Interest rising in Malta as onshore option for UK insurers post Brexit

By Adrian Ladbury
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Interest among UK insurers in Malta as an option to access the European Union via freedom of services post Brexit is rising steadily, based on attendance at a briefing on the market held recently in London.

Praveen Sharma, Marsh

Over 100 representatives of UK-based insurance firms attended a Q&A session with the Malta Financial Services Authority (MFSA) to learn how applications are dealt with, how the market is regulated and what infrastructure and support services are on offer on the island.

Latest political developments and the rising chance of a “hard” Brexit suggest that UK-based insurers will be very keen to find out what Malta and other EU territories can offer as they seek to maintain and protect their access to key European markets.

The pressure ramped up this week as the UK prime minister Theresa May gave a hardline speech in which she warned European leaders that any attempt to punish the UK for leaving the EU would be “an act of calamitous self-harm”.

Many in the financial industry, including insurance, hope that the sector would somehow be ring-fenced from the overall negotiations and freedom of services retained.

Theresa May said in her speech that, while it is not seeking membership of the single market, the UK would nevertheless look for an ambitious free trade agreement. This would contain elements of the single market arrangements in key areas such as financial services across national borders.

The UK prime minister said: “It makes no sense to start again from scratch when Britain and the remaining member states have adhered to the same rules for so many years.”

If such a free trade agreement is reached, it would potentially mean that UK insurers would not have to relocate their headquarters or set up another legal entity in any other EU country to maintain access to the wider European market post Brexit.

But the tough stance taken by Ms May this week is unlikely to help the negotiations.

The Institute of International Finance summed it up neatly as it stated: “May's ambition for ‘the greatest possible’ financial access was decidedly vague today. The discussion about regulatory equivalence is back (though not mentioned specifically today). She indicated a desire to find new forms of financial association, to the mutual benefit of the EU and the UK, but the lack of details and the insistence on ending adjudication by the European Court of Justice (and contributions of ‘huge sums’ to the EU) will not make this easy to achieve. Brexit is set to be harder and perhaps happen faster than many have expected, increasing the risk of more disruption to the British economy and to financial flows to the EU.”

Experts agree that the latest developments mean UK-based insurers need to seriously consider their options. Malta is clearly one on the table.

Speaking at the UK Treasury Select Committee on European Insurance Regulation, Phil Smart, head of insurance at KPMG UK, said: “However the Brexit negotiations turn out, UK insurers need to retain an ability to operate in Europe and maintain regulatory equivalence.”

Praveen Sharma, at Marsh’s global leader - insurance regulatory & tax practice, said that Malta offers a credible option for UK and international insurers alike that need access to the EU market.

But he stressed that this is not a surprise or new message. Malta has invested heavily in the development of its insurance and wider financial services sector since it joined the EU in 2004 and many international insurers have set up on the island to enjoy freedom of services.

Malta has also created an innovative range of tools to facilitate captive insurance companies, protected cell companies (PCC), incorporated cell companies (ICC) and, more recently, reinsurance special purpose vehicles (RSPV). It therefore offers corporates and insurers a range of options, added Mr Sharma.

“Brexit or otherwise, Malta has become a good place for an international insurer that wants access to the European Union to do business. Not only does it offer a robust and flexible regulatory system, the language of business is English and the island has all the support services and infrastructure that you would need,” he added.

The tax expert told Commercial Risk Europe that while other onshore European financial and insurance centres may be making claims about why UK insurers should relocate to their territories post Brexit, Malta simply should clearly explain how its system works and be taken seriously for good economic, financial and business reasons.

During the Q&A session in London the MFSA addressed concerns of UK companies on maintaining their infrastructure and staff in the United Kingdom.

Attendees expressed approval about how Malta addressed their concerns and how the island is willing to work hand in hand with UK business looking to set up operations in Malta.

“This is not about selling Malta or the Brexit message, but rather the quality of the regulation and the approach adopted by the MFSA towards each interested party. It is really business as usual for Malta. There are insurers, from the United States for example, that want to set up operations in Europe whether there is Brexit or not. There are international insurers based in Bermuda, for example, that do not need or want a network of branch offices in every European country and see Malta as an attractive option,” explained Mr Sharma.

Above all UK and international insurers must seriously explore their options, he said.

“An international insurer could protect its access to the EU market by setting up shop in Germany or France. It does not have to be a ‘captive’ domicile such as Malta, Dublin or Luxembourg. The EIOPA regulations apply in every EU member state. It really is about what works for the international insurer and how effectively it can interact with the local regulator and feel comfortable with the local infrastructure,” he said.