MALTA 2014

REGULATION
Why Malta has established a strong regulatory reputation under the MFSA

ECONOMY
How Malta's captive sector contributes to the island's economy as a whole

ATTRACTION
Why Malta has become an attractive domicile for captive managers
Malta is host to a myriad of captive re/insurance companies, protected cell companies and cells that have come to enjoy the domicile’s stable regulatory environment and EU membership benefits. Malta offers re/insurers and cells:

**European Union Membership** - Malta’s status as an EU member allows companies and cells the ability to passport their services throughout the European Union and EEA states. Maltese insurance law and regulation implements all relevant EU directives.

**Redomiciliation Legislation** - Companies established in other countries can seamlessly transfer to Malta without any break in their corporate existence.

**Protected Cell Legislation** - Protected Cell Companies can be incorporated in Malta, enabling cell promoters to write insurance through a cell. The law ensures proper protection and insulation of cell assets and liabilities from those of other protected cells and the core of the protected cell company.

**A Stable Regulatory Framework** - The Malta Financial Services Authority (MFSA) is reputed to be “firm but flexible” - encouraging discussion with promoters at all stages of an application process and also on an ongoing basis.

**Extensive Double Taxation Treaty Network** - Malta has over 70 tax treaties with various EU and non EU countries.

more information on: www.financemalta.org
Compared with some of the more established European jurisdictions such as Guernsey, Luxembourg and Ireland, Malta is a relatively new captive domicile. Yet the island has proven to be a huge success in the captive world, boasting its position as the only EU domicile with fully fledged ICC and PCC legislation; an appealing tool for many managers looking to set up onshore.

But why else has Malta become so attractive to captive managers? An excellent regulatory reputation, resilience during the global recession, an efficient tax structure and competitive operating costs are just some of the reasons why managers choose to domicile in Malta.

The Malta Financial Services Authority (MFSA) has earned popularity from various firms with Malta-based captives for providing not only a robust regulatory structure but also a trusting and approachable relationship with managers.

The Solvency II Directive is scheduled to come into force on 1 January 2016 following several delays, but is being embraced by Malta’s captive industry, which is confident of the regulatory change the Directive will eventually bring.

The success of the captive industry has also contributed to the Maltese economy as a whole. Captive management firms appear to be offering significant financial rewards with annual profit margins of 30%.

Another economic benefit is Malta’s position as a popular holiday destination. Captive managers are encouraged to make more out of their business opportunities by using the island for leisure purposes, thereby contributing to the tourism sector and ultimately the wider economy.

Captive Review caught up with various industry players to discuss the progress and attraction of Malta’s captive insurance sector in the Malta Report 2014.

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In association with
MALTA: DOMICILE UPDATE
For such a geographically small island, Malta has emerged as a big player

WHY MALTA?
Captive Review finds out why Malta is a top choice for captives

RISKY BUSINESS
Dr Simon Grima of MARM tells risk managers all they need to know about setting up a captive

THE MALTESE ADVANTAGE
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SOLID CREDENTIALS
Chris Bond of HSBC talks about Malta’s recent growth and what HSBC can offer

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A STANDOUT JURISDICTION
Malcolm Falzon of Camilleri Preziosi discusses the advantages of domiciling in Malta

AN INSURANCE MANAGER WITH A TWIST
Ron Clark discusses PCCs, ART solutions and Abacus’ role as an insurance manager

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CAPTIVES AID MALTA’S ECONOMY
Stuart King, of FiscalReps, discusses how Malta captive management firms add value and contribute to the local economy

A DELAYED OPPORTUNITY: SOLVENCY II
Karl Micallef, of Curmi & Partners, discusses Solvency II and the impact it will have on captive investments

INDEPENDENCE, EXPERIENCE AND FLEXIBILITY
Lawrence Pavia, of Island Insurance, talks to Captive Review about what to look for in an insurance manager

MALTA: MORE THAN BUSINESS
Malta’s versatility makes it an ideal holiday destination as well as a great place to do business

SERVICE DIRECTORY
Create your own insurance vehicle

Discover the advantages of our protected cell facilities

Having been a leading Maltese insurer since the 1920s, Atlas became the first EU PCC after converting in 2006 and continues to write local business through its active non-cellular core. Today Malta is the only full EU member state with PCC legislation, offering a regulatory environment that is stable, reliable and tax efficient.

To start your insurance cell, all you need is enough capital to support your business plan whilst Atlas caters for minimum regulatory requirements. And, through EU Passporting, you can avoid fronting costs by writing directly to the EEA including compulsory classes.

We are an Independent PCC, also giving you the option to subcontract cell management to an authorised insurance manager.

We offer benefits under Solvency II. Less costs thanks to shared governance, risk management and reporting. Less capital required as Atlas core capital surplus over SIi requirements provides significant support.

Find out what we can do for your company. Contact us for more details or a full presentation.

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Atlas Insurance PCC Limited is a cell company authorised by the Malta Financial Services Authority to carry on general insurance business.
Following the country’s accession to the European Union (EU) in 2004, Malta has experienced a steady, albeit slow, growth in its captive sector. Along the way, the island nation has developed a reputation, as Vincent Barrett, managing director of cell operator White Rock Group, described it, as “a pragmatic, flexible and well-regulated domicile”.

As of November 2013 the Malta Financial Services Authority (MFSA) reported the domicile is home to 11 captive insurance companies and nine protected cell companies (PCCs) which incorporate 22 cells; hardly a phenomenal number in comparison with the two other major European onshore domiciles, Luxembourg and Ireland.

In the last three years, Malta has grown by one captive, seven protected cells (PCs), and the number of PCCs has increased by one (see graph, page 8), which suggests a faltering interest in the domicile. Ireland and Luxembourg, however, have also had minimal movement in their captive growth over the same timeframe, with the total number of captives in Ireland actually declining due to a spate of captive closures. This suggests the turgid growth rate is a reflection less of the appeal of the domicile and more to do with anxiety surrounding onshore Europe’s heightened regulatory environment as a consequence of the impending Solvency II Directive.

According to Matthew Bianchi, a partner at Maltese law firm GANADO Advocates, who heads up the firm’s insurance and pension’s team, Solvency II has imposed a “wait and see” attitude across the entire onshore European captive insurance industry, with firms holding back to access how the regulation will be enforced before establishing new captives. However, given the recent clarification of an implementation date for Solvency II, the number is expected to increase.

This new-found clarity is a positive development for Malta, says Romina Soler a partner at PricewaterhouseCoopers, Malta. According to Soler, although Malta has not seen big growth numbers in terms of licensed insurance entities, she believes that the clarity of a definitive Solvency II implementation date will benefit the domicile. “Now that the confusion around Solvency II’s implementation date is starting to settle down, I believe that we are going to see a lot more captive insurance enquiries than we have witnessed previously,” she said.

Fulfilling expectations

The small number of single parent captives domiciled in Malta have generally been from larger organisations including car manufacturer BMW, which moved their captive business from Dublin, German reinsurer giant Munich Re, and global telecommunications provider Vodafone, which moved both their Guernsey and Dublin-based captive insurance business to Malta in 2006-2007. Arthur Ripard, executive director of the Vodafone Group Insurance captive, Multi Risk Limited, explains that the reason the company decided to relocate their captive business to the island was due to Malta’s legal and regulatory infrastructure as well as its reputation as an efficient and well-regulated jurisdiction. “Even though Dublin, like Malta, allowed us to ‘passport’ business into the rest of Europe, Malta offered the potential to achieve further operational efficiencies,” he said. “The local financial services landscape allowed us to set up a more cost effective model while still being able to tap into a pool of English-spea-
ing graduates and operate under a responsive regulator of international repute.”

Dermot Finnerty, general manager at Aon Insurance Managers Malta, agrees that the regulator has been supportive; since White Rock set up operations in Malta, the regulator has been approachable and attentive. “The Maltese regulator promotes itself as the ‘approachable, flexible regulator’, and so far we have found this is the case,” he said.

**PCCs and double taxation treaties**

Barrett highlights that Malta’s pragmatic approach to captive insurance is evidenced in the fact that the country took the initiative to become the only full EU member state to offer PCC legislation, providing a valuable alternative to risk managers looking to open a captive which may otherwise struggle to comply with Solvency II requirements. The Malta Insurance Management Association (MIMA), which was established in 2007 and represents all of the authorised insurance managers and insurance entities on the island, explains that a PCC does not need to satisfy the statutory minimum capital requirement under Solvency II and since the PCC is a single legal entity, the applicability of the system of governance provisions, including the forward looking assessment of an undertaking’s risks (ORSA) may be carried out by the PCC as a whole and not by each individual cell, eliminating the administrative burden for smaller parent companies. Although a cell option is an efficient way for smaller companies to bypass the Solvency II restrictions, because the cell operator has a fiduciary duty to protect the cell assets, it is important for cell owners to keep up to date with the provisions in the laws and regulations.

According to Julia Graham, president of the Federation of European Risk Management Association (FERMA), apart from the benefits for new potential captive owners, some existing captive owners of smaller captives are now considering the potential cost savings of converting their stand-alone captives to PCCs to deal with Solvency II. “The PCC structure could reduce capital requirements since the minimum capital conditions apply to the PCC as a whole which will be attractive for smaller existing captives which cannot meet the requirements,” she said. “It is reassuring to see that the European Insurance and Occupational Pensions Authority’s (EIOPA) updated technical specifications have covered the treatment of protected cells, an effort that was pushed by the Malta regulator,” she added.

Another practical approach Malta has taken in order to encourage the growth of their financial services sector is the government’s drive to implement double taxation treaties (DTA) with trading partners and developing economies. To date, treaties are in force with over 60 countries, including most of Europe, Asia, the Middle East and America. Finnerty said that the DTAs were extremely beneficial from a client’s perspective, and that White Rock was making use of the agreements. “Risk and insurance managers will always highly regard domiciles where DTAs are in place. It very much depends on the structure of the company, but some clients look at DTAs as an important business feature and they take this into account when deciding on captive location and structure, so the extensive DTAs Malta has in place are a very attractive factor.”

From a risk management perspective Malta has built a solid mass of skills, knowledge and experience around the insurance and captive sector. Graham of FERMA said that Malta has developed a strong emphasis on education, becoming a recognised centre for both graduate and postgraduate risk management learning. “Malta has developed as a domicile for risk management knowledge and as a result the number of risk professionals in the industry is increasing. FERMA is glad to see and assist in the growth of the Malta Association of Risk Management (MARMC) who in turn is supporting projects such as FERMA’s Risk Management Certification,” she said.

**Room for growth**

The changing regulatory landscape which will be introduced by Solvency II is one of the more pressing concerns for captives licensed in Malta, according to Ripard. “Regulatory requirements are likely to become more onerous when Solvency II comes into force,” he says. According to MIMA the implementation of the Solvency II regime will mark a radical overhaul to the regulatory landscape for the insurance industry, especially since the establishment of the three pillar system may lead to higher costs for smaller captives and single parent insurers carrying on insurance business in the EU. Some of these smaller captives may be forced to sell, merge or close down their entities if they do not have the financial and operational resources to meet Solvency II requirements. Ripard added that although the process towards the adoption of Solvency II is a

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**DATA | TOTAL LICENCES**

![Graph showing total licences for Captives and PCCs from 2011 to November 2013](image-url)

- Captives: 0, 2, 4, 6, 8, 10, 12 (15 cells, 18 cells, 22 cells)
- PCCs: 8, 10, 12 (18 cells, 22 cells)

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challenge for captives on the island, “we would need to expend the same effort and resources if we were domiciled anywhere else in Europe or in a jurisdiction which seeks Solvency II equivalence”.

Soler believes that Solvency II should not be a major concern for captives domiciled in Malta, because despite the negative publicity surrounding the implications of Solvency II, the directive is about proportionality. “Solvency II is not going to impose the kind of punitive burdens that we hear about in the press, and can be applied in a practical manner. It will just ensure that captives are more risk based,” she said. “However, a lot of damage has been done before the Directive has even been implemented due to the continuing delays and uncertainty. Once effected, however, I think we will see that the impact on the Maltese captive industry is not that significant,” she added.

According to Ripard, a more pressing concern from a captive owner’s perspective is regarding Malta’s reputation as a captive domicile. “The most important concern for Vodafone is that Malta continues to be viewed as a jurisdiction of the highest standing in the financial world,” he said. “The domicile’s ongoing good reputation will ensure that our international transactions and any positive recognition that we have globally will continue along the same path.”

One of the main challenges for any burgeoning domicile is the establishment of a network of captive managers and service providers and here Malta falls somewhat short. Although many of the larger players are set up in Malta, generally they are “skeleton” offices, and are not established to the same extent as they are in more mature jurisdictions.

**The plan**

According to Bianchi, apart from the continued slow growth of the PCC and ICC sector with just one new PCC in the past three years, from a regulatory standpoint there are some innovative plans in the works, including a strengthening of insurance linked security (ILS) structures and the formation of Solvency II compliant Special Purpose Vehicle (SPV) structures for reinsurance. The MFSA plans to issue the necessary legislation to cater for the formation and domiciliation of Reinsurance Special Purpose Vehicles (RSPVs) in Malta.

According to the MFSA’s official consolation document on the legislation, released in May this year, RSPVs can play a major role in facilitating alternative risk transfer, offering management solutions that enable insurance and reinsurance undertakings to better align their risk profile with their risk tolerance. These vehicles may also provide additional reinsurance capacity at times in which cover through more traditional channels is limited. The domicile is targeting the legislation at the ILS, catastrophe bond and reinsurance sector and is currently in talks with EIOPA to have the legislation in place by the end of 2013.

As ILS funds utilise PCC and ICC structures to provide a low cost, low administration vehicle to access the reinsurance/retrocession markets, this legislation could prove beneficial for cell operators such as White Rock, who currently only deal with the ILS market in Bermuda and Guernsey. Finnerty said that it was difficult to predict whether the legislation will affect PCC and ICC growth in the domicile as the legislation is still in the process of being finalised, however they hope that if it does get through, Malta will grow as an ILS jurisdiction. “For reinsurance companies used to specific structures, moving their business to a new domicile will be expensive, however, the fact that Malta is inside the EU is a big incentive,” he said. However if Ireland, which passed onshore RSPV legislation in 2007, is anything to go by Malta might be advised to hold off on cracking open the champagne bottles just yet. Ireland has seen minimal growth in the market, with only two RSPVs formed this year, and is currently in discussions to amend its directive.

**The bottom line:** Malta still has a long way to go to reach the same point as the more mature European domiciles. However, the island has established a strong reputation as a well-regulated, pro-business jurisdiction. What will be imperative for Malta’s progress is how the local regulator deals with Solvency II in terms of applying the Directive. Malta’s pragmatic approach to regulation, most especially its introduction of PCC and ICC legislation, will be the driving force for growth within the domicile. Although captive growth on the island has been very slow, with only one PCC licensed this year, this is reflective of the current regulatory environment of Europe as whole, and Malta hopes to increase its numbers now that a clear implementation date for Solvency II has been decided.
WHY MALTA?

Captive Review speaks to various firms to find out why Malta is a top choice for captives.

PKN ORLEN

Why a captive?
The main purpose of our captive in Malta is to access the reinsurance market since the risks our company is exposed to are large and hence we do not want to be restricted to the local insurance market. We can develop with our brokers a more efficient structure by accessing the reinsurance market while having the ability to retain risks which are within the group’s comfort level.

Why Malta?
Malta is a country that is a full member of the EU, and which has not been affected to any great extent by the global recession. Regulations are recent, up-to-date and compliant with EU legislation while not being overburdening for captive structures.

Why did you choose your captive manager?
We have long standing relationships with Marsh on other markets, thus Marsh Management Services in Malta was a natural choice. Of course Marsh had to participate in our strict tendering processes proving to be able to bring best value for money.

What are your experiences of dealing with the MFSA?
We have found the regulator to be approachable when necessary to discuss changes to the captive. Otherwise we allow our captive manager to handle most of the day-to-day interaction and this goes smoothly from our perspective.
Our values reflect those of a nation of people, influenced by many cultures, witnessing great historical events and adapting to the winds of change with dignity and success. We watch the horizon for the next new experience.
ArgoGlobal

Why Malta?
When seeking an attractive regulatory environment for establishing its EU insurance operation (ArgoGlobal SE) it was critical to Argo Group that the jurisdiction in which its company would be domiciled was one in which: the regulatory authority was considered to have an excellent reputation, there was an established insurance industry (in the case of Malta this is in the captive space), there existed an adequate number of high quality service providers (such as accountants and lawyers), it was English-speaking and had an acceptable infrastructure. For Argo Group, Malta was the jurisdiction in the EU that satisfied all of our critical requirements.

Marshall

Why Malta?
Malta has one single regulator, an open door policy, low regulatory fees and is the only EU domicile with fully fledged ICC and PCC legislation. The legal system and insurance law are both based on the English legal system and legislation is in place for continuation of companies to/from Malta. There is a low cost base which is lower than most other European domiciles. English is spoken by more than 95% of the population, with French and Italian widely used, and global audit and advisory firms have been present on the Islands for the past 25 years. International Financial Reporting standards (IFRS) – previously International Accounting Standards – have been complied with since 1995 and information, communication and technology infrastructure was rated the best among EU member states. There is a long history of attracting and maintaining foreign direct investment, an efficient tax structure and extensive double taxation agreements. Finally, Malta has a highly competent and competitive workforce.

What are your experiences of dealing with the MFSA?
The MFSA is robust while remaining small and forward thinking enough to be able to find practical solutions to regulatory challenges. The MFSA has close ties with EIOPA and is one of the more advanced regulators in helping companies comply with Solvency II. Personal contact is important with the MFSA as the regulator likes to know the companies which are operating in Malta and to receive regular updates on their business plans. The MFSA supports captives in finding proportional solutions to Solvency II challenges while maintaining the effectiveness of the good corporate governance requirements. The open door policy at the MFSA is important for us to help the MFSA understand the issues companies face and to have the opportunity to discuss proposed solutions. Consultation is encouraged both when new regulations are being drafted and on company specific challenges.

PSA Insurance

Why a captive?
We are not per definition a pure captive as we insure B2C third-party risk. However, we are assimilated to a captive because we are evolving on a captive market as our clients are any Peugeot or Citroen car owners and competing against any insurance players on the B2C market. Creating our own insurance companies enabled us to implement our pan-European strategy more competitively and to build strong and sustainable competitive advantages: our risks are mutualised at a larger scale and we operate under the FOS so all is centralised at lean operating costs.

Why Malta?
Malta, being part of Europe, has the same advantages than any other European domicile regulatory-speaking. In addition to that, operating costs are competitive compared to other countries. We have also found experienced and well-trained staff. Many nationalities are presented in Malta which is also a plus for us as we work in seven different languages.

Why did you choose your captive manager?
We don’t use the services of an insurance manager. Our insurance activity being a mass-consumer one (we operate across 10 countries and have a portfolio customer base of over 2 million) and strongly associated to the well-known brands, the group policy is to always ensure full control. The qualifications of the people we found locally enabled us to have a fully-managed insurance operation which we also considered to be an asset.

What are your experiences of dealing with the MFSA?
Very good. We are present in very tough markets with a fierce competition which obliges us to be reactive, creative and capable to move fast. For an activity as regulated as insurance, to have access to the regulator and be able to explain our challenges and ensure compliance with the solutions we want to implement is a great advantage.

A US-owned company with operations in the UK

Why a captive?
Within our company we operate a specific very simple property/casualty programme which has very little variance on claims year-to-year. Some years ago it was felt that our customers could be better served by us operating this very specific sort of insurance in-house and through a captive.

Why Malta?
We had been in Dublin previously but with the Irish economy failing recently and the fact that Dublin was seeming to become overbearing with what we considered to be pointless regulation for what was in essence a very simple programme, we looked elsewhere and with the help of Marsh Management Services in the US and Europe we decided that Malta looked like the best place to relocate our captive to.

Why did you choose your captive manager?
Marsh has been associated with our company for many years and has been successful in its management of a Bermuda captive, therefore it was logical that we used it following a poor experience with another broker in Ireland. Marsh was instrumental with its help in moving us out of Ireland for which we are grateful.

What are your experiences of dealing with the MFSA?
Our directors meet with the MFSA on a fairly regular basis and our relationship is good. Marsh manages the day-to-day aspects of running the captive but we fully understand that the MFSA has an obligation to ensure that all its financial institutions are running within regulation. We of course insist on being fully regulatory-compliant and both Marsh and the MFSA assist us in that quest.
“ART” SOLUTIONS AND SERVICE THAT SIMPLY ADD UP

www.abacus.com.mt

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FiscalReps Launches International Advisory Practice For Captive Management Firms’ Leadership

FR Global Advisors is a management advisory firm working with captive industry leaders to improve their business performance. Operating in Dublin, London and New York the team are specialists in international tax, accounting, risk finance, insurance regulation and captive operations.

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FR Global Advisors is an international advisory practice servicing our clients from representative offices in Dublin, London and New York.
Malta has built a solid mass of skills, knowledge and experience around the insurance and captive sector. The emphasis by the MFSA, the Malta Association of Risk Management (MARM) and the University of Malta on risk management education is helping to increase the number of risk professionals in the industry. In 2014 we look forward to participating in the Malta International Risk and Insurance Congress. The congress immediately follows Insurance Europe’s own key annual International Insurance Conference that will also be held in Malta. It will be another great opportunity for FERMA to exchange its views on the sector with Insurance Europe. With Malta’s specialisation in risk financing strategies, we are keen to begin plans for the biennial FERMA Seminar that will be held in Malta in 2016. The seminar attracts risk managers from across Europe to come together in order to learn and exchange ideas with their peers. With MARM’s enthusiastic collaboration we are sure 2016 in Malta will be another successful event.

Dr Simon Grima, of MARM, discusses the main points of consideration for risk managers setting up captives in Malta

**Malta**

**Written by Dr Simon Grima**

Dr Simon Grima, Phd (Melit.), MSc (Lond), MSc (BCU), B.Com (Hons), is currently a lecturer at the University of Malta and a consultant on risk management, investments, compliance and internal audit. He previously worked for financial services firms (including banks, insurance and investments), at the financial services regulator MFSA, and the Malta Information Technology Agency.

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“**The risk manager (RM) needs to proactively understand the intentions, nature and culture of the proposed captive insurer**

whether it will result in a positive reduction in the parent’s total cost of the risk which it manages. The parent should conduct a cost/benefit analysis of the project, prepare adequate financial projections and evaluate the captive’s role within the said insurance programme. Furthermore, consideration must be given to the corporate structure of the captive (standalone versus protected cell) since this factor may reveal itself to be one of the critical factors contributing towards the desired full benefit of the captive
arrangement. Finally, the captive owner must ensure that the chosen domicile fits in with the parent’s insurance programme.

The RM needs to understand whether the intention is to set up a single parent captive (pure captive) or an associate captive (group captive or core/non-core cell captive) or start off with one and continue growing. In other words, they must establish a business plan.

They should also understand why captive insurance in Malta is an option, considering the following points:

a) Difficulty of the parent firm to obtain access to the commercial market for specific risks;

b) To take advantage of favourable and efficient regulatory environment/structure;

c) To take advantage of the stable political climate;

d) To take advantage of contained costs related to set-up, tax, labour force, infrastructure, facilities and premises;

e) To benefit from flexible corporate structures in that a captive may be incorporated as a traditional limited liability company, as a PCC, or a protected cell within an established PCC (Malta is the only full EU member with PCC legislation);

f) To take advantage of direct access to the reinsurance market, experienced labour force, efficient and open regulator and extended knowledge-base in insurance matters;

g) To take advantage of the favourable tax incentives;

h) To take advantage of the infrastructure – physical and logical;

i) To take advantage of other factors such as the language (nearly all can speak and understand English and Italian);

j) To take advantage of the economic climate – Malta is renowned for its healthy and sound European financial services industry;

k) Benefiting from the EU passporting regime (to or from Malta);

l) The redomiciliation or continuation of foreign captives to or from Malta is possible;

m) To grow the financial strength of the company and increase surplus by investing premiums paid into the captive.

RMs need to understand the system of governance requirements to be applied to a captive insurer to ensure full compliance with local requirements. The RM needs to monitor and calculate risks arising from a wide range of “sources” such as reputational, liquidity, concentration and so forth. More generally, how does the flow of information between the required four key functions of the above system work? In addition, consideration must be made of the difference between the extent of the duties and responsibilities which are imposed on the board of directors of a stand-alone captive as opposed to a cell captive.

They also need to be aware of the upcoming Solvency II regime and should ensure that the captive has appropriate capital to meet its SCR (Solvency Capital Requirement) – they should take into account the proportionality principle when applying the Solvency II regime to a captive. It is argued that the special nature of captives will be taken into consideration in the process leading up to the final rules of Solvency II.

CR: Are there any new risks which are requiring captive insurers to become more innovative with their products and services?

SG: It is mainly a matter of opportunity costs: which country can offer the most efficient and stable service? The lowest costs with regards to all the captive insurance requirements, however enable a good balance of safety.

Also, with passporting rules within the EU and the agreements with most countries offering captives, the understanding of requirements for licensing of captives has become relatively straightforward and similar and the advantage of setting up in specific countries is not meant to be related to regulatory arbitrage.

Therefore, rather than the captive insurers becoming more innovative, it is a matter of ensuring that Malta continues to be innovative in its efficiency and offering of lower cost opportunities or better investment opportunities. This is the driving force which the new captive owners will shop around for.

CR: What insurance risks can captives cover in Malta?

SG: Maltese captives can insure the risks of a wide range of persons, ranging from individuals or other entities having a majority ownership or controlling interest in the captive to parent companies or associated or group undertakings. Furthermore, captives can also insure risks pertaining to members of trade, industry or professional associations insuring risks related to the particular trade, industry or profession. Subject to the aforementioned criteria of source of risk, captives can be authorised to underwrite any class of risk covered under the local Insurance Business Act.
Malta has a unique position in the captive world as the first to date EU member state with PCC legislation. Combined with a world class regulatory regime and a lower cost in comparison to many other jurisdictions, Malta remains a strong competitor for domiciling a captive. Paula Rios of HighDome PCC speaks to Captive Review about Malta’s continued success.

Captive Review (CR): What makes Malta an attractive domicile choice? What are the key advantages of choosing Malta over other European domiciles?
Paula Rios (PR): EU membership is a primary benefit of Malta as a jurisdiction. This allows insurance companies in Malta to provide services across all EEA member states. The jurisdiction also offers comparably lower costs, state-of-the-art legislation, fiscal advantages and easy access to the regulator.

CR: What has led to Malta’s continued success?
PR: Malta is a relatively new captive domicile compared to the more established European jurisdictions Guernsey, Luxembourg and Ireland. Malta is an island state and can only succeed economically through services industries. This reality, along with the island’s investment in education in these sectors, has reaped considerable success. In fact, of the 27 financial centres in the EU, Malta is now in the 14th place according to the 2013 Global Financial Services Index.

CR: What are some of the benefits of Malta as an EU member state?
PR: Passporting rights are the main benefit. As a member state Malta is required to adopt EU directives including Solvency II, which may be advantageous to Malta in the long run.

CR: How have PCCs developed in Malta and why did you choose to set up here?
PR: PCC legislation was enacted in Malta in 2004 allowing insurers, managers and brokers the option to establish their business within a cell company structure. Today there are nine insurer PCCs and 21 cells approved by the Malta Financial Services Authority. At HighDome, our main reason for choosing to set up in Malta was primarily because it is the only EU member state with specific PCC legislation in place. However, we soon realised there are several other advantages, such as highly qualified insurance professionals, an English speaking workforce, and a friendly environment for foreign investment – just to name a few.

CR: What are the biggest opportunities for Malta in the near future?
PR: Captive growth has been slow in the past three years in all jurisdictions as a result of the soft insurance market as well as the global economic slowdown. Once the market hardens, we should again see a surge in captive enquiries and Malta is well placed to attract this business. Significant growth could come from mid-cap companies as most large-cap companies already have a captive. Such companies are more likely to consider rent-a-captive solutions and for this Malta is at an advantage compared to other EU captive domiciles, having almost 10 years’ experience with PCC structures.

CR: How is regulation such as solvency II set to impact Maltese captives?
PR: Very often captives are fully-funded and as such the impact of Solvency II on the industry should not be significant. It will be a challenge to contain the additional costs to comply with the Pillar II and Pillar III requirements, especially for smaller companies, but we expect things to settle down. In this way Malta could be at an advantage as it is the jurisdiction with the lowest cost of living.

Paula Rios is executive director at MDS Portugal and CEO of HighDome PCC, a company authorised and regulated by the Malta Financial Services Authority. Rios has over 20 years’ experience in the industry, having worked as a claims manager as well as chief underwriting officer. Between 1997 and 2004, she represented Portugal on the Liability Technical Committee of the European Insurance Committee.

“Of the 27 financial centres in the EU, Malta is now in the 14th place according to the 2013 Global Financial Services Index”
Malta has a lot to offer in the insurance industry, remaining a stable and attractive jurisdiction within the EU. As a result, this market has been key for HSBC.

Chris Bond, head of global banking and markets at HSBC, explains what factors have led to its favourable status as well as what to expect from the market in the near future.

Captive Review (CR): What factors have made Malta’s insurance sector so attractive?
Chris Bond (CB): There are a number of factors that have made this jurisdiction so attractive. If you take a look at the Ernst & Young Attractiveness Survey released in late October, the top four reasons mentioned for jurisdiction attractiveness include: the favourable social climate, the stability and transparency of the political, legal and regulatory environment and the local labour skills. The corporation tax is also an attractive feature. This is something that we have always known here, but it is reassuring to see it recognised. In addition to the factors listed by Ernst & Young, I think that EU passporting benefits are of particular and growing importance in light of recent regulations. In addition, Malta also has regulations that are conducive for the establishment of PCCs and ICCs.

The Ernst & Young Attractiveness Survey also found that respondents have 100% confidence in Malta’s ability to overcome the financial crisis. One of the country’s many credentials is the fact the economy has proven to be incredibly resilient during the recent financial crisis.

CR: What insurance sectors have experienced the most growth recently?
Chris Bond (CB): Good question. We have seen very steady if not spectacular growth in Malta across a number of sectors within the insurance industry. We have certainly seen an increase in the number of captive insurance companies which have been established including some of the largest blue chip corporations in the world. We’ve also seen an increase in general insurance companies, some of which have established here in order to make use of the EU passporting benefits. In addition, there has also been an increase in PCCs and ICCs as owners again make use of our specific regulations. In comparison, if you look back to 2004, we only had two of the insurance management companies here in Malta and now we have 15 such firms, including the largest global insurance managers in the world. I think this is really a testimony to the growth and potential of Malta’s insurance sector. We now have a total of some 59 licensed insurance entities in Malta employing some 1,200 people.

CR: What specialist services does HSBC offer in Malta?
Chris Bond (CB): The insurance sector is very important to HSBC globally and indeed here in Malta. We have a team of dedicated relationship managers specialising in the insurance sector who are connected to HSBC group around the world to offer global services and solutions. We have tailored a number of our systems specifically to the needs of insurance companies, notably HSBCnet and HSBC Connect, which allow insurance companies to manage their payments and cash management flows, securities portfolios, liquidity and foreign exchange, all via a simple login. Much of the technology is carefully tailored to a company’s specific needs, particularly here on the island. HSBC enjoys balance sheet strength and strong credit ratings, which will become increasingly important under Solvency II rules that relate to counter party risk. We provide our customers with a local and global service by being connected to our global network, which means our customers may have access to our global market trading floors all over the world.

In terms of specialist services here in Malta, we provide access to best in class products
from across the HSBC group, which therefore includes access to our global asset management products. We also offer guaranteed standby letters of credit to many of our customers and at the personal level for the company executives, we offer a best in class premier banking proposition.

**CR:** In what ways is Malta a key market for HSBC?

**CB:** We are the leading international bank in Malta and we believe that Malta enjoys a strategic geographic advantage between Europe, the Middle East and Africa. On the island, we enjoy a privileged market share across most sectors of the local market. Our customers are telling us that we are number one in the institutional market, which includes the insurance sector. We enjoy strong relationships with all the major insurance management companies on the island, both locally and globally. As a bank here in Malta, we perform well ahead of the group benchmarks and we are committed to assisting Malta grow as an international financial and trade centre.

**CR:** What do you expect to see in terms of growth in Malta over the next few years?

**CB:** I think Malta will experience continued growth in most sectors. The main sectors that will experience growth include captives, PCCs and ICCs, which is largely due to these being supported by some of the largest global insurance managers in the world. I think it is a great testament and accreditation to Malta as a jurisdiction that we have so many Fortune 500 companies and established financial subsidiaries already established on the island. I expect that we will see growth in the general insurance sector in both life and non-life as more non-European companies seek to exploit the benefits of European passporting opportunities. In terms of very specific local markets, the government has committed to launch voluntary state pensions and this will therefore offer opportunities to the development of a local pension industry. At the moment this development is very embryonic but it is something that is underway.

Solvency II will certainly have an impact on the market and there is much uncertainty surrounding it, both in terms of scope, timing and guidance. HSBC is well-placed to benefit from the legislation focusing on the need to reduce counterparty risk and is perceived to be a safe haven in the storm, given the size of our balance sheet, our traditional banking models and our credit rating. However, our success is all down to making sure that we identify those clients with whom we want to do business and that we can provide them with the best possible level of international services.

HSBC is leading by example in this growing sector. Malta has been selected as one of our eight centres of excellence within the insurance sector around the world and we are therefore migrating quite a significant amount of business from other jurisdictions to Malta, which will remain a key jurisdiction for us.

“Our success is all down to making sure that we identify those clients with whom we want to do business and that we can provide them with the best possible level of international services”
A multinational programme can be issued for any entity that has exposures outside its parent’s home country. Typically, the insurer issues a master policy from the parent’s home country and local underlyers in the other territories, and specifies a single premium amount that covers the entire programme.

Ideally, well in advance of binding, the insured or its broker provide the insurer with the provisional premium allocation explaining how that single premium amount should be allocated to each of the insured subsidiaries on a territory by territory basis. The premium allocation is required to be fair and reasonable for the risk covered in each country and determines the appropriate tax payable. Clients have significant input but not total control of the allocation as the insurer needs to agree that the provisional allocation is fair and reasonable. Coming to this agreement promptly after binding helps ensure that the insurer bills the premiums to each of the insured subsidiaries on a timely and accurate basis and the correct amount of tax is remitted to the appropriate tax authority.

The greater the number of territories/subsidiaries, the more detailed and involved the allocation of premium becomes. In these circumstances, an insured may utilise a bespoke allocation model, often provided by their broker. At AIG, we adopt a collaborative approach on agreeing upon the allocations between all stakeholders and can provide guidance and recommendations as to local market rates for the risks.

Early agreement on premium allocations benefits all parties involved in the transaction as it facilitates:

(i) Contract certainty
Late premium allocation sets off a chain reaction by delaying invoicing which in turn delays the issuance of policy documentation. These delays can impact the principle of ‘contract certainty’ and may lead to problems such as:

- Certain territories, such as Japan, operate on a ‘cash before cover’ basis. Therefore, delayed invoicing could result in the local insured being without coverage should the insured suffer a loss early on in the policy period.
- Without policy documentation, the insured cannot provide the evidence of insurance that regulators or counterparties may require.

(ii) Compliance with premium payment terms
Early agreement on premium allocations ensures greater scope for the local insured to comply with the premium payment terms in force. This is vital in circumstances where a payment warranty is imposed by the insurer.

Key elements of the process

Provisional allocations
Beginning the renewal process early generally makes it more likely that the insured and its broker will be able to provide the insurer with the provisional allocation on time. Any factors that can delay the allocation need to be anticipated and resolved as soon as possible. There are many reasons why delays occur. For example, in some cases the insured will not begin to allocate until the final agreed premium is known. Another example would be a programme in which a captive reinsurer is purchasing retrocession cover, the price of which will likely drive the allocation of the primary policy premium between territories/subsidiaries.

Reasonable premium for the risk
Once the insurer receives the provisional allocations, it needs to review the premium per territory and agree that it is reasonable for the risk being written. This review process considers general underwriting factors, such as insured activities, policy limits, historical losses, etc. Thought also needs to be made for territories where tariff rates or compulsory...
local retentions occur. There may need to be a minimum premium per policy, which can cause challenges where the insured only has limited activities in a country (such as a small sales office).

**Premium to limit ratio**
To be treated as an insurance transaction, the premium amount must be reasonable in terms of the limit and type of coverage being provided. What is considered as ‘reasonable’ will vary according to the limit and the nature of the risk. Therefore, the type of coverage, the duration of the exposures as well as the claims frequency and severity are included in the insurer’s review of the premium.

**Transfer pricing**
As the rate of insured/insurer taxes vary by territory, it is important that the ‘arm’s length principle regarding transfer pricing of premium is taken into consideration. Premiums must be accurately allocated based on actual exposures so that the correct amount of tax is remitted to the tax authority of each of the local countries involved in the transaction. This applies equally for risks in territories written on a European Freedom of Services policy. For territories where non-admitted coverage is legally permissible, the prevailing tax rate for the territory has to be collected on the premium allocated, and remitted to the appropriate tax authority in that country.

**Communication**
Prior to the insurer invoicing the local entities, the controlling entity from each of the parties to the programme – insured, broker and insurer – should communicate to their respective network about the programme terms, including premiums. This communication should be timed well in advance of the invoice issuance so that the local affiliates have time to review the material and resolve any queries that they might have. This proactive communication approach helps eliminate potential delays and improve overall efficiency by avoiding situations where the local insured delays premium payment because it disagrees with the terms.

**The benefits of accurate, prompt, agreed upon premium allocation**
Contract certainty and compliance with premium payment terms
As previously cited, early agreement on allocations enables the insurer to issue the policy and invoice promptly, thereby facilitating timely premium payment. These steps help ensure:

(i) Contract certainty
(ii) Compliance with Premium Payment Terms which is particularly important where a payment warranty exists.

**Financial benefits**
- Agreeing upon allocations promptly following the bind date speeds up the insurer’s receipt of premium. Since premium is treated as an ‘asset’ on the insurer’s balance sheet, receiving premiums promptly makes the transaction less capital intensive for the insurer. This is important in light of impact of capital costs upon pricing of the transaction. Hence, early allocations ultimately should reduce the costs of running a programme which can benefit all parties involved in the transaction.
- Where an insurer is fronting a programme involving a captive reinsurer, earlier payment means earlier remittance to the captive of their share, which in turn improves the captive’s cash flow and investment results.

**Smoothen workflow down the line**
- Prompt, accurate, agreed upon premium allocation help to improve managing workloads on later binding accounts.

For example, a programme which binds on 1 January, with no agreed premium allocation until later in that month, may find that the ongoing servicing runs into 1 April renewals. As both dates typically have a strong concentration of renewals, the servicing of these later renewals may be negatively impacted by the late running 1 January programmes.

**Invest the time up front to get it right and everyone benefits**
To conclude, I would like to revisit the title of this article and reinforce the point that when it comes to premium allocation, investing the time up front to get it right benefits all of the transaction’s stakeholders – the insured, the broker, the insurer and each of their respective local affiliates. It is critical that each of their interests be understood and communicated to ensure that the process works right first time – both from a time and efficiency basis.

*AIG does not provide legal, credit, tax, accounting or other professional advice, and you and your advisors should perform your own independent review with respect to such matters as they relate to your particular circumstances and reach your own independent conclusions regarding the benefits and risks of any proposed transaction or business relationship.*
A combination of EU membership, a stable yet adaptable regulatory framework and the fostering of a business-oriented environment have allowed Malta to grow into a key jurisdiction in the (re)insurance sector. Malcolm Falzon, partner at Camilleri Preziosi, touches upon what makes the jurisdiction and its proposition in terms of captives, PCCs and ICCs, stand out.

Captive Review (CR): In what ways does Malta offer a competitive advantage over other jurisdictions?

Malcolm Falzon (MF): Amongst the key advantages associated with Malta in this sector are its innovative regulatory framework and the positive reputation associated with the regulator in the conduct of its supervisory functions and approach towards prospective applicants.

The capacity to remain at the forefront of regulatory innovation is a function not only of the ability to appreciate and pre-empt or swiftly act upon the needs of the market as it evolves, but also of the underlying political consensus that has long seen government and opposition take a common approach towards financial services for the good of the economic stability that this area contributes so significantly to. For instance, Malta was the first, and to date remains the only, EU member state to implement PCC legislation. This provides important options to insurers, particularly the smaller players in the market which would benefit from relying on an existing core structure, not least in light of the possibility of sharing the weight of governance, capital, risk management and reporting requirements inherent in Solvency II.

The Malta Financial Services Authority (MFSA) is generally recognised as a firm yet flexible regulator cognisant of the need to reach out to the market with a view of ensuring that the implementation of Solvency II will result in the fulfilment of its underlying aims without inhibiting the continued growth of the market, including the captive segment. Reflecting the country’s pro-business approach to the insurance sector, the regulator encourages prospective applicants to hold pre-application talks setting out the applicant’s plan and goals, and providing the regulator with the opportunity to flag any key issues at planning stage.

Other advantageous elements associated with the jurisdiction include the comparatively low advisory cost base, its efficient tax system (last vetted and approved by the European Commission in 2008), its extensive double taxation treaty network and the ability to passport within the EU, allowing captives to write business directly in other EU member states without incurring fronting costs. Other practical aspects such as the multilingual, highly skilled and specialised workforce in the insurance sector (which has more than doubled over the past few years), geographical position, comparatively low regulatory fees, and the high standard of living are also often viewed as particularly important drivers for making the move to Malta, as has occurred in the case of a significant number of top international insurance managers relocating to Malta over the past decade.

CR: What impact will upcoming regulation such as Solvency II have on the market in Malta?

MF: The past decade has been a testament to Malta’s ability to adapt to the changing regulatory environment within which the market operates. Local practitioners are encouraged to contribute, through calls for consultation, to the creation of new measures and the refinement of others. The local regulator approached the prospective implementation of Solvency II in a proactive manner, providing useful guidance on how to navigate the Directive’s requirements and directing insurance licensees to take appropriate preparatory measures (particularly in so far as solvency requirements under Pillar I and governance/risk management functions under Pillar II are concerned). Generally, insurance undertakings are responding to the call to develop and be seen to demonstrate an adequate system of governance, including appropriate internal organisation and key functions, an effective risk management system, and prospective risk identification through, inter alia, own risk and solvency assessment (Orsa).

From the side of insurance undertakings, one can sense a growing recognition of the fact that PCCs licensed in Malta may provide a feasible solution where realistic fulfilment of the demands of Solvency II verges on the untenable.

All of the above, coupled with recently
added clarity on Solvency II’s final delivery date, makes me quietly confident that the Maltese market will witness growth in the captive segment, particularly in the form of PCCs, which allow for the satisfaction of minimum guarantee fund and capital requirements through reliance on the core non-cellular capital, and ICCs, which also provide for an alternative risk management structure and the ability to pool resources and effectively save on costs. This growth is, to an extent, dependant on the regulator’s ability to adopt a pragmatic approach in adapting regulatory requirements to captives’ characteristics. Adaptability and a responsible dose of flexibility at the regulatory level will be key to ensuring that Solvency II will eventually, with hindsight, be seen as having recognised the intrinsic value of captive insurance companies.

**CR:** How do you see the Maltese insurance sector growing and developing over the next few years?

**MF:** Apart from growth in recourse to PCC and ICC structures, particularly once the air of uncertainty surrounding final implementation of Solvency II seems (one hopes) to have settled, it will be interesting to see the level of interest that forthcoming legislation on reinsurance SPVs will generate. Earlier this year the MFSA launched a consultation process concerning legislation to authorise, register and regulate reinsurance SPVs, and having gathered views from insurance undertakings and advisors, the MFSA is currently in the process of evaluating what amendments ought to be made to the draft regulations. Completion of this process will place Malta in a position to attract additional segments of the market, particularly, I would expect at the outset, ILS and cat bonds.

**CR:** Are PCC and ICC structures growing in popularity in Malta?

**MF:** While ICC regulation is relatively recent, PCC regulation is now well established, having been in force since Malta joined the EU in 2004. Since then, we have grown from four captives and no PCCs to 11 captives and nine PCCs with the most significant period of growth between 2010 and 2011 when the number of PCCs doubled. Since then, however, the uncertainty associated with progress on Solvency II stifled growth across European onshore domiciles, including Malta. 2013 has turned out to be a year of modest growth, with the ninth licensed PCC and an additional four protected cells. As intimated earlier, I would expect the added certainty surrounding the implementation of Solvency II and the growth and experience of the prospective applicant. Preparation is key, and in advance of a pre-application meeting with the regulator, key elements are studied. Once this introductory part of the process is complete, the application is drawn up and supporting documentation is collated for submittal, particularly for the purpose of completing the necessary due diligence and presenting a detailed business plan or scheme of operations of the applicant’s proposed insurance business. Once the MFSA reverts with any issues that may have arisen from a review of the application, the position is once again studied with a view to bringing the application and necessary documentation to a satisfactory level. Where that is the case, the MFSA would proceed to issue a letter of intent to the applicant, which subject to fulfilling the conditions set out in such letter and submitting any remaining documentation, would proceed to complete the application process, culminating in the MFSA issuing its authorisation. The statutory maximum period for processing an application is six months for insurance companies and half that period for captives, which benefit from a fast-track application route. Where redomiciliation of an insurance undertaking is involved, the client is guided through the process leading to the redomiciliation to Malta without the need of winding up the originating entity, with the MFSA issuing a final certificate of continuance upon the discontinuance in the exit jurisdiction having been confirmed.

“The past decade has been a testament to Malta’s ability to adapt to the changing regulatory environment within which the market operates”
AN INSURANCE MANAGER WITH A TWIST

Ron Clark, of Abacus, discusses the advantages of PCCs, ART solutions and Abacus’ role as an insurance manager

Captive Review (CR): Abacus is considered to be the first insurance manager worldwide to be created as a Protected Cell Company. What are the advantages to be gained from this legal structure?

Ron Clark (RC): Incorporated as a PCC in Malta, Abacus is able to create protected cells which would typically be of interest to insurance managers, insurance agencies and brokers licensed outside the EU and who wish to follow their clients’ expansion into the single market. The creation of an Abacus “management” cell would enable it to operate freely throughout the EU thanks to the EU’s passporting rights regulations. Effecting a service level agreement with Abacus to provide the necessary back office functions would free up the cell’s promoters to concentrate on business development and the creation of solutions tailored to their clients’ needs.

Before deciding upon the legal form of a company to adopt, a start-up EU insurance manager would be well advised to consider a management cell and thereby benefit from the economies of scale which a PCC structure offers; compared to a standalone operation, a cell’s moderate start-up and administration costs and lesser capital requirements (the “own funds” requirement of the MFSA would be met at the PCC level and not by the cell itself), make a cell particularly appealing.

This is precisely the reflection that was made by the promoters of our “South Risk Partners” management cell when they created their cost-effective operation in Malta in 2010.

Written by
Ron Clark

Ron Clark is a director of Abacus Risk Management Services PCC Ltd, Malta. Prior to joining Abacus, Mr. Clark was with the Zurich Financial Services Group for 13 years serving as CEO of the Belgian, Luxembourg and Dutch operations and has occupied several underwriting managerial and CEO positions elsewhere in Europe and the US.

The benefits of the GMI/Abacus association is not a one-way street in favour of Abacus and its clients; GMI also benefits from the potential to write business to which they would not normally have access in Malta. A typical example would be in supporting an Abacus ART prospect with co-insurance or reinsurance for its captive. In those cases where a captive solution is not recommended by Abacus following a feasibility study, GMI could well be open to underwriting the underlying risk on a more traditional basis out of Malta.

CR: Abacus is an associate company of GasanMamo Insurance Ltd. (GMI), the leading non-life insurer in Malta. How does this benefit both of these companies and your clients?

RC: For GMI, Abacus and our clients this is a win-win-win situation; Abacus and its clients benefit from being able to call upon GMI’s 140 plus dedicated employees as back office support for their operations. The arrangement also supports the business development and ART services provided by the executive directors of Abacus to their European network and further afield. The experience and relationships built up by GMI with the MFSA over many years are also of considerable value when submitting a client’s dossier for acceptance by the regulator, especially in those cases where time is of the essence.

The benefits of the GMI/Abacus association is not a one-way street in favour of Abacus and its clients; GMI also benefits from the potential to write business to which they would not normally have access in Malta. A typical example would be in supporting an Abacus ART prospect with co-insurance or reinsurance for its captive. In those cases where a captive solution is not recommended by Abacus following a feasibility study, GMI could well be open to underwriting the underlying risk on a more traditional basis out of Malta.

“The insurance intermediary of choice for the middle market tends to be the independent broker rather than the global broker who is traditionally more interested in the larger companies”
CR: In previous Captive Review articles you indicated that Abacus is more interested in the middle market segment rather than in say, the Fortune 1,000 companies. In your opinion, do prospective captive parents from the middle market segment really differ substantially from those larger international firms in their decision-making process as regards captive ownership?

RC: That is a great question! In my experience, there are considerable differences between the two groups as to their approach to possible captive ownership which are obvious right from the start of the process. Usually, insurance or risk managers in the larger groups will have had the possibility of captive ownership on their radar screens for some time before deciding to seriously explore the options available. In their case, the first seeds of captive interest could have come from a number of different areas: insurance publications such as Captive Review, conferences sponsored by the international insurance community (global insurers and brokers) or discussions with their peers in other companies. Importantly, they will most certainly have discussed the possibility of captive ownership with their CFO and/or CEO prior to proceeding to a feasibility study. By comparison, middle market companies rarely have dedicated insurance or risk managers and more often than not, initiatives such as exploring the possibilities of captive ownership would be picked up by the owner of the company, assuming that such a possibility hits his radar screen at all.

Contrary to the situation with the larger companies, the insurance intermediary of choice for the middle market tends to be the independent broker rather than the global broker who is traditionally more interested in the larger companies. Typically, these “local” intermediaries are not necessarily keen on entering into ART discussions with their clients, preferring the tried and tested route of traditional insurance placements to the relatively unfamiliar world of captives.

CR: So, you are saying that there needs to be some external stimulation to capture the interest of owners of middle market companies to the advantages of ART solutions?

RC: Correct. I think you will agree that the middle market segment is not targeted by ART conference sponsors or other specialist media to the same extent as larger enterprises and as already discussed, there are few independent brokers willing to bring the opportunities of captive ownership to their clients’ attention. Ironically, the result is that the typical middle market entrepreneur, who by his very nature could be pre-disposed to consider an “out of the box” solution to his risk transfer needs, is rarely exposed to such possibilities. As a result, the availability of captive solutions geared specifically to the middle market such as Malta’s PCC legislation, enabling captive ownership at modest costs and capital requirements, generally slips by unnoticed.

CR: So, in your opinion what is the solution to this problem of middle market non-awareness to the opportunities afforded by ART solutions?

RC: I believe that the solution lies in better informed insurance intermediaries and financial advisers serving the middle market as regards captives to enable them to engage with their clients in initial discussions before calling on the likes of Abacus for a more detailed review. A selective specialist media campaign linked to local or regional conferences devoted to the middle market would, in my opinion, go a long way to opening up new avenues to exploit more fully the obvious potential which lies in this segment.

CR: Can you give some pointers as to successful actions which have been taken in other parts of the world regarding this awakening of the middle market to ART solutions?

RC: The best example that comes to mind is from the US where the middle market constitutes a large percentage of captive business which is contrary to the situation in the EU. The introduction of the 831(b) captive legislation in 1986 gave rise to an enormous interest in so-called “micro” or “mini” captives with an estimated 3,000 plus being licensed. Although the considerable fiscal advantages given under the regulations were the catalyst in creating much of this new generation of captives (heavily marketed by accountants and brokers), the parents of many of these were subsequently bitten by the risk management benefits that resulted and which were reflected in their captives’ growing profits.

We could draw a parallel with this 831(b) legislation in the US and Malta’s Affiliated Insurance Company legislation particularly as regards the introduction of Protected Cell Companies in the latter case. Although the regulations in the two jurisdictions differ substantially, the basic objective in both instances was to create an environment likely to encourage middle market captive creation.

In the US it could be said that the emphasis was more on the fiscal side compared to Malta’s AIC/ PCC legislation, although Malta’s effective tax rate of 5% following full tax credit being given to non-resident shareholders, is not so far removed from the nil tax rate applicable to qualifying 831(b) captives. There is also a strong similarity as regards the initial capitalisation required under both systems, although the 831(b) requirement of 4:1 (premium: capital with certain minima applying) is somewhat simpler than the premium or claims method under current Solvency II capital requirements. However, in Europe it seems that, unlike the situation in the US, the independent broker and the accounting fraternity have not yet fully embraced the advantages that a PCC or protected cell can bring to suitable middle market clients. Clearly work is still in progress!
Traditionally, captives have been used by their owners as risk management and cost-cutting vehicles. The captive insurer retained a share of third party insurer’s profits (or losses) and provided access to the reinsurance market. A captive broker allowed for the retention of some of the distribution costs (brokerage) and also provided wholesale access to the insurance market.

These advantages provided the profits to many captive operations and have undoubtedly contributed to the results and bottom line of many a captive parent.

The prospect of leveraging existing or new captive vehicles and boosting the captive’s profit potential by domiciling the captive onshore is a more recent phenomenon. Doing so frees up a captive’s potential to offer additional classes or lines of business according to the company statute, licence and business plan of the onshore captive.

A typical business model for an offshore insurance captive would be to limit the business plan to the reinsurance of selected parts of the parent company risks. However, if one were to relocate this captive onshore, the capital and the additional corporate governance requirements to operate as a general insurer are quite marginal in comparison to the additional business potential of not being restricted to write parent company risks. Therefore, many investors considering establishing a new or relocating an existing captive have the luxury of first considering whether their insurance business plan should be limited to risks of the parent of the insurer or not!

By relocating onshore the insurer can form part of the domestic market and subject to its risk appetite and capital model consider writing in-house captive and/or third party connected client or staff business as part of its business plan. This provides greater freedom for the firm to place group or non-group business within its insurance vehicle or in the insurance market in support of group corporate strategy or objectives.

Strategically this changes the captive from a cost to a profit centre if and when shareholders accept the risks of leveraging their captive insurance vehicle and their insurance business model.

Complementary roles of the captive insurer and the captive broker
An insurer domiciled in an EU member state can elect to limit its activities to the risks of its parent (a captive) or by accepting some additional compliance and corporate governance obligations free itself to underwrite non-parent third-party risks. The insurer’s regulatory licence can easily be extended to include additional European Union member states by simple notification of this decision to the home state regulator of the insurer. This permits the insurer to provide protection to parent and/or client and/or third party risks in any European Union country from a single office. The group insurer (no longer simply a captive) can therefore support group sales and/or services according to group strategy without limiting itself to the strategy of a risk-taking and/or fronting insurance firm.

As a member of the group it will be better positioned to align itself with group needs and have better direct control over distribution costs. This offers the prospects of better than average underwriting returns particularly for the insurance of risks that are diversified, high volume and low limit. This dynamic will help differentiate group products and build brand value.

With careful thought and specialist advice, the mix of risk retained in or placed outside the group insurance vehicle should maximise underwriting return in the group risk carrier as well as commission income for risks outside the group insurer risk appetite. This risk placement strategy and the placement process itself can be managed by either the group’s appointed independent insurance

The captive industry is currently seeing a trend of offshore captives relocated onshore. Julian Boffa of FirstUnited discusses future opportunities for EU domiciled captives

Written by Julian Boffa

Julian Boffa is currently the general manager at FirstUnited Insurance Management in Malta. He has been in the insurance industry for 20 years, working both as underwriter and broker, primarily specialising in marine insurances.
broker or by a group-owned captive insurance broker. The option of independent or group-owned captive insurance broker will depend on group strategy, and also whether it is strategically preferable to strip out distribution costs or to retain distribution profits. This often is a function of whether the book of business is primarily group or third-party risk!

The product lines that provide the right environment for this strategy will very much depend on the parent’s business model, its markets and its product or service lines. Typically products in the extended warranty, accident, marine cargo, credit, contingency and property/engineering classes offer the right combination of interesting loss ratios, high distribution costs and attractive reinsurance or direct commission terms.

Taking over more control of the bundling and tying of insurance products around existing group products or services with high volumes sales and low limit risk profiles provides fertile ground for niche group insurance operations tailored to adding value to group.

DEFINITIONS

- A captive insurer – an “in-house” insurance company exclusively writing the business of the parent or a Captive Cell Insurer (a captive insurer structured in a cell company concept).
- A captive broker – an “in-house” insurance broker acting as the broker for the parent’s business or a Captive Cell Insurance Broker (a captive broker adopting a cell company concept) but without the regulatory restriction limiting the captive.

Opportunities for the captive cell insurers or captive brokers

The above criteria also apply to cell insurers presented with opportunities similar to those of the group insurer above. The cell structure might, however, be better suited as a vehicle to develop new product lines or for lower volume situations. The ring-fenced structure of a cell company would allow the new lines to be isolated and segregated in different cells from the rest of the business. This would allow captive owners the protection they desire for their existing business and the needs of joint ventures, country cell or product cell models. Cell structures are not as capital-hungry and better suited for smaller business volumes.

Paradoxically in a Solvency II environment the cell insurer has intrinsic capital advantages to both the cell and the core vehicle with each benefiting from diversification and capital efficiency.

Where the parent or the third party risk is clearly outside the risk appetite of the group insurer (or cell insurer) either as a result of the type of or values at risk the use of a captive broker could come into play and a captive broker operation is not mutually exclusive to a captive insurance operation. In fact, the two can co-exist and complement group strategy. Where risks fall within the risk appetite of the insurance company or cell vehicle they are accepted directly (or placed by the captive broker), where they fall outside the risk appetite of the insurance company or cell vehicle, the broker places these risks with third-party insurers 100% or in co-insurance with the group insurance vehicle.

This allows the group to mix and match what risks to retain in the group insurance company or cell and what to place outside the risk carrier supporting group strategy.

Getting the job done – outsourcing the human resource needs

With a profit centre business model and a structure that uses the benefits of both a group insurance vehicle and group insurance broker, there is an argument to outsource both or one of the operations to one or possibly more than one insurance manager.

A group insurance business model searching for an opportunity to use its insurance company and broker resources to strengthen its client product or service offering will have a greater manpower strain and also need to manage the inherent conflicts that exist in the insurer and broker operations.

The question to ask is, does the way the broker and insurer complement group strategy and support its product/service offerings provides sufficient benefit to support the greater complexity of the model and if so what parts of the process to outsource?
Ian-Edward Stafrace, risk officer of Atlas PCC, talks to Captive Review about what differentiates Malta from other PCC jurisdictions and how cells are being handled under Solvency II

Captive Review (CR): Malta is the only full EU member state with PCC legislation. How are cell structures handled in this onshore jurisdiction?

Ian-Edward Stafrace (IES): Protected Cell Companies (PCCs) are essentially segregated business structures. Third parties are allowed to enter the PCC as cell owners with their business segregated (ring-fenced) and accounted individually. Each cell’s assets and liabilities accrue solely to the shareholders of that cell. Such cells could be used for multiple purposes such as captive risk financing tools or writing third party risks for added revenue and profit.

Being domiciled within the EU, the Maltese PCC, on behalf of its cells, is allowed to write directly into Europe, thus eliminating the need to have additional fronting insurers. Most EU countries would otherwise require domestic risks to be insured by a local insurance company or one based within the EU. Using a fronting insurer can be expensive and may incur not just fronting fees but also the cost of letters of credit requested as support by the fronting insurer.
A feature that differentiates Maltese PCC regulation is that it presupposes individual cells have recourse to PCC core capital. While absolutely protected from liabilities from the core or other cells, a cell will not have to be capitalised to the minimum EU Directive requirements for standalone insurers so long as such requirements are met by the PCC as a whole. Maltese regulations establish that once the cell has exhausted all its assets in meeting its liabilities, such cell will have perfect access (secondary recourse) to the PCC core capital. This ensures that third party policyholders or beneficiaries of a cell have the same level of protection required to be in place for other EU insurers. Non-recourse provisions are allowable under regulations but solely for pure captives.

CR: Solvency II is set to go live in 2016 with interim measures commencing from 2014. How will it be implemented in respect to protected cells?

IES: Solvency II is an opportunity we are keenly embracing. The Maltese PCC provides benefits on all Solvency II pillars, allowing substantial cost burden sharing and reducing own funds requirements.

As an EU member state and EIOPA member, Malta is contributing to the development of Solvency II. EIOPA, in its updated Solvency II Technical Specifications, prescribes that cells in PCCs should be considered and treated as ring-fenced funds. Under the quantitative capital requirements of Pillar I, the core puts up the Minimum Capital Requirement (MCR). A cell will typically need to put up own funds equivalent to the calculation of the cell’s notional Solvency Capital Requirement (SCR), which with small undertakings often falls far below the MCR absolute floor. A PCC may lend its unrestricted surplus core capital to cells to meet their notional SCR where in deficit.

A fully operational PCC will have risk management and other systems of governance requirements of Pillar II catered for under its regulated licence with cost sharing significantly benefiting cells while at all times retaining full protection of their assets from any unforeseen financial problems of other cells or the core. The same applies to Pillar III’s Reporting and Disclosure requirements where all procedural structures and resources will be in place to meet the new extensively quarterly and annual reporting requirements as one single legal entity.

Small mono line insurers and captives struggling with Solvency II requirements could very well consider converting to cells as an alternative to consolidation or closure.

Protected cells are therefore a cost-effective, extremely flexible and secure alternative to owning a standalone insurer, reinsurer or captive. Such structures can result in significant cost and capital savings for cell owners, even more so in the EU once Solvency II is implemented.

CR: What kind of businesses should consider using a PCC?

IES: Organisations have established cells as captive risk financing vehicles. Protected cells provide access to the reinsurance market with a lower cost per unit of cover versus the primary insurance market. Reinsurers tend to also be in a better position to underwrite unusual risks. Atlas was the first PCC to host an insured owned cell writing own motor fleet insurance directly to the UK.

The European market is a natural target for business to be written by a cell licensed in Malta enjoying the freedom to provide services in the countries forming part of the European Economic Area.

The European market is a natural target for business to be written by a cell licensed in Malta enjoying the freedom to provide services in the countries forming part of the European Economic Area. Businesses not typically from the insurance sector have created cells to sell insurance to third-parties. Atlas hosts a cell owned by a large hotel chain which sells insurance as an optional bolt-on to hotel bookings. Another cell, sells optional accidental damage insurance when the cell owner leases out property.

Non-European insurers have set up cells as fronting facilities in order to reduce their EEA fronting costs. Cells can also be created to handle run-off business or for special purpose applications by facilitating access to specialist risk-bearers.

CR: As an independent PCC, how do you open up your facility to insurance management companies?

IES: Maltese regulations cater for protected cells that are managed by third-party managers. Atlas’s independence, together with its active core, provides a unique advantage to any locally licensed insurance management company. This enables them the possibility of offering their clients an EU onshore protected cell facility that is also able to write third party risks.

When Atlas converted to a PCC in 2006, we decided to remain independent while offering our cell hosting facility to the various management companies. This is achieved through an outsourcing agreement with the manager in respect of the specific cells they introduce.

Through our facility, managers do not need to commit unnecessary capital and high cost required had they to own their own PCC.

CR: How has this year been for you and what do you expect from 2014?

IES: The positive flow of enquiries and conversions has remained consistent for us at Atlas. With increased regulation, the work and time taken to implement vehicles has increased though significant timing advantages remain with protected cells.

We are also pleased to see an increased number of engagements coming through leading insurance management companies and from continental Europe.

With certainty around the imminent implementation of Solvency II, we expect to see an increase in enquiries and applications in 2014 from various entities seeking cost and capital savings and new prospects preferring the more efficient cellular route to write insurance.
Captives Aid Malta’s Economy

Stuart King, of FiscalReps, discusses how Malta captive management firms add continued value and sustained contribution to the local economy.

Written by Stuart King

Stuart King, FCCA, is managing director of FR Global Advisors that provides management advisory services to the captive management industry, including insurance premium tax and regulatory compliance solutions and operational efficiencies for captive management firms.

In comparison to competitor peer domiciles, Malta has a legislative framework that is structured in a manner which provides clearly defined Insurance Act Subsidiary Legislation including captives, PCCs and ICCs. Clear legislation that can accommodate flexibility is a significant factor which many potential captive owners consider when deciding on a domicile and is core to Malta’s success.

For Malta’s development authority the decision to invest in developing a captive industry appears to have paid off economically. According to statistics by the Malta Financial Services Authority (MFSA), as at the end of 2012, there were 15 captive management firms licensed employing 84 staff and serving 37 alternative risk financing vehicles.

Published financial statistic information suggests a healthy business model for captive owners, evidently having a wider positive impact to the Malta economy. Presented and discussed below are some key performance measures of the Malta captive management industry (see table).

Productivity indicators

While the statistics are aggregated and perhaps including group management overhead costs, they nonetheless show the positive impact the captive industry has on Malta. Especially when you consider consolidated totals for 2012: management fee revenues of €7.7m, salaries of €3.24m and profits before tax of €2.4m, it highlights the benefits a strong captive industry can offer a domicile.

When looking closer at staff productivity it appears that management firms are paying on average more to employees in recent years which can be seen to have improved the productivity where 0.44 captives per FTE is being achieved versus 0.32 per FTE in 2011 – perhaps indicating more efficient work methods, or, paying higher qualified staff.

Performance indicators Source data: www.mfsa.com.mt

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<td><strong>FINANCIAL:</strong></td>
<td></td>
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<td></td>
<td></td>
<td></td>
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<tr>
<td>Net profit margin</td>
<td>30%</td>
<td>25%</td>
<td>19%</td>
<td>11%</td>
<td>19%</td>
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<tr>
<td>Return on average equity</td>
<td>42%</td>
<td>37%</td>
<td>30%</td>
<td>18%</td>
<td>51%</td>
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<tr>
<td>Quick ratio</td>
<td>1.48</td>
<td>1.39</td>
<td>1.00</td>
<td>1.24</td>
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<tr>
<td><strong>NON FINANCIAL:</strong></td>
<td></td>
<td></td>
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<tr>
<td>Captive per FTE (inc cells)</td>
<td>0.44</td>
<td>0.32</td>
<td>0.25</td>
<td>0.19</td>
<td>0.20</td>
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<tr>
<td>Revenue per FTE</td>
<td>86.24</td>
<td>61.39</td>
<td>64.73</td>
<td>62.86</td>
<td>71.10</td>
</tr>
<tr>
<td>Salary per FTE</td>
<td>38.62</td>
<td>26.75</td>
<td>29.37</td>
<td>33.53</td>
<td>29.87</td>
</tr>
<tr>
<td>Operating margin per FTE</td>
<td>64.95</td>
<td>47.93</td>
<td>53.25</td>
<td>55.85</td>
<td>59.13</td>
</tr>
<tr>
<td>Revenue per captive</td>
<td>195.78</td>
<td>191.61</td>
<td>254.11</td>
<td>322.52</td>
<td>351.74</td>
</tr>
<tr>
<td>Capital per FTE</td>
<td>71.60</td>
<td>45.62</td>
<td>42.99</td>
<td>38.65</td>
<td>53.26</td>
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From a shareholder’s perspective, captive management firms offer significant financial (and recurring) reward with annual profit margins of 30%, seemingly improving year-on-year and perhaps representing the higher cost of servicing new captives whereas more mature captives are typically more profitable as systems, processes and procedures reduce operational cost drivers.

Considering global captive management firm productivity statistics, Malta’s staff productivity at 0.44 appears significantly below the industry average of 2.5 captives per FTE. In part an indication that captives in Malta are perhaps more complex, indicated by an average management fee per captive of circa €200,000. This is a good indicator that vehicles set up in Malta are more embedded in captive owners’ risk finance strategy which one would expect to result in long-term sustainability.

Wider economic benefits

Staff employed, many of whom are Maltese locals, contribute by spending their wages in the local economy. In addition, as most captive owners are from outside of Malta, the revenue generated adds directly to Malta GDP.

In addition to direct contribution to the economy a captive requires complimentary financial services, such as: audit, legal, tax, banking and risk finance advisory (majority performed by on-island firms). Coupled with being a nice location to hold board meetings where captive owners stay in local hotels and avail of local cuisine it all adds to the economy.

While captive formation in recent years has seen moderate growth, Malta appears to be responding well with the relatively recent introduction of special purpose reinsurance vehicle legislation. With Solvency II preparations in hand, Malta, in my view, will continue to attract quality professionals to serve the captive industry in the future adding directly and indirectly to the local economy.
Solvency II (SII) is scheduled to come into effect on 1 January 2016, after having been pushed back several times. Despite these delays, confidence surrounding the implementation of the Directive remains strong. Karl Micallef, of Curmi & Partners, looks at the progress being made, the regulatory burdens it brings and what this means for captive investments in today’s volatile economic climate.

Captive Review (CR): What are the biggest regulatory burdens for investing a captive’s assets under Solvency II?

Karl Micallef (KM): Solvency II is primarily a risk-based process. Looking at it from an investment point of view the regulatory burden broadly translates into potentially more restrictive investment parameters. Prior to SII, a captive company would already have a number of investment parameters in place due to the insurance risk it would have on its balance sheet. With SII these may become even more restrictive simply because a captive would want to limit the overall capital charge on the investment portfolio. This would probably lead to tighter asset-liability matching and less exposure to asset classes with higher capital charges, such as sub-investment grade bonds and private equity.

CR: How are investment managers innovating their offerings as a result of Solvency II?

KM: On the asset side, the matrix for the capital charge is very much dependent on credit ratings and duration, thereby capturing both interest rate risk and credit risk. The higher the credit rating and the shorter the duration of a bond, the lower the capital charge. At a micro level such a clinical approach leaves very little room for novelty. However, SII does stimulate innovation at the level of portfolio structure. Investment managers need to consider very carefully where best to position capital given that an investment portfolio will have a considerably higher cost of capital element under SII. For example, when considering fixed income instruments (which are the industry’s preferred asset because of the nature of the instrument – fixed coupon and maturity date) one must at least be aware of the return on solvency capital rather than just the spread, duration and yield. In addition, cash management is becoming a larger part of the solution within a well-balanced and diversified investment portfolio. This is a direct result of the SII capital matrix on the one hand and the current low yields on the other.

More recently we have seen some welcome modifications in the latest proposed version of SII on the liability side – these being the proposed Volatility Balancer (which replaces the counter-cyclical premium) and the Matching Adjustment. Here you have two tiers of formulaic applications which can be applied to the liability side in order to mimic factors affecting the asset side. If applied cautiously and appropriately these should help investment managers remain focused on structure and (to some extent) ignore market noise. This part of SII will probably be fine-tuned further as its current state may actually promote risk-taking (due to the current Matching Adjustment proposal) which is definitely not the intention.

CR: How is the current economic climate affecting investment returns for captives?

KM: The current economic climate is forcing investment managers to focus on return on solvency capital, which may not lead to the desired investment space in terms of yield, making investment managers think harder. It would be an interesting challenge for a vast majority of investment mandates if SII were to be implemented now, in its existing form with the current market conditions, primarily because interest rates (and yields) in the eurozone are so low. Such a back drop in the market could drive portfolio managers to take on longer duration and higher credit risk to achieve a decent level of yield – Solvency II does not allow you to freely take on both duration risk and credit risk without adequately compensating for such risk with increased capital on the balance sheet.

Captives need to deal with today’s market realities in a more tangible and realistic man-
ner. Having an investment strategy which is completely dependent on bank deposits is no longer viable from both a risk and return point of view.

**CR:** What investment opportunities are most popular for captives in Malta?

**KM:** Captive portfolios are really exposed to the same capital markets wherever they are set up. The current low interest rate scenario is a common denominator for all captives, and therefore we’ve seen many participants going back to their drawing boards with their thinking caps on. Captives have typically tended to be on the more conservative end of the risk spectrum, but this comes with the acceptance of a negative real return, which going forward is not the correct long-term strategy. Captives need to be thinking differently – they need to be more effective and efficient with their capital. This can be done at various levels – at a corporate level using the right legal structure such as a PCC structure could possibly result in better capital utilisation. Secondly, at a more micro level the captive needs to deploy its capital in the best possible way from a risk and return angle. Splitting the asset side between the regulatory capital and the surplus capital will allow the investment manager to implement different investment parameters and hence achieve a better overall risk reward profile.

**CR:** What innovative investment ideas and solutions does Curmi & Partners offer its captive insurance clients?

**KM:** We have been offering investment management services to the insurance and captive industry for the past decade and one thing we’ve done from the word ‘go’ is monitor the process and progress within SII. We still believe that it is a matter of when, not if, SII will be implemented; we’re aware of the delays but SII is needed and we’ve been monitoring the process precisely because we believe that certain portfolios will need to be phased into the new regime over a period of time, rather than overnight. The last thing we want is to not be prepared and hence not prepare our clients for it. We have been speaking to the risk managers to ensure they are aware of the impact SII will have on their investment portfolios. In order to have this open discussion with the risk manager, we identified the need to implement software that plugs into our portfolio management system that has all the SII requisites programmed within it. Today Curmi & Partners can inform the risk manager of the captive company on what, for example, the capital charge on the investment portfolio is every single day, because it is worked out automatically. It also allows us to simulate certain scenarios from either a regulatory or investment point of view. If, as investment managers of a portfolio, we are considering a change in asset class exposure, or a specific investment within a portfolio, we can simulate those changes and see what the effect on the portfolio is going to be from a SII point of view. That at least gives assurance to the captive company that the desired overall capital charge could also be an additional investment parameter and hence provides the captive peace of mind in terms of overall risk and regulatory capital.

Adopting a structured and disciplined approach within an investment management mandate for a captive has never been more important than it is today.

“Captives need to be thinking differently - they need to be more effective and efficient with their capital”
YOUR PLANS ARE MADE TO LAST.

HighDome PCC is an insurance company (a protected cell company) located in Malta, that helps you build your own captive solutions.

The main benefits of these solutions for small and medium companies are:

- Overall cost of risk reduction;
- Stabilization of insurance program over time;
- Finance risks difficult to insure on the insurance markets.

As part of a large international Group originating in Portugal, HighDome offers you a full service of captive management, based on our long-standing know-how and expertise.

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Deciding to set up a captive insurance company is no easy decision. More often than not a lot of effort is spent by the risk manager in convincing HQ of the need for a captive and in building a case for a significant allocation of capital perhaps at a time when capital is scarce or pressures for increased return on capital abound. Additional effort is spent in identifying the risks to be covered, the limits, the policy wording, reinsurance arrangements and a whole array of other factors. Noble as all this effort might be, there is another aspect that should not be taken lightly but rather should be approached in the same diligent manner and a significant extent of energy is to be spent in answering two important questions, namely: should the company be self-managed? And if not, what characteristics should one look out for when going about choosing the insurance manager?

Self-managed or an insurance manager?

Managing a captive insurance company, or any insurance company for that matter, requires specialised expertise. Insurance companies are subject to a myriad of regulatory compliance conditions, made worse if they have operations spread across multiple jurisdictions. Technical operational aspects as well as financial management and control also require a specialised skills set.

It is more often than not very unlikely for the parent company contemplating the setting up of a captive to have the required insurance expertise available in-house. In this scenario, one option available to the newly set up captive is to hire its own employees. Having one’s own staff complement has its benefits but the time spent on building such capacity could have been devoted in rolling out the services of the captive and allowing the company to immediately focus on the core risk management objectives for which it is being set up.

The other alternative to self-managing the captive is no doubt the contracting of a professional insurance manager to operate the captive insurance company. Using a specialised insurance manager allows the captive insurance company to focus on its core operations as from day one. An insurance manager has all the required human resources readily available. It has the technical know-how to ensure that the operation is rolled out with the minimal possible lead time and help the captive avoid potential regulatory pitfalls.

In our view the preferred option, especially for entities that are relatively new to the captive insurance concept, is to work hand in hand with an insurance manager, particularly in the first years of operation. Not only will this allow peace of mind that the technical aspects are well catered for, but it will allow the parent company sufficient time and manoeuvrability to absorb the technical knowledge and build, if need be, its internal skills set. Taking on one’s own staff and redefining the captive insurance manager’s role may well be considered once the operation becomes more complex and there exists a clear rationale to go down the self-managed route.

A sound relationship with the right insurance manager is important to the success of the captive. We do acknowledge that selecting an insurance manager is in itself a difficult decision and by no means a simple one. The selection of a manager is not something that can be changed that easily following completion of an agreement. It therefore follows that this selection has to be well thought out a priori.

In the few lines that follow, we would like to present those characteristics that in our opinion should be given due importance when embarking on the selection of an insurance manager.

Independence

This is by far one of the key attributes to look out for. An insurance manager should be expected to offer ideas and possible solutions that safeguard the client’s interests. You, as the client, need to be safe in the knowledge...
that the insurance manager to whom you plan to entrust the management of a key entity within the organisation will provide you with non-biased advice reflecting those risk management objectives underlying the setting up of the captive. An independent manager should not be prone to pressures to leverage its client base to benefit other group companies within its network. It is independence that can ensure that the client will have greater assurance that its interests are being safeguarded from potential conflict of interest.

The effort a manager will make to understand your concerns will ensure a smooth operation of the captive itself but also of the parent. Having peace of mind that an important aspect of the business is being taken care of is worth the investment of time spent in the selection of your manager. Being assured that he is making his utmost to safeguard your interest rather than his, be these financial or risk related makes it all so much more comforting.

**Experience**

Your chosen insurance manager should enjoy the service of experienced members of staff who possess years of insurance experience and exposure to diverse industries and situations so as to be in a position to add value to the operations of the captive company. Evidence of high staff turnover or an insurance manager predominantly staffed by new recruits will no doubt impinge on the levels of service provided.

Equally important is evidence of experience in the domicile where the captive company will be located. The manager needs to have the in-depth knowledge to advise prospective captive clients on the benefits of the domicile in which the captive will be based and in which the manager operates.

An experienced manager will no doubt be more accustomed to the workings of the various regulatory bodies and other governmental institutions such as tax and revenue departments. Moreover, the network of contacts and established business relationships with professional firms and third-party service providers possessed by a manager with significant experience would very often have been built over a number of years and the manager can leverage such relationships with more ease and speed to the benefit of its client.

**Flexibility**

Flexibility, the hallmark of which is responsiveness to changing circumstances and client requirements, is crucial. It is thus important to understand how a prospective manager would tackle your demands for new risk management solutions and whether it will resist such changes. Do take time to comprehend whether such resistance is a reasoned one or whether it is simply a sign of a structure that is too heavy or too ingrained in its current modus operandi to consider change. Your chosen insurance manager should show itself willing and able to improve and alter its modus operandi in such a way as to render the highest quality service without compromising on its integrity or professionalism. It should give you the comfort that it can identify solutions when faced with difficulties.

There are a number of other characteristics, such as for example reputation of the management team and client referrals, which one should look out for when choosing an insurance manager. Independence, experience and flexibility are nonetheless the three that we believe are key to such a decision. They are definitely part of the values we at Island Insurance Management keep close to our heart.

“An experienced manager will no doubt be more accustomed to the workings of the various regulatory bodies and other governmental institutions such as tax and revenue departments”
A BESPOKE INVESTMENT SERVICE BUILT ON TRUST AND PERFORMANCE

CURMI & PARTNERS WERE ESTABLISHED IN 1978 AND ARE ONE OF THE LEADING INVESTMENT HOUSES IN MALTA. WE PROVIDE OUR CLIENTS WITH INDEPENDENT, WEALTH MANAGEMENT SOLUTIONS THAT ARE CUSTOMISED TO EACH CLIENT’S INDIVIDUAL INVESTMENT PROFILE AND APPETITE FOR RISK.

Curmi & Partners approaches the role of investment management with discipline, structure and analysis.

In risk capital terms, we fully understand the delicate relationship between the need to generate positive real returns whilst remaining within the desired comfort zone. Our clients range from small banks, insurance companies and other corporates, to international family offices and high net worth individuals. In all cases we aim to build long term relationships with our clients based on trust and our discreet approach to their objectives.

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Malta may have a world class reputation for its financial sector, but the ease of business in this country is not the only thing it is known for. The island also boasts a booming tourism sector with a growing number of visitors flocking to these Mediterranean shores each year. 2012 was another record year for Maltese tourism and saw a 2.1% increase in visitors from 2011 with 1,443,974 tourists coming to the islands.

When the time comes to decide on your next holiday destination, Malta could be a perfect getaway, regardless of the time of year. Malta has mild winters, dry hot summers and sea temperatures never dropping below 13°C even in the winter months. The Maltese Islands are an archipelago consisting of three islands – Malta, Gozo and Comino – each of which have no shortage to offer their visitors.

Malta is an island of diversity with a wide range of activities to suit numerous interests. With its outstanding climate year round, Malta provides a sunny escape within easy reach of the rest of Europe.

After a day exploring everything the island has to offer, there is no shortage of accommodations to rest your head. Malta is home to 98 hotels including 15 five-star accommodations offering full luxury amenities, as well as 48 guest houses/hostels for the budget-friendly stay. Malta’s small size means that all accommodations are within easy reach of everything the island has to offer. Most hotels in Malta are located on the coast, with close access to its many beaches.

Beaches
The key attraction for tourists flocking to Malta is its world-class beaches, which have a number of attractive features including:

- Choice of natural unspoilt bays and coves
- Blue Flag sandy beaches
- Lidos or hotel beaches
- Life guards at popular beaches
- Safe swimming zones – areas not accessible to boats
- Public bus service to all popular beaches
- Hire of beds, umbrellas and fun water sport accessories
- Restaurants and snack bars by the beach

Malta had the second best bathing waters in the EU in 2011 according to Bathing Water Report published by the European Commission in May 2012. Scuba diving is a popular activity here as well with over 40 dive schools on the island. The clear Mediterranean waters offer 20/20 vision to explore rocky reefs, caves, plentiful marine life and wrecks of ships from all eras of maritime history.

Ideal family destination
Families visiting Malta will find no shortage of activities. The mild climate is perfect for outdoor activities for the whole family. Malta also offers special rates for children for many attractions, museums and on transport. Some of the major family-friendly attractions include:

- Limestone Heritage – a multi-lingual walk through quarry experience featuring an animal petting zoo, folklore traditional evenings and stone sculpting demonstrations
- Splash and Fun and Mediterraneo Bio Park – featuring dolphin shows and the opportunity to swim with dolphins, sea lion shows, waterslides, wave pool, restaurants and more family fun
- A new national aquarium which opened in 2013
- Boat rides, jeep tours, horseback riding and harbour cruises

The island of Gozo
Visitors can also explore Malta’s sister island Gozo, only a short ferry ride away from Cirkewwa. The island is a popular family outing destination with great places to stay including affordable and unique converted farmhouses and self-catering apartments available for short let that come with or without a swimming pool as well as luxury
five-star hotels and spas. Gozo has become famous for its hand knitted woollen items, carpet and lace. The island also offers outdoor trekking, cycling, jeep tours, rock climbing, kayaking and diving for the adventurous.

Culture and history
From museums and festivals to world heritage sites, Malta is rich in history and culture. Malta boasts over 7,000 years of history and a number of Unesco World Heritage Sites. Its top cultural activities include:

- The oldest free standing temples in the world – Unesco World Heritage Sites
- The Hypogeum of hal-saflieni – a prehistoric underground temple and Unesco World Heritage Site
- Medieval festivals
- Wine and gastronomy festivals
- Fireworks festival
- Local village feasts, concerts, events and firework displays
- Good Friday processions and Easter festivities
- Notte Bianca – annual Valletta celebration

Food
The traditional local cuisine in Malta features healthy dishes that are perfect for the food enthusiast. Must-try Maltese dishes include:

- Traditional dishes: torta tal-lampuki (dorado fish pie), fenek (rabbit, stewed or fried), bragioli (stuffed beef rolls, kapunata (Maltese version of ratatouille), soppa ta’ l-armla (widow’s soup), ross fil-form, (baked rice), imqarrun (baked macaroni) or timpana (a special meaty pasta dish baked in pastry) and local fresh fish.
- Hor d’ouvres: gbejniet (sheep or goat’s cheese), galletti (water crackers), zalzett (coriander flavoured Maltese sausage), pickled capers and olives together with bigilla (pate of broad beans, garlic and olive oil), fresh Maltese bread with tomato paste and olive oil, are commonly served as starters at traditional restaurants, or in local bars with your drinks.
- Snacks: ‘hobz biz-zejt’ (bread dipped in olive oil, rubbed with ripe tomatoes & topped or filled with a mix of tuna, onion, garlic, tomatoes and capers), pastizzi (flaky pastry parcel filled with ricotta or peas).
- Sweets: kannoli (tube of crispy fried pastry filled with sweetened ricotta), qubejch (flat pastry filled with dates and honey deep fried, best served hot), helwa tat-tork (a Maltese version of Turkish sweet), qubbajt (nougat), qaghaq tal-gasel (honey rings).

Shopping
Malta offers a variety of shopping, catering for all budgets and tastes. Malta is particularly well known for its internationally renowned crafts offering a truly unique shopping experience for visitors. Combine a shopping day out with a historical and cultural visit in the capital of Valletta and explore the many shops on Republic Street and Merchants Street. Sliema also offers a number of shopping choices along the seafront as well as the modern Point Shopping Mall featuring over 50 shops. In addition, visitors to Malta can find:

- A fantastic range of casual to formal retail shops with Italian influence in style and collections
- International sport and casual kids brands
- Great value for money on jewellery including silver and gold products
- Unique mouth-blown glass items
- Value for money franchise outlets of top high street brands
- Variety of local traditional products including filigree silver, glass, ceramics, knit-wear, Malta lace and local delicacies for export

With so much to offer visitors, it is no surprise that Malta has seen strong recent growth in its tourism sector. While its financial sector will continue to be a world leader in the captive industry, it is clear that the Mediterranean gem has more to offer than just business.
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FinanceMalta is a non-profit public-private initiative, set up to promote Malta’s international Financial Centre. The organisation brings together, and harnesses, the resources of the industry and government, to ensure that Malta maintains a modern and effective legal, regulatory and fiscal framework in which the financial services sector can continue to grow and prosper.

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