STAFRACE SEES OPPORTUNITY IN BREXIT

As the Malta Association of Risk Managers (Marm) prepares to host Ferma's seminar on the island early next month, *Commercial Risk Europe* editor ADRIAN LADBURY spoke to Ian-Edward Stafrace, group chief risk officer of Atlas Insurance and president of the Association. They discussed the implications of Brexit for Malta, and its businesses, the state of local risk management and the effects of Solvency II

ADRIAN LADBURY [AL]: What is your role in both your day job and for Marm?

IAN-EDWARD STAFRACE [IS]: Five years ago, I co-founded the Malta Association of Risk Management (Marm) and I am currently president. My day job is Atlas Group's chief risk officer, where I am a member of Atlas Insurance PCC's executive committee and Solvency II team. I am also risk manager and chair of the risk and regulatory committee of Merill SICAV, a UCITS collective investment scheme.

AL: What are the key threats and opportunities arising from Brexit for Malta and your business?

IS: Many risk managers have won their first medals this year by preparing and implementing contingency plans prior to the vote, especially in the area of investment management through hedging against currency risk.

On the strategic and business opportunity front, in theory financial services in the UK and Gibraltar passporting into the European Union (EU) would no longer be possible following Brexit, unless these remained part of the European Economic Area (EEA) or another special arrangement could be negotiated.

That uncertainty is encouraging businesses to move to or set up subsidiary fronting operations in other EU countries, from where they can have direct access to 30 member states of the EEA.

The UK is an important trading partner for Malta, which remains a member of the Commonwealth. Maltese businesses trading with the UK are keeping a close eye on the Brexit process, though some solace can be gained from the knowledge that the UK intends to boost trade among the Commonwealth. Still, due to the current uncertainty, businesses will already be giving preference to continental European ventures, rather than UK ones when possible.

The sector most affected by Brexit would be financial services. If the UK loses its passporting rights, even if temporarily, it is very likely that a bilateral agreement would be in place between Malta and the UK maintaining access between the two countries. If that doesn't happen, then other contingencies exist for Maltese insurers writing risks in the UK, such as using UK fronting partners, setting up fronting subsidiaries in the UK or obtaining third-country branch licences.

On the other hand, Malta is already attracting business from the UK and Gibraltar in the same way it does from Switzerland, as it offers passporting across the EU. In insurance, the only other current domicile in the EU with protected cell legislation is Gibraltar. In the case of Brexit, this could be relegated to offshore status and cells with direct EU exposures would probably prefer redomiciling to Malta.

In periods of high uncertainty, risk managers can show their worth by helping their organisations identify, assess and manage the fulfillment of new opportunities. Every cloud has a silver lining.

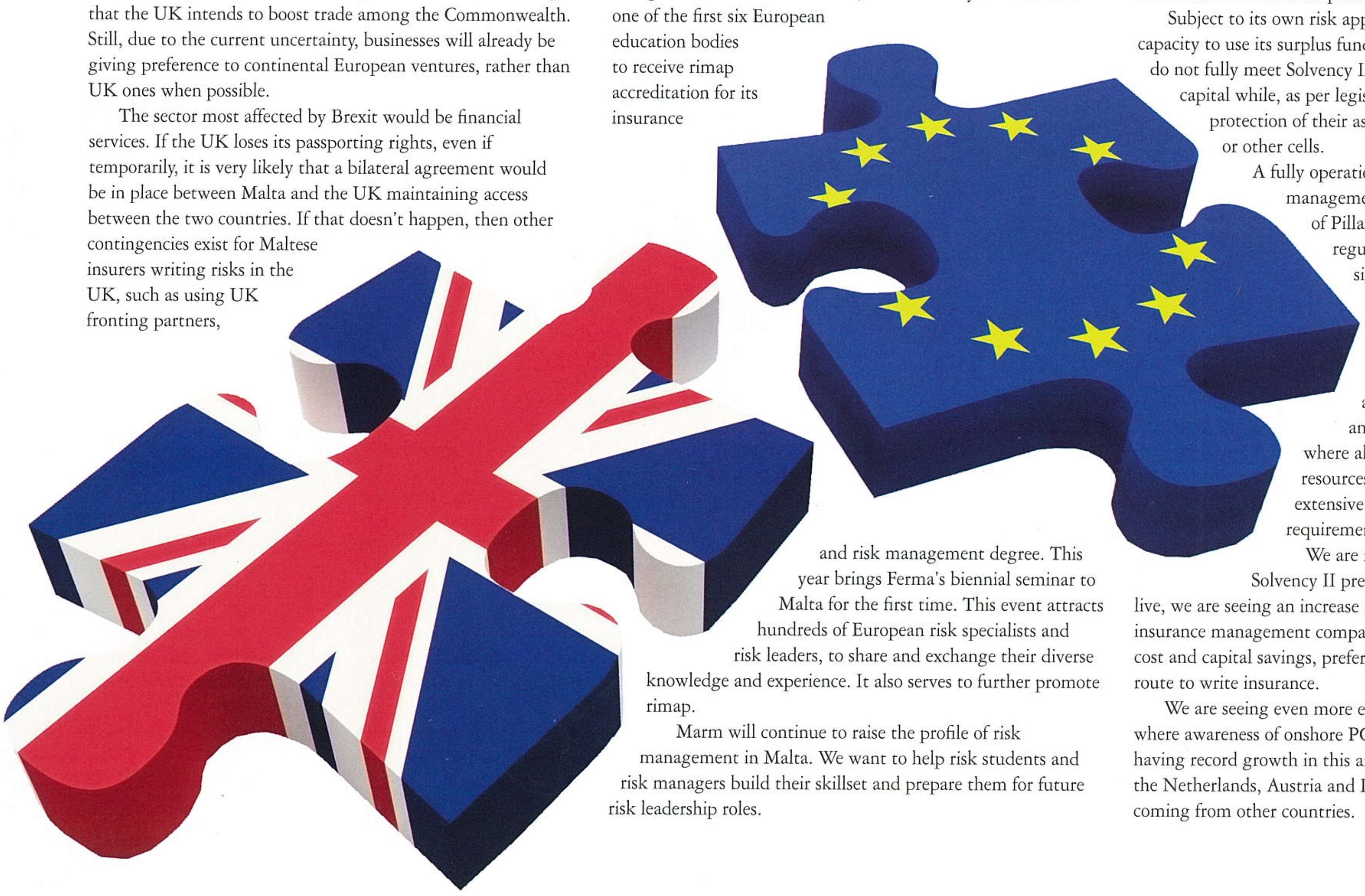
Ian-Edward Stafrace

AL: How would you describe the maturity and development of risk management within Malta?

IS: Risk management professionals are in demand. The Maltese financial regulator and educational community, together with the local risk management community, have stepped up efforts to raise the level of awareness and value and importance of risk education. Maltese boards, just as elsewhere in Europe, have also realised that a structured risk management approach can seriously help to make the right decisions in this fast-changing environment.

As a member of Ferma, Marm has been actively participating in the Federation's project to launch rimap – a risk management professional certification that aims to be recognised across Europe. With Marm's assistance, the University of Malta was one of the first six European education bodies to receive rimap accreditation for its insurance and risk management degree. This year brings Ferma's biennial seminar to Malta for the first time. This event attracts hundreds of European risk specialists and risk leaders, to share and exchange their diverse knowledge and experience. It also serves to further promote rimap.

Marm will continue to raise the profile of risk management in Malta. We want to help risk students and risk managers build their skillset and prepare them for future risk leadership roles.



AL: What effect is Solvency II having on your business?

IS: Atlas always saw Solvency II as an opportunity for insurance protected cell companies (PCC), which we were keen to embrace. The Maltese PCC provides cell owners benefits on all Solvency II pillars, allowing substantial cost burden sharing and reducing capital requirements.

Small monoline insurers and captives struggling with Solvency II requirements consider converting to cells as an alternative to consolidation or closure. Where otherwise Solvency II could be a barrier to entry for startups, PCCs enable such new entrants into the insurance market and encourage innovation.

As an EU member state and European Insurance and Occupational Pensions Authority [EIOPA] member, Malta continuously contributes to the evolving EU regulatory environment. Under Solvency II Pillar I quantitative capital requirements, a cell will typically only need to put up own funds equivalent to the calculation of the cell's notional solvency capital requirement (SCR), which with small undertakings often falls far below the typical absolute floor minimum capital requirement for standalone insurers of €3.7m. A Maltese PCC may also lend its unrestricted surplus core funds to cells to meet their notional SCR where in deficit.

Atlas was the first EU insurer to convert to a PCC, back in 2006. As one of the leading insurers in the Maltese local market, it is not averse to taking insurance risks on its core, which maintains substantial surplus funds over regulatory requirements.

Subject to its own risk appetite, the core therefore has the capacity to use its surplus funds to host and support cells that do not fully meet Solvency II requirements from their own capital while, as per legislation, the cells retain full protection of their assets from liabilities of the core or other cells.

A fully operational PCC will have risk management and governance requirements of Pillar II already catered for under its regulated licence, with cost sharing significantly benefiting cells. This includes, for example, the possibility of producing a single Own Risk Solvency Assessment for the entire PCC. The same applies to Pillar III's reporting and disclosure requirements, where all procedural structures and resources will be in place to meet the new extensive quarterly and annual reporting requirements as one single legal entity.

We are reaping the benefit of years of Solvency II preparation. Now that it has gone live, we are seeing an increase in engagements through leading insurance management companies and various entities seeking cost and capital savings, preferring the more efficient cellular route to write insurance.

We are seeing even more enquiries from continental Europe, where awareness of onshore PCC solutions is growing. Atlas is having record growth in this area, with recent cells coming from the Netherlands, Austria and Italy and those in the pipeline coming from other countries.