Panel Debate

European delight: Malta’s on the rise
AST talks to a panel of experts about why Malta is enjoying fund growth and how it manages to service funds so successfully

AST: Where are you seeing industry growth coming from?

Kenneth Farrugia: The growth of Malta’s fund industry is driven by a number of factors. On the one hand, at product level, Malta is experiencing a steady growth of new funds that are being authorised by the Malta Financial Services Authority. In fact, this growth consists of new schemes and their sub-funds as well as new sub-funds under existing schemes that are predominantly employing hedge fund strategies. Currently, there are more than 550 funds established in Malta, if you include an increased incidence of UCITS fund set ups, as there are now more than 60 UCITS funds in Malta.

Puneet Gupta: As a whole, the local funds industry grew by 4 percent in asset terms as at end December 2011 on a year-on-year basis, with the main thrust registered as alternative investment funds, i.e. professional investor funds (PIF). During 2011, we were approached by a number of fund promoters to set up UCITS funds in Malta, and this augurs well for this type of fund. Most of the interest has emanated from European fund managers.

James Farrugia: In the fund space, there is a marked increase in demand for UCITS and PIF products from Swiss- and London-based managers. Malta has a very attractive PIF regime that offers a robust yet flexible regulatory approach coupled with an efficient and approachable regulator. On the UCITS space, the possibility of meeting and discussing a structure with the regulator prior to filing an application, coupled with competitive set up and ongoing charges, as well as the availability of high quality service providers, are also key considerations.

We are also seeing a number of Swiss managers investigating the possibility of setting up Malta-based asset management operations, mainly in preparation for the EU Alternative Investment Fund Managers Directive (AIFMD), and also as a result of concerns around legislative changes in Switzerland.

AST: Is this new business or is Malta competing successfully with other European jurisdictions?

Puneet Gupta: It is mostly new business, and in a number of cases, Malta is being measured against other competing European jurisdictions before a decision is taken on the most appropriate and viable jurisdiction to set up their funds. We are also seeing an increasing number of hedge fund managers moving their front office activities to Malta.

James Farrugia: In the fund space, the European options are clearly Luxembourg, Ireland and Malta. Over the years Ireland and Luxembourg have been very successful in attracting a large number of funds to their domiciles and as a result of this success, they tend to be more expensive and lack the agility and excess capacity that can be found in Malta. Different managers wishing to set up their funds have different needs and different priorities. What is evident is that, more and more, investors expect their managers to house their fund in an EU domicile, so the three main European fund domiciles will see numbers grow when it comes to new fund registrations.

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In the asset management space, Malta clearly provides a number of advantages when compared to other onshore jurisdictions. It offers: cost competitiveness; attractive income tax rates for expats operating in the asset management space; a fiscally friendly environment; good connectivity with mainland Europe; availability of qualified human resources; an approachable regulator; availability of world class IT infrastructure; 300 days of sunshine a year, and one of the highest rated European countries for quality of life. These are all important considerations for managers that are looking at setting up an asset management operation in a European domicile.

Kenneth Farrugia: During the last 18 months, a number of funds based in offshore jurisdictions have decided to redomicile to Malta. What is equally important is the operational infrastructure is very sound, which is evidenced by the various domestic operators that are well-positioned to service this business, as well as the international operators that have set up their operations in Malta on both the asset management and asset servicing side, as well as the choice of other service providers, such as auditors and company secretarial service providers. 

AST: How are Malta’s asset servicing capabilities different to other domiciles?

James Farrugia: Asset servicing in Malta is relatively more cost competitive than the other major fund domiciles. This is notwithstanding the availability in Malta of the big four audit firms, well-regarded law firms, professional directors, specialised compliance consultants, more than 20 fund administrators and a growing number of global custodians.

Puneet Gupta: The asset servicing capabilities of Malta are in the main the same that one would expect from other established jurisdictions. Accounting and valuations, investor services, statutory reporting, corporate secretarial services, global custodial and other ancillary and related treasury services all form part of the standard package. What would distinguish Malta from other domiciles is our can-do approach and time to market to have the fund up and running in the shortest possible time, whilst at the same time ensuring that this is performed within a robust and sound legal and regulatory framework.

Kenneth Farrugia: The funds industry in Malta has experienced a paradigm shift from one which was dependent on the growth of the domestic business to the reality we have today where international asset servicing has outstripped that which was extended to funds promoted in Malta. Malta’s strong value proposition in asset servicing terms is being recognised by funds domiciled in other jurisdictions, as increasingly, Malta-based service providers are being engaged to provide their fund administration services to such funds. Clearly, service providers that are based in Malta understand the importance of being responsive and delivering a quality-led service and this, coupled with the highly competitive set up and ongoing servicing costs structures when running an operation in Malta, together with the presence of a meticulous, yet accessible financial services regulator, are turning out to be Malta’s critical success factors.

AST: How are developments in the wider European financial markets affecting Malta?

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Kenneth Farrugia: Although Malta is an island, this does not mean that the growth of its financial services industry is in any way, shape or form ring-fenced from the state of flux and market turmoil that has gripped European financial markets. Apart from the impact of the capital markets on investor sentiment, which in turn has an impact on asset management and asset servicing businesses, the extent of regulations that are planned to be introduced in the coming months and years are giving rise to various challenges. These are of course challenges being equally faced by all operators irrespective of their EU domicile.

Puneet Gupta: The regulations that are or will be introduced over the next few years have been embraced by Malta within the ambit of its onshore European credentials and maintaining the country’s credibility in this sphere. HSBC Malta has the added benefit that it can tap into its global expertise to assist customers in navigating the more complex regulations. In certain cases, new regulations such as the AIFMD and the increased risk bestowed to fulfilling the depositary function will no doubt result in higher servicing costs.

James Farrugia: The regulatory developments in Europe—the AIFMD, MIFID II and UCITS V—coupled with material regulatory changes in Switzerland, are causing managers to reassess their business model, their status (based on EU v non-EU), the cost base as a result of, amongst others, increased compliance costs, regulatory restrictions, remuneration restrictions, increased capital requirements and others. This will result in some managers moving outside of the EU, others moving into the EU, others domiciling their funds onshore and others offshore.

We will see more managers setting up operations in Europe to take advantage of the passporting opportunities under the AIFMD.

Puneet Gupta: The Middle East and North Africa, Malta is uniquely positioned in this respect as the island is the closest EU member to the south and south east fascia of the Mediterranean. This unique positioning is of particular interest for those operators that are seeking a platform in Europe with the ability to target the neighbouring regions. In fact, Malta is already home to operators based in South Africa that have established their platforms in Malta.

AST: How do you see the market developing in the future?

Puneet Gupta: Malta’s economy has performed relatively strongly throughout the financial crisis—there has been no sovereign debt crisis, no banking crisis and no housing collapse. Throughout this period Malta’s financial services industry has enjoyed continuing growth. Against this background, we expect an acceleration in growth in the funds sector as Malta becomes better known for its robust economy, sound banking system and strong regulatory structure. We will see further growth in PIFs but also in UCITS, which, in turn, may attract more custodians. We also expect front office teams to establish presences in Malta. HSBC can play a pivotal role in accelerating growth of Malta’s financial services sector.

Kenneth Farrugia: Despite Malta’s very recent positioning as an international financial centre, the achievements registered so far, particularly those in the funds industry and the insurance sector, augur well for the future. The contribution of the industry to GDP is in excess 12 percent, and on a year-on-year basis, notwithstanding the turmoil in Europe, the industry registered a 30 percent year-on-year growth in 2011. It is my view that despite the plethora of challenges that the international industry is currently facing, the funds industry in Malta will continue to experience year-on-year growth in the years ahead of us.

James Farrugia: We are living in a period of substantial regulatory changes so it is difficult to make accurate predictions. My guess is that we will see more managers setting up operations in Europe to take advantage of the passporting opportunities under the AIFMD, especially as an increasing number of managers are looking to set up their funds in Europe partly due to pressures from investors. Major drivers will be the extent to which the AIFMD will develop as a brand on the same lines as UCITS and the extent to which national private placement rules will be tightened in Switzerland and certain other key EU domiciles, leaving managers with no option but to set up EU-based structures.

AST: How important are the Middle East and North Africa to Malta’s development as a financial centre?

Kenneth Farrugia: The core developments shaping Malta’s financial services industry are predominantly led by the increased interest that is being exhibited by European operators in setting up their operational platforms in Malta. As to the Middle East and North Africa, Malta is uniquely positioned in this respect as the island is the closest EU member to the south and south east fascia of the Mediterranean. This unique positioning is of particular interest for those operators that are seeking a platform in Europe with the ability to target the neighbouring regions. In fact, Malta is already home to operators based in South Africa that have established their platforms in Malta.

James Farrugia: The Middle East and North Africa region is still a relatively new market of opportunity for Malta. This region, however, is a potential target and one that makes sense to infiltrate as there are a number of fund promoters in the Middle East and North Africa that could seek a flexible but well-regulated onshore jurisdiction within the boundaries of the EU. Malta fits the bill nicely in this space, especially given our relative proximity to the region.

Puneet Gupta: The Middle East and North Africa are marginal contributors to the growth of Malta as a financial services centre. They will naturally become more relevant as they develop further in this space. For the time being, opera-tors in Europe, North America and Switzerland remain the main contributors to the development of financial services in Malta.