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3. Regulatory/legislative changes
4. Increasing competition
5. Failure to attract or retain top talent
6. Failure to innovate/meet customer needs
7. Business interruption
8. Third-party liability
9. Computer crime/hacking/viruses/malicious codes
10. Property damage

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WELCOME

AN ALTERNATIVE NEW WORLD

Welcome to the first of a new series of domicile reports to be published by Commercial Risk Europe along with our sister publications Commercial Risk Africa and Commercial Risk Asia, our latest publication to be launched at the Pan-Asia Risk & Insurance Management Association (Parima) annual conference in Singapore in November.

The point of these reports is to provide our readers with the latest news, views and analysis of developments in the fast-evolving world of captives, alternative risk transfer and finance and the rise of the insurance and reinsurance securitisation market.

The start-point of this publication on Malta was the Malta International Risk Congress (MIRC) that we hosted in partnership with the Malta Financial Services Authority in St Julian’s, Malta in June.

This event focused on the so-called black swan events that keep risk managers, their bosses and the insurance market awake at night and the rise of new ‘alternative’ solutions to help tackle and mitigate these risks.

As was stressed during the roundtable with the Malta Association of Risk Management (Marm) the first step of course is to design a robust and enterprise-wide risk management system to help identify, measure and manage the risks in the first place.

Marm is working hard to raise the level of awareness of the value of structured risk management in Malta and also invest in training and education and has played an active role in the creation of Ferma’s new certification scheme.

But as insurance managers and other experts who took part in this report noted there is also a range of potentially valuable structures and tools available in Malta and other domiciles to help both corporate risk managers and their insurers transfer such risks.

Malta had a vision to create a flexible, innovative and cost-effective insurance hub after membership of the European Union in 2004 and deserves a pat on the back for doing so.

The introduction of the reinsurance special purpose vehicles (RSPV) rules to supplement existing PCC, ICC and segregated cell legislation means that both corporate and financial risk managers have a whole range of options on offer on the island to help transfer and mitigate their risks in a Solvency II compliant manner.

If the big challenge facing the corporate and financial risk management community is to find innovative solutions for challenging emerging risks then the arrival of large amounts of fresh capital from the capital markets plus the rise of solutions such as RSPVs surely provides at least part of the answer.

We at Rubicon Media will step up our efforts in the coming year to report on these big developments in the world of alternative risk transfer and try to help guide our readers through this often complex and confusing maze.

Finally, a word of thanks must go to the sponsors of the MIRC 2015 event and this report—Aon, Allied World, ArgoGlobal, Atlas Insurance PCC, Royal London and the MFSA—for making it possible.

We look forward to your continued support as we continue to seek to bring clarity to the exciting but often perplexing world of risk management and transfer.

ADRIAN LADBURY
Editorial Director of Rubicon Media and report author
MALTESE ECONOMY IS OUTSTRIPPING EU PEERS

Leading credit rating agencies, the European Commission and the International Monetary Fund all agree that Malta has outperformed most of the rest of the European Union and will continue to do so. ADRIAN LADBURY reports

THE MALTESE ECONOMY IS in good shape and will continue to outperform the rest of the eurozone nations according to recent reports from international credit rating agencies Standard & Poor’s (S&P) and Fitch Ratings.

This summer S&P revised Malta’s economic outlook from ‘stable’ to ‘positive’ and noted that euro membership, a higher participation in the job market and an efficient tax regime are attracting significant foreign investment into Malta’s banking, insurance and gaming industries.

S&P says that, as a result, it expects that Malta will run a small current account surplus during the 2015-2018 forecast horizon, and remain in a narrow net external asset position of about 16% of current account receipts (CARs) on average during 2015-2018.

The agency notes that international banks play a key role in Malta’s international investment position, reporting that foreign banks use Malta as a ‘booking centre’ for their own financing needs.

S&P concludes that it does not believe events in Greece will have a material bearing on Malta’s credit profile.

Like all eurozone members, Malta is exposed through common monetary, fiscal and development institutions such as the European Central Bank, the European Financial Stability Facility and the European Investment Bank. But, apart from contingent liabilities associated with those institutions, Malta’s exposure to Greece is deemed to be limited.

Malta’s trade with Greece is small and direct financial links are few. S&P says: “The external debt of Malta’s domestic banks as sufficiently contained such that Malta would cope with a permanent real increase in external funding costs spilling over to eurozone markets from Greece.”

The agency also notes that Malta’s economic growth prospects remain “strong” relative to its European Union (EU) and BBB-rating category peers.

Malta’s budgetary consolidation is expected to continue, leading net general government debt to decline to 55% of gross domestic product (GDP) in 2018, from 59% in 2014. Malta’s real GDP grew by 3.5% in 2014. This is projected to expand by close to 3% annually on average during 2015-2018.

Continued improvement

In its latest assessment report, Fitch Ratings reaffirmed Malta’s ‘A’ Rating with a stable outlook. The agency agrees with S&P that Malta’s economic growth will continue to outperform its eurozone peers and that public finances will continue to improve.

Fitch expects the fiscal deficit to continue in its downward trajectory mainly thanks to growth friendly consolidation. The credit rating agency welcomes the government’s commitment to ensure fiscal sustainability through the adoption of the Fiscal Responsibility Act, adding that this “will help guarantee confidence in the fiscal targets”.

Fitch also acknowledges Malta’s strong economic growth on the back of falling unemployment, lower energy costs and steady credit growth. Fitch expects this economic performance to persist in the coming years, underpinned by strong investment, sustained growth in services sectors and a structural shift in the economy towards higher value-added activities.

Fitch also notes the solid foundations and high liquidity in Malta capital markets. The rating agency notes the benefits of a single supervisory framework now in place and the establishment of a resolution fund.

Minister for Finance, Professor Edward Scicluna, responded to the news from the rating agency by stating: “Fitch Ratings’ positive assessment in terms of both the economic and fiscal outlook confirms our confidence in our ability to continue attaining our ambitious budgetary targets. We are also pleased that the government efforts to restructure government-owned entities and proactively seeking to attract investment into new growth sectors are also being acknowledged.”

The credit rating agency’s positive notes followed the publication at the end of last year of a similarly positive concluding statement about the preliminary findings of its official visit to the island by the International Monetary Fund (IMF).

The IMF concludes that: “Given Malta’s strong economic outlook, now is an opportune time for broad-based reforms to raise growth in a sustainable manner and reduce vulnerabilities. Policy priorities are: i) reducing public debt in a sustainable manner; ii) containing fiscal pressures by reforms on pension, healthcare and public corporations; iii) developing a strategy for NPL resolution; and iv) advancing reforms on labour markets.

OVERVIEW

Professor Edward Scicluna, Minister for Finance, Malta
and the judicial system and reducing the cost of capital to maintain competitiveness.”

The IMF says that Malta “continues to weather the global crisis well”. Real GDP growth has been one of the highest in the euro area since the crisis and remains “solid”.

“The external position has stayed strong, and unemployment is close to historical lows and among the lowest in the euro area. These developments reflect a relatively diversified economy and a stable banking sector,” states the report.

The next positive for the Maltese economy is the IMF’s conclusion that the economic outlook is “strong”. The IMF projects continued good real GDP growth in 2015-2016, driven by domestic demand. It says that the main drivers are ongoing investment projects and strong private consumption, the latter underpinned by rising wages and employment.

“Inflation is projected to remain subdued, reflecting the reduction in energy tariffs, lower global oil prices and persistently low euro area inflation,” notes the IMF.

The report judges Malta’s risks to be broadly balanced. “While risks related to the delays in restructuring of various state-owned enterprises remain, there are potential positive spillovers to private investment and consumption from large infrastructure projects.”

Future risks
The IMF says that, in the longer term, Malta’s competitiveness could be eroded because of regulatory and tax reforms at the European level, and if Malta fails behind in implementing structural reforms while many euro area countries continue to reduce their unit labour costs.

“Now is an opportune time to push forward with policies to raise growth in a sustainable manner and reduce vulnerabilities,” says the IMF. Despite a robust outlook, the IMF says that Malta faces important challenges. “Public debt is still high, non-performing loans are elevated, the cost of capital is relatively high despite abundant liquidity, and maintaining competitiveness is increasingly challenging,” state its experts.

“The policy agenda, therefore, should focus on three areas: 1) progressing towards fiscal sustainability; 2) maintaining financial stability; and 3) strengthening competitiveness and reducing the cost of capital,” the IMF advises.

“Broad-based reforms—on pension, healthcare and public corporations—are critical to contain fiscal pressures going forward,” says the IMF. It adds that authorities should continue to push forward with the restructuring of state-owned corporations.

Booster resilience
The IMF says that the government’s efforts to strengthen fiscal governance are welcome. The recently enacted Fiscal Responsibility Act (FRA), in line with EU requirements, establishes fiscal rules, an independent fiscal council, a medium-term budgetary framework, a fiscal risk statement and a contingency reserve, it notes.

And, according to the IMF, overall the financial sector remains stable. The experts say that Malta continues to host a relatively large financial sector without exposing itself to excessive risk. Solvency and liquidity of banks remain comfortably above regulatory requirements and recent deleveraging of some international banks has had “minimal” impact on the economy, notes the IMF.

Remaining financial sector vulnerabilities stem from the high level of NPLs and exposures to the property market, concludes the IMF. As a result of this, efforts are needed to further boost the resilience of Maltese banks and ensure robust supervisory and contingency arrangements, it adds.

“The swift implementation of the action plans resulting from the ECB’s comprehensive assessment is essential. The ongoing work applying the same standards across the rest of the banking sector is welcome,” states the IMF.

It also adds that enhanced focus of the MFSA on smaller banks is “appropriate”, given forthcoming changes in ownership.

The IMF advises that the MFSA should maintain sufficient resources as needed by the intensity of the regulatory and supervisory work.

It also says that the contingency framework should be strengthened in line with the reforms at the EU level.

Malta therefore finds itself in a strong position currently, particularly when compared to other EU economies. The nation clearly faces some challenges such as reduction of national debt and the cost of capital. But the strength of the financial services and gaming sectors, strong regulation, membership of the EU, a skilled workforce and an attractive taxation system should help to ensure continued growth for the foreseeable future, not least in the fast-changing insurance sector—as shall be discussed later in this report.
INNOVATION WILL ENSURE CONTINUED GROWTH

Malta has followed a consistent and successful growth path in financial services for the last 20 years, not least in insurance. This has been based on a combination of high quality but open door regulation, membership of the European Union and a willingness by the regulator to innovate with the introduction of vehicles such as PCCs, ICCs and most recently RSPVs. The World Economic Forum’s Global Competitiveness Index 2014-2015 ranked Malta 15th out of 144 countries for its financial market development. ADRIAN LADBURY asked Professor Joe Bannister, Chairman of the Malta Financial Services Authority (MFSA), how Malta has reached this point and what the big plan is looking forward for the risk management and insurance market as well as wider financial services

ADRIAN LADBURY (AL): Can you explain the role of the MFSA, why it was created and what are its core functions and goals?

JOE BANNISTER (JB): The MFSA was created by law in July 2002 and took over supervisory functions previously carried out by the Central Bank of Malta, the Malta Stock Exchange and the Malta Financial Services Centre. The Authority is an autonomous public institution and reports to Parliament on an annual basis.

The role of the MFSA is essentially as regulator for financial services. MFSA is the single regulator for credit institutions, financial and electronic money institutions, securities and investment services companies, regulated markets, insurance companies, pension schemes and trustees. It is also the Listing Authority and more recently the resolution authority for credit institutions.

The three main functions of the authority are to first, regulate, monitor and supervise all financial services activity, second, take care of the economic interests and protect the legitimate expectations of consumers and third, and importantly, to advise government on financial services matters.

This helps us to promote legislation, rules and directives and advise government about how to put them into action.

The Authority is independent in all regulatory matters and receives no budget from government. The MFSA is funded by fees paid by the regulated companies. Any surplus is passed to government.

The whole regulatory hub was created in 1994 based on a joint decision by the two main political parties to turn Malta into an international financial and trading centre.


The Malta International Business Authority (MIBA) evolved into the Malta Financial Services Centre (MFSC) before being converted in the MFSA, as single regulator and listing authority, eight years later.

It was clear in 1994 that the market would need an improved range and depth of professional services and so investment was made in the expansion of training for lawyers, accountants, business managers and the like.

The thinking in 2002 and even the 1994 legislation was based on the desire for the central bank to concentrate on monetary and economic policy and deliver a one stop shop for financial services, including regulation, that was independent from the central bank.

AL: What impact did joining the European Union have upon the Maltese financial sector?

JB: Malta became a member of the European Union in May 2004 and obviously this meant we had to grow and re-organise ourselves again. This was very important for Malta because it helped improve the profile and credibility of the island’s financial services sector.

It was a natural thing for us to become a part of the European family of nations as this was our rightful place. This led to our companies gaining passporthing rights and the ability to sell services across the European Union.

This new opportunity was added to existing advantages that Malta has such as English being the language of business and financial services, our adaptation of English public and administrative laws in our legal system and the fact that we have a strong, well-trained domestic legal profession. You do not see many foreign law firms here in Malta!

AL: When did you join the MFSA and what was the plan?

JB: I joined the MFSC as chairman in 1994 and held the post for three years. Before that I was chairman of Malta’s inward investment authority, the Malta Development Corporation. I rejoined as chairman of the MFSC in 1999.

When I rejoined in 1999 it was clear that the previous regime no longer fitted the purpose and we needed to consolidate financial services regulation. This led to the creation of the MFSA as a single financial services regulator in 2002 in preparation for our membership of the EU.

AL: How has the Maltese financial services industry fared in recent times in this highly competitive and still difficult global financial environment?

JB: We all have to be pleased with how we have performed particularly in recent times. Last year Malta stood out in Europe as one of the very few countries that experienced real growth, falling unemployment and stable public finances.

The year again saw Malta enter the global top 10 for the soundness of its banks and ranked in the top fifteen for its audit and reporting standards.

More positive news came with the International Monetary Fund (IMF) Article IV assessment that stated that
“Malta continues to host a relatively large financial sector without exposing itself to excessive risk”. This is very important.

Maintaining the stability of the financial system in Malta is one of the fundamental duties of care of the MFSA. It is a duty we share with the Central Bank and we are naturally pleased that our efforts have contributed to the stability Malta currently enjoys.

Economic and financial system stability breeds confidence and it is confidence that is at the heart of successful economies. Success breeds success. What we have done in Malta is develop a formula that underpins our success and gives us a solid platform for the future.

Our Maltese formula is this: European Union (EU) membership; local political consensus; high quality, well-trained people; a genuine welcome from Malta’s authorities and people; robust and flexible regulation and innovation to open up new opportunities for the finance industry and its clients.

**AL:** Innovation is an important word in today’s global and extremely fast-moving and competitive marketplace. What does innovation mean to you?

**JB:** This was something I focused on in our last annual report. As I said then, as a country we approach innovation in financial services in a steady, thoughtful, considered and measured way.

It is innovation that builds on a sound base of legislation, proven regulation, deep market and product knowledge and well-researched information that gives confidence to consumers, providers and regulators.

I believe the MFSA’s track record of innovation has helped the industry open up new markets, find more productive ways to use capital, widened the range of products available to retail and professional customers and stimulated competition in price, service delivery and product features and benefits.

**AL:** The MFSA has a good reputation as a regulator that is open and willing to talk. Why did you go down this route and is there a risk that this can make you seem too soft? How do you achieve a balance between promoting the island and ensuring that it is robustly regulated?

**JB:** We do not do marketing but we do explain to companies how we operate. We have an open door policy that we follow because we believe companies need to meet their regulator and vice versa. We are happy to attend briefing sessions to explain the technicalities of legislation and how we will apply it.

The Authority is encouraged to be proactive in this sense. This is not based on growth targets. The Maltese financial services sector has grown over the years and the MFSA with it but we have no targets. There is no policy of numbers.

Our key focus is to ensure that all licensed companies follow stringent rules particularly on due diligence, wherever they come from. No due diligence, no licence. We try to be as fast as possible but within reason. By and large I think we do a very good job.

**AL:** How did the insurance sector fit into the original plan? Why did you target this sector and has the strategy worked?

**JB:** The insurance sector was regulated by the Ministry of Finance and moved to the MFSC in 1994. We saw insurance as being a potential area of growth. Largely this sector was dominated by British insurers having Maltese companies, branches or agents.

It was clear to us that the foreign insurers would withdraw in time, which they have done, because the island was too small a market to justify a presence.

In our view we would therefore have a substantial number of skilled and trained people looking for positions. We had seven local companies operating in the Maltese market and so we then looked at how we could grow the sector beyond that.

We therefore changed the legislation and created a framework for captives. In 2004 as Malta joined the European Union we introduced...
the Companies Act (Cell Companies Carrying on Business of Insurance) Regulations in 2004.

This meant that it was now possible to create Protected Cell Companies (PCCs) as well as single parent captives that could underwrite business directly across the EU and European Economic Area under Freedom of Services. Malta is currently the only member state to have PCC legislation.

**AL: What kind of captives tend to be created in Malta? Where do you see the future growth in this market if at all?**

**JB:** Captives are not given any special benefits. They are treated like any other insurance company. All the major captive managers are on the island.

Companies can set up full-blown single parent captives that can also be adapted to underwrite third party risks. Or they can set up captives specifically to write third party risks. This is proving a popular route in Malta currently.

Vodafone, for example, is one of the largest companies here. It has two captives [one for its own employee benefits risks and another for third party warranty risks].

We were helped by our introduction of re-domiciliation legislation that is extremely important for insurance companies. If a company wants to transfer from offshore to onshore within the European Union then there is no need to go into run off, provide novation agreements and the like.

We currently have 10 captives and 11 Protected Cell Companies that host over 30 cells.

It is thought that the arrival of Solvency II will accelerate the demand for PCCs and securitisation structures in particular as smaller insurance companies seek to more efficiently manage their capital under the new capital adequacy regime.

We have updated the Companies Act, introduced reinsurance SPV legislation that enables the reinsurer to issue catastrophe bonds and Securitisation Cell Company legislation that enables insurers to issue bonds.

There is a lot of interest in this area and notifications of securitisation cells and in the near future we are hoping to see the creation of RSPVs.

This will be helped by our innovative introduction of regulations that permit protected cell companies for asset-back securitisations and insurance-linked securities [ILS] to list on the European Wholesale Securities Market (EWSM).

The EWSM is a joint venture between the stock exchanges of Malta and Ireland. It represents two of the EU’s smaller economies working together to create a new front rank institution.

Through this cross-border partnership Malta-registered Reinsurance Special Purpose Vehicles can list debt securities on the EWSM. Promoters benefit from speed, competitive pricing and familiar legislation and regulation.

**AL: Can you give me an example of how this would work in practice?**

**JB:** A European reinsurance company may set up an RSPV to transfer reinsurance portfolios into it and issue a bond against it. An insurance company may also not look to transfer books of business but may put their property into a cell and securitise it. Books of run off insurance could be insured through a cell.

We are taking the cell structure and concept to the hilt. It makes sense for the market because it is low cost, efficient and does not require too much capital. Each cell is licensed and is deemed as a company for taxation purposes.

**AL:** Is there a chance that the market could see Malta as the European centre of the Insurance-Linked Securities market just as Bermuda is for the US market if it continues to grow at the pace it is?

**JB:** Bermuda is the centre for this business for the US insurance market that has been active for some time now and European companies use Bermuda too. The European market is still small though expected to grow. We do have a vibrant and growing hedge fund market here in Malta and I do think we will see migration of this business into Europe and hopefully Malta will be a good option.

**AL:** What is the big plan for the Malta insurance and wider financial services industry over the next three years apart from securitisation?

**JB:** I am not one to look into the crystal ball. But I think we have been extremely innovative in insurance in recent times and created a really good and well regulated environment for the market. I think we will just have to wait and see and let it mature.

Openness helps to create innovative ideas, then we test them, put them into current legislation so that they are EU compliant and see where we go.

Outside of insurance the hedge fund market continues to grow fine and also pension funds business. We have also seen a growth in the electronic money market and we are now trying to stimulate more capital markets activity partly in expectation of the EU capital Markets Union (ECMU).

**AL:** What is the ECMU and how will Malta be involved and take advantage of this latest initiative?

**JB:** Consultation on the creation of the ECMU was launched by the EU Commission in February 2015 and it held a public hearing in June. The initiative has been described as an engine of growth for Europe.

The main aims of the ECMU are to knock away barriers that block or discourage cross-border trading in the financial marketplace, unlock underused capital and provide alternative sources of finance for the small business sector across the EU.

A key element will be the creation of a legislative and regulatory regime across the EU that gives people the same confidence in dealing with a business in another EU country as they have in their own domestic providers.

The EU's ambition to create the ECMU has been widely welcomed and we in Malta see it as one of the single most important initiatives the EU has ever promoted.

Among its many strengths is its potential to provide ordinary savers and investors across the EU with opportunities to invest in small and medium businesses throughout the EU. Not only will the EU open up a new era of competition and new products and services, it has the potential to strengthen the entire EU economy and create new jobs.

Many of the innovations Malta has introduced over the years will
fit comfortably into an ECMU structure. At the MFSA we will be responding to the ECMU consultation and have already begun to research and discuss the structures and regimes needed for Malta to take advantage of the ECMU as soon as its birth is announced.

**AL:** And finally, what about political risk? This was a hot topic during the Malta International Risk Conference this summer. Is Malta going to be adversely affected by the humanitarian crisis as it is not so far away from Libya for example?

**JB:** Malta is a member of the European Union. Libya is actually about 200 miles away and not as near as people think. It would be wrong to say everything is fine because it is not. It would also be wrong to say we are not exposed to political risk because it is everywhere currently. But we are a full member of the EU and are well connected to London, Zurich, Frankfurt, Paris, Brussels and Amsterdam.

Overall the Maltese economy is in good shape, one of the best in Europe with GDP growth of over 3% and a budget deficit of less than 3%. The national debt is slightly high but we had to collaborate in the bail-out of Greece, Cyprus, Portugal and Spain which was not easy for a small country.

The press point out that the financial services sector here is valued at 800% of GDP and look at us in the same way as Cyprus. But the reality is that most of the financial sector has nothing to do with the local economy.

The banking sector, which is part of the economy, is valued at about 250% of GDP and roughly the same as the rest of Europe. There is no exposure by the international banking sector to the local economy. But at the same time remember that it accounts for jobs, tax payments and the like. We should say that we face no more political risk than the rest of the EU member countries.

We have good reason to be confident, though we must remain realistic. The US and the UK appear to be on the road to sustained recovery and Asia remains buoyant, though the recent currency crisis in China is a worry for everyone.

It is too early to know the impact of recent measures to kick-start the European economies, but prospects for growth have been rekindled. There can be little doubt, though, that global growth would be stronger and the future more confident, were it not for the conflicts and tensions in a number of key regions.

Any new global economic instability may have its roots in the current geopolitical landscape, rather than in the world’s financial system. However these tensions have existed for some time and during the period Malta’s finance sector has grown. There will be many reasons for that.

Most certainly the stability of our financial services system, the strength of the national economy and the agility with which we respond to changing circumstances are prime among them.

**THE CHAIRMAN’S CV**

Joe V Bannister is chairman of the Malta Financial Services Authority, a position he has held since 1999. He also held the post of chairman of its predecessor the Malta Financial Services Centre between 1995 and 1997. From 1990 to 1994 he was chairman of Malta’s inward investment authority (Malta Development Corporation). After graduating in science from the Universities of Malta and Oxford (UK), he held positions at both universities and also at the Cranfield Institute of Technology (UK) and was pro-rector at the University of Malta from 2002 to 2006. He has served as chairman of Tri-Med Fund Management Limited (1998 to 1999) and Mid-Med Bank Overseas Limited (1999) (both subsidiaries of Mid-Med Bank Ltd).

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_Sources_:

Mid-Med Bank Ltd.

Mid-Med Bank Overseas Limited

Limited (1998 to 1999) and

Of Tri-Med Fund Management

2006. He has served as chairman

of the Malta Financial Services

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the post of chairman of its

predecessor the Malta Financial

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and 1997. From 1990 to 1994 he

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INSURANCE MARKET

ADRIAN LADBURY reports on the latest numbers for the Maltese insurance sector and finds that it is showing decent growth in an uncertain macro environment. PCCs, in particular, are helping to attract new European business.

Malta’s insurance industry continues to grow despite the ongoing financial problems in Europe and worldwide, soft European and international underwriting conditions, and a brake put on new captive formations because of uncertainty surrounding the introduction of Solvency II—Europe’s new capital adequacy and reporting regime—next year.

A combination of local and international market growth led to record levels of premium posted during 2014, in which companies wrote some €2.82bn in gross premiums—up from €2.58bn in 2013 and €2.31bn in 2012.

The decision by the Maltese government and MFSA to use Malta’s membership of the European Union and introduce user-friendly rules for PCCs, ICCs and now RSPVs to attract cross-border insurance business appears to have paid off.

Premiums for risks based outside Malta flew up from €1.2bn in 2010 to close to €2.5bn by the end of 2014. International insurance business now accounts for some 85% of the total gross written premium.

Local premiums also increased. In the non-life sector, gross written premiums for Maltese risks reached €110m in 2014, an increase of almost 3% when compared to 2013. In the long-term insurance sector, gross written premiums grew by 17.7%. This was mainly attributed to an increase in life insurance premiums on the back of a growing property market.

The MFSA states in its annual report that, at the end of 2014, there were 60 insurance undertakings that it authorised to carry on insurance and reinsurance activities under the Insurance Business Act.

In 2014, three new insurance undertakings were authorised by the authority. These were:
- A PCC—namely White Rock Insurance (Netherlands) PCC Limited. This Aon-owned PCC was authorised to carry on business of affiliated insurance and reinsurance in 17 classes of the general business.
- Liberty Global Insurance Company Limited was authorised to carry on business of insurance and reinsurance in relation to nine classes of the general business.
- QIC Europe Limited, a subsidiary of Qatar Insurance Company, was authorised to carry on business of insurance in nine classes of the general business.

In addition, GasanMamo Insurance Limited and SN SecureCorp Insurance Malta Limited had their licences extended to carry on business of insurance in additional classes of the general business. AarhusKarlshamn Insurance Malta Limited had the licence extended to carry on business of reinsurance in an additional class of the general business.

RCI Life Limited and HSBC Life Assurance (Malta) Limited had their licences extended to conduct business of reinsurance in additional classes of the long-term business.

Three insurance undertakings, namely Arnold Clark Life Insurance (Malta) Limited, Shield Insurance Company Limited and Setanta Insurance Company Limited, ceased to be authorised by the Authority.


There were 27 approved cells within 11 protected cell companies at the end of 2014. Totemic Cell 1 of Atlas Insurance PCC Limited ceased operations in 2014.

“...A combination of local and international market growth led to record levels of premium posted during 2014, in which companies wrote some €2.82bn in gross premiums—up from €2.58bn in 2013 and €2.31bn in 2012...”
The MFSA reports that the number of licensed insurance managers, insurance agents and insurance brokers remained unchanged in 2014 when compared with the previous year—at 15, 20 and 30 licences respectively.

In 2014, the Authority also extended the licence granted to Thomas Smith Insurance Agency Limited to act as insurance agent of GasanMamo Insurance Limited for one additional class of the general business.

MIB Insurance Agency Limited had its licence extended to act as insurance agent of Lloyd’s Syndicate SJC 2003—Catlin for home-building insurance business.

Argus Insurance Agencies Limited had its licence extended to act as insurance agent of Markel International Insurance Company Limited for one class of the general business and of Lloyds Syndicate CNP 444 (Canopius) for seven classes of the general business.

The Authority also granted approval for the creation of Oxford International Financial Management cell as a protected cell of a cell company. Jatco Insurance Brokers PCC Limited enrolled in the Brokers List to carry on insurance intermediaries’ activities.

In May 2015 the MFSA revealed that a licence had been issued to PSA Insurance Europe Limited, the insurance operation of the French car manufacturer Peugeot Citroen, to carry on business of insurance in three classes of the general business. A licence was also issued to PSA Life Insurance Europe Limited to carry on business of insurance in one class of the long-term business.

This reflects a seeming trend among European carmakers to relocate their captive business to Malta. It started with BMW, which moved its captive from Dublin to Malta, followed by Renault and then PSA Peugeot Citroën. Volkswagen is also in Malta.

The car firms join other big European corporations such as Vodafone and RWE, which have also set up shop in Valletta.

Also this year a licence was issued to Standard Re (Malta) Limited to carry on business of reinsurance in two classes of the general business.

The Atlas Group grew out of the Maltese shipping industry in the 1920s. The first big step towards its modern form came in the 1990s when four local agencies merged. Atlas became a fully fledged local insurance company, as opposed to an agency for an overseas insurer, just after Malta’s accession to the European Union (EU) in 2004. In 2006, Atlas Insurance restructured to become a protected cell company, after the introduction of the PCC regulations under the Maltese Companies Act. It said that the restructure would attract foreign investments and facilitate Atlas’ entry into international markets by enabling captive insurance companies to set up in Malta.

Atlas Insurance PCC Limited was the first authorised PCC in Malta, which provides a direct writing facility into Europe avoiding fronting arrangements. A cell in Atlas may be managed by a management company or by Atlas itself.

“Our cell facility is suitable for small or medium-sized entities and members of trade, industry or professional bodies wishing to insure their own risks and small or medium-sized non-affiliated insurance operations. Large multinational companies may also find the facilities attractive for insuring operating units separately within different cells,” explains Atlas.

One example of how cells can be used came in 2011 when the captive practice of Willis and Atlas Insurance PCC announced that they had become the first in the insurance industry to use PCC technology to underwrite UK statutory motor liability from Malta. The cell was designed to cover the entire UK fleet liability of leading online supermarket Ocado.

Ocado Limited established the Ocado Cell within Atlas PCC, where it is managed by Willis Management (Malta) Limited and is licensed to write motor and general liability risks.

The protected cell solution affords clients the opportunity to access the highest quality EU regulatory environment, within a structure that combines a greater level of risk management control at reduced capital and operational costs than were historically available, explained Atlas and Willis at the time.
MANAGERS LOOK TO EUROPE, SOLVENCY II AND CELLS AS SOURCE OF NEW GROWTH

CONTINENTAL EUROPEAN and cell business will be the main source of new captive business for Malta rather than the traditional single-parent captives with parents based in the UK, according to market experts on the island.

Ian Edward Stafrace, Chief Risk Officer of Atlas Insurance PCC and new President of the Malta Association of Risk Managers (Marm) sees a lot of interest from mainland Europe currently and in particular in its cell structure and ability to underwrite third-party business across the European Union (EU).

Big European companies that want to sell insurance products to their customers in the form of warranties and the like find the cell option particularly appealing, says Mr Stafrace and other local insurance market experts.

“We are getting much more interest from Europe. In December we had the launch of a cell that was the conversion of a Swiss captive to a cell, which bodes well for the new environment under Solvency II. Cells are the way forward because they make more efficient use of capital and costs. Now is the time to prove it,” explains Mr Stafrace.

One big advantage is that if the PCC creates the correct processes and procedures for compliance with the Solvency II risk management and reporting requirements and it is approved by the MFSA, then the cells automatically benefit, unlike standalone captives that need to build all the structures ground up.

“We have been through the interim measures and are compliant with key elements, including the Pillar III reporting requirements, and we are seeing it work in practice. Solvency II is now business as usual. All the governance has been done and approved and the ORSA has been done so now cells can focus more on the business side. It simplifies it for the customer,” says Mr Stafrace.

“We have the audit, risk and compliance functions up and running and this means that the individual cells can plug into the ready-made platform. It is all very efficient and is now happening,” he adds.

Mr Stafrace says that, traditionally, enquiries had come from UK-based companies but now they are coming from the Netherlands, Austria, Italy, Poland and so on. He says there is now a much greater awareness of the PCC concept and what it has to offer. Critically, European companies are also looking to remain onshore, within the EU, which is good news for Malta.

The risk officer points out that there is talk of Luxembourg introducing PCC rules but this should be seen as a positive thing not a negative.

“When news broke of Luxembourg considering becoming a PCC domicile, we like to see this as an opportunity because that will further increase awareness of the PCC concept. Luxembourg traditionally focuses on reinsurer entities whereas Malta has more experience with direct writing third-party structures that avoid the need for a fronting company in Europe,” explains Mr Stafrace.

The uncertainty over Solvency II and how captives would be treated has certainly dampened interest in the market in recent years. But as we near the launch of the new capital adequacy and reporting regime in January, things are picking up again, says Mr Stafrace.

“There was a lot of uncertainty over Solvency II and offshore jurisdictions took advantage of that. Also the soft market did not help and all these factors combined to bring the market to a halt. But now we are seeing a number of PCCs setting up to host cells. Most recently, German run-off company DARAG set up in Malta. There are now 27 cells in Malta. Atlas has six licensed cells, an approval letter for one more and an application with the MFSA for another. We are in advanced stages of preparing applications for two more. So we should have at least two new ones by the end of the year and both will be continental Europe-based,” he says.

Karl DeGiovanni, Deputy General Manager at Aon Global Risk Consulting in Malta, agrees that the future for Malta is diverse and non-traditional.

“According to Aon’s Global Risk Management Survey, the captive market continues to see steady growth both in captive formations and the expansion of existing captive insurance entities across developed and emerging markets. Our data shows that in the next three years companies planning to create a new captive or PCC are mainly coming from the pharmaceutical, construction and natural resources industries. In Malta, we are seeing alternative structures being considered including PCCs, SPVs, insurance-linked securities and similar self-insurance vehicles to mitigate risk,” he says.

Huge potential

David Galea, Vice-President at Marsh Management Services Malta, agrees that business is picking up and it is often related to Solvency II and the efficiency of the cell structure from a capital and reporting perspective. He says he sees “huge potential” in the PCC market.

“We have seen interest from clients interested in coming to us and taking advantage of our experience in Solvency II. This year we have had two new set ups as cells and we are likely to add another on the back of Solvency II work,” he says.

Mr Galea also says he is seeing interest from companies in other regions of the world that are keen to access the European market via Malta.

“We are starting to see companies from different regions wanting to penetrate the European market. For companies in the UAE, for example, we have an advantage because we have something of a blend of southern Europe and north Africa geographically, linguistically and culturally. At the same time we follow the English legal and business system. We follow the UK corporate governance code for example. It is an
attractive mix,” he says.

Julian Boffa, General Manager at FirstUnited, the insurance management firm, definitely sees an evolution in the market away from the traditional captive model to a more mixed and diverse model.

“This is becoming a very mixed market. It is not really a traditional captive market, it is more of an opportunities market. It started as a captive market but from the enquiries we see and other projects that are set up, the vision seems to be how are we going to use the options that Malta has to offer to break into a new line of business rather than set up a pure captive writing the company’s own programme. This could be associations looking for new members or companies that offer products to their customers such as Vodafone here in Malta. Other jurisdictions focused on the pure captive model and this has inevitably led Malta to have an edge on the PCC, ICC and now RSPV models,” explains Mr Boffa.

Aon’s Karl DeGiovanni believes that Malta’s future as an insurance centre lies with the rise of alternative structures such as RSPVs and captives expanding their programme to cover emerging risks such as cyber liability, employee benefits and trade credit.

“In recent years we have seen numerous developments in the industry that have challenged the traditional side of the insurance sector. The insurance industry traditionally does not like change but it is happening. Given that there is a lack of appropriate or adequate capacity in the commercial marketplace to cover emerging risks, clients are turning to captives, and other risk retention vehicles, as a strategic risk management tool,” he said.

Mr DeGiovanni said that risks such as cyber risk, damage to brand and reputation, legislative and regulatory change and the failure to attract and retain talent have the potential to damage companies and it is difficult to find traditional, off the shelf, insurance solutions for such risks.

He pointed out that Aon’s 2015 Global Risk Management Survey found that seven out of the top 10 risks identified by risk managers, such as those mentioned above, are not traditional insurable risks.

“We are looking at very different risk scenarios today. We have had the global financial crisis, rising levels of terrorism, data breaches, military conflicts and other political unrest. This has changed the risk environment where risks can no longer be considered in isolation—risks have now become interconnected—e.g. a cyber breach in Europe can have an impact on the same company’s operations in another part of the world whilst affecting its brand and reputation,” he explained.

“There is a lot of opportunity here for the insurance market. As insurance consultants, we need to continue guiding our clients to mitigate these risks in an effective way. This is an exciting time,” continued Mr DeGiovanni.

This is why it is so important that the MFSA has been on the front foot in recent times to provide the market and its clients with a full range of options that can be used to mitigate and transfer these risks, said the consultant.

“Where I see additional growth in coming years is through structures used to mitigate emerging risks. It could be via a cell, a PCC, ILS, RSPV or a pure captive. There are so many vehicles that one can use, the possibilities are endless and of course the fact that Malta is onshore means that the business can be underwritten across Europe and reinsured into Malta without the need for additional fronting structures,” said Mr DeGiovanni.

“According to Aon’s Global Risk Management Survey, the captive market continues to see steady growth both in captive formations and the expansion of existing captive insurance entities across developed and emerging markets. Our data shows that in the next three years companies planning to create a new captive or PCC are mainly coming from the pharmaceutical, construction and natural resources industries...”
WHITE ROCK, A GROUP OF insurance and reinsurance vehicles with operations in key domiciles including Bermuda, Gibraltar, Guernsey and Luxembourg and owned by Aon, redomiciled White Rock Insurance (Europe) PCC Ltd (White Rock Europe) to Malta from Gibraltar in 2011. The White Rock companies offer clients a suite of insurance solutions through utilisation of protected cell, segregated account and rent-a-captive facilities. White Rock then had two licensed PCCs in Gibraltar—White Rock Insurance (Gibraltar) PCC Ltd and White Rock Insurance (Europe) PCC Ltd.

“While similar to Gibraltar in terms of access into the EU, Malta will prove attractive to existing and new clients due to its low net tax costs and comprehensive network of double taxation treaties,” Aon said at the time of the transfer to Malta. White Rock Europe was originally formed in June 2005 in response to a specific need by clients for a PCC that was not a member of the terrorism pools in the EU.

The company today has six active cells that write annual premiums in excess of €30m with gross assets of more than €47m. White Rock Netherlands was authorised last year by the MFSA.

It offers protected cell facilities typically for small and medium-sized companies where there are cost efficiencies compared to a standalone captive, or larger organisations that want to reduce the management time and administration associated with captive ownership, explains the broker.

Aon explains that White Rock Netherlands would assist clients who need licensed insurance in the European Economic Area (EEA) to access reinsurance markets or captives.

White Rock Netherlands can write all non-life classes of business, except for compulsory classes, within the EEA under freedom of services and can also issue non-admitted insurance cover in territories where it is permissible to do so.

White Rock Netherlands also offers ‘rump warehousing’ solutions. For example, a captive owner may decide to exit the market but may not find acceptable market terms to do so for all of the risks that it has underwritten.

In such a case the captive owner is forced to maintain the entity, incurring the cost and management time required until underlying market conditions change.

“This can be avoided where the reserve block in question can be transferred to a cell. In this case, all insurance-related reserves can be removed from the captive’s balance sheet and the company can be closed,” explains Aon.

For Dutch companies, White Rock Netherlands typically offers lower capital requirements than a fully owned (re)insurance (captive) solution, it explained. It also offers local servicing from the Netherlands, a neutral fiscal treatment and full outsourcing of operational, supervisory and administrative activities.

It is also Solvency II compliant.
ArgoGlobal SE is the European insurance platform of Argo Group.

A.M. Best Rating: ‘A’ (Excellent) – stable outlook

Regulated and supervised by the Maltese regulatory body (MFSA)

Licensed in FOS in EU-28 and FOE in France and Switzerland

IPT settlement for the ArgoGlobal Share, on behalf of policyholders domiciled in EU-28 or Switzerland

Maximum Capacity: EUR25M / USD25M / CHF25M / GBP17.5M Per Class

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JATCO BUILDING ITS CELL BUSINESS

IN SEPTEMBER 2013 MALTA-based Jatco Insurance Brokers PCC Limited announced that it had been granted a licence to operate as an intermediary PCC.

“In line with the company philosophy of always being at the forefront of the changing insurance scenario and of the company’s involvement in the wider international spectrum the directors felt that converting to a PCC was the natural process in this development,” stated the company.

Jatco said that with the new structure the company would be able to offer its international clients the following advantages from Malta:

■ Ability to intermediate policies directly into the European Union (EU) and European Economic Area;
■ Regulation to EU standards;
■ Access to the insurance, legal and accounting expertise available within Malta’s highly trained professional workforce;
■ Tax efficiency plus Malta’s double taxation tax treaties with more than 60 countries.

The next move was the creation of an alliance with Lex Risk Solutions and the subsequent formation of Lex Risk Solutions CELL, a segregated portfolio company operating as a protected cell of Jatco.

Lex Risk Solutions is a risk management and insurance consulting firm based in London, Dublin and now Malta. On the corporate side, Lex offers forensic auditing of insurance contracts and risk portfolios that are held by corporations and other large commercial enterprises.

Lex Risk Solutions CELL was the first insurance broking protected cell structure to be approved by the MFSA.

Jatco explains: “Lex Risk Solutions CELL utilises the complementary benefits of Jatco’s network, which in turn allows Lex to both broaden its operations and offer its existing clients an increased diversity of cost options within the global insurance marketplace and its most highly rated underwriters.”

Jatco’s second protected cell to be licensed was Oxford International Financial Management Cell.

This Cell was licensed in January 2014 by the MFSA as a protected cell of Jatco Insurance Brokers PCC.

This Cell is owned by Oxford International Financial Holdings, which is managed by Matthew D’Emanuele.

The cell was created to provide insurance broking and risk management services in both life and general insurance lines of business to companies and expatriate individuals operating in Malta and in the EU.

“The principle strategy of the cell is to leverage on the benefits provided by the broker PCC structure in order to provide a more cost-effective service to clients. This is supplemented with the added benefit of passporting throughout the EU member states,” explains Jatco.

And this year, the MFSA approved the creation of Northern Light Insurance Cell as the third cell of Jatco Insurance Brokers PCC.

Northern Light Insurance Cell was launched to offer clients a choice of life insurance products that will be available in both the Maltese and European markets. The cell focuses primarily on high net worth individuals.

The Cell offers its customers life insurance cover in the form of a ‘Portfolio Bond’.

The Portfolio Bond is a unit-linked, whole-of-life insurance policy that provides a straightforward and effective way to hold a wide choice of investments in one manageable portfolio structure, explains Jatco.

The assets of the Portfolio Bond are held within a fund that is linked to an international insurance policy owned by the client. “The Portfolio Bond is designed to provide the flexibility and diversity required which enables the client and professional adviser to construct a Portfolio Bond that meets specific financial needs without restricting asset selection,” explains Jatco.

“Lex Risk Solutions CELL utilises the complementary benefits of Jatco's network, which in turn allows Lex to both broaden its operations and offer its existing clients an increased diversity of cost options within the global insurance marketplace and its most highly rated underwriters…”
EARLIER THIS YEAR THE MFSA approved a licence for DARAG Malta Insurance and Reinsurance PCC Limited to carry on the business of insurance and reinsurance in 13 classes of the general business.

DARAG Deutsche Versicherungs- und Rückversicherungs-AG is the first German insurance company specialised in taking over the discontinued business, so-called run-off, of direct insurers and reinsurers into its own account.

The company says that its goal is to relieve insurers from the future risks associated with inactive business. “In doing so, we offer a reliable and efficient instrument for adjusting their balance sheet, reducing operational overheads and enabling our clients to focus on their core business,” states DARAG.

It is thought that the arrival of Solvency II next year will provide the European run-off market with a significant boost. This is because smaller insurers in particular will seek cost-effective ways of offloading business that is not core and capital intensive under the new capital adequacy rules.

Germany and France in particular have a large number of small and medium-sized regional insurers that could well be looking at this option right now. The German company announced in August that it had hired well-known Maltese insurance executive Joanna Aquilina as CEO at DARAG. Ms Aquilina previously served as Director and Deputy General Manager for Aon in Malta.

"Joanna Aquilina has considerable experience in building and developing Protected Cells, a unique concept in the EU so far. With the PCC, we will significantly increase the value of run-off transactions for our clients," says Arndt Gossmann, Head of DARAG Group and CEO of the German insurer.

"A few months before Solvency II comes into full effect, the market potential of run-off is rapidly growing. We anticipate that the total volume of all transactions—which came to €1.7bn in 2014—will more than double in 2015," adds Mr Grossmann.
ARGO PLANS FURTHER EXPANSION FROM ITS MALTA ‘BEACHHEAD’

Argo Group is a Bermuda-based international insurance group that last year generated some $1.9bn in gross premiums from operations in the US, Europe, Middle East and Asia. About one third of the group’s business is generated by its Lloyd’s-based Syndicate 1200 including continental European business. But to help build its European business Argo also set up as a Societas Europeas (SE) in Malta (in 2011), to underwrite and service continental professional lines business that is not presented to the London or Lloyd’s markets. In July 2013, ArgoGlobal SE also set up a branch office in Zurich to further extend its reach. Tony Cabot, Chief Executive Officer of the Malta-based operation, told Adrian Ladbury why Argo chose Malta as its base and what the strategy is for continued growth in this highly competitive corporate insurance market.

ADRIAN LADBURY (AL): Why did Argo set up ArgoGlobal SE in the first place when you can underwrite business across Europe through your London operation?

Tony Cabot (TC): We needed to be close to our customers. More and more of the companies and brokers we dealt with were raising questions about service and support in the European Union (EU) so we decided to heed their call. By getting closer to the customer you are able to better read the needs of the risks managers. They are able to properly explain their business and needs and it makes it easier to prevent something from happening in the first place. It is so much better to be on the ground in Europe as customers want to see you present not just in London. The second big factor is language. We have French, Spanish, Italian, Dutch, German, Polish and Russian speakers in the team. The ability to communicate in the customer’s language is a skill that is really difficult to replace and really appreciated by the risk manager.

AL: Why did Argo choose Malta as the domicile for the ArgoGlobal business? Why not a more established European insurance hub such as London or Zurich?

TC: There is a combination of reasons for this choice. There are many good domiciles in the EU but we found Malta and the MFSA to be best suited to our contained approach to entering continental European markets. Similar perspectives, attention to detail and growing the business, strong regulatory regime without an overly bureaucratic approach and good relationships with all other EU regulators led us to believe that Malta would be the best fit for an EU start-up like ArgoGlobal. We also have underwriters in Paris and Zurich. You can travel from one end of Europe to the other in four to five hours and, as an SE, it is really a good way to approach the business because you can save a huge amount of expenses. In the past you had to have offices everywhere but now you can sit around a table with the client in a matter of hours if you are based in three to four strategic centres to underwrite across the 28 EU member states.

AL: What was the plan and how has it fared since creation?

TC: The plan was to establish a ‘beachhead’ in the EU and Switzerland with a focus on professional lines—a small, highly qualified team to respond to the professional lines requirements of our customers and open new markets. By business lines we offer D&O, E&O, crime, IPO coverage and employees practices, which all fall under the umbrella of professional lines nowadays. This focused approach really enables us to bring all the resources to bear.

AL: You sit alongside the Argo Global London operation that underwrites about one third of the group premium through Syndicate 1200 at Lloyd’s. This operation offers the full range of casualty products so how do you determine which risks go to London and which come to Malta?

TC: It is not often that the same account will be presented in London and Germany at the same time so we really operate a simple ‘first come, first served’ approach. Really the decision is the customers. If the customer wants Lloyd’s paper but the risk comes to us first that is not a problem. Consistency of approach and service across the group is also very important to us. Remember that we also have our significant presence in the US market, Dubai and an Asian business based in Lloyd’s Singapore. We have a global underwriting committee that ensures that we apply the same Argo standards. This works very well. In some cases the capacity can be contributed by more than one group operation. The group could contribute $10m, London $5m and Europe $5m. Or the customer may ask specifically for an S&P rating that is more recognised in Europe than AM Best and this could bring London to the table.

AL: What products and services does ArgoGlobal offer that differentiate it from the rest of the Argo group?

TC: As mentioned above we started our business with a narrow and disciplined focus. We understood that the time and capital required to build a multi-line business in the EU is significant. We felt that a focused approach to establish the brand, the high quality products, the innovative approach and the strategic placement of our small but qualified team would allow us to provide good professional liability products and top quality service to our clients and brokers. Staying agile in this highly competitive market allows us to organise our resources in the way best suited to
our customer’s needs for professional liability products: delivered how, when and where they want them.

**AL:** Who are your key target customers and in which markets?

**TC:** We look at the market in three layers and have built our capabilities to service each one based on its unique requirements. The SME market calls for highly digitalised but personalised solutions. The middle market requires a combination of strong business relationships augmented by a digital exchange of information. We provide the large corporates with a risk-managed ‘roundtable’ approach to underwriting, in conjunction with our drive to simplify and speed the time to complete the transaction.

**AL:** How has the business performed since creation?

**TC:** The business has performed well. We are a small team covering a huge market with a myriad of needs both from a business perspective and a cultural perspective. Each one of our underwriters has multi-lingual capabilities and work experience in multiple countries. This allows us to respond with a local approach while applying the highest global standards to our products and services.

**AL:** What volume of premium do you write through your Malta and Zurich bases?

**TC:** We are growing our business and professional lines will continue to be a core focus for the future. Our team is led by Magnus Heimann, Head Professional LinesAMEurope, and Steve McGill will be joining Argo Group as CUO of professional lines in September. Under the direction of our Global CUO we continue to invest in ArgoGlobal SE. We recently hired Gabriel Rodrigues to lead the French team.

**AL:** What are the main opportunities for the professional lines business in Europe?

**TC:** The opportunities are across the three layers of the market with an eye on geographic opportunities. We have developed a good following in central and eastern Europe and believe there will be some interesting opportunities for growth in the SME markets there. We have seen opportunities in the more mature EU economies and will continue to focus our energy in helping our broker partners provide state-of-the-art solutions to their customers there. We are looking to expand our product offerings and are continually refreshing our products to respond to the changing business environments that we work in.

**AL:** Where do you see the growth and more challenging markets?

**TC:** I must say that all markets have their challenges but this does not deter us from trying new and innovative approaches to product or service. It is the customer that dictates what they need in order to grow their businesses. At all segments of the market we are finding well-informed customers and brokers. They understand that you need to be agile in order to give the customer what they want. We have established new teams within Argo to help us deliver on our service promise: the New Digital Ventures and Data Analytics teams and the Software Squad. These three teams will help our underwriting and administrative functions to continually improve their ability to deliver on our promise to our customers and brokers.

**AL:** How can you grow the business in such a challenging corporate insurance market?

**TC:** By listening to our clients and partnering with smart people wherever and whoever they are. We need to look inside but equally we need to look outside for the innovations that will keep us ahead of the competition while delivering products that truly reflect the customers’ business needs. There are many innovations taking place outside of the insurance sector that could bring enormous value to the design and delivery of important coverages.

**AL:** What examples of true innovation can you give that Argo has delivered for risk managers in recent times?

**TC:** We just launched an end-to-end on-line broker portal for D&O in Germany. We have partnered with an important broker network in Italy for PI distributed through a combination of online underwriting and automatic policy production. We have partnered with affinity groups and major brokers to develop bespoke products for their members. While these innovations are not specifically directed to the risk manager, today, these are the proving grounds for digitally enhanced solutions that will soon be in the risk manager’s toolkit. We have initiated discussions with risk managers that are looking to help their own marketing people deliver added value to their own clients through a combination of product and service added to their products.

**AL:** What do you regard as the main risks and opportunities for the Maltese economy, financial services industry and insurance market looking forward?

**TC:** Malta is a small country with a modest economy but an important role to play in the EU. I think its strong but fair regulatory approach and business savvy will continue to attract businesses such as ArgoGlobal.
MALTESE INSURANCE MARKET SOLVENCY II READY

Compliance with Solvency II will be critical for the island’s insurance community to maintain growth. A spokesperson for MFSA told ADRIAN LADBURY that the market is on target for the launch next year.

Solvency II, Europe’s new capital adequacy and reporting regime for the insurance sector, will finally come into force in January 2016.

Malta is proud to be a member of the European Union and an active member of the pan-European insurance and pensions supervisory body EIOPA. It also prides itself on the speed and accuracy with which it transposes European Directives into national legislation.

One of the main reasons why Malta is attractive to international insurance companies and why corporations such as Vodafone, BMW and Renault chose to domicile their third party writing captives in Malta is the ability to underwrite business across the European Union from this cost efficient base.

This is also the reason why it is hoped that the recently introduced RSVP legislation will attract investors and further insurers and reinsurers to the island to set up securitisation vehicles that can carry pan-European risks, not least to provide capital relief for smaller European insurers under the new regime.

But this will only work if Malta is on top of Solvency II and its market ensures that it is Solvency II compliant in time for launch day.

The big question for the MFSA was naturally therefore: Is Malta ready for Solvency II? The MFSA believes it is.

“It can be said that in general the Maltese insurance market is ready for Solvency II. It is fair to say that there are undertakings which are more advanced than others in their preparedness for Solvency II,” the spokesperson said.

In order to make sure that the island’s insurance community is ready for the big day, the MFSA has been engaging with licence holders by way of on-site visits and meetings with the directors and senior management of Maltese licensed insurance and reinsurance undertakings, explained the spokesperson.

“In particular during the course of these last two years the MFSA has been assessing the measures taken by undertakings, including steps being taken and the progress being made by the undertakings, towards the implementation of the relevant aspects of the regulatory framework addressed by the EIOPA Guidelines on the System of Governance, the Guidelines on the Forward Looking Assessment of Own Risks and the Guidelines on the Submission of Information to National Competent Authorities which are applicable from January 2014,” continued the MFSA spokesperson.

The MFSA has held several one to one workshops with regulated insurance entities to address specific areas of the Solvency II regime which are proving “more challenging for the entities concerned”, explained the regulator.

The MFSA has also issued a number of papers and circulars by way of guidance for the Maltese insurance market. It has also set up a helpdesk within the Insurance and Pensions Supervision Unit to reply to queries on Solvency II, added the spokesperson.

Solvency II was never intended to be a detailed rules-based system that states exactly how companies should manage their risk. It is rather a principles based system that is intended to ensure that insurance companies actually work out how to best identify, measure, manage and transfer their risks and seek approval from the supervisor for the way it has done so.

The spokesman said that, based on feedback from the market that the supervisors at MFSA have received, this is working.

“Solvency II is being considered as an opportunity for the undertakings to review business models; assess current board compositions to see whether the current board members collectively have the competence and/or experience to ensure that the undertaking will meet the requirements of Solvency II on an on-going basis; to review and/or formalise governance structures, board policies etc; to review existing risk registers, to review and assess the effectiveness of internal processes and procedures to determine whether these can meet the demands of Solvency II,” the spokesperson said.

The most challenging areas of Solvency II, in particular, for the smaller undertakings seem to be the Pillar III reporting requirements because of the ‘granularity’ of the data requested in the Quarterly Reporting Templates (QRT), said the spokesperson.

Another challenge is of course the costs involved in meeting the requirements of the Solvency II Pillar II and Pillar III obligations because a number of undertakings have had to appoint third party service providers to carry out some of the key functions identified under Solvency II or appointed consultants to assist them in their preparatory work, explained the spokesperson.

Market participants definitely think the island is ready for Solvency II and that the fact that the MFSA got moving early to prepare for it will actually prove to be a competitive advantage.

David Galea, Vice President at Marsh Management Services Malta, said: “We decided that either you could wait and see and go with the flow or be the ones who tried to formulate
an approach. Three to four years ago we started drafting an approach and worked in collaboration with the MFSA and EIOPA. As a domicile we have been far from laid back compared with other domiciles. For Solvency II we wanted to be at the forefront and said that rather than whining about it we would find solutions for our clients so we fueled momentum in getting our clients up to speed with Solvency II.”

Julian Boffa, General Manager at FirstUnited Insurance Management, said that in some ways the MFSA is keen to be viewed as a top notch regulator. “I think the regulator has a reputation for being stringent and this is one of Malta’s strong points. The approach is to ensure that companies are here for the long term rather than the short term, going bust and leaving a trail of problems behind them” he said. “It is however important for regulators to have a more common approach and interpretation of rules at an EU level, otherwise some jurisdictions might have a competitive advantage over others from slightly different rule interpretations. We have seen in the past that certain countries might have taken a more flexible approach to certain regulations such as, IMD for example, in order to protect their market. It is important that there is not a repeat with Solvency II,” continued Mr. Boffa.

He said that, in his view, there is a real need for the European insurance industry not to allow itself to be caught up in all the regulatory issues and forget to do what is important: that is, doing business, launching products and dealing with customers. “One of the main competitive advantages Malta has always enjoyed over other jurisdictions, with clearly the MFSA’s efforts, was speed. Speed at going through the application process, getting the licence and most importantly getting down to business. Speed has cost implications and this is fundamental for anyone interested in opening up shop in Malta. It is therefore important for both our regulator and the local insurance managers not to lose this speed factor and to work together to make matters even faster. This will keep Malta at the front of the pack and all the elements are in place for this to happen. Malta has a bright future ahead of us,” concluded Mr. Boffa.

CULTURE AND PEOPLE KEY TO RISK MANAGEMENT: VAN HULLE

Regulators and formulas do not manage risk but rather people and firmly entrenched risk cultures that have the backing from top management, Karel van Hulle, former head of pensions and insurance at the European Commission and the ‘father’ of Solvency II, told delegates at the Malta International Risk Congress 2015. ADRIAN LADBURY reports

IT IS VERY IMPORTANT THAT risk management is part of the culture of the organisation and tone has to come from the top. If it is not perceived as coming from the top it will not work. The role of the CRO is very important and where they sit and what reporting lines are used is very, very important,” he told delegates during his keynote speech at the event, organised by Commercial Risk Europe in partnership with the Malta Financial Services Authority (MFSA).

It is also critical for organisations and their management to understand that risk cannot be “regulated away”, it has to be actively managed within the regulatory framework, said Mr Van Hulle, now professor at the university of Leuven in Belgium and the International Center for Insurance Regulation at Goethe University in Frankfurt.

“Risk cannot be managed through regulation alone. Do not expect your regulator to do your job. Good risk management is the underlying objective of all the reforms in the last few years but businesses need to manage their own risks,” he said.

Business leaders and managers have to understand that formulas do not manage risk, they are simply tools used to help in the process of risk management, warned Mr Van Hulle at the event that was sponsored by Aon, ArgoGlobal SE, Allied World, Atlas Insurance and Royal London.

“People can be blinded by formulas,” he said. “Some people seem to think that if risk is captured in a formula then it is under control. It is not. Risks do not get taken away by formulas. The more you go into the origins of formulas the clearer this becomes. The quantification of something is very fluid,” said Mr Van Hulle.

Despite his central role in the creation of Solvency II, Europe’s new capital adequacy and reporting framework for the insurance industry, Mr Van Hulle was crystal clear that regulation is part of, but no replacement for, effective risk management.

“Regulation usually comes the morning after. In booming times, regulators are criticised when they come up with projects to regulate exaggerated ‘risk-taking’,” he said. “Capture of risks in a formula (standard or internal) carries the risk that people are “blinded” by the formula. The predictive value of risk models is more and more questioned. Risks cannot be controlled through regulation,” stated Mr Van Hulle.

The regulation expert asked if capital is the answer and clearly concluded again it is part, but by no means all, of the answer.

He then asked if supervision provides the answer and again stressed that there are no “magic wand” solutions in this imperfect world. “Are supervisors capable of supervising a global, highly complex financial services sector? Do supervisors have adequate resources? Can supervisors operate in a principles-based regulatory environment? Can supervisors digest the massive amount of data submitted to them?” he asked.

Taking a more macro perspective, Mr Van Hulle also wondered whether the regulatory action in response to the financial crisis would actually achieve the goals of those that demanded reform.

He said that a great deal of importance, for example, had been attached to group supervision but he does not underestimate the challenge of actually making this work in practice.

Another nagging problem that has yet to be fully addressed is that of procyclicality by which the models effectively force the market to move in one direction at just the moment when
counter-cyclical action is needed, thus deepening a crisis. "Is the VaR (value at risk) approach by itself creating procyclicality? Does market consistent valuation lead to procyclicality?" asked Mr Van Hulle.

The financial crisis also laid bare the risk of regulatory failure itself. Discussion since the crisis of 2008 has focused on "financial repression", by which governments hold interest rates artificially low in order to try and repay their debt, and "regulatory capture", where a regulator created to act in the public interest instead advances the concerns of the industry or sector it is charged with monitoring.

Mr Van Hulle also pointed to the problem of the “regulatory cycle” which can lead to “too little, too much, too late”.

He pointed out that reform will often only come after a crisis or scandal and then can lead to the risk of regulatory “overshooting”.

Moreover, the wider economic cycle inevitably persuades business to demand less regulation whether during boom or bust.

Regulators come under pressure in boom times because people do not want to “kill the goose that lays the golden eggs!” said Mr Van Hulle.

At times of slower growth there is obviously demand for less regulation to help enable economic recovery, he said.

Financial repression is very much a current topic in Europe as the European Central Bank continues to pursue its low interest rate policy in order to try and kick-start recovery.

Mr Van Hulle said examples of financial repression are the low interest rate environment, quantitative easing and zero capital charge for investment in government bonds, despite their obvious riskiness in the current sovereign bond environment.

The key question for Mr Van Hulle is how to overcome this regulatory capture.

First, better regulation is needed that involves cost-benefit analysis, public consultation, proportionality, transparency, enforcement, monitoring, public oversight and periodical review.

Second, stronger supervisory authorities, the bodies that actually make sure the regulations are implemented, are needed.

Mr Van Hulle said that these bodies need to be sufficiently independent of government as well as the regulated industry and be clear about the way they intend to “give effect” to their legal mandate.

Mr Van Hulle also said that the supervisor must act as it says it will act. Empty threats will backfire with regulated companies just as they do with children, he said.

The supervisor must also be staffed with people that have the appropriate mix of personal “character and experience”, he continued. It must be adequately funded and staff must be rotated, he added.

On the risk of collective intellectual failure, Mr Van Hulle said that the prevailing philosophy of supervision was represented by a statement in the Turner report that was published by the UK government on the causes of the financial crisis.

It stated that many people argue that in theory: “Market forces and market disciplines keep both the economy and individual regulated firms broadly on track and the senior management and boards of regulated firms have a strong and long-term interest in firms performing well.”

This of course does not work perfectly in practice. “We believe that markets are efficient and we have ‘homo economicus’ but unfortunately that is not the case,” said Mr Van Hulle.

Possible remedies according to Mr Van Hulle are that:
Society needs to decide what it wants the financial sector to look like and ditch the “false debate” about the choice between financial stability and economic growth.

More attention needs to be paid to macro-prudential oversight.

Market participants and policymakers need to recognise that not all risks can be anticipated and that resilience needs to be built to cope with risks once they do materialise, so-called recovery and resolution plans.

At this point Mr Van Hulle went further on how important it is to recognise the limits of quantification and the importance of active enterprise-wide risk management.

He pointed out that there is a welcome increased importance attached to governance including board responsibility and a shift from implicit to explicit governance.

Then he stressed again the need for clarification of the risk management function, embedded risk culture and tone from the top.

Mr Van Hulle said that it is important to properly and clearly define the organisation’s risk appetite and appreciate the important role that needs to be played by the CRO.

Remuneration policy needs to be part of the debate. “Remuneration policy should promote sound and effective risk management,” said Mr Van Hulle.

The former head of the EC pensions and insurance unit said the challenges that lie ahead for both supervisory and regulatory authorities should not be underestimated.

The challenges for supervisors he summarised as follows:

- Increased complexity of regulation that will have an impact on resources, outsourcing, enforcement, data collection and handling.
- Development of a more “mature” relationship between the supervisor and the supervised entities.
- “Dialogue is not a monologue,” he said.
- Preventive supervision that means the anticipation of risks and ensuring that action is taken in advance to mitigate and eliminate risks.

Regulatory challenges he summarised as:

- Principle-based versus rules-based regulation
- Top-down versus bottom-up approach
- Proportionality and level playing field
- Respect of the insurance business model
- Integration of international regulatory developments into the national regulatory framework
- Learning from each other by which he meant bilateral and multilateral cooperation in the development of national regulation
- Fair treatment of consumers.

Mr Van Hulle concluded that “we will continue to live in a risky world and we do not know the origins of the next financial crisis”.

He said that regulation can only play its role when all stakeholders understand its limits. Regulation should be principles-based, flexible and not lead to a “tick the box exercise”, he added.

“Supervisors should engage with supervised entities and not hide in their fortresses. Supervised entities should consider their supervisor as their friend and be willing to entertain a real dialogue,” he said, stressing, however, that they ought not to ask too many questions as it can lead to unexpected and unwelcome answers!
**FIRST MALTESE RSPV WILL HOPEFULLY OPEN FLOODGATES**

The Maltese insurance market is excited about the potential offered by the island’s recently introduced Reinsurance Special Purpose Vehicle legislation (RSPV) and believes that once the first deal is done others will surely follow. According to local insurance managers and lawyers deals are in the pipeline, and interest has grown significantly. But do not expect Malta to turn into Bermuda overnight because this market could take a different route.

ADRIAN LADBURY reports

**THE ABILITY TO CREATE RSPVs using a segregated cell structure that ring-fences the liabilities from other cells and keeps costs to a minimum is surely going to attract business from mainland Europe, Germany and France in particular sooner rather than later.**

The Malta Insurance Association certainly sees good potential.

It stated in a recent report: “The regulator has also recognised the growing importance of insurance-linked securities (ILS) and catastrophe bonds, as well as the convergence of reinsurance and capital markets. The island has introduced legislation allowing for the formation of Reinsurance Special Purpose Vehicles (RSPVs). These new regulations strengthen Malta’s role as an alternative risk transfer domicile as they link the insurance industry with capital markets. They also allow Malta to attract reinsurance sidecars and hedge funds interested in entering the reinsurance business.”

The arrival of Solvency II next year means that some smaller and medium-sized insurers, which are still common in Germany and France, will struggle to meet their capital requirements without shedding exposures.

The option to reinsure elements of their portfolios into RSPVs and sell them to the capital markets via bonds will surely prove attractive in such a tight market.

Another option will be for insurers to place books of business into run-off via RSPVs. It can be no coincidence that German run off specialist firm DARAG recently received a licence to set up shop in Malta and expects an explosion in run-off business as a direct result of Solvency II.

It seems unlikely, however, that for now at least, Malta will become the centre of a multi-billion euro catastrophe bond market carrying out the same role for the European market as Bermuda does for the US.

The vast majority of catastrophe bonds are issued for US risks currently. Bonds that cover European risks are, however, happening.

In August, Generali announced that it had created Lion I Re, a special purpose reinsurance vehicle, set to issue a single tranche of notes that are being marketed with a preliminary size of €150m. Generali launched the indemnity-based bond to deliver a fully-collateralised source of multi-year reinsurance protection (three years) against European windstorms, triggered if losses exceed €400m.

In June of this year Italian primary insurer UnipolSai Assicurazioni sponsored Azzurro Re I, a catastrophe bond that sought at least €150m of reinsurance protection against losses from earthquakes in Italy, metropolitan France, Corsica, Austria, Switzerland, Slovenia and Monaco.

As with the Generali bond, the protection was multi-year, featured an indemnity trigger and provided Unipol with per-occurrence protection.

Both these deals were done in Dublin.

The big question is whether Malta can take a slice of this expanding pie.

The potential is there of course because Malta has the legislation, skilled insurance and support service market and of course compliance with Solvency II.

Why not launch a cat bond in Malta to cover European exposures and access local and pan-European hedge fund investors to invest in the bonds?

It may happen, but for now, the island is thinking a little more niche.

Local experts simply want to see the first deal done and then watch how it develops.

Ian-Edward Stafrace, Chief Risk Officer for Atlas PCC and President of the Malta Association of Risk Management (Marm) said that everyone is waiting for the first mover and this will hopefully open the floodgates.

“I understand that there are applications with the MFSA for Segregated Cell Companies that will facilitate the creation of RSPV cells because that route would be much faster than a standalone vehicle. We need these first ones to proceed to start the ball rolling just as it did for the PCC concept here in Malta. The legislation was passed in 2004 and Atlas was the first in 2006,” he said.

“There is always a period when the market gets to grips and tries to understand and appreciate what makes this an attractive destination. But definitely one big competitive advantage we have here in Malta is our legislation is completely in line with Solvency II and we also have been able to learn from other jurisdictions. Other jurisdictions have had to retro-fit their legislation,” explained Mr Stafrace.

The Marm president is one who sees potential for the use of RSPV cells for European insurers and reinsurers to offload risk and reduce their capital requirements under Solvency II.

“We have participated with EIOPA (European Insurance and Occupational Pensions Authority) to ensure that the PCC and ICC legislation is compatible with the directives. I think that European insurers will want to have their RSPVs onshore in Malta because it would give them an advantage when calculating their counterparty risk, an onshore RSPV would definitely give more advantages to insurers because of capital calculations under a Solvency II regime. I would not be surprised if Solvency II prompted European insurers and reinsurers to set up RSPVs here,” said Mr Stafrace.

Karl DeGiovanni of Aon Malta agreed that Solvency II offers potential for growth in business for Malta.

“There are endless possibilities with
Solvency II and capital calculations. Insurers need to look at the most cost-effective way of mitigating risk and structures that can be used to do this in an EU-regulated environment. If a company is dealing with an insurance company in an EU domicile there is a stamp which states that we do things correctly,” he said.

Cost is obviously an important factor and Mr DeGiovanni pointed to the tax efficiency of Malta as an important attraction to the potential securitisation market.

“Absolutely there is potential for the securitisation market in Malta. Since joining the EU Malta has developed into a robust jurisdiction that is also flexible and open and most importantly has a competitive tax regime. We were on the OECD’s first white list and have more than 70 double tax treaties. This means that securitisation deals in Malta will be tax neutral,” said Mr DeGiovanni.

“In an ILS deal you bring two parties together. One party requires an insurance programme, the other party wants to invest their money and an ILS looks like a more attractive option than the capital markets since it offers a better return and provides diversification of the risk. You therefore have supply and demand in place and, through Aon’s PCC/ICC vehicles—White Rock Group—we manage the SPV in between. The actual vehicle is tax neutral. Any entity in Malta pays 35% corporation tax however since capital gains is not taxable, six sevenths of the tax is then refunded. Tax neutrality maximises the investment return and the originator’s cost of financing,” he explained.

Mr DeGiovanni agreed with Mr Stafrace that to kick-start this potentially exciting market Malta needs to get the first deal done and market the concept.

“We need to develop a niche in insurance securitisation. Bermuda, Guernsey and Dublin have developed reputations and niches and we have to match that. The MFSA and Finance Malta have done the groundwork and the legislation has been put in place. Now it’s about getting the first deal done,” he said.

Julian Boffa, General Manager at FirstUnited Insurance Management, agreed that the market is waiting for the first move to hopefully open the floodgates.

“The RSPV market will need time to develop but it is definitely very interesting. I know of at least one enquiry that came about when the legislation was in the draft stage. The SPV model is an intelligent way to tap into an alternative reinsurance market and once the first SPV is set up, as a guinea pig if you like, I think the market will take off as it did with the arrival of the captive market and PCCs,” he said.

“I would give it two to four years, possibly closer to two. The biggest challenge is possibly timing because everyone is in a big rush to be ready for Solvency II and this is placing a big burden on companies and regulators...”

"The biggest challenge is possibly timing because everyone is in a big rush to be ready for Solvency II and this is placing a big burden on companies and regulators..."
CAPITAL MARKETS ARE IN RISK TRANSFER FOR THE LONG HAUL

The capital markets are in the insurance and reinsurance market for the long term and will continue to evolve and develop innovative new risk transfer opportunities for the international risk markets, according to experts gathered for the Malta International Risk Congress in June. This means that Malta has a good opportunity to tap into this growing market on the back of its new RSPV rules. Adrian Ladbury reports

A RISING NUMBER OF CORPORATE risk managers are interested in the opportunities presented by the rise of new risk-bearing capital and some risk managers have told Commercial Risk Europe that they are actively investigating the market.

But do not expect a flood of deals between large corporates and the new capital in coming months as the basic economics currently do not add up for institutional investors, pension funds and hedge funds in this space.

These were the key messages delivered by Dirk Lohmann, founder of Converium, board member of Talanx Group and managing partner of Secquaero Advisors AG, the Switzerland-based advisory firm he formed to advise investors on how to invest in the insurance and reinsurance market.

He made these comments during a keynote speech at CRE’s Malta International Risk Congress in June held in association with the Malta Financial Services Authority (MFSA).

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The alternative capital market is certainly booming. Mr Lohmann estimates the size of the alternative capital market to be in the region of $60bn to $75bn and rising fast.

Only the day after Mr Lohmann’s speech, a placement with a notional principal of $700m was announced through the existing catastrophe bond shelf programme, Alamo Re, to benefit the Texas Windstorm Insurance Association (TWIA).

This is the largest 144A catastrophe bond completed to date in 2015 and the second time that TWIA has used the cat bond market to manage its tropical cyclone risks.

The market is also expanding out of its traditional US catastrophe market.

As noted above, two Italian insurers—Generali and Unipol—have both launched bonds this year for European risks out of Dublin.

Credit rating agency Fitch published a report recently in which analysts pointed out that the high levels of catastrophe exposure and significant gap between insured and economic losses in Asia Pacific show that the region is in need of a more robust catastrophe management strategy and access to reinsurance or risk capital for protection against losses.

“Catastrophe prone markets such as China and Japan are expected to increasingly look to instruments such as catastrophe bonds, or other insurance-linked securities (ILS) and collateralised reinsurance products, as alternative sources of risk funding are sought to reduce the reliance on traditional reinsurers,” said Fitch.

At the Malta event sponsored by Aon, ArgoGlobal SE, Allied World, Atlas Insurance and Royal London, Mr Lohmann explained that the bulk of the assets involved in these deals are actually collateralised reinsurance or insurance-linked warranties (ILWs).

He reckons that there is currently about $24bn in tradable cat bonds outstanding. He did not include capital allocated to so-called ‘Hedge Fund Re’ vehicles in the figures because they are not available.

Mr Lohmann told delegates that alternative capital’s share of catastrophe reinsurance limits purchased is now estimated to be around 20%.

Before discussing the future of this fast-growing market and its possible use for corporate risk managers, Mr Lohmann gave some useful definitions.

He said that the market is defined by investors that seek to purchase instruments that represent ‘pure insurance’ risk as an asset.

This is done typically in a structured format either in the form of a tradable instrument or a private placement of debt or equity (insurance-linked securities) issued by a transformer vehicle that assumes (re)insurance risk on a fully collateralised basis.

According to Mr Lohmann, the main perils transferred today are as follows:

- **CATASTROPHE RISKS:** This portion, the largest segment, has high standardisation already, short maturity terms and is liquid.
- **OTHER NON LIFE-RELATED RISKS:** This is a smaller but growing market. It is not yet standardised and is less liquid. Risks covered include aviation, marine, motor and health. More recently terror and multiperil crop insurance
Capital provider,” he continued.

Vehicles are built to last or are simply an cartel and it remains to be seen whether these significant buyers of ILW and collateralised outstanding bond issuance and are out at Hannover Re—and still represent a potential and real threat by joining the market, investors value the low correlation to capacity constrained markets. They transfer risk, reduce earnings volatility, expand capacity and limit, expand financial leverage, finance growth, protect shareholders’ equity and manage counterparty risk.

“Most of the investors, by volume, have long-term horizons. Pension funds conduct extended due diligence before making a commitment. Provided the losses that occur are events that could have been reasonably anticipated, we do not expect wholesale withdrawal after a major event. Many investors increased their commitments post the Tohoku earthquake in 2011,” he told delegates in Malta.

“Even though yields have compressed in line with the softening traditional reinsurance market, investors value the low correlation that insurance risk brings from a portfolio perspective,” continued Mr Lohmann.

“We are seeing some withdrawal by certain investors in response to the reduced spread environment. Most are reducing their involvement but not exiting completely. There is lots of money waiting in the wings,” he added.

Mr Lohmann also tackled the big question for corporate risk managers: Can alternative capital provide solutions to new emerging risks?

Mr Lohmann noted that the alternative capital market is often cited as the potential ‘solution’ to capacity constrained markets. In his view, however, risks ‘entertained’ by capital market investors must have the following characteristics:

- The risk entertained should not correlate with financial markets for other assets, it can be correlated to market risk, clarity on cover is not always available, there is again insufficient data to price and assess the risk and the occurrence of the event does not take place in a ‘reasonable timeframe’, said Mr Lohmann.

Cyber is impossible to cover through this market according to Mr Lohmann as it satisfies none of his criteria. This will not come as a surprise to corporate risk managers who themselves are finding it difficult to even define this risk.

The outlook for supply chain is more positive, according to the cat bond expert. Correlation is mixed, cover can be quite clear but not always depending upon product design, data is available but limited for all risks and the occurrence timeframe works for parametric triggers but not indemnity triggers, said Mr Lohmann.

And, perhaps not surprisingly, the best potential lies in the weather risk area, concluded Mr Lohmann.

It does not correlate to market risk, clarity of cover is possible, there is sufficient data and third party models and the events do occur within a reasonable timeframe.

Darren Bailey, Executive Director at Aon Risk Solutions and an expert in this field, followed Mr Lohmann on the podium in Malta and made it clear that this market is set to continue its stellar growth.

Mr Bailey predicted that this market will grow by $100bn in the next five years. “The returns are double digit and good luck finding that in other asset classes. It is a growing business and looks like it is here to stay,” concluded Mr Bailey.

But, as Mr Lohmann stressed during his speech, most corporate risk managers keen to find ways to solve their risk transfer needs in emerging risk areas such as cyber and political risk had better not hold their breath. This remains a work in progress.
MACRO-ECONOMICS, STRATEGY, CYBER AND POLITICAL RISK TOP AGENDA IN MALTA

ADRIAN LADBURY hosted a roundtable discussion with leading Maltese risk managers for Commercial Risk Europe's annual Risk Frontiers survey that is published in full at the Ferma Forum in Venice. The members of the Malta Association of Risk Management (Marm) are currently focused on the same macro-economic, social and political risks as their peers across Europe.

Risk managers in Malta say that their boardroom risk agenda is dominated by the same risks as elsewhere in Europe: economic, social and political volatility and the speed of change, driven by technology, and the related risk of failing to keep up with customer demands are all up there.

From a professional perspective this is good news for the risk managers. This is because they are in demand. Maltese boards, just as elsewhere in Europe, have woken up to the fact that a structured risk management approach can seriously help to make the right decisions in this fast-changing environment.

Ian Edward Stafrace, Chief Risk Officer of Atlas PCC, the insurance firm, and recently elected President of the Malta Association of Risk Management (Marm), said that the economic situation and strategy are critical in today's environment.

"The market environment and increasing competition are always top of the agenda with our board. A lot of board time is devoted to business strategy. The CEO and other board members need more information to take strategic decisions and this means they need more input from risk management," said Mr Stafrace.

Cyber risk—in its various forms—is also a critical risk for board members currently, said Mr Stafrace.

"The other big risk is cyber emanating from actual events. This is driven by the rising sophistication of attacks and related regulations including notification requirements and fines that can be imposed under the new European Union data protection rules. A fine of 5% of turnover under the new rules is a big amount and would be tough for many companies to cope with. Risk finance is available but you need to work out how to mitigate the risk with the IT department," explained Mr Stafrace.

Currency risk is another headache for Maltese companies currently, again in common with other European companies, as is rising terrorism, both of which can affect markets dramatically, said the Marm president.

Sharon Cilia Tortell, Risk and Controls Manager at Reed Global Group, founded in 1960 and specialising in online and personal recruitment solutions, IT and HR consulting, training courses and personal development, agreed that the need to innovate and strategic risk are critical factors and also raised the spectre of compliance.

"Strategic risk and compliance are two of the main risks," she said. "When you enter a new market to take advantage of opportunities you have to assess legislation and compliance as well as the ever changing landscape. There is also cyber risk and technology risk and you need to keep up to date," she said.

Dr Robert Cachia, Visiting Senior Lecturer, University of Malta, agreed with Mr Stafrace that macro economic and political risks are the critical risks currently in the Mediterranean.

"Libya currently has two governments so you cannot even run an embassy. This problem is not limited to Libya, there is also Egypt, Algeria…even the gulf could erupt at any moment. This is not something to smile about!" said Dr Cachia.

Malta has arguably hugely benefited from its membership of the European Union in FDI (foreign direct investment) and trade opportunities for business partnerships.

But Dr Cachia rightly pointed out that the structure and collegial nature of the EU makes decision-making a long process.

As for the long-standing issue of migration, "the problem for Spain, Italy, France and to a lesser degree Greece is that there are thousands coming this way…the issue is on agile decision-making. The US is agile and fast. In the EU it has to be collaborative and collegiate. This does not fit with the speed of these problems," he explained.

The state of the European Union and future of the euro was also on the mind of Ingrid Azzopardi, Group Internal Auditor for GO, the Malta-based telecommunications company.

She said: "The future of the euro is a very big risk for everyone and is very worrying because at the end of the day each government within the EU works on its own but the euro is there for everyone, for all governments. This is a big risk," said Ms Azzopardi.
Not surprisingly cyber risk was a hot topic during the Marm roundtable.
ADRIAN LADBURY reports

CYBER RISK IS NATURALLY A HOT topic in Maltese business circles because the island’s economy, largely dominated by the online gaming industry and financial services, is based upon technology and telecommunications. Ingrid Azzopardi, Group Internal Auditor for GO, explained that one of the big problems that telecommunications companies worldwide face is PBX hacking for the purpose of carrying out international revenue share fraud.

“In my role as group internal auditor I am responsible for fraud prevention and detection. Hackers make a lot of money out of customers of telecommunications companies. We have very good fraud systems in place so if one of our customers is hacked we can detect it at an early stage to control the damage,” she explained.

“If you have a business someone from another part of the world can hack into your PBX, if it is not adequately secure, to make calls and do it within a matter of minutes. It is not unusual that in the space of 90 minutes a hacker can make 6,000 minutes of calls. This is a lot of money for customers to pay and, of course, the operators are still charged for the wholesale traffic while the customers expect not to pay because they did not make the calls. This is a big problem,” continued Ms Azzopardi.

This is clearly a risk management matter for all parties involved, not least the customer who has the responsibility to protect the PBX owned.

Dr Robert Cachia, Visiting Senior Lecturer, University of Malta, described this situation as a “nightmare” stressing that the hacking problem is not just limited to telecommunications companies.

“Without doubt it can happen to anybody. Water, gas, electricity companies and infrastructure are all vulnerable to this kind of attack. Hackers could turn a turbine or water system on or off. This contains all kinds of risk—reputational, terrorism, supply chain—and I wonder whether most lawyers or IT people really understand these kinds of ‘industrial IT systems’ risks,” he explained.

EDUCATION CRITICAL FOR MATURING MALTESE RISK COMMUNITY

Risk education is in demand in Malta as the island’s financial and wider business community faces up to the challenges presented by the global economy and fast-changing regulatory landscape.
ADRIAN LADBURY reports

The Maltese financial regulator and educational community along with the local risk management community have stepped up efforts to raise the level of awareness of the value of risk education in recent times.

This has been sparked in part by the local risk management community itself—led by the Maltese Association of Risk Management (Marm).

Marm has played a full role in the development of Ferma’s new certification scheme to be launched at the Forum this week in Venice.

New Marm president Ian-Edward Stafrace is clear that the Maltese financial and wider business community needs to fully embrace efforts such as the Ferma certification scheme.

It has a duty to sell the concept of professional and structured risk management to risk professionals and the wider business community.

This process is also being driven by the Malta Financial Services Authority (MFSA).

The regulatory authority is an active member of the European Insurance and Occupational Pensions Authority (EIOPA) and it has worked hard to ensure that it demands the highest levels of professionalism through its adoption of the latest standards demanded by Brussels whether through Solvency II or other financial rules emanating from Brussels such as MIFID (see interview with MFSA chairman Joe Bannister).

The local educational community has also joined in the effort. The University of Malta now offers risk management training as part of its various business courses and has worked with Ferma as part of this effort.

The Malta Insurance Training Centre (MITC), the educational body dedicated to carry out professional training of local and international risk and insurance practitioners, is also playing a leading role.

Mr Stafrace summed it all up neatly as he said: “The MFSA want to see risk management clearly and properly defined as a profession and we have the MITC to help us do this.”

Andre Farrugia, Director of Studies at MITC, added: “Training of risk managers is critical. The MITC has a central role to play in this, especially as the MFSA has mandated the risk management function in certain areas. We are developing educational products to support the effort to meet these requirements.”

The focus on risk management education and the raising of standards and awareness is not, however, limited to the financial services sector and corporate risk management community.

Dr Robert Cachia, ConsultantAMMinistry of Finance, Government of Malta, Visiting Senior Lecturer, University of Malta, explained that there is a broader appreciation of the need for a risk-managed approach at a national level.

Dr Cachia wears two hats. Donning his first hat he works with the economic policy department at the ministry of finance along with economists and public policy markers.

“We work at a high level planning and devising long-range planning to make sure that our strategy fits with EU commitments, opportunities in the World Trade Organisation, opening up market space in Free Trade Agreements,” he explained.

While wearing his second hat Dr Cachia is employed at the University of Malta and has taught risk management at various levels for 13 years in areas as diverse as sustainable logistics in transportation, environmental risk and business continuity and now in the digital economy.

The fact that there is a fast growing appreciation of the value of, and need for, a professional risk management approach and through that education in all businesses that operate in Malta, was reflected in the developing experience and functions of the two other roundtable participants.

Karen Tonna, the recently appointed risk manager for GO, the Malta-based
telecommunications company, was formerly an internal auditor for 14 years.

She explained that GO firmly believes in the importance of the need to constantly scan the horizon to analyse possible outcomes and the events that would trigger their unfolding. This is a must if execution gaps are to be identified and which critical capabilities would accordingly require nurturing, she said.

Sharon Cilia Tortell is an accountant by profession and was appointed risk and controls manager at the Reed Global Group, a global leading recruitment specialist provider of permanent, contract, temporary and outsourced recruitment solutions, IT & HR consulting, across more than 20 specialisms in Europe, Middle East & Asia.

Ms Cilia Tortell is part of the Reed Global Group risk management team, and for a growing services group with an expanding global footprint such as Reed, risk and compliance are very important factors. “Strategic risk and compliance are critical. Whenever you enter a new market or are growing your operations in an existing market you have to look closely at the legislation and compliance. This is an ever-changing landscape,” she said.

So the Maltese business community is clearly ready to welcome the recent efforts by Marm along with Ferma, the MITC and the university to broaden and deepen the range of risk management education available for existing and aspiring risk managers on the island.

But, as the participants in the roundtable were keen to stress, there is more to being an effective risk manager than a set of letters after your name.

Andre Farrugia, as director of studies at the MITC and the driving force behind the centre’s new Risk Management in Financial Services programme, is of course a big advocate of formal risk management training.

But he also recognises the need for the so-called softer skills. “We tend to focus on academic achievements but risk managers also need wider communication and management skills. These soft skills are critical to be effective. Risk managers need to show leadership, the ability to coordinate group-wide activities and the ability to delegate effectively. They need a cocktail of skills,” he said.

“The problem can be that managers become so caught up in the day-to-day operations. They know what they have to do but it can be a struggle to emerge from the day-to-day work and deadlines and carry out simulations, business continuity planning and the like,” added Ms Azzopardi.

Mr Stafrace pointed out that the ability to be professionally agile and multi-task is particularly important in Malta because of the nature of the economy and types of companies that populate it. These are not huge multinational operations of the kind seen in France and Germany that can justify legions of highly specialised experts focused on niche areas.

“We have mentioned before the agility of Malta and need for multi-disciplines. In Malta it is likely that managers have to do more than one job and carry multiple specialisms. This is also the case in risk management...”
NEW COURSE FOR RISK PROFESSIONALS LAUNCHED BY MITC

MARM HAS A DIFFERENT FOCUS to the rest of the Ferma members because the island’s risk management community is primarily drawn from the financial services market.

For this reason the training under development for risk managers by the Malta International Training Centre (MITC) and Marm tends to have more of a financial focus.

“The origins of the risk management community here in Malta are different to the rest of Europe. Because we represent mainly risk managers with financial services and other services companies the focus has historically been more on market and credit risk and regulation,” explained Marm president Ian-Edward Stafrace.

“The rest of the risk management associations that are members of Ferma were created for insurance managers with non-financial corporations. Malta has a different story because we do not have a large community of such insurance managers here for local businesses. We are an association of risk managers that look primarily at enterprise-wide risk management,” continued the Marm president and CRO of Atlas PCC.

This explains why the MITC launched its first dedicated risk management training course including elements of financial risk management.

The MITC was established to support the financial services industry through the provision of technical training in, among other areas, insurance, risk management and financial services.

It has acquired accreditation recognition for its insurance products by the Chartered Insurance Institute (CII) and locally, achieved level rating recognition by the Malta Qualifications Council. In fact the Malta Qualifications Council confers 19 credits at Level 4 on the Malta Qualifications Framework (MQF) and on the European Qualifications Framework (EQF) for Lifelong Learning for this newly launched risk management programme.

“This programme is essential for those engaged in risk management activities such as practitioners, officers, board members and others involved in the processing or reporting stages of management,” explains the MITC.

Of course it makes business sense to identify, analyse, evaluate and control all risks that threaten the assets or earning capacity of an organisation. Structured analysis of business threats such as market risks, liquidity risks, credit risks, foreign investment risks and operational risks will reveal organisational characteristics in terms of vulnerability, appetite and resilience, states the MITC.

But there is also an external push for more rigorous risk management practices in Malta as elsewhere in Europe.

“The local regulator requires that each regulated company takes steps to ensure that it has in place and applies internal controls in order to prudently manage and control the significant risks to which the company is exposed and the significant business activities in which the company is engaged, commensurate with the nature, scale and complexity of its business,” explained Andre Farrugia, Director of Studies at the MITC.

Mr Farrugia said that this means that risk practitioners need to be able to carry out the following key functions:

- Manage the implementation of all aspects of the risk function, including implementation of processes, tools and systems to identify, assess, measure, manage, monitor and report risks;
- Assist in the development of and manage processes to identify and evaluate business areas’ risks and risk and control self-assessments;
- Manage the process for the development of risk policies and procedures, risk limits and approval authorities;
- Monitor major and critical risk issues and generate project management documents;
- Conduct compliance and risk assessments and document audits of client compliance to industry standards;
- Document project plans, action plans, presentations and project results for clients;
- Define and produce client policies, procedures, processes and other documentation as required;
- Enhance the security architect function and be responsible for the end-to-end security architecture of applications, technologies and services;
- Implement the security programme’s risk and control framework and global IT risk strategy;
- Ensure the programme is effectively integrated into product development and delivery methodology;
- Participate in local and global discussions to formulate new or enhance existing security processes, policies and standards.

Such programmes are suitable and designed for those who already work in the financial services sector, those who plan to pursue a career within the sector and need to complement their specialist skills in other disciplines, those who already work in risk management and those who sit on risk committees of licensed entities.

“The programme will provide participants with a solid grounding in risk measurement and its application. The skills gained during this programme will equip participants to perform effectively in insurance companies, insurance management companies, banks, asset managers, audit firms and regulators as well as provide them with the foundations required to follow further studies in risk management,” states the MITC.

THE PARTICIPANTS:

- IAN-EDWARD STAFRACE: Chief Risk Officer of Atlas Insurance PCC with 15 years’ multi-disciplined experience in risk management, commercial underwriting, business intelligence analysis and project management with further specialisations in areas of protected cells and captives. Founder and currently president of the Malta Association of Risk Management (Marm).
- INGRID AZZOPARDI: Chairperson of the Malta Forum for Internal Auditors and group internal auditor of GO. Ms Azzopardi has also been responsible for the security function, business continuity planning and enterprise-wide risk management. Ms Azzopardi sits on the executive committee of FIINA and is also the PRO of Marm.
- SHARON CILIA TORRELL: Reed Global Group risk and controls manager. Formerly compliance officer with a Malta licensed entity, financial services consultant with an international services provider, auditor with a big four audit firm and regulatory and compliance manager with MFSA. Board member and treasurer of Marm.
- DR ROBERT MICHAEL CACHIA: ConsultantIAMMinistry of Finance, Government of Malta and, among other roles, a representative on the Trade Policy Committee of the European Council. Dr Cachia is also visiting senior lecturer at the University of Malta where he teaches sustainable logistics and transportation and assurance for the global economy, among other subjects. He is also a council member of Marm.
- ANDRE FARRUGIA: Director of Studies, Malta International Training Centre. Andre started his career in the insurance industry before moving into education and training. He recently completed an MSc in Risk Management with the Glasgow-based University of Caledonia and was a member on the board for the setting up of the National Vocational Qualifications in Malta. Andre is secretary of Marm.
Success does not come from eliminating risk.

SUCCESS COMES FROM MANAGING RISK FOR GROWTH.

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