Takaful: Islamic Insurance in Malta

Insurance is a dynamic growth industry and a number of Fortune 100 companies have already set up operations in Malta, among them multinationals such as BMW, Peugeot, Citroën and Vodafone. With financial and insurance activities accounting for over 90% of Malta’s FDI stock, the sector has a highly international focus and is set for further growth.

Malta possesses the right legislative instruments to set up Takaful instruments, and is the only full EU member state with legislation that allows for Protected Cell Companies (PCCs) and Incorporated Cell Companies (ICCs).

A Takaful fund could be set up as a cell in both structures, which is then managed and administered on behalf of the participants by a Takaful operator who charges an agreed fee to cover costs. People requiring insurance cover, such as health, accident or motor insurance, could contribute to one or more cells to protect themselves against those risks.
Incorporated Cell Company

The Incorporated Cell Company is one of the latest additions to Malta’s insurance offering. Built on the familiar cellular model, but with the unique characteristic of cells with their own legal identity, the structure is set to prove innovative in the Reinsurance Special Purpose Vehicle landscape.

Incorporated cells are established within the ICC structure and assets and liabilities are attributed either to the cell company itself, or to a particular separate cell of the company. An incorporated cell in Malta allows a cell owner to insure directly own risks in EEA, sell insurance to third parties in EEA and reinsure risks outside the EEA. Cells can also insure on non-admitted basis risks globally where allowed.

Key Features of Incorporated Cell Companies

- **Corporate Form:** Limited Liability Company
- **Name:** The name of the company needs to include the expression ‘Incorporated Cell Company’ or its abbreviation ‘ICC’. This title needs to be displayed on all its business letters and forms to inform all parties dealing with the company of its status.
- **Permitted Business:** The cell company and its cells may conduct business of insurance and reinsurance, including affiliated business.
- **Licensing Timeframe:** Six months
- **Redomiciliation allowed:** Yes
- **Solvency Margin:** Solvency requirements for the ICC and each cell are the same as those of a standalone insurer.
- **Guarantee Fund:** Both the ICC and the respective Cells are to maintain a Guarantee Fund made up of:
  - the Minimum Guarantee Fund
  - the value of one-third of the margin of solvency or Malta margin of solvency (as applicable).
- **Technical Provisions:** Calculated in accordance with regulations modelled on EU directives.
- **Cell Management:** Each cell is a separate company and the board of the company has ultimate responsibility for all cells and cellular assets. The board may delegate the management and administration of a cell, or parts thereof, to a third-party insurance manager.
- **Own Funds:**
  - Long Term: Principal Insurance €3.7m / Affiliated Insurance €3.7m
  - General: Principal Insurance €2.5m - €3.7m / Affiliated Insurance €2.5m - €3.7m
  - Reinsurance: Principal Insurance €3.4m / Affiliated Insurance €1.2m
  - Insurance and Reinsurance: Principal Insurance €2.5m - €7.4 / Affiliated Insurance €2.5m - €7m

Own funds are to consist of: Paid-up share capital which must not be less than 50 per cent of the value of Own Funds requirement; and a mixture of issued and unpaid share capital, preferential share capital, subordinated loans, retained profits and reserves. The Own Funds Requirement applies to the ICC and to each Incorporated Cell individually.

- **Power to contract:** Cells have the ability to enter into contracts in their own name.
- **Liability:** Assets and liabilities are held separately within each cell. Claims by third parties can only be directed against the cell itself.
- **Intercompany Loans:** Allowed with approval from the Malta Financial Services Authority.
- **Reporting Requirements:** Audited accounts under IFRS. Incorporated Cells carrying out affiliated insurance are exempt from:
  - publishing abridged accounts in local newspapers
  - contributing to the protection and compensation fund
  - covering technical provisions by equivalent and matching assets to cover currency risk;
  - localisation rules and custody of assets rules
  - the payment of duty on any contract of insurance relating to a risk situated in Malta
  - depositing a minimum guarantee fund with an external institution.
- **Regulatory Fees:** Authorisation application fees are one-time fees and non-refundable irrespective of whether the application is accepted or refused.
  - Cell Company carrying out affiliated insurance business:
    - Authorisation application €5,000
    - Annual continuance of authorisation for cell company €2,500
  - Each cell carrying out affiliated insurance business:
    - Authorisation application €2,500
    - Acceptance of Application €2,500
    - Annual continuance of authorisation for cell company €2,500
  - Cell Company and Individual Cell carrying out non-affiliated insurance business:
    - Fees according to Schedule in the Insurance Business (Fees) Regulations