MALTA POSTS ANOTHER DECENT YEAR AND READY FOR BREXIT

In the first- of a three-part in-depth look at the Maltese economy and insurance sector, the island prepares to play host to the Ferma seminar in early October. CRE editor ADRIAN LADBURY looks at the state of the economy and insurance sector and the island's readiness for Brexit in particular

THE HISTORIC DECISION BY THE UK ELECTORATE to exit the European Union may not be great news for Malta in terms of its exposure to volatility in the euro and UK tourism business but each cloud has a potential silver lining as the old saying goes.

That silver lining could be the decision by UK companies – corporate and financial – to relocate to Malta to take advantage of its EU membership and thus passporting rights.

For the UK corporate risk and insurance manager the ability to write business across Europe on a hassle free and tax friendly basis may also persuade them to relocate their captives to Malta from traditional UK captive domiciles such as Guernsey and the Isle of Man because of their, as of yet unclear, status in the post-Brexit world.

International insurers that set up shop in London to access the mainland European market as well as the expertise and global reach of the London market may also consider the Malta option over the coming year or two.

UPSIDE OFFERING

Maltese Prime Minister Joseph Muscat flagged up the potential upside for the country as early as February.

He stressed that he did not want the UK to leave the EU but added that Malta could benefit as financial services companies based in the City of London might be tempted to relocate to another EU member state.

"This could be an opportunity for other jurisdictions," he said. "On the other hand, the City of London can adopt different standards that will render it more attractive than European jurisdictions," added Mr Muscat.

Joe Bannister, chairman of the Malta Financial Services Authority (MFSA) was certainly not pleased that the UK voted for Brexit as he sees more downsides that upsides for everyone.

But, as head of the MFSA and a leading Maltese business figure, he has to look for the potential benefits for his country. One of these could be relocation to Malta by UK companies first as a protective measure and then possibly on a long-term basis if negotiations do not go well for the UK over the next two years.

"Firms in the funds 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," he told *Commercial Risk Europe* in an interview in Valetta recently.

"No one wants this to happen but in business you have to investigate the options. For now a UK company could guarantee passporting rights by setting up a branch here as the UK will remain a member of the EU for two years at least. That may be enough but if the UK loses all its rights then the option would be to set up a full subsidiary," explained Professor Bannister.

In 2015, 92 companies transferred their domicile to Malta. Of these, some 72 companies (or 78%) transferred their domiciles to Malta from non-EU countries, with the remaining 20 companies (or 22 per cent) transferring their domiciles from EU countries.

Stephen Portelli, senior vice president at Marsh's captive management operation in Malta, said that he sees potential for an uptick in demand for the Protected Cell Company (PCC).

This would be because Malta will be the only European captive domicile to offer direct access to Europe through that route.

Mr Portelli is in positive mood about Malta's captive and wider insurance market potential currently despite the uncertainty over Brexit and the future of the European Union.

He told *Commercial Risk Europe* that he has some interesting options on the table currently such as a new captive that plans to include employee benefits alongside traditional non-life risks.

He sees great future potential in this market that has been discussed for some time but could now be coming to fruition.

Mr Portelli said that another bonus for Malta and the European captive market in general is the uncertainty over Solvency II is now finally beginning to abate and this can only boost enquiries.

The fact is that, despite the uncertainty over Solvency II and then latterly Brexit, last year was not a bad one for Malta generally and the insurance sector more specifically (*see panel for captive and insurance market figures*).

Mr Bannister pointed out that Malta did rather well in economic terms in comparison with the rest of Europe. "Growth figures for Malta were impressive," he said.

Last year, Malta's economy expanded by a robust 6.3% over 2014 in real terms, a multi-year high rate.

"Malta's remarkable growth rates have been underpinned by booming investment which expanded significantly on the back of a number of large infrastructural projects and government's efforts to modernise the economy," said Mr Bannister, a fact underlined by the very noisy crane outside my hotel room working on the big construction project in St Julian's bay.


Joe Bannister

Mr Bannister said that growth is expected to remain "robust" in 2016 as consumer income will be boosted by personal income tax cuts and rising government spending.

The financial services sector is central to the Maltese economy of course as it accounts for some 90% of Foreign Direct Investment (FDI) and has expanded by about 25% a year in recent times. The sector contributes 8.5% of Maltese GDP and is a major player in creating jobs.

Mr Bannister pointed out that the World Economic Forum *Global Competitiveness Report 2015-2016* places Malta 15th out of 148 for soundness of the banking system; 20th for strength of auditing and reporting standards and 25th for the regulation of stock exchanges. In an era of high scrutiny of financial centres and tightening rules on tax and transfer pricing the best strategy for a centre such as Malta is to aim for best of breed regulation of course. Mr Bannister is well aware of this.

"The best course for Malta is to not only maintain its reputation but to enhance it. During 2015, the Authority continued to strengthen the regulatory and supervisory regime," he said.

The Bank Recovery and Resolution Directive (BRRD) was created to help prevent or address systemic failures. The Resolution Authority, the Resolution Committee and the Resolution Unit within the MFSA, came into force in July 2015 and the Regulations in September 2015.

"There is no doubt that that prudent regulation, which promotes stable and fair markets, also drives consumer confidence," said Mr Bannister.

There has also recently been a drive to develop common principles on consumer protection in the field of financial services.

G20 INITIATIVE

An initiative taken by the G20 in 2011 called on the OECD and other international institutions to take action.

A major internal restructuring exercise was undertaken by the MFSA last year to reflect these international priorities.

A Conduct Supervisory Unit, dedicated solely to the proper conduct of business in financial services, was set up.

"Its task is to ensure that customers are treated fairly across all financial products and services. This new unit's remit includes identifying emerging risks, so as to prevent consumer detriment rather than dealing with the consequences," explained Mr Bannister.

These changes were complemented by the creation of the Financial Services Arbiter by the Government.

Also last year, the Solvency II directive was transposed after a two-year preparation period. The MFSA worked with insurance and reinsurance undertakings as they adapted to its requirements. And the workload continues as the banking unit works on CRD IV/V and the securities and markets unit on the implementation of MiFID II, the Transparency Directive and UCITS V.

Mr Bannister said that the financial services industry in Malta has been strengthened further and is performing "strongly", a record to be proud of.

Looking forward he expects another eventful year not least as Malta prepares for its first Presidency of the European Union Council, in the first half of 2017.

MALTA: BY THE NUMBERS

The Maltese insurance sector posted a solid result in 2015, despite the increased international economic uncertainties and challenges and uncertainties related to the new Solvency II framework.

Four new insurance undertakings, including one life insurance undertaking, one protected cell company (PCC) and one reinsurance company, were authorised under the Insurance Business Act.

PSA Insurance Europe was authorised to carry on business of insurance in three classes of the general business, while PSA Life Insurance Europe was granted a licence to carry on business of insurance in one class of the long-term business.

The Malta Financial Services Authority (MFSA) issued an authorisation to Standard Re (Malta) to carry on business of reinsurance in two classes of the general business. A protected cell company, Darag Malta Insurance and Reinsurance PCC, was authorised to carry on business of insurance and reinsurance in 13 classes of the general business.

Two new cells were approved by the Authority to write business of insurance. These were L'Amie Cell of Atlas Insurance PCC and UIB Cell of Advent Insurance PCC.

This brings the total number of authorised cells in 2015 at 29 within 12 PCCs – up from 27 cells in 27 PCCs in 2014.

QIC Europe had its licence extended to carry on business of insurance and reinsurance in all classes of the general business.

The Authority extended the authorisation granted to Bray Insurance Company to carry on business of insurance in one additional class of the general business.

Additionally, seven insurance undertakings ceased to be authorised by the Authority in 2015.

In total, this meant that at the end of last year there were 58 licensed insurers in Malta, compared with 60 in 2014. Of these, some 42 were non-life insurers, two were composites and seven were reinsurers.

Gross written premiums of insurance undertakings licensed in Malta increased by 33.6%, from €2.83bn in 2014 to €3.78bn in 2015.

Non-life gross written premiums increased by 51.5%, while in long-term business gross written premiums expanded by almost 7% during the period 2014-2015.

Gross written premiums of insurance undertakings licensed in Malta, writing general business in and outside Malta, increased from €1.69bn in 2014 to €2.56bn last year. This represented an increase of almost 51.5%.

Gross written premiums for Maltese risks expanded by almost 5% during the period 2014-2015, to stand at €120.9m.

Gross written premiums for risks situated outside Malta surged by more than 55%, from €1.57bn in 2014 to €2.44bn in 2015.

The MFSA mainly attributed this to the increase in gross written premiums reported by a number of insurance undertakings, as well as to new insurance undertakings and insurance cells approved during the year.

The combined ratio improved from 79.8% in 2014 to 67.1% in 2015.

For the pure reinsurance business, the net loss ratio declined by 14 points to 68.9% in 2015.

The expense ratio increased from 8.3% in 2014 up to 23.8% in 2015, while the combined ratio increased slightly by 1.3 percentage points to 92.6% in 2015.