SOLVENCY II
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SERVICE DIRECTORY
INTRODUCTION | MFSA

A KALEIDOSCOPE OF EVOLVING REGULATION

MFSA’s director, Angele Grech, introduces the Captive Review Malta Insurance Report 2015 which analysis the development of Malta as a financial jurisdiction over the previous year.

Written by Angele Grech

Angele Grech is the director of the Malta Financial Services Authority’s Authorisation Unit and is responsible for coordinating the processing of applications for regulated activities in Malta. She has over 19 years’ experience in financial services regulation and previously held senior positions within the Insurance Supervision Unit where she headed the on-site compliance team and the Authorisation Unit.

Financial regulation is designed to achieve key policy goals among which are the safety and soundness of financial institutions, the mitigation of systemic risk, the fairness and efficiency of markets and the protection of the consumer and investor. These goals, which are clearly essential, do not take into account an additional factor that has come to be regarded as critical in any well-functioning regulatory system – achieving regulatory efficiency and cost effectiveness.

The current challenge faced by financial services regulators is to establish and maintain a regulatory framework of high standards and achieve the above mentioned policy goals, and to concurrently create the space for market players to innovate, adjust and flourish to meet changing consumer needs. The approach is geared to positively shape a market that offers consumers alternative choices, products which meet their needs and are delivered in a way which blends in with their lifestyle.

Against this backdrop, the Malta Financial Services Authority (MFSA) is committed to support regulatory innovation. The MFSA operates through a prudent, dynamic and proactive regulatory framework which is based on high standards and promotes sustainable and inclusive growth. The MFSA embraces a culture which values open communication with stakeholders and constantly reviews the delivery of the regulatory framework. The MFSA is responsive to the requirements of existing licence holders, mindful of potential new entrants joining the market and cognisant of new operating models which have transformed established markets.

This result is a kaleidoscope of evolving financial regulation.

The MFSA has been reviewing insurance legislation over the recent years as part of its effort to introduce innovation within the existing EU regulatory framework. Specific legislation for re-domiciliation of insurance companies (S.L. 403.12) was introduced in 2003 and this was a healthy development which has been instrumental to re/insurance companies intending to move from offshore to onshore. The protected cell company legislation (S.L. 386.10) is a distinctive innovative feature in the Maltese financial regulatory framework and insurance and reinsurance operators have been able to channel their activities through these structures since its introduction in 2004.

In 2013, a Solvency II compliant framework for the authorisation and regulation of reinsurance special purpose vehicles (RSPVs) (LN 452 of 2013) was established to cater for the opportunity to maximise return on capital and enable the efficient management of risk in a sound regulatory environment. This framework offers insurers and reinsurers the possibility to obtain access to capital resources as part of a drive to expand capital markets activity in Malta.

Subsequently, as a result of regular ongoing discussions with stakeholders, the MFSA realised the potential benefits of fusing the cell company concept into the RSPV regulatory framework. This latest addition to Malta’s financial legislation – the securitisation cell company regulations (SL 386.16) allows securitisation vehicles to set up cell structures. This is a unique type of legislation not available in any other jurisdiction as it allows an SCC to issue financial instruments in separate tranches through different cells. Accordingly, the SCC regulatory framework allows the issuance of multiple insurance linked securities without incurring any risk of cross-contamination between different sets of creditors or investors. These cells can transact in different currencies and the securitisation cell company (SCC) can keep accounts in the currency of choice. Apart from RSPVs, the SCC is also applicable for all types of securitisation transactions.

In this way, the SCC framework retains the benefits of the Securitisation Act (Cap. 484) and builds on the opportunity of the RSPV regulations providing increased flexibility, enhanced investor protection and economies of scale.
Similarly to a PCC, an SCC is a single legal entity that is structured in two parts, the core and an unlimited number of cells. It is one company with one board of directors and one set of memorandum and articles of association. The key differentiating element between a cell company and the traditional non-cellular company is that the former provides a flexible corporate vehicle within which assets and liabilities can be ring-fenced, or segregated, so as to be only available to the creditors and shareholders (where present) of each particular cell. Therefore, an SCC is able to limit its liability in respect of a particular transaction to a specified pool of assets rather than exposing all of the assets of the SCC, as would be the case with a non-cellular company. A cell of an SCC does not have a separate legal personality, and each cell transacts through the core of the SCC. When an SCC enters into a contract, the directors must specify in the contract which particular pool of assets is to be bound by the obligations under the agreed contract.

An SCC can take either carry on business as a securitisation vehicle in compliance with the Securitisation Act (Cap 484) or carry on business as an RSPV in line with the RSPV regulations.

Whereas these two categories of SCC vehicles perform different activities, they both enjoy commonalities as far as their setting up and operation is concerned. These are:

- Creation of a cell: an SCC may create cells by means of a resolution of its board of directors. A new cell will be created for the purpose of entering into either securitisation transactions or activities of an RSPV. Each cell of an SCC must have its own distinct name or designation which shall include the word ‘cell’.
- Issuance of financial instrument linked to a cell: an SCC may issue financial instruments in one or more tranches, in respect of any of its cells, and the proceeds of the issue are comprised in the cellular assets attributable to the cell in respect of which the financial instruments were issued.
- Cell shares: an SCC may, in respect of any of its cells, create and issue cell shares, the proceeds of the issue of which (cell share capital) are comprised in the cellular assets attributable to the cell in respect of which the cell shares were issued.
- No activities at the core: an SCC may not carry securitisation transactions or activities of an RSPV through its non-cellular assets. Asset-based and risk-based securitisation transactions may therefore only be carried out in respect of specific cells and securitisation assets have to be allocated to a particular cell.
- Duties of directors: the directors of an SCC have the obligation to keep: (a) cellular assets separate and separately identifiable from non-cellular assets; (b) cellular assets attributable to each cell separate and separately identifiable from cellular assets attributable to other cells; and (c) separate records, accounts, statements and other documents as may be necessary to evidence the assets and liabilities of each cell as distinct and separate from the assets and liabilities of other cells or the non-cellular assets.
- Annual accounts: an SCC shall draw up its annual accounts in either the currency of its non-cellular share capital or the base currency of one of its cells.
- Position of creditors: a creditor of a cell has rights to the assets of that particular cell only and has no recourse to the assets of other cells or the non-cellular assets. Apportionments may be made out of the assets attributable to the individual cells towards the costs of the day-to-day administration of the SCC.
- Winding up of individual cells: the SCC regulations provide for the closing of individual cells separately from the SCC as a whole. The winding up proceedings prescribed under the Companies Act (Cap. 386) apply mutatis mutandis to a cell as though it were a distinct legal entity.
- Listing on EWSM: an SCC may list its securities on the European Wholesale Securities Market (EWSM), an EU regulated market [www.ewsm.eu] dedicated to the needs of arrangers and issuers of wholesale debt products.

"Regulatory innovation is set to continue throughout 2015 and beyond and this will translate into further challenges and opportunities for insurers"

Innovation

Regulatory innovation is set to continue throughout 2015 and beyond and this will translate into further challenges and opportunities for insurers. The MFSA is committed to enhance sustainability, support stronger governance and promote full transparency. And equally, it will continue to listen and engage with stakeholders to introduce more regulatory innovation to the benefit of market players. The commitment to foster regulatory innovation is continuous.
Malta is now a recognised insurance and alternative risk transfer jurisdiction. It is now shifting its focus to strengthen its position and build future success. Chief among the state’s vision is the development Malta is offering in insurance linked securities (ILS). FinanceMalta remains committed to supporting the European state’s ambitions.

Ten years of growth
Last year marked 10 years since Malta joined the European Union: providing it with access to the single market. This is probably the single most important milestone in the state’s recent history and definitely a factor that boosted the growth of Malta in the insurance and alternative risk transfer sectors.

Today around 60 insurance companies and 26 cells are based in Malta and the sector is growing at a healthy pace. Data released by Malta Financial Services Authority (MFSA) for 2013 shows that gross premium written by the insurance sector grew by 8%.

Governor of FinanceMalta, Matthew Bianchi, explains to Captive Review how Malta is establishing itself as a leading business jurisdiction.

Written by Matthew Bianchi

Matthew Bianchi is Governor (Insurance) of FinanceMalta, a public-private initiative set up to promote Malta’s business and financial centre, within as well as outside Malta. Bianchi is also partner, Insurance Corporate and Regulatory at GANADO Advocates.

The insurance management community, made up of 15 insurance managers of international repute and local roots, certainly deserves much of the credit for driving Malta’s growth in the sector. A increasing cluster of dedicated service providers including highly qualified professionals in the accounting, audit and legal sectors ensure high service standards.

Sound and sensible regulation
Being part of the single market enables parents of insurance companies, captives and third-party writers alike to benefit from global standard-setting European regulation. The MFSA is praised for its sound and sensible approach to the prudential regulation and conduct supervision of insurance companies and cells it regulates.

The imminent implementation of Solvency II on 1 January 2016 will further enhance the legal and regulatory landscape for insurance companies. Malta is well-equipped to offer cost-effective solutions for promoters of insurance companies and intermediaries that want to target the European market.

Malta has also carved out a reputation for its innovative legal and regulatory regime: the protected cell company legislation is quoted by many as the reason behind the country’s ability to place itself on the map.

New regulations enacted in 2014 will continue to enhance Malta’s reputation as a jurisdiction that fully embraces innovation. Notable examples include the recent implementation of the securitisation cell company regulation and the reinsurance special purpose vehicle regulations. These two pieces of legislation aim to position Malta as a domicile of choice for the growing insurance-linked securities market.

The securitisation cell company regulations perhaps best capture Malta’s current thinking: the legislator has extended the cell company concept to securitisation transactions. Issuers of securities based in Malta will be able to draw upon the strength of general securitisation legislation, the flexibility of securitisation cell...
"Malta is the only state of the European Union with cell legislation on its statute book for issuers of insurance linked securities. The legislative innovations during 2014 lead the way for a promising year ahead of us"
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Can you give us a background of HSBC’s service offering to financial institutions?

Mario Buttigieg (MB): The financial institutions teams across HSBC are comprised of specialised and experienced senior bankers and product specialists chosen for their sector-specific expertise and knowledge of global financial markets. We work closely with our clients to understand business needs, enabling us to deliver integrated and customised banking propositions. As part of the global banking & markets team, we provide a wide range of products and services to financial institutions globally, including the banking and insurance sector.

Clients expect best of class technology and we have invested significantly and tailored systems specifically to address the needs of our sophisticated clients.

Clients are demanding innovative solutions to the challenges and risks they face in a dynamic market. Credit, FX and interest rates pose potential risks to business, particularly financial institutions and in this respect we can help businesses in their hedging policy which could also potentially result in a reduction of the amount required for regulatory capital.

For liquidity management, HSBC provides account and payment services, letters of credit and credit facilities. We also offer electronic platforms to manage multiple investments positions in various countries.

Can you elaborate on your online platforms?

Mario Buttigieg CPA, B (ACCY) is an associate director of Financial Institutions Group within HSBC Bank Malta plc. He has 26 years’ experience in the financial services sector, having occupied a number of senior managerial positions in Malta and the UK.

HSBCnet is our global internet banking platform offering a vast range of banking facilities, including the ability to perform foreign currency transactions using live market rates. HSBC Connect is our host-to-host solution, developed to address our clients’ recurring need to simplify the process for originating payments and making collections, thus achieving greater efficiency.

Do you think Malta is gaining traction in attracting financial institutions, particularly captives?

MB: Malta is well represented by a number of financial institutions, including large insurance managers and companies. We continue seeing an increase in captive business, particularly originating from some of the largest blue chip corporations in the world seeking similar blue chip partners in Malta. HSBC has weathered the storm which shook the banking sector and with a strong balance sheet and credit.
rating, we are well positioned to continue being the ideal business partner. HSBC’s financial standing, product offering and global reach make it best-placed to service this specialised and demanding industry.

Captives establishing in Malta benefit from a number of advantages, including: a politically stable environment; a robust regulatory framework; an efficient fiscal legislation; and passporting rights within the EU.

An additional and unique advantage of Malta is that it is the only EU member state with the necessary legislation to enable insurers to carry on their business, including the business of insurance manager, insurance broker, reinsurance and captives through the set-up of a protected cell company (PCC).

**CR:** How does PPC legislation work in Malta and what are the advantages of using a PPC?

**MB:** The PCC law caters for the formation of multiple cells forming part of a single company and the creation and issue of cells shares. It allows for the segregation and protection of cellular assets from other assets of the company, the transfer of cellular assets and the use of non-cellular assets as a secondary financial base where cellular assets are exhausted.

PCC’s main advantages are that they offer insurers and reinsurers the opportunity to write business at a cell level while benefiting from the economies of scale derived from its core and other cells. It is not necessary to satisfy the minimum guarantee fund at the cell (individual) level but only at PCC (whole) level. Furthermore, a PCC is taxable at a cell level and is able to declare a dividend through its cell even if the other cells within the PCC are not able to do so.

The PCC business model can take different forms. These range from non-European insurers setting-up cells as fronting facilities to reduce their European fronting costs to companies establishing captives risk financing vehicle.

**CR:** The risk management implications are allegedly driving European companies to increase their use of multinationals. Is this trend present in Malta?

**MB:** On an international level, multinational programmes are becoming industry standard and Malta has managed to attract large and reputable multinationals and insurance managers. This growing internationalisation could potentially expose multinationals to greater complexity and unless they are large enough to have their own comprehensive multinational programme they can do so through one of the specialised insurance managers entrusted with monitoring developments and developing solutions.

HSBC is the leading international bank in Malta. We enjoy strong relationships with the major multinational and insurance managers on the island, both locally and globally and we are supporting Malta’s growth as a financial centre.

**CR:** How are regulatory changes affecting captive managers and owners?

**MB:** While the landscape for captive managers and owners is generally stable, regulatory issues and uncertainties will inevitably attract the industry’s attention. Captives are more sensitive to the burden imposed by regulation than other sectors of the insurance industry. Captive owners are generally non-financial service groups and use a captive as an efficient way of accessing the (re)insurance markets and generally managing group risks.

Apart from the opportunity costs, more regulation can mean greater staff costs through increased time commitment and/or increased fees to managers and advisers. More regulation may also represent a greater risk profile because if the captive cannot comfortably comply with the increased regulatory requirements, it may face reputational damage and/or regulatory sanctions.

As an EU member state, the key regulatory change for the Maltese captive sector is the Solvency II implementation. Feedback received from clients indicates that the impact is expected to be a contained one, also due to the PCC’s unique advantages, which could translate this perceived threat into a material opportunity for Malta.
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THE BENEFITS OF FLAOR – LOOKING FORWARD TO ORSA!

Captive Review catches up with Margareta Zaveri, an insurance manager with Marsh, based in Malta, to discuss the introduction of Solvency II

With less than 12 months to go before Solvency II regulation finally comes into force, captives, insurance companies, managers, actuaries and most service providers within the insurance industry have spent many, many hours ensuring that they are all set for the big day. Now is the time for the captives and insurance companies to look forward to reaping the benefits from all of their hard work.

Solvency II in the making
Several years ago the process of Solvency II and its various QIS studies and standard formula calculations kicked off, which involved mainly finance departments and actuaries. The reality of how Solvency II would affect the whole organisation started to dawn on directors in 2011, when the target start date for the new regime was set to 2014. There was pressure to complete gap analyses for Pillar II, involving formalisation of the corporate governance framework, reporting lines, processes and procedures throughout the organisation. Certain key functions had to be in place, together with any other functions deemed critical by the company, and their own policies and procedures also had to be documented.

At the time, some captive owners and small insurers thought that this may all be very well for larger public insurance companies, where this may have been a matter of improving current documents and fitting their existing structure into one compliant with a Solvency II: large organisations would most likely already have the ‘new’ required key functions in place. For many smaller insurers and captives with lean structures which outsource numerous functions, the implementation and learning curves were steep and they experienced many challenges in interpreting proportionality. Added to this was the continued uncertainty surrounding the date for the Solvency II directive coming into force, as a result of it being postponed numerous times.

In September 2013 EIOPA published its consultation on ‘the proposal for guidelines on forward looking assessment own risks’ (based on the ORSA principles). There then followed preparatory guidelines on ORSA and the corporate governance framework. Finally, there was clarity in terms of the implementation date of Pillar II and the preparatory phase was defined to stretch over two years, with the Solvency II directive coming into force on 1 January 2016.

From ORSA to FLAOR, what’s next?
The guidelines on forward looking assessment of own risks (based on the ORSA/FLAOR principles) stipulated that all insurance undertakings (including captives) should submit an ORSA report to their regulator by 31 December 2014. It was at that
The language changed: what had been known as the ORSA became FLAOR. What was the difference? Why did the language change?

The change was due to the request from EIOPA for local regulators to ensure that insurance and reinsurance undertakings take a forward-looking view on the risks to which they are exposed, similar to what they will have to do once Solvency II comes into force. Through the process of the FLAOR, companies have been given the opportunity to have two dry runs before 2016, when the legislation will require the submission of an ORSA.

The first dry-run
Now that the first FLAOR process has been completed, regulators and companies alike have had a chance to reflect and analyse how the second FLAOR may be improved. In particular for captives, the principle of proportionality may need to be revisited. Other questions to be asked may relate to whether the assumptions were sufficiently substantiated and whether the board appropriately challenged the results of the assessment. Some companies have realised that they did not have the resources to carry out the ORSA going forward and have chosen to appoint an insurance manager to help streamline the process.

As insurance managers of many captives and insurance companies, Marsh has noted some very positive implications of Pillar II and the ORSA process. The most explicit of these is the synchronisation within the organisation that runs the insurance subsidiary, with increased communication between operational functions, the board and the development of a common understanding of the purpose of the company.

At the start of the Pillar II process, the business strategy, which was often visionary and may not have been challenged for many years, had to be formalised and documented. The risk appetite was another matter to be considered in detail. Although there were some parameters in place, it was not always evident as to why specific factors had been agreed and whether they were optimal for the company, given the changing nature of the insurance market and the risks being faced by the parent companies. Discussions and workshops have provided great opportunities for executive and non-executive directors, risk owners and insurance managers to gain a common understanding.

Formal risk registers at first appeared to be a disproportionate burden on many captives and small insurers. However, by initiating the process of identifying, classifying and evaluating risks and emerging risks facing the company, efforts were focused in order to ensure that sufficient controls are in place to protect the company from major risks.

Linking the FLAOR and the strategic planning
For capital rich companies with capital levels well above the solvency capital requirement (SCR) under the standard formula, the results of the FLAOR have sometimes shown the current risk appetite to be very conservative and more risk could be taken to optimise the use of capital. In such instances this may lead to increased retention levels or expanded business, perhaps into other classes of business or into new geographic territories. Business plans and strategies would then need to be redefined and approved.

According to EIOPA, it is expected that companies carry out a ‘sufficiently’ wide range of stress test or scenario analyses in order to provide an ‘adequate’ basis for the assessment of the overall solvency needs.

However, in the current capital constrained environment many companies have faced the issue that the SCR, under the standard formula, has resulted in a higher level of capital being required compared to that under Solvency I. This has led captives to focus on how to build up their capital with the aim of meeting the Solvency II requirement.

Sometimes the results of their own assessment of the required capital, as per the FLAOR, have also indicated a higher capital requirement than that under current legislation. The process has thus brought some justification and an increased understanding for the required level of capital under Solvency II. With increased capital requirement levels there is more pressure on the organisation for efficient use of capital to maximise their returns. This has led to an increased focus on investment, retention and reinsurance strategies as well as considerations of how to formulate growth within the new capital constraints.

Stress tests and scenario analysis
Stress testing is an essential part in determining solvency levels under various risk scenarios and forms an integral part of the ORSA. According to EIOPA, it is expected that companies carry out a ‘sufficiently’ wide range of stress test or scenario analyses in order to provide an ‘adequate’ basis for the assessment of the overall solvency needs. During the two-year preparatory phase, organisations are expected to develop processes and methodologies for carrying out such tests.

In this first dry-run of the FLAOR, whether the stress tests have been based on historical or hypothetical scenarios, they have given the organisation a great insight into the downsides of potential strategies through reverse stress testing and other techniques. Further, the board will have learnt that the design of the stress tests will require a good understanding of the business and will involve a mix of expertise from actuarial, risk management, underwriting, finance and other functions within the company.

Uncovering of opportunities
Without doubt FLAOR has brought an increased awareness of risk oversight to the board of directors and senior management. The ORSA process pulls together the risk management components from the entire organisation. One of the most significant changes compared to the existing solvency regime is the forward-looking approach of the ORSA. By proactively looking at the future evolution of the risks, the insurance company can better prepare for what lies ahead. Controls can be put in place or be improved and by tracking changes in the operational environment, organisations can ensure that profitable opportunities are not being lost.
Captive Review (CR): Malta is the only full EU member state with PCC legislation. How are cell structures handled in this onshore jurisdiction?

Ian-Erward Stafrace (IS): PCCs are essentially segregated business structures in which third-parties are allowed to enter as cell owners with their business ring-fenced and accounted separately. 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 of 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 secondary recourse to PCC core capital”

Ian-Erward Stafrace MSc Risk Management FCII FIRM PIOR Chartered Insurer – chief risk officer of Atlas Insurance PCC Ltd and member of its Solvency II team. He also co-founded and is currently vice president of the Malta Association of Risk Management (MARM), a member of the Federation of European Risk Management Associations (FERMA).

CR: What makes Malta’s PCC regulation stand out?

IS: A feature that differentiates Maltese PCC regulation is that it presupposes individual cells have secondary 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 funds. 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. This is also recognised in EIOPAs Solvency II technical specifications on the treatment of ring-fenced funds. Non-recourse provisions are allowable under regulations but solely for pure captive (affiliated) or reinsurance cells.

CR: Solvency II is going live in 2016 with interim measure requirements already in place. How is Solvency II being implemented for protected cells?

IS: 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 continuously 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, a cell will typically
only need to put up its own funds equivalent to the calculation of the cell’s notional solvency capital requirement (SCR), which with small undertakings often falls far below the typical absolute floor minimum capital requirement for standalone insurers of €3,700,000. A Maltese PCC may also lend its unrestricted surplus core funds to cells in order to meet their notional SCR where in deficit.

A fully operational PCC will have risk management and governance requirements of Pillar II already 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. This includes for example the possibility of producing a single own risk solvency assessment (ORSA) for the entire PCC. 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 extensive 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?
IS: Organisations have established cells as captive risk financing vehicles. They 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 (EEA). 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: Atlas allows cells to be managed by different insurance management companies. How is this done?
IS: Maltese regulations cater for protected cells that are managed by licensed third-party managers.

Atlas’s independence, together with its active core, has given insurance management companies 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: What do you expect from 2015?
IS: We are reaping the benefit of years of Solvency II preparation. With certainty around its imminent implementation, we are seeing an increase in engagements through leading insurance management companies.
Solvency II
Solvency II (SII) is no longer a matter of ‘one day it’ll happen’ but a chapter which is already changing and reshaping the whole insurance industry and its players. This new regime seems to be on track to launch in 2016 and the next 12 months will not provide much room for complacency. During the past year, good momentum has been maintained with respect to legislative and framework development. Having said that, insurers still lack some clarity on their final capital positions as certain fine details need to be agreed upon. From an investment angle the game is changing, becoming more complex, yet it should be much more resilient to financial crisis, such as the one experienced in 2008. This change was already an objective of SII; the 2008 financial crisis only exacerbated the need for this new risk management structure.

Today, investment managers need to combine a plethora of parameters, apart from risk tolerance, such as: liability matching, SII capital charge limits and volatility management, while ultimately obtaining a positive real return. These have changed the investment styles which need to be adopted and implemented due to the current backdrop resident within the capital markets – a very low interest rate environment, a prolonged period of weak economic growth, new pockets of geopolitical risk and, last but definitely not least, the price of oil.

Bond yields have been pressured lower and lower for the past two to three years as investors paid higher cash prices to secure a semi-decent cash-flow from their bond investments. Today this has created a situation where insurance and captive companies are being forced to consider a class of assets which places them outside their risk comfort zone – assets such as high-yield bonds and equities which introduce increased levels of volatility and, specifically in the case of equity, throws out

“Bond yields have been pressured lower and lower for the past two to three years as investors paid higher cash prices to secure a semi-decent cash-flow from their bond investments”
the idea of liability matching and focuses purely on total return. This situation has become the new norm which now needs to be married to the SII matrix.

**Differences in implementation**

This is where investment management starts being implemented differently and investment managers need to work hard to get as close as possible to the efficient frontier in order to maximise returns. Having a portfolio entirely made up of investment grade bonds accompanied by a passive strategy will probably not achieve the desired outcome. A return expectation which is primarily driven by the recent past, where such an investment style would have delivered equity-like returns. Going forward, portfolios will need to be structured differently.

The first change we are seeing is reflected in the investment mandates which are no longer solely based on asset-liability matching but are more focused on total return. This allows the investment manager to have a more diversified portfolio in terms of asset mix. Equity, high-yield and alternative investments need to form part of the investment strategy. They bring attributes to the portfolio which have become more difficult to achieve solely via fixed income. 2014 was nothing short of spectacular if one had the right asset mix. Credit, high-yield and US equity have all contributed immensely to the positive non-technical results.

**Interest rate movements**

The way interest rates have moved over the past decades has made life fairly easy for fixed income investors – in fact almost additively easy. As I mentioned earlier, in the recent past, investment grade credit delivered equity-like returns – this in itself changed the risk-return expectations in the investor’s mind. But that is over now. The US is already showing positive signs of recovery and if this growth picks up momentum in a fairly short period of time then a possible interest rate hike could be on the table sooner than the market is expecting.

Europe on the other hand may still be a few years/decades behind and the investment strategy there needs to be played differently. All of these realities need to be managed – failure to do so is equivalent to having an insurance company without a risk-assessment team.

**Looking forward**

We are expecting 2015 to be a transitional year for most industry players in more ways than one. Firstly, we have the technical side whereby each player will submit their internal model by the end of the first quarter of 2015. These will be re-examined and signed off by the regulator within the following six months. There will be little chance for substantial changes or negotiations and, therefore, hopefully this final look through by the regulator will not throw out any negative surprises. Secondly, investment managers will be using the early part of the year to ensure that the investment portfolio is aligned in a way that draws together the SII capital charges with their capital market expectations within each allowable asset class. With these in hand the portfolio would need to obtain the desired balance between assets having an efficient risk-reward profile together with those assets which provide attractive returns on solvency capital.

Given all the various investment restrictions, risk tolerance levels and the overall capital charge the insurance and/or captive company is willing to face, in tandem with the changing investment (both at a macro and micro level) landscape, the insurance industry must achieve the right balance between return expectations and risk capital. Getting this wrong will be expensive in terms of foregone returns and/or capital losses. Having said that, SII will help limit any potential damages and this is why this new regulatory regime should be welcome. The higher risk, higher volatility assets have become more attractive in the recent past (given the very low, almost negative, real returns one has come to expect from investment grade bonds), but a cautious approach should be the first unforgettable rule in this industry.
Insurance Management?
We can take it from here.

If you are looking for the ideal domicile to set up your Captive, Reinsurance or Insurance Company, Protected Cell Company (PCC), Incorporated Cell Company (ICC) or a Cell, we can help.

Bee offers dedicated insurance management services in Malta, where a team of experience and qualified professionals are ready to deliver to you the most cost-effective, tailored solutions for your business.
How did Malta’s captive industry fare in 2014? Have there been any new developments?

Donna Greaves: In 2014 Malta continued in its efforts to attract more captives and build on its excellent regulatory reputation, efficient tax structure and competitive operating costs. Naturally 2014 was a sluggish year for insurance as global factors continued to influence growth in most European countries.

However, in spite of the turbulence Malta as a domicile continued targeting the insurance-linked securities legislation, including catastrophe bond and, to a lesser extent, the reinsurance sector. In 2013 Malta opened talks with EIOPA to have the legislation in place. It is good to note that as ILS funds utilise PCC and ICC structures to provide a low-cost, low-administration vehicle to access the reinsurance/recession markets, this legislation could prove beneficial for established PCC and ICC companies in Malta to expand.

What attracts captive owners to the island?

More than six Fortune 100 companies have captives in Malta and a raft of companies from across the world and in numerous sectors are being well looked after by the country’s insurance managers. The global names can also be found assisting owners of indigenous insurance management companies. The advantages of relocating to Malta are numerous and include international banks, professional fund managers, insurance managers, call centres, stockbrokers and wealth managers. In addition, it is good to mention that there is a big cluster of overseas-owned concerns in pharmaceuticals, high technology manufacturing, commercial aircraft service and repair and marine electronics.

How far along is Malta in accommodating insurance-linked securities (ILS)?

The island is fully prepared to cater for this new phenomenon of the captive world. It is targeting the ILS, catastrophe bond and reinsurance convergence sector with a legislative effort to put in place a legal framework to allow for the formation and domicile of special purpose reinsurance vehicles (SPRV) in Malta.

The Malta Financial Services Authority (MFSA) put forward a draft version of the SPRV regulations for consultation last year. The consultation period is now closed and the MFSA is in the process of considering the responses before it delivers feedback and an updated version of the law, which will likely be passed on to parliament for implementation.

Emerging risks such as cyber attacks and terrorism are becoming salient for US captive owners, are these gaining prominence in Malta as well?

Malta is geared to provide insurance to the risks of cyber attacks and terrorism for US captive owners.
It is important to define the modus operandi of cyber terrorism – it holds various advantages over traditional terrorism. Primarily, the physical presence of the terrorist is not required and a terrorist may perform the act in the comfort of his own territory.

Cyber terrorism is considered a wide ranging risk as the internet provides an inexpensive tool for illegal acts to be committed from anywhere in the world. In essence, due to the proliferation of low-cost technology, crime can be perpetrated using just a good computer and sufficient hacking skills to penetrate the opponent’s firewalls. There are always vulnerabilities in any propriety software system that can be exploited by cyber terrorists. Cyber terrorism also offers greater anonymity, as security agencies can sometimes struggle to identify the terrorists’ real identity. Furthermore, the number of targets is unlimited, and may include governments and public utilities, such as transport systems, without the need to overcome physical security barriers and personnel.

CR: How does PKF work with Malta’s government to maintain the jurisdiction’s competitive edge?
DG: Our partners meet with the MFSA on a fairly regular basis and our relationship is good. Linking our business relationship with a network of PKF offices in 125 countries enables us to provide international solutions and this structure helps us to give clients present and future a better service. In the meantime we continue to seek the best training opportunities for managers and as a firm remain in touch with latest compliance and regulatory developments.

CR: The risk management implications of the rising exposure to emerging markets is allegedly driving European companies to increase their use of multinationals, is this a trend present in Malta?
DG: It is not apparent whether this trend is growing, however, using a comprehensive multinational programme is usually a better solution. Owners of captives in Malta are waking up to the realisation about incremental management implications relating to exposure to risks. For this and other reasons there is a general consensus that companies strive to achieve consistent, compliant insurance cover. Certainly in this kind of environment it is becoming more difficult to use traditional approaches such as relying on a single global policy or a patchwork of uncoordinated local arrangements.

“Malta’s captive managers are remarkably positive about Solvency II, perhaps because the end is in sight, and they and their clients have, in effect, done all the hard work”
Success does not come from eliminating risk.

SUCCESS COMES FROM MANAGING RISK FOR GROWTH.

When the path is unclear — Marsh Captive Solutions will help your company navigate through the world of risk.
ince accession to the European Union, Malta has become the domicile of choice for many corporates looking to establish a captive insurance company within the EU-EEA zone. Being within the EU-EEA allows Maltese licensed insurers to write business throughout the EU under freedom of services legislation. Although this considerably simplifies the regulatory burden, the downside to being able to insure risks across Europe without further authorisation is the necessity to account for premium taxes in all territories where risks are located.

The last few years has seen an increase in the burden of premium taxes being applied by EU member states. The main reasons for these increases have been the need by national governments to generate additional tax revenue to balance their books, especially since the credit crunch in 2008. Even into 2015 tax rises continue, with France, Malta and Slovenia all implementing increases to basic rates of premium tax.

However, given the multiple taxes and rates that apply across territories and the raft of exemptions that are potentially available, it is difficult to calculate the precise increase in the cost of insurance that can be attributed to rises in premium taxes.

One of the most common insurance coverages provided by captives insuring pan-European risks is General Liability. Based on what is known about the movement in premium taxes from 2004 to 2015, it is possible to establish the additional tax cost borne by corporates in order to insure their risks.

<table>
<thead>
<tr>
<th></th>
<th>At 1/1/2004</th>
<th>At 1/1/2009</th>
<th>At 1/1/2015</th>
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<tbody>
<tr>
<td>No of countries</td>
<td>19</td>
<td>31</td>
<td>32</td>
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<tr>
<td>Net premium</td>
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<td>€36,378</td>
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<tr>
<td>Effective tax rate</td>
<td>8.6%</td>
<td>5.8%</td>
<td>5.8%</td>
</tr>
</tbody>
</table>

"Based on what is known about the movement in premium taxes from 2004 to 2015, it is possible to establish the additional tax cost borne by corporates in order to insure their risks"
Increase in tax cost: 2004 to 2015

A Maltese captive purchases general liability insurance covering all EU-EEA member states where coverage under freedom of services rules are applicable. For the purposes of this example net premium is €20,000 for each country within the EU-EEA zone.

Over the 11-year period, based on calculations the average headline rate of IPT has fallen to 5.8% from 8.6% across the EU-EEA zones. In spite of a number of high profile rate increases in recent years, the inclusion of accession countries, many of whom have low or zero rates of IPT, has led to a reduction in the average rate of IPT.

Interestingly though if you compare only the countries in the EU-EEA before accession in May 2014, the average rate of headline IPT has remained the same, at around 8.6%. In the 11 years from 2004 to 2015, we have seen rate increases in:

- Germany +3%
- Finland +2%
- United Kingdom +1%
- Netherlands +14%

But also during that time Denmark, Iceland and Greece have all made significant amendments to their laws regarding premium taxes resulting in tax reductions.

What this analysis suggests is that, broadly speaking, the multitude of rate changes between 2004 and 2015 has had little impact on the average effective rate of premium tax across the EU-EEA. However, it is important to state that in reality many captives are not in the position of allocating premiums in such a fashion, and where risks are focused on a smaller group of countries the effects of any rate changes may be more keenly felt.

What one can conclude is that each country does have its own approach to premium tax legislation; harmonisation is something that hasn’t happened, and doesn’t look like happening in the realm of European premium taxes.

Premium taxes and VAT

While VAT is a tax introduced by the European Commission and legislated at the European level, premium taxes are set by national governments. This means that rates and legislation are set locally in accordance with local political ambitions with no requirement to harmonise across Europe; hence the great diversity of rates and rules across Europe.

Historically, premium taxes have not been linked to VAT but there is increasing evidence to suggest that premium tax rates are trending towards VAT rates. The Dutch in 2013 increased IPT to match VAT and the Finnish have always tied IPT to VAT. In the UK there is anti-avoidance legislation which created a higher rate of IPT to match VAT in cases where tax planning opportunities may have existed.

Abolition of premium taxes

Insurance has been exempt from VAT ever since its introduction. However, in recent years there have been increasing calls to make insurance premiums VATable to provide greater consistency of taxation across Europe. Whilst this would bring certain advantages, not least to the European Commission who would benefit from the increased tax revenue, it is not simply the case that VAT would reduce IPT overnight. There is a real chance that IPT would remain in certain countries, meaning that premiums would be subject to a greater tax burden than currently. This debate is likely to continue for many more years.

Tax planning

As a responsible corporate citizen and taxpayer, the position for businesses is clear – remain in full compliance with the payment of all taxes. However, planning and analysis can ensure that the correct amount of tax is paid, ensuring that compliance is achieved, but with the opportunity to make tax savings using non-aggressive application of the local tax rules. The areas to consider are:

- Location of risk rules
- Policy structure and wording
- Remuneration of intermediaries
- Exemptions for certain coverages

Other issues

In a recent ECJ ruling, the requirement by insurers operating under freedom of services to appoint a fiscal representative in Spain was found to be contrary to EU free market principles. This continues a trend of relaxation of fiscal representative requirements across Europe which started in 2009 in Belgium. Although this does simplify the compliance requirements for insurers, the need to file premium taxes still remains. This in itself can be a tricky business when you consider that within Europe alone there are over 80 premium and parafiscal taxes that could be applicable to your premium and that within Europe there are 11 different currencies and 24 official languages.
Joseph Grima, insurance technical officer at Bee Insurance Management, speaks to Captive Review about the specialised service boutique captive insurance managers can offer.

A ‘boutique’ concept of insurance management

The French term ‘boutique’ is a fairly new entrant to the English language. Introduced in the 1960s, the term was originally used when referring to small independent and local shops that provided clients with tailored made-to-measure products.

As big businesses and department stores began to take over, bespoke services started dying a slow death. When customer behaviour started to evolve, and consumers became more discerning, a new demand for tailor-made services arose, resurrecting the boutique industry in retail, accommodation and also finance. This concept is not foreign to the captive insurance industry where small, local insurance managers are able to define packages that cater for the individual needs of every single client.

Going local

An experienced local insurance manager is generally better able to provide proficient advice relevant to the particular domicile in which it operates. Years of experience provide the local insurance manager with an excellent working understanding of the manner in which the authorities and local institutions operate and function, benefitting directly the companies it manages.

When it comes to expert information and advice, such an established local firm does not need to restrict itself to services and knowledge available within the larger group. Through a network established with the best local and international advisors, the local manager may reap the benefits of business relationships created over the years. This guarantees that the company being managed is provided with the best guidance available in all the various relevant sectors spanning from company and insurance law, on to taxation, banking and investment, in a rapid and efficient manner.

By not being part of a larger management group, the local insurance manager is able to focus solely on the requirements of the captive insurance client without internal distractions. Additionally, clients need not fit a standard, but each and every programme offered may be designed and tailored on a client-by-client basis. This added flexibility guarantees that the manager affords to give top priority to the requirements of the clients, remaining available around the clock in order to respond readily to new matters or opportunities that may arise.

How small is ‘small’?

The insurance firm managing your captive insurance company is set to become more than simply a third-party service provider but a long-term business partner with whom regular high-level discussion will need to be made. Every captive insurer should be provided with a dedicated team with whom a close relationship may be built, and who understands the individual details of the business down to the very particulars of the company. The team should be composed of personnel who are qualified and experienced at least in the areas of insurance, accounting, the legal environment and the ability to offer or provide advice in the key Solvency II-related functions, namely risk management, internal audit, compliance and the actuarial science.

...and how local is ‘local’?

In a financial world, which is becoming increasingly multi-national both in composition and also in its regulation, it is essential that regardless of how local a financial establishment is, it always keeps abreast with international developments and maintains access to service providers elsewhere in the world.

It is increasingly evident that no one jurisdiction operates in isolation. Firms operating in a European jurisdiction are required to be readily informed on the key developments being made on a regulatory and legal level whilst retaining contact with key experts available to it in other areas of Europe.

Local insurance managers who would have been in operation for many years are aware of the degree of globalisation that has occurred in the insurance market and will undoubtedly have established an international network across various European jurisdictions, including British overseas territories and crown dependencies.

“Clients need not fit a standard, but each and every programme offered may be designed and tailored on a client-by-client basis”
Are large international corporations and local managers compatible?
Starting from the very initial negotiations, to authorisation and actual operations stage, the promoters of a captive insurance company need ready and immediate access to the expert services of an insurance manager who is anchored in the local jurisdiction where it operates but is also ready to spring into action immediately when required. Moreover, the requirements of every captive insurance company when choosing an insurance manager, regardless of size, remain similar throughout.

The main difference therefore lies not in the type of services that need to be offered, but the complexities of the captive insurance company and it is imperative that the insurance manager is able to understand and address such complexities.

How do large insurance managers and boutique insurance managers differ?
Recalling the original distinction drawn between boutique and international hotel brands, it is easy to appreciate how both types of accommodation have their own function and appeal in the market. A traveller who is comfortable with recognisable international brands and a standard form of service is more likely to seek to make use of a multinational hotel. A traveller looking for unique accommodation with a local appeal and flexible check-in and check-out times, is more likely to look for a small boutique hotel.

This is not dissimilar to the manner in which large insurance managers differ from local domestic insurance managers. By being simultaneously located in various jurisdictions, an international insurance manager is able to provide pre-authorisation advice to a potential captive insurance company when selecting the jurisdiction in which to set up of the company. Moreover, an international insurance manager is able to make use of the expertise available to it by various personnel located worldwide, thus reaping maximum benefit of its position.

In turn, the local insurance manager has an active interest in the promotion of the market in which it operates, and is therefore better informed on the domestic sphere and how it compares to the globe’s main insurance jurisdictions. It will be able to analyse every business prospect in a detailed manner and combine this with the domestic expertise gathered along the years. This ensures that together with the tailored approach which has been expounded earlier, the local insurance manager will generally be better poised at providing an expert and personal tailored package to its customers.

“Local insurance managers who would have been in operation for many years are aware of the degree of globalisation that has occurred in the insurance market”
Curmi & Partners are one of the leading investment houses in Malta, providing a wide range of services based on solid investment opportunities which translate in consistent investment results across differing markets and market conditions. The investment ideas and solutions developed for our clients are the result of innovative thinking which has successfully addressed many diverse objectives. As a major player in the industry, we invest in the company’s strategic relationships with top international investment houses to achieve professional work ties that achieve better quality investment solutions.

BEE INSURANCE MANAGEMENT LIMITED

Bee can be assimilated to its namesake as a productive and creative insurance management company able to work in a team with its clients in order to reach the clients’ goals. Bee’s key strength is its highly qualified and experienced human resources, committed to deliver quality service to its clients. Bee is synonymous with professional and value-added management solutions for captive and insurance and reinsurance companies, including PCCs, ICCs and Cells.

BUILDING BLOCK INSURANCE PCC LIMITED

Building Block Insurance PCC Ltd. allows you to build and operate your own bespoke insurance solutions. Our service is tailored for companies and individuals who currently have existing lines of insurance business, or wish to diversify by developing new products. Working alongside ‘Building Block’ clients are able to access all the benefits of writing their own insurance risk, without the financial commitment, volume of business and resources traditionally needed to form your own insurance vehicle.

FINANCEMALTA

FinanceMalta, a non-profit public-private initiative, was set up to promote Malta’s international business and financial centre, both within as well as outside Malta. It brings together and harnesses the resources of the industry and government to ensure Malta maintains a modern and effective legal, regulatory and fiscal framework in which the financial services industry can continue to grow and prosper.

FISCALREPS

FiscalReps is a specialist professional tax consultancy helping insurance businesses achieve global insurance premium tax compliance. As the acknowledged market leader, with a client list including many top insurers, brokers and corporate captive owners, FiscalReps offer a suite of products encompassing Outsourcing, Technology, Consulting and Training services industry can continue to grow and prosper.

HSBC BANK MALTA PLC

HSBC Bank Malta plc (“HBMT”) is a member of the HSBC Group. HBMT is listed on the Malta Stock Exchange and has a network of branches and offices spread over Malta and Gozo. HBMT provides financial services to a diverse number of customer groups such as commercial banking, global banking & markets and retail banking & wealth management.

MARSH MANAGEMENT SERVICES MALTA LIMITED

Marsh Management Services Malta Limited is a wholly owned subsidiary of Marsh & McLennan Companies (NYSE: MMC), the premier global professional services firm providing advice and solutions in risk, strategy and human capital. The Malta office was formed in July 2005 and is the market leader for Malta in the formation and management of affiliated and non-affiliated insurance and reinsurance companies. Clients under the company’s management come from a wide range of industries and geographies from around the world.

MALTA FINANCIAL SERVICES AUTHORITY

The Malta Financial Services Authority (MFSA) is the single licensing and supervisory authority for all financial services activity. The Authority is an autonomous public institution set up by law. The sector overseen by MFSA includes credit institutions, insurance business, investment services, pensions and trust management and recognised investment exchanges, that provide a wide range of products and services on the domestic and international markets. The MFSA is further responsible for the consumer awareness and education in the financial services sector. It also manages Malta’s Registry of Companies.

PKF MALTA

PKF Malta is a member of PKF International network, PKF Malta is committed to excellence, which commitment doubles up into eloquently broadening horizons incessantly and successfully, in keeping with the ever-changing pulse of the market’s needs. Our unique and bespoke approach to the provision of financial and related services affords us the adequate insight and resources necessary to see our clients through the respective financial services process and successful attainment of the envisaged goal.
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.

t: +356 2343 5221 e: cells@atlaspcc.eu

Atlas Insurance PCC Limited is a cell company authorised by the Malta Financial Services Authority to carry on general insurance business.
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 around 70 tax treaties with various EU and non EU countries.