

## FERMA European Risk Management Seminar Event Roundup - MALTA 2016

Malta has made its mark on the European risk management community and captive industry, by hosting this year's Federation of European Risk Management Associations (FERMA) risk management seminar. The biennial seminar takes place in alternate years from the FERMA forum exclusively for risk managers, where they have the opportunity to focus on their professional interests and concerns. Big topics included digital risk, resilience, business continuity, insurance programmes and captives, leadership as well as recognition of the risk management profession. A short video showing the event's atmosphere can be found at <https://youtu.be/7od11qdZHoM>



Speaking on the opening day of the seminar, Malta's Prime Minister Dr Joseph Muscat said that Malta has gained a strong reputation as an insurance domicile in Europe. Insurance premiums written on the island have increased from €596m to €3.8bn over the last decade.



*Prime Minister Joseph Muscat addressing FERMA 2016*

This has been driven by innovative regulation such as PCC legislation, the only full EU member state to have it. Dr Muscat also noted that Malta has recently extended legislation to securitisation vehicles and reinsurance special purpose vehicles, making it the first EU member state to adapt the cell structure for insurance-linked securities (ILS) transactions. He said that Malta's economy is vibrating with success and predicts 2016 will be another year for growth of insurance companies. Dr Muscat added that in Malta, regulators will continue to work with the industry to create new structures enabling further opportunities.

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### *What's Inside This Issue:*

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Keynote speaker and Swedish entrepreneur Ola Ahlvarsson combined his hands on experience of building entrepreneurial businesses with a mission to convey knowledge and a belief that every organization can and should be entrepreneurial, since if they stand still they can only go backwards. Ola expressed that intrapreneurship is the most important form of entrepreneurship. Intrapreneurship means giving employees authority to act as entrepreneurs within the company, being allowed to take a degree of risk to develop new products and services.

On the opening of the seminar's second day, Malta's Minister for Finance Professor Edward Scicluna stated that while risk needs to be carefully managed, risk aversion in itself can potentially stifle investment especially in relation to emerging markets. Minister Scicluna recalled how the European Parliament had devised strict financial and anti-money laundering regulations in order to avert banking crises in the future, however, in doing so, these same regulations are so tight, that they can hinder investments.



*Minister for Finance Prof. Edward Scicluna addressing FERMA 2016*

There is rising demand for capital market risk transfer solutions, according to an expert panel held during the seminar, as ILS markets mature and appreciation of the potential offered by this uncorrelated risk by pension and hedge funds grows. Several examples of how these are being used by corporates and government entities were discussed. One such case was non-damage business interruption cover for a theme park in Tokyo, where cover was triggered when an earthquake occurred. The pay-out was parametric, as in the majority of such structures, rather than indemnity-based and depended upon the scale of the quake within specific zones measured by the Japanese earthquake agency. Such cover would be hard to find in the traditional insurance market.

### **Malta enabling innovation in captives and cells**

MARM organised a session offering delegates practical insight from two perspectives as to how local insurance companies have navigated through Solvency II and benefited from it.

Dorothy Kim Vella, who heads the risk, internal control and compliance function of RCI and is also a MARM board member, set out how an insurer owned by a motor vehicle financing company and domiciled in Malta has approached Solvency II implementation and described the transformative process resulting in optimised processes, stronger governance and reinforced risk awareness. Participants were taken through the maturity cycle of the company's risk management framework resulting from its obligations under Solvency II.

Later, Ian-Edward Stafrace, MARM president and Atlas group's chief risk officer, discussed the use and implementation of protected cell structures through real live examples. Stafrace explained that a PCC is a single legal entity with a non-cellular core. Although it is licensed like any normal insurance company, owners outside of the company can set up their own ring-fenced cells within that company. While each cell's assets are always protected by law from liabilities of the core or other cells, as part of a single legal entity such benefit under all Solvency II pillars from reduced capital requirements and significant cost burden sharing on governance and reporting. Due to Malta's positioning in the EU and

direct access to the single market, Stafrace said that a number of cells being set up in Malta are also tapping into consumer business for diversification and additional revenue. He also used an example of a captive cell model, wherein a supermarket that owns a large fleet of vehicles created a cell to insure its motor fleet directly, without the need of a fronting insurer.



*Participants at the FERMA 2016*

### **Benchmarking Survey: Risk managers developing strategic role and wider view of risks**

The seminar also served to publish and discuss FERMA's 8<sup>th</sup> biennial European Risk and Insurance Survey. Amongst its findings it concluded that European risk managers are taking a more strategic role in their companies. The President of FERMA Jo Willaert commented: "From this survey, we see that risk managers are moving into a position where they are helping embed risk management into the business model and culture of their organisations. They are taking an enterprise wide vision of risks, including the wider business environment, and the majority report to a chief officer or the board." The report and related presentations are available at:

<http://www.ferma.eu/about/publications/benchmarking-surveys/benchmarking-survey-2016/>

The programme encompassed additional sessions within the framework of the conference themes: leadership, knowledge and education.

The risk manager-only roundtable workshops, moderated by FERMA board members and other risk managers, covered five very topical issues:

- Financial transparency including implications for captives
- Risk management in small and medium sized companies and how it relates to large corporates
- Enterprise Risk Management (ERM) and risk leadership
- Digital risks across a wide spectrum
- Resilience and business continuity

The UK risk management association Airmic organised a session on risk leadership and the risk manager's professional contribution on the boardroom agenda. It set out some of the issues and offered practical ideas and suggestions on how risk managers can seize opportunities. The session focused on how risk management can be embedded in the business model of the organisation and the importance of risk culture. It introduced models, tools and techniques designed for the risk manager developed in partnership with colleagues from other professions and in consultation with those who have a seat at the boardroom table.

An interactive workshop organised by the Belgian risk management association BELRIM challenged risk managers, representing the executive board of a fictional company, to respond to a live simulated major incident and its consequences. It helped demonstrate in an unconventional way the challenges posed by technology risks and connected risks such as intellectual property and reputation, and showed the benefits of scenario testing to build resilience.

**First rimap® examination**

The first examination under FERMA's professional programme rimap® were held in Malta during the seminar. 18 risk managers including 4 Maltese passed and were presented the first qualifications by examination. Michel Dennery, chairman of the rimap® programme, said: "The first certified risk managers will be seen in the future as the pioneers in the new standard for the risk manager's profession." Rimap® provides independent confirmation of the professional competences, experience and standards of individual risk managers. The examination is rimap®'s latest milestone following accreditation of the first six education programmes, which supported by MARM included the University of Malta's Bachelor of Commerce (Honours) in Insurance and Risk Management. Isabel Martinez Torre-Enciso, vice-president of FERMA and member of the rimap® steering committee commented: "The next step is to refine the rimap® examination on the basis of experience so that it reflects the complexity and diversity of the profession, and then to make the examination available for as many risk managers as possible".

Jo Willaert closed the seminar by inviting attendees to the FERMA Risk Management Forum 2017, which will be held in Monte Carlo between 15 and 18 October next year where the theme will be 'Risk Managers in Pole Position' conveying images of risk, performance, anticipation, prevention, crisis management, team spirit and new technologies.

*The Malta Association of Risk Management has contributed to the publication of this article.*

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**Increasing interest in using Malta for securitisation transactions**

Hedgeweek.com's Special Report 2016 featured Malta as an Alternative Investment Fund Services jurisdiction, discussing new opportunities with various stakeholders in the sectors. The report also carries an interview with MFSA Chairman Prof Bannister, who gave a detailed introduction of the applicable structures in Malta.



Malta provides a legal framework for securitisation vehicles, primarily through the Securitisation Act which has been in place since 2006, and more recently, the Securitisation Cell Companies Regulations, introduced in 2014. This legal framework has enabled Malta to develop into a jurisdiction of choice for securitisation transactions. The Securitisation Act provides both legal clarity and investor protection whilst enabling flexibility in the structuring of securitisation transactions. Any asset can be securitised including future receivables and the securitisation vehicle may take many different forms, which means that there is a vast scope of options for securitisation structures. Tailored income tax neutrality provisions, statutory bankruptcy remoteness provisions and a network of over 65 double tax treaties increases the attractiveness of the legal framework.

Prof Bannister indicated that following the establishment of the European Wholesale Securities Market, Malta has seen a significant interest in securitisation products from professional investors. The introduction of the Securitisation Cell Companies Regulations has brought an increase in the number of securitisation vehicles structured in Malta.

The Securitisation Cell Companies Regulations were introduced by Legal Notice 411 of 2014. The Regulations provide an effective and legally entrenched framework for segregation of different sets of assets and risk instruments within a single special purpose vehicle, the Securitisation Cell Company, thereby allowing for the launch of multiple securitisation transactions without incurring any risk of cross-contamination between the different sets of creditors and investors. The Securitisation Cell Companies framework can also be adopted for the structuring of reinsurance special purpose vehicles in order to tap into the cross-border opportunities of insurance linked securities since the coming into force of the Solvency II Regime.

Prof Bannister further explained that "the Securitisation Act is both non-intrusive and flexible, and at the same time secures the required level of investor protection. Should the securitisation company become insolvent, the Securitisation Act provides for rules aimed at protecting the rights of the investors, the originator and other securitisation creditors over securitisation assets. Furthermore, the bankruptcy remoteness principle isolates the



securitisation assets from any insolvency risks of the securitisation vehicle, the originator or any service providers.”

Securitisation creditors, including bondholders in a securitisation vehicle enjoy a privilege over the assets of the securitisation vehicle, and therefore rank prior to other claims at law. The Securitisation Cell Company framework has brought in an additional structuring option, which increases economies of scale and enhances investor protection while enabling the structuring of multiple transactions through a single securitisation vehicle.

The MFSA Chairman was also asked about the loan market, especially as the EU looks to introduce a level playing field with the Capital Markets Unit. Prof Bannister noted that the Action Plan on Building a Capital Markets Union seeks to explore ways to build a pan-European approach to better connect SMEs with a range of funding sources and to strengthen alternative funding channels for these types of enterprises. The recent increase in the structuring of securitisation arrangements under the Securitisation Act also connects well with the European approach, which aims to revitalise the cross-border securitisation market and introduce a framework for simple, transparent and standardised securitisations. This comes at the same time as the launch of the Maltese loan funds framework, which is built on the AIFMD and further reinforced by a number of risk mitigation conditions. These developments will continue sustain the momentum that is driving Maltese financial services going forward.

To date, the Authority has licensed five loan funds and 30 securitisation vehicles, together with one licensed reinsurance vehicle. The Authority is confident that both the securitisation and the loan fund market will increase the relevance of the financial sector to the real economy and SMEs, thereby contributing to the deepening of the financial markets.

The full report is available through the MFSA Website on: <https://goo.gl/X3rhWs>

## Malta posts another decent year and ready for Brexit - Commercial Risk Review

In the first of a three part in depth look of the Maltese economy Commercial Risk Europe (CRE)'s latest edition focused on the insurance sector and the island's readiness for Brexit.

**Commercial Risk Europe**  
EUROPEAN INSURANCE & RISK MANAGEMENT NEWS

In view of the decision taken by UK voters to leave the European Union, the article also considers the potential benefits for Malta following such vote. CRE argues that this vote may trigger the relocation to Malta by UK companies first as a protective measure and then possibly on a long-term basis. In this regard, MFSA Chairman Prof Bannister noted that firms in the fund industry “could remain based in other domiciles but could establish equivalent funds here to sell into Europe. If other domiciles do receive passporting rights, then this would not be necessary, but it is an option to consider”.

In 2015, 92 companies transferred their domicile to Malta, of these 78% came from non-EU countries. Turning on the insurance sector, the report remarks that despite the challenges posed by Brexit and the introduction of Solvency II, Malta continued to report positive results. Economically, Malta expanded by 6.3% over the previous year in real terms, a multi-year high.

The report also looked at the positive review by the Global Competitiveness Report, published by the World Economic Forum, putting Malta amongst the best 20 jurisdictions in terms of the soundness of the banking system and for the strength of auditing and reporting standards. CRE notes that in an era of high scrutiny of financial centres and tightening rules on tax and transfer pricing the best strategy for financial centres was to aim for the best regulation possible.

On this issue, Prof Bannister noted that “the best course for Malta is to not only maintain its reputation but to enhance it”, explaining how the Authority is strengthening its regulatory and supervisory regime in the past months, referring to the introduction of the Bank Recovery and Resolution Directive as well as the creation of the Resolution Authority, Resolution Committee and Resolution Unit: “There is no doubt that prudent regulation which promotes stable and fair market, also drives consumer confidence”.

The report also refers to the creation of a Conduct Supervisory Unit, dedicated to the proper conduct of business in financial services as well as the implementation of CRDIV/V, MiFID II, the Transparency Directive and UCITS V.

The full report is available on the MFSa website on: <http://bit.ly/2f4ndhF>

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## **Consultation Document on the Proposed Policy as applicable to Online Business Models Distributing or Intending to Distribute Contracts for Difference (CFDs) and/or Rolling Spot Forex Contracts under the MiFID Regime**

Over the last two years, the Malta Financial Services Authority ('MFSa') has actively undertaken policy work on investment services licence holders carrying out online forex trading activities for the purpose of introducing additional regulatory requirements at the application stage. In effect, on 30th July 2015, the MFSa issued a public notice, wherein it set out the updated criteria regarding the licencing of entities that would wish to provide online forex trading to clients. The referred Notice was issued following various factors that the MFSa had come across in handling applications in this sector as well as various risk warnings issued at EU level alerting retail investors to the main risks involved in forex trading.

In the last few years, the MFSa has observed that online business models offering MiFID investment services are also distributing Contracts for Difference (hereinafter referred to as "CFDs") on an over-the-counter (OTC) basis. Therefore, for the purposes of this policy, it is hereby being proposed that MiFID online business models offering CFDs are subject to the requirements of the public notice (which is already in force) as well as the new and/or revised requirements which are being consulted upon in this paper.

CFDs and rolling spot forex are collectively referred throughout this document as "complex speculative products". Although binary options are deemed by MFSa to be speculative in nature, it should be noted that these products will be excluded from this consultation and would therefore be subject to a separate consultation process in the near future.

The operations of online business models offering MiFID investment services in relation to complex speculative products pose a high risk for retail customers who may not be fully conversant with the risks associated with such speculative trading. Furthermore, these types of activities give rise to investor protection concerns mainly due to the marketing strategies of such firms. In addition, retail investors do not understand the high risk, complexity and speculative nature of such products which are being provided by the above-mentioned firms.

A particular concern is the fact that these complex speculative products are being advertised via online platforms and are being sold without investment advice. This has therefore resulted in a significant detriment and unexpected losses to a number of retail investors.

In this context, a warning has been issued by ESMA and by the MFSa reminding investors and potential investors to be very attentive and vigilant when seeking to invest in these speculative products and to ensure that the provider is duly authorised to offer such services in relation to these products.

Further to these concerns, the MFSa is proposing further regulatory requirements for investment services licence holders distributing or intending to distribute complex speculative products. The MFSa is seeking feedback on the proposals set out in this consultation. Responses should reach the MFSa by 18 November 2016. New applications submitted after this policy comes into effect will have to adhere with the requirements of this revised policy. Feedback may be sent to [communications@mfsa.com.mt](mailto:communications@mfsa.com.mt) or alternatively by conventional post and addressed to:

Communications Unit, Malta Financial Services Authority, Notabile Road, Attard.

## Standard & Poor's upgrades Malta's credit rating to A-, outlook stable



Standard & Poor's credit rating agency raised Malta's long-term rating to A- from a BBB+ rating, forecasting the Maltese economy to grow above 3% for the next three years.

The upgrade reflects Malta's improved credit metrics, including:

- Strong real GDP growth that we expect will average 3% in 2016-2019, on rising labour supply, services export growth, and robust investment;
- Consistent improvement in qualitative and quantitative fiscal performance, with general government deficits below 1% in 2016-2019 and tighter management of contingent liabilities; and
- Durable current account surpluses, at 1.9% of GDP on average in 2016-2019, reflecting an improvement in Malta's fundamental external position

Malta, "is in the midst of one of the strongest medium-term economic expansions in the eurozone, with the second-highest average GDP growth rate in 2010-2015 and the third-highest expected real GDP growth in 2016-2019.

"We also consider that most of the rise in Maltese incomes since 2009 reflects genuine expansion of the domestic economy's capital base, particularly in services, rather than accounting effects based on tax-motivated changes in the residency of productive assets." noted the credit rating agency.

## European Supervisory Authorities Announcements

### European Banking Authority (EBA)

11/10/2016 - [EBA updates on monitoring of Additional Tier 1 instruments](#)

12/10/2016 - [EBA publishes final guidelines on corrections to modified duration for debt instruments](#)

13/10/2016 - [EBA publishes work programme for 2017](#)

27/10/2016 - [Consultation on ITS on MREL reporting by Resolution Authorities](#)

31/10/2016 - [EBA and ESMA consult on assessing the suitability of banks and investment firms members of the management body and key function holders](#)

31/10/2016 - [Consultation on Guidelines on internal governance \(revised\)](#)

31/10/2016 - [Consultation on Joint ESMA EBA Guidelines on suitability of management body](#)

### European Securities and markets Authority (ESMA)

12/10/2016 - [ESMA publishes new Q&A on investor protection under MiFID II](#)

12/10/2016 - [ESMA to focus on supervisory convergence issues in 2017](#)

14/10/2016 - [ESMA issues Guidelines on Remuneration Practices under UCITS and AIFMD](#)

## MFSA Circulars

- 05/10/2016 - [Industry update on ESMA Guidelines on information relating to commodity derivatives markets or related spot markets for the purpose of the definition of inside information on commodity derivatives](#)
- 08/10/2016 - [Circular to Category 3 Investment Services Licence Holders on the submission of a Recovery Plan Document](#)
- 10/10/2016 - [Circular on the publication of a revised version of the Annual National Specific Templates](#)
- 13/10/2016 - [Circular addressed to Investment Firms and/or Applicants for an Investment Services Licence offering or intending to offer Financial Contracts for Difference \(CFDs\) and other speculative products](#)
- 13/10/2016 - [Circular to Credit Institutions on EBA Q&A Updates \(2\)](#)
- 14/10/2016 - [Circular for Insurance and Reinsurance Undertakings on Reinsurance/Retrocession Reporting](#)
- 18/10/2016 - [Circular for information – Protocol between ESMA and the IFRS Foundation](#)
- 20/10/2016 - [Solvency II Circular for Insurance and Reinsurance Undertakings](#)
- 20/10/2016 - [Circular related to the consultation process on the proposed amendments to Banking Rule 09 under the Banking Act 1994 - Extension of Consultation Period](#)
- 26/10/2016 - [Circular on Schemes which qualify as Qualifying Recognised Overseas Pension Schemes](#)
- 27/10/2016 - [Circular - Consultation on the Draft guidelines on MiFID II product governance requirements](#)
- 27/10/2016 - [Circular 03/16 Clarifications to the Industry following the recent changes in the composition of the Audit Committee](#)
- 28/10/2016 - [Circular on ESMA Statement - Common Enforcement Priorities for the 2016 financial statements](#)
- 28/10/2016 - [Circular 04/16 Applicability of EWSM Admissibility to Listing Fees](#)

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## MFSA Consultation Papers and Feedback Statements

- 17/10/2016 - [Consultation Document on the Proposed Policy as applicable to Online Business Models Distributing or Intending to Distribute Contracts for Difference \(CFDs\) and/or Rolling Spot Forex Contracts under the MiFID Regime](#)
- 20/10/2016 - [Circular related to the consultation process on the proposed amendments to Banking Rule 09 under the Banking Act 1994 - Extension of Consultation Period](#)

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## MFSA Warnings

- 25/10/2016 - [MFSA Warning - Provident Capital Management - http://www.provident-trading.com/](#)
- 28/10/2016 - [MFSA Warning - MXTrade - Grizzly Limited – https://www.mxtrade.com/](#)
- 28/10/2016 - [MFSA Warning - TradingBanks - Grizzly Limited - https://www.tradingbanks.com/](#)

Foreign warnings received by MFSA can be viewed on [MFSA Website / Announcements / Warnings](#)

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## MFSa Licences - September 2016

### NEW LICENCES

#### Banking

##### *Financial Institutions*

- Financial Institution licence issued to **EPG Financial Services Limited**.

#### Collective Investment Schemes

##### *Professional Investor Funds targeting Qualifying Investors*

- Collective Investment Scheme licence issued to **Pilatus SICAV plc** in respect of one sub-fund.

##### *Alternative Investment Funds targeting Qualifying Investors*

- Collective Investment Scheme licence issued to **Lane Bridge SICAV plc** in respect of one sub-fund.

##### *Incorporated Cells*

- Collective Investment Scheme licence issued to **AJD Fund IC SICAV plc**.

#### UCITS

- Collective Investment Scheme licences issued to **AQA UCITS Funds SICAV plc** in respect of two sub-funds.

#### Investment Services

- Category 2 licence issued to **Rootstock Investment Management (Malta) Limited**.

#### Insurance

##### *Agents List*

- Enrolment to **guard.me International Insurance Agency (Malta) Limited** in the Agents List.

### Company Service Providers

- Registration certificate issued to **DF Consultancy Limited**.
- Registration certificate issued to **Tri-Mer Corporate Limited**.
- Registration certificate issued to **Grant Thornton Services Limited**.
- Registration certificate issued to **Dixcart Management Malta Limited**.
- Registration certificate issued to **E2S Monitoring Limited**.
- Registration certificate issued to **STM Malta Corporate Limited**.
- Registration certificate issued to **STM Malta Services Limited**.
- Registration certificate issued to **STM Malta Management Limited**.
- Registration certificate issued to **Bee Insurance Management Limited**.
- Registration certificate issued to **Fides Management Limited**.
- Registration certificate issued to **Fides Corporate Services Limited**.

### Securitisation Vehicles

#### *Notified Securitisation Vehicles*

- Acknowledgement issued to **Arphan SCC plc**.

### Trustees and Fiduciaries

- Authorisation issued to **Mandaris Trustees (Malta) Limited** to provide trustee and other fiduciary services including acting as administrators of private foundations.

### SURRENDERED LICENCES

#### Collective Investment Schemes

##### *Professional Investor Funds targeting Qualifying Investors*

- Surrender of licences issued to **Himalaya SICAV plc** in respect of two sub-funds.
- Surrender of licence issued to **Sabius SICAV Limited** in respect of one sub-fund.
- Surrender of licence issued to **Palladium Fund SICAV plc**.

##### *Incorporated Cells*

- Surrender of licence issued to **Roccaforte IC SICAV plc**.

### Registry of Companies - New Registrations – September 2016

Companies	Partnerships
364	7

## Forthcoming Events

**EUROPEAN CAPTIVE FORUM** 2016  
8-9 NOV 2016 LUXEMBOURG CONGRÈS



Training by members of the ECC:

- [Malta International Training Centre](#)
- [Malta Institute of Accountants](#)
- [Institute of Financial Services](#)
- [Institute of Legal Studies](#)
- [Institute of Financial Services Practitioners](#)
- [Malta Institute of Management](#)
- [Castille Institute](#)
- [PricewaterhouseCoopers](#)
- [Malta College of Arts, Science and Technology \(MCAST\), Institute of Business & Commerce](#)
- [The Department of Banking & Finance, Faculty of Economics, Management & Accountancy, The University of Malta](#)

*Communications to be addressed to:*  
*The Secretary,*  
*Educational Consultative Council,*  
*MFSA,*  
*Notabile Road,*  
*Attard.*



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