worst). A (+) symbol may be attached to LECA ratings to indicate rankings at the higher end of the category.

LECA ratings may not necessarily equate to rating outcomes for fixed income issues and issuers as the benchmarks, rating scales and evaluation processes are not identical.

6. Are LECA ratings recognised?

With a 30-year track record and as an established credit rating agency in Malaysia and Asia, RAM-assigned ratings are well received in onshore domestic and regional markets. As an External Credit Assessment Institution (ECAI) endorsed by Bank Negara Malaysia (BNM), RAM's existing ratings are recognised and well-used by BNM-regulated banks and insurers for risk-based regulatory capital calculations in Malaysia.

From a regulatory perspective, LECA ratings have not yet been accorded official recognition. As it is a new service offering with a differentiated rating scale, market acceptance and recognition by stakeholders/users will naturally require time, progressing as more companies opt for the service. We hope that wide acceptance by all stakeholders including regulators will make LECA an accepted and recognised benchmark for performance and risk in Labuan IBFC.

7. What is the validity period of a LECA rating?

LECA ratings are typically valid for up to 1 year after they are assigned. During this time, the assessment will be monitored by RAM Ratings and any material developments could change the rating assigned.

Entities may elect for a one-off or annual mandate. In the latter, we will commence the annual review of the rating close to the anniversary of the initial assignment.

8. Will the LECA rating be made public?

Only with the consent of the entity assessed.

9. Is LECA compulsory?

No. LECA is an optional service that offers Labuan entities a chance to access and benefit from ratings, irrespective of stature.

10. How can I sign up for LECA?

To sign up, simply send an email to tanya@ram.com.my or reach out to the contacts listed below.

For more information on LECA, please visit <https://analytics.ram.com.my> contact:

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