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FACT SHEET: 2015-2016

Captives [Affiliated Insurance Company (AIC)]

Malta has seen a surge of captives being established in the country following its accession to the EU in 2004. Today, Malta is recognised as a versatile and advantageous jurisdiction for captive insurance business, where companies can insure the risks from individuals to parent companies or group undertakings.

A captive is a company formed by its owners to insure or reinsure the risks of its parent and/or subsidiaries. In Maltese law, a captive insurance company is referred to as 'Affiliated Insurance Company' (AIC). A captive can operate as a direct insurance company, issuing policies to subsidiaries in a group, or it may serve as a reinsurance company, assuming risks behind commercial insurers in the same group. In Malta, association captives are also permitted as well as captives registered or converted to a Protected Cell Company (PCC).

Captives in Malta can insure risks originating from:

- parent company
- associated or group companies
- individuals or other entities having a majority ownership or controlling interest
- members of an association or an organisation or a particular trade, industry or profession provided that the risks covered are those of that particular trade, industry or profession

Captive reinsurance companies are restricted to reinsure risks arising from:

- undertaking(s) to which they belong or
- group companies

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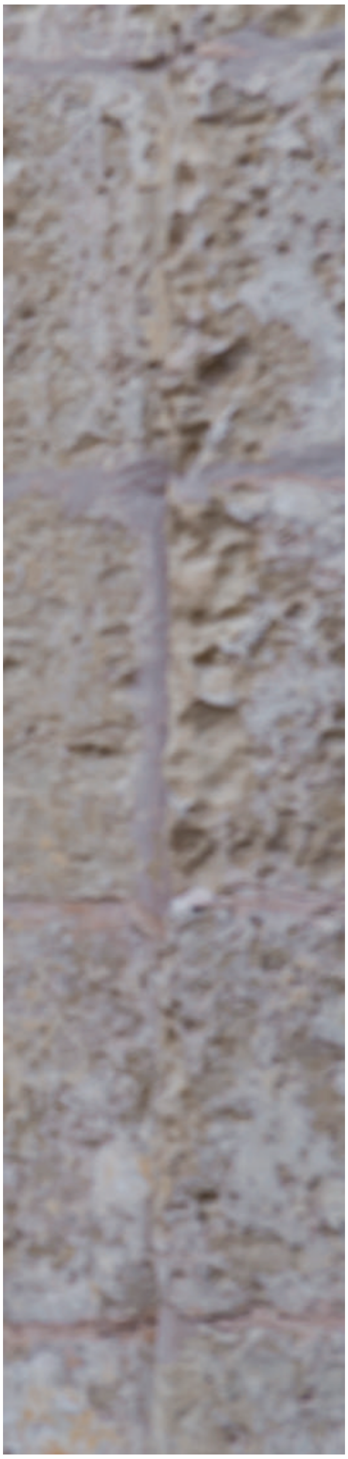

Benefits of Using a Captive

► **Reduced cost of risk financing:** Captives enjoy lower transaction and administration costs than traditional insurance programmes. Companies can also retain underwriting profit and investment income earned on technical reserves.

► **Solution to market limitations:** Captives provide cover for risks that is not available or unaffordable in the traditional insurance market.

► **Flexible risk management:** Custom-designed policies tailored to the needs of the insured.

► **Efficient cash flow management:** Companies have control over the payment or premiums and the timing and payment of claims, and can direct the flow of funds to and from the captive according to their own investment strategy, allowing a more efficient use of capital.

► **Direct access to reinsurers:** Companies can buy excess loss protection on a wholesale basis rather than on retail basis and benefit from better conditions and the opportunity to directly negotiate price and contract terms.

► **Coordinated risk management:** Multinational companies can use a captive to manage risks at group level and centralise their insurance programmes, improving risk awareness and cost-transparency.

► **Protection from price fluctuations:** With periodical pricing swings in the traditional marketplace, companies using a captive can negotiate a premium established on the basis of their own loss experience. Other market factors and loss experiences of other insured parties have no effect.

Key Features of Captives

Corporate Form: Limited Liability Company

Permitted Business: Direct captive: life and non-life business must be transacted in separate companies. Reinsurance captive: all classes of life and non-life business.

Licensing Timeframe: Three months

Redomiciliation allowed: Yes

Own funds:
- Insurance Captive – General Business – min. €2.5m/ €3.7m, depending on class of business
- Insurance Captive – Long term Business – min. €3.7m
- Reinsurance Captive – Restricted to Reinsurance – min. €1.2m
- Insurance and Reinsurance Captive – Combined – €2.5m to €7.4m, depending on class of business

Own funds are to consist of: the initial paid up share capital which must not be less than 50 per cent of the value of Own Funds requirement; and a mixture of issued and unpaid share capital, preferential share capital, subordinated loans, retained profits and reserves. However, the MFSA usually requests that 100 per cent of the initial own funds requirement consists of paid-up capital.
Changes expected in 2016 under Solvency II

Solvency Margin: Calculated in accordance with regulations modelled on EU directives.

Technical Provisions: Calculated in accordance with regulations modelled on EU directives.

Guarantee Fund: Greater of: 1) Minimum Guarantee Fund or 2) the value of one third of the margin of solvency or Malta margin of solvency (as applicable).
Changes expected in 2016 under Solvency II

Intercompany Loans: Allowed with approval from the Malta Financial Services Authority.

Financial Reporting Requirements: Audited accounts under IFRS.

Exempt from:
- publishing accounts in local newspapers
- contributing to the Protection and Compensation Fund
- covering technical provisions by equivalent and matching capital assets to cover currency risk
- localisation rules and custody of assets rules
- the payment of duty on any contract of insurance relating to a risk situated in Malta and depositing a minimum guarantee fund with an external institution

Regulatory Fees: Authorisation application fees are one-time fees and non-refundable irrespective of whether the application is accepted or refused.

Application for Authorisation €5,000
Continuance of Authorisation (annual) €6,500